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

Form 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2012

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number 1-31719

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Class	Name of Each Exchange on Which Registered
Common Stock, $0.001 Par Value	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. ☒ Yes ☐ No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
☐ Yes ☒ No

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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. (Check one):

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 aggregate market value of Common Stock held by non-affiliates of the registrant as of June 30, 2012, the last business day of our most recently completed second fiscal quarter, was approximately $664.3 million (based upon the closing price for shares of the registrant’s Common Stock as reported by the New York Stock Exchange, Inc. on June 30, 2012).

As of February 22, 2013, approximately 45,154,000 shares of the registrant’s Common Stock, $0.001 par value per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for the 2013 Annual Meeting of Stockholders to be held on May 1, 2013, are incorporated by reference into Part III of this Form 10-K.

MOLINA HEALTHCARE, INC.

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PART I

Item 1: *Business*

Molina Healthcare, Inc. provides quality and cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals, and to assist state agencies in their administration of the Medicaid program. Dr. C. David Molina founded our company in 1980 as a provider organization serving the Medicaid population in Southern California. Today, we remain a provider-focused company led by his son, Joseph M. Molina, M.D. (Dr. J. Mario Molina). We report our financial performance based on two reportable segments: Health Plans and Molina Medicaid Solutions.

Our Health Plans segment consists of health plans in California, Florida, Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin, and includes our direct delivery business. As of December 31, 2012, these health plans served approximately 1.8 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals. The health plans are operated by our respective wholly owned subsidiaries in those states, each of which is licensed as a health maintenance organization, or HMO. Our direct delivery business consists of 24 primary care clinics in California, Florida, New Mexico, and Washington, and we manage three county-owned primary care clinics under a contract with Fairfax County, Virginia.

Our Health Plans segment derives its revenue principally in the form of premiums received under Medicaid contracts with the states in which our health plans operate. While the health plans receive fixed per-member per-month, or PMPM, premium payments from the states, the health plans are at risk for the medical costs associated with their members' health care. Our Health Plans segment operates in a highly regulated environment, with stringent minimum capitalization requirements which limit the ability of our health plan subsidiaries to pay dividends to us.

Our Molina Medicaid Solutions segment provides design, development, implementation, and business process outsourcing solutions to state governments for their Medicaid Management Information Systems, or MMIS. MMIS is a core tool used to support the administration of state Medicaid and other health care entitlement programs. Molina Medicaid Solutions currently holds MMIS contracts with the states of Idaho, Louisiana, Maine, New Jersey, and West Virginia, as well as a contract to provide drug rebate administration services for the Florida Medicaid program. We added the Molina Medicaid Solutions segment to our business in May 2010 to expand our product offerings to include support of state Medicaid agency administrative needs, reduce the variability in our earnings resulting from fluctuations in medical care costs, improve our operating profit margin percentages, and improve our cash flow by adding a business for which there are no restrictions on dividend payments.

From a strategic perspective, we believe our two business segments allow us to participate in an expanding sector of the economy and continue our mission of serving low-income families and individuals eligible for government-sponsored health care programs. Operationally, our two business segments share a common systems platform, which allows for economies of scale and common experience in meeting the needs of state Medicaid programs. We also believe that we may have opportunities to market to state Medicaid agencies various cost containment and quality practices used by our health plans, such as care management and care coordination, for incorporation into their own fee-for-service Medicaid programs.

Our principal executive offices are located at 200 Oceangate, Suite 100, Long Beach, California 90802, and our telephone number is (562) 435-3666. Our website is *www.molinahealthcare.com.*

Information contained on our website or linked to our website is not incorporated by reference into, or as part of, this annual report. Unless the context otherwise requires, references to "Molina Healthcare," the "Company," "we," "our," and "us" herein refer to Molina Healthcare, Inc. and its subsidiaries. Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all amendments to these reports, are available free of charge under the "investors" tab of our website, *www.molinahealthcare.com*, as soon as reasonably practicable after such reports are electronically filed with or furnished to the Securities and Exchange Commission, or SEC. Information regarding our officers and directors, and copies of our Code of Business Conduct and Ethics, Corporate Governance Guidelines, and the charters of our Audit Committee, Compensation Committee, Corporate Governance and Nominating Committee, and Compliance Committee are also available on our website. Such information is also available in print upon the request of any stockholder to our Investor Relations department at the address of our executive offices set forth above. In accordance with New York Stock Exchange, or NYSE, rules, on May 21, 2012, we filed the annual certification by our Chief Executive Officer certifying that he was unaware of any violation by us of the NYSE's corporate governance listing standards at the time of the certification.

Our Industry

The Medicaid and CHIP Programs. The Medicaid program is a federal entitlement program administered by the states. Medicaid provides health care and long-term care services and support to low-income Americans. Subject to federal laws and regulations, states have significant flexibility to structure their own programs in terms of eligibility, benefits, delivery of services, and provider payments. Medicaid is funded jointly by the states and the federal government. The federal government guarantees matching funds to states for qualifying Medicaid expenditures based on each state's federal medical assistance percentage, or

FMAP. A state's FMAP is calculated annually and varies inversely with average personal income in the state. The average FMAP across all states is currently about 57 percent, and ranges from a federally established FMAP floor of 50% to as high as 74%.

The most common state-administered Medicaid program is the Temporary Assistance for Needy Families program, or TANF. Another common state-administered Medicaid program is for aged, blind or disabled, or ABD, Medicaid members. In addition, the Children's Health Insurance Program, or CHIP, is a joint federal and state matching program that provides health care coverage to children whose families earn too much to qualify for Medicaid coverage. States have the option of administering CHIP through their Medicaid programs.

Each state establishes its own eligibility standards, benefit packages, payment rates, and program administration within broad federal statutory and regulatory guidelines. Every state Medicaid program must balance many potentially competing demands, including the need for quality care, adequate provider access, and cost-effectiveness. In an effort to improve quality and provide more uniform and cost-effective care, many states have implemented Medicaid managed care programs. These programs seek to improve access to coordinated health care services, including preventive care, and to control health care costs. Under Medicaid managed care programs, a health plan receives capitation payments from the state. The health plan, in turn, arranges for the provision of health care services by contracting with a network of medical providers. The health plan implements care management and care coordination programs that seek to improve both care access and care quality, while controlling costs more effectively.

While many states have embraced Medicaid managed care programs, others continue to operate traditional fee-for-service programs to serve all or part of their Medicaid populations. Under fee-for-service Medicaid programs, health care services are made available to beneficiaries as they seek that care, without the benefit of a coordinated effort to maintain and improve their health. As a consequence, treatment is often postponed until medical conditions become more severe, leading to higher costs and more unfavorable outcomes. Additionally, providers paid on a fee-for-service basis are compensated based upon services they perform, rather than health outcomes, and therefore lack incentives to coordinate preventive care, monitor utilization, and control costs.

Because Medicaid is a state-administered program, every state must have mechanisms, policies, and procedures in place to perform a large number of crucial functions, including the determination of eligibility and the reimbursement of medical providers for services provided. This requirement exists regardless of whether a state has adopted a fee-for-service or a managed care delivery model. MMIS are used by states to support these administrative activities. The federal government typically reimburses the states for 90% of the costs incurred in the design, development, and implementation of an MMIS and for 75% of the costs incurred in operating an MMIS. Although a small number of states build and operate their own MMIS, a far more typical practice is for states to sub-contract the design, development, implementation, and operation of their MMIS to private parties. Through our Molina Medicaid Solutions segment, we now actively participate in this market.

In certain instances, states have elected to provide medical benefits to individuals and families who are not served by Medicaid. In New Mexico and Washington, our health plan segment participates in programs that are administered in a manner similar to Medicaid and CHIP, but without federal matching funds.

Medicare Advantage Plans. During 2012, all of our health plans, except our Wisconsin health plan, operated Medicare Advantage plans, each of which included a mandatory Part D prescription drug benefit. Our Medicare Advantage special needs plans, or SNPs, operate under the trade name Molina Medicare Options Plus, and serve those beneficiaries who are dually eligible for both Medicare and Medicaid, such as low-income seniors and people with disabilities. Our Medicare Advantage Prescription Drug plans, or MA-PDs, operate under the trade name Molina Medicare Options. Although our MA-PD benefit plans do not exclusively enroll dual eligible beneficiaries, the plans' benefit structure is designed to appeal to lower income beneficiaries. We believe offering these Medicare plans is consistent with our historical mission of serving low-income and medically underserved families and individuals. None of our health plans operates a Medicare Advantage private fee-for-service plan. Total enrollment in our Medicare Advantage plans as of December 31, 2012 was approximately 36,000 members. For the year ended December 31, 2012, premium revenues from Medicare across all health plans represented approximately 8% of our total premium revenues.

As of December 31, 2012, approximately 75% of our members were TANF, 15% were ABD, 8% were CHIP, and 2% were Medicare.

Our Strengths

We focus on serving low-income families and individuals who receive health care benefits through government-sponsored programs within a managed care model. Additionally, we support state Medicaid agencies by providing them with comprehensive solutions to their MMIS development and operating needs. Our approach to our business is based on the following strengths:

Comprehensive Medicaid Services. We offer a complete suite of Medicaid services, ranging from quality care, disease management, cost management, and direct delivery of health care services at our clinics through our Health Plans segment, to state-level MMIS administration through our Molina Medicaid Solutions segment. We have the ability to draw upon our experience and expertise in each of these areas to enhance the quality of the services we offer in the others.

Flexible Service Delivery Systems. Our health plan care delivery systems are diverse and readily adaptable to different markets and changing conditions. We arrange health care services with a variety of providers, including independent physicians and medical groups, hospitals, ancillary providers, and our own clinics. Our systems support multiple types of contract models. Our provider networks are well-suited, based on medical specialty, member proximity, and cultural sensitivity, to provide services to our members. Our Molina Medicaid Solutions platform is based upon commercial off-the-shelf technology. As a result, we believe that our Molina Medicaid Solutions platform has the flexibility to meet a wide variety of state Medicaid administrative needs in a timely and cost-effective manner.

Proven Expansion and Acquisition Capability. We have successfully replicated the business model of our health plan segment through the acquisition of health plans, the start-up development of new operations, and the transition of members from other health plans. The acquisition of our New Mexico and Wisconsin health plans demonstrated our ability to expand into new states. The establishment of our health plans in Utah, Ohio, Texas, and Florida reflects our ability to replicate our business model on a start-up basis in new states, while contract acquisitions in California, Michigan, and Washington have demonstrated our ability to expand our operations within states in which we were already operating.

Administrative Efficiency. We have centralized and standardized various functions and practices to increase administrative efficiency. The steps we have taken include centralizing claims processing and information services onto a single platform. We have standardized medical management programs, pharmacy benefits management contracts, and health education programs. In addition, we have designed our administrative and operational infrastructure to be scalable for cost-effective expansion into new and existing markets.

Recognition for Quality of Care. The National Committee for Quality Assurance, or NCQA, has accredited eight of our nine Medicaid managed care plans. Our Wisconsin plan acquired in September 2010 currently plans to seek NCQA accreditation in early 2014. We believe that these objective measures of the quality of the services that we provide will become increasingly important to state Medicaid agencies.

Experience and Expertise. Since the founding of our Company in 1980 to serve the Medicaid population in Southern California through a small network of primary care clinics, we have increased our membership to 1.8 million members as of December 31, 2012, expanded our Health Plans segment to nine states, and added our Molina Medicaid Solutions segment. Our experience over the last 30 years has allowed us to develop strong relationships with the constituents we serve, establish significant expertise as a government contractor, and develop sophisticated disease management, care coordination and health education programs that address the particular health care needs of our members. We also benefit from a thorough understanding of the cultural and linguistic needs of Medicaid populations.

Our Strategy

Our objective is to provide a comprehensive suite of Medicaid-related services to meet the health care needs of low-income families and individuals and the state Medicaid agencies that serve them. To achieve our objective, we intend to:

Continue to expand within existing markets, including as a result of the Affordable Care Act Medicaid expansion, the duals pilot projects, and the insurance marketplaces. We plan to continue our growth in existing markets. The Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act, commonly referred to together as the Affordable Care Act, or the ACA, provides us with several opportunities for growth, including the expansion of Medicaid eligibility in the states that elect to participate, the implementation of pilot projects for those who are dually eligible for Medicaid and Medicare, and the implementation of insurance marketplaces.

- *Medicaid expansion*. As of February 27, 2013, among the states where we operate our health plans, the states of California, Florida, Michigan, New Mexico, Ohio, and Washington have indicated that they intend to participate in the Medicaid expansion; the states of Texas and Wisconsin have indicated that they do not intend to participate in the expansion; and the state of Utah is undecided. We believe there are significant opportunities to increase our revenues through the Medicaid expansion.
- *Duals*. Nine million low-income elderly and disabled people in the United States are covered under both the Medicare and Medicaid programs. These beneficiaries, often called “dual eligibles” or simply “duals,” are more likely than other Medicare beneficiaries to be frail, live with multiple chronic conditions, and have functional and cognitive impairments. Policymakers at the federal and state level are developing initiatives for dual eligibles both to improve the coordination of their care, and to reduce spending for both Medicare and Medicaid. The Centers for Medicare and Medicaid Services, or CMS, has implemented several demonstrations designed to improve the coordination of care for dual eligibles and reduce spending under Medicare and Medicaid. These demonstrations include issuing contracts to 15 states to design a program to integrate Medicare and Medicaid services for dual eligibles in the state. Our health plans in California, Illinois, Michigan, Ohio, Texas, and Washington intend to take part in the duals demonstrations in those states. Beginning in September 2013, our California plan intends to serve duals in Riverside, San Bernardino and San Diego counties, and may participate with Health Net, Inc. for the duals contract in Los Angeles County. Our new Illinois plan will serve duals

in Central Illinois beginning in 2014. Our Michigan plan will respond to a request for proposals to serve duals also beginning in late 2013. Our Ohio plan will serve duals in three regions in southwestern Ohio (Dayton, Columbus and Cincinnati) beginning in late 2013. The state of Texas announced that it intends to cover duals through its existing Medicaid contracts beginning in 2014. Our Washington plan will respond to a request for proposals to serve duals also beginning in 2014.

- *Insurance marketplaces*. Under the ACA, insurance marketplaces will be online marketplaces organized on a state-by-state basis (although in many instances the insurance marketplace in a state will be operated by the federal government, and there could also be regional marketplaces where states combine their marketplace products). In the insurance marketplace, individuals and groups can purchase health insurance that in many instances will be federally subsidized (up to 400% of the federal poverty level by individual or family). We currently intend to participate in the insurance marketplaces in the states in which we operate our health plans. Our principal focus in participating in the marketplace is to capture the transition in membership that may result from a Medicaid member's income rising above the 138% level of the federal poverty line. By retaining that member in the marketplace, if the member's income subsequently declines, we will continuously serve that same member in all instances and not "lose" the member to another health plan. We endorse the so-called "bridge plan" as the best way to serve low-income persons who may qualify for coverage through the insurance marketplaces, and will be working with legislators and regulators during 2013 to advocate for the merits of the bridge plan.

Continue to enter new strategic markets. We plan to continue to enter new markets through both acquisitions and by building our own start-up operations. We intend to focus our expansion in markets with competitive provider communities, supportive regulatory environments, significant size, and, where practicable, mandated Medicaid managed care enrollment.

Continue to provide quality cost-effective care. We plan to use our strong provider networks and the knowledge gained through the operation of our clinics to further develop and utilize effective medical management and other coordinated programs that address the distinct needs of our members and improve the quality and cost-effectiveness of their care.

Leverage operational efficiencies. We intend to leverage the operational efficiencies created by our centralized administrative infrastructure and flexible information systems to earn higher margins on future revenues. We believe our administrative infrastructure has significant expansion capacity, allowing us to integrate new members from expansion within existing markets and enter new markets at lower incremental cost.

Deliver administrative value to state Medicaid agencies. As Medicaid expenditures increase, we believe that an increasing number of states will demand comprehensive solutions that improve both quality and cost-effectiveness. We intend to use our MMIS solution to provide state Medicaid agencies with a flexible and robust solution to their administrative needs. We believe that our MMIS platform, together with our extensive experience in health care management and health plan operations, enables us to offer state Medicaid agencies a comprehensive suite of Medicaid-related solutions that meets their needs for quality and for the cost-effective operation of their Medicaid programs.

Open additional primary care clinics. The clinic model offers an integrated approach that helps us improve both the quality and cost-effectiveness of the care our members receive. Our Health Plans segment direct delivery business currently consists of primary care clinics in California, Florida, New Mexico, and Washington, and three county-owned clinics in Fairfax County, Virginia that we manage on behalf of the county. The growth and aging of the population of the United States foreshadows an increasing shortage of physicians over the next 15 years. Health care reform is expected to worsen this shortage. We believe the shortage will be felt most acutely among already under-served populations, such as the low income families and individuals we serve. While we have no plans to become an organization that fully integrates primary care delivery with our health plans, by leveraging our direct delivery capability on a selective basis we can improve access for our plan members in areas that are most under-served by primary care providers.

Medicaid Contracts

With the exception of our Wisconsin health plan, which does not serve Medicare members, all of our health plans serve TANF, CHIP, ABD, and Medicare members. For its Medicare members, each health plan enters into a one-year annually renewable contract with CMS. For its other members, each health plan enters into a contract with the state's Medicaid agency. The contractual relationship with the state is generally for a period of three to four years and renewable on an annual or biannual basis at the discretion of the state. In general, either the state Medicaid agency or the health plan may terminate the state contract with or without cause upon 30 days to nine months prior written notice. Most of these contracts contain renewal options that are exercisable by the state. Our health plan subsidiaries have generally been successful in obtaining the renewal of their contracts in each state prior to the actual expiration of their contracts. Our state contracts are generally at greatest risk of loss when a state issues a new request for proposals, or RFP, subject to competitive bidding by other health plans. If one of our health plans is not a successful responsive bidder to a state RFP, its contract may be subject to non-renewal. For instance, on February 17, 2012, our Missouri health plan was notified that it was not awarded a new contract under that state's RFP, and therefore its contract expired on June 30, 2012.

Our contracts with the state determine the type and scope of health care services that we arrange for our members. Generally, our contracts require us to arrange for preventive care, office visits, inpatient and outpatient hospital and medical services, and pharmacy benefits. The contracts also detail the requirements for operating in the Medicaid sector, including provisions relating to: eligibility; enrollment and disenrollment processes; covered benefits; eligible providers; subcontractors; record-keeping and record retention; periodic financial and informational reporting; quality assurance; marketing; financial standards; timeliness of claims payments; health education, wellness and prevention programs; safeguarding of member information; fraud and abuse detection and reporting; grievance procedures; and organization and administrative systems. A health plan's compliance with these requirements is subject to monitoring by state regulators. A health plan is subject to periodic comprehensive quality assurance evaluation by a third-party reviewing organization and generally by the insurance department of the jurisdiction that licenses the health plan. Most health plans must also submit quarterly and annual statutory financial statements and utilization reports, as well as many other reports in accordance with individual state requirements.

We are usually paid a negotiated PMPM amount, with the PMPM amount varying from contract to contract. Generally, that amount is higher in states where we are required to offer more extensive health benefits. We are also paid an additional amount for each newborn delivery from the Medicaid programs in all of our state health plans, except with respect to our New Mexico health plan.

Provider Networks

We arrange health care services for our members through contracts with providers that include independent physicians and groups, hospitals, ancillary providers, and our own clinics. Our network of providers includes primary care physicians, specialists and hospitals. Our strategy is to contract with providers in those geographic areas and medical specialties necessary to meet the needs of our members. We also strive to ensure that our providers have the appropriate cultural and linguistic experience and skills.

Physicians. We contract with both primary care physicians and specialists, many of whom are organized into medical groups or independent practice associations, or IPAs. Primary care physicians provide office-based primary care services. Primary care physicians may be paid under capitation or fee-for-service contracts and may receive additional compensation by providing certain preventive services. Our specialists care for patients for a specific episode or condition, usually upon referral from a primary care physician, and are usually compensated on a fee-for-service basis. When we contract with groups of physicians on a capitated basis, we monitor their solvency.

Hospitals. We generally contract with hospitals that have significant experience dealing with the medical needs of the Medicaid population. We reimburse hospitals under a variety of payment methods, including fee-for-service, per diems, diagnostic-related groups, or DRGs, capitation, and case rates.

Primary Care Clinics. Our Health Plans segment operates 24 company-owned primary care clinics located in California, Florida, New Mexico and Washington. These clinics are located in neighborhoods where our members live, and provide us a first-hand opportunity to understand the special needs of our members. The clinics assist us in developing and implementing community education, disease management, and other programs. The clinics also give us direct clinic management experience that enables us to better understand the needs of our contracted providers. In addition, we have a subsidiary in Virginia that manages three health care clinics for Fairfax County.

Medical Management

Our experience in medical management extends back to our roots as a provider organization. Primary care physicians are the focal point of the delivery of health care to our members, providing routine and preventive care, coordinating referrals to specialists, and assessing the need for hospital care. This model has proven to be an effective method for coordinating medical care for our members. The underlying challenge we face is to coordinate health care so that our members receive timely and appropriate care from the right provider at the appropriate cost. In support of this goal, and to ensure medical management consistency among our various state health plans, we continuously refine and upgrade our medical management efforts at both the corporate and subsidiary levels.

We seek to ensure quality care for our members on a cost-effective basis through the use of certain key medical management and cost control tools. These tools include utilization management, case and health management, and provider network and contract management.

Utilization Management. We continuously review utilization patterns with the intent to optimize quality of care and ensure that only appropriate services are rendered in the most cost-effective manner. Utilization management, along with our other tools of medical management and cost control, is supported by a centralized corporate medical informatics function which utilizes third-party software and data warehousing tools to convert data into actionable information. We use predictive modeling that supports a proactive case and health management approach both for us and our affiliated physicians.

Case and Health Management. We seek to encourage quality, cost-effective care through a variety of case and health management programs, including disease management programs, educational programs, and pharmacy management programs.

Disease Management Programs. We develop specialized disease management programs that address the particular health care needs of our members. "*motherhood matters!*sm" is a comprehensive program designed to improve pregnancy outcomes and enhance member satisfaction. *"breathe with ease!"* is a multi-disciplinary disease management program that provides health education resources and case management services to assist physicians caring for asthmatic members between the ages of three and 15. *"Healthy Living with Diabetes"* is a diabetes disease management program. *"Heart Health Living"* is a cardiovascular disease management program for members who have suffered from congestive heart failure, angina, heart attack, or high blood pressure.

Educational Programs. Educational programs are an important aspect of our approach to health care delivery. These programs are designed to increase awareness of various diseases, conditions, and methods of prevention in a manner that supports our providers while meeting the unique needs of our members. For example, we provide our members with information to guide them through various episodes of care. This information, which is available in several languages, is designed to educate parents on the use of primary care physicians, emergency rooms, and nurse call centers.

Pharmacy Management Programs. Our pharmacy management programs focus on physician education regarding appropriate medication utilization and encouraging the use of generic medications. Our pharmacists and medical directors work with our pharmacy benefits manager to maintain a formulary that promotes both improved patient care and generic drug use. We employ full-time pharmacists and pharmacy technicians who work with physicians to educate them on the uses of specific drugs, the implementation of best practices, and the importance of cost-effective care.

Provider Network and Contract Management. The quality, depth, and scope of our provider network are essential if we are to ensure quality, cost-effective care for our members. In partnering with quality, cost-effective providers, we utilize clinical and financial information derived by our medical informatics function, as well as the experience we have gained in serving Medicaid members to gain insight into the needs of both our members and our providers. As we grow in size, we seek to strengthen our ties with high-quality, cost-effective providers by offering them greater patient volume.

Plan Administration and Operations

Management Information Systems. All of our health plan information technology and systems operate on a single platform. This approach avoids the costs associated with maintaining multiple systems, improves productivity, and enables medical directors to compare costs, identify trends, and exchange best practices among our plans. Our single platform also facilitates our compliance with current and future regulatory requirements.

The software we use is based on client-server technology and is scalable. We believe the software is flexible, easy to use, and allows us to accommodate anticipated enrollment growth and new contracts. The open architecture of the system gives us the ability to transfer data from other systems without the need to write a significant amount of computer code, thereby facilitating the integration of new plans and acquisitions.

We have designed our corporate website with a focus on ease of use and visual appeal. Our website has a secure ePortal which allows providers, members, and trading partners to access individualized data. The ePortal allows the following self-services:

- *Provider Self Services.* Providers have the ability to access information regarding their members and claims. Key functionalities include "Check Member Eligibility," "View Claim," and "View/Submit Authorizations."
- *Member Self Services.* Members can access information regarding their personal data, and can perform the following key functionalities: "View Benefits," "Request New ID Card," "Print Temporary ID Card," and "Request Change of Address/PCP."
- *File Exchange Services.* Various trading partners — such as service partners, providers, vendors, management companies, and individual IPAs — are able to exchange data files (such as those that may be required by the Health Insurance Portability and Accountability Act of 1996, or HIPAA, or any other proprietary format) with us using the file exchange functionality.

Best Practices. We continuously seek to promote best practices. Our approach to quality is broad, encompassing traditional medical management and the improvement of our internal operations. We have staff assigned full-time to the development and implementation of a uniform, efficient, and quality-based medical care delivery model for our health plans. These employees coordinate and implement company-wide programs and strategic initiatives such as preparation of the Healthcare Effectiveness

Data and Information Set, or HEDIS, and accreditation by the NCQA. We use measures established by the NCQA in credentialing the physicians in our network. We routinely use peer review to assess the quality of care rendered by providers. Eight of our health plans are accredited by the NCQA. Our Wisconsin plan acquired in September 2010 currently plans to seek NCQA accreditation in early 2014.

Claims Processing. All of our health plans operate on a single managed care platform for claims processing (the QNXT 4.8 system).

Centralized Management Services. We provide certain centralized medical and administrative services to our health plans pursuant to administrative services agreements, including medical affairs and quality management, health education, credentialing, management, financial, legal, information systems, and human resources services. Fees for such services are based on the fair market value of services rendered and are recorded as operating revenue. Payment is subordinated to the health plan's ability to comply with minimum capital and other restrictive financial requirements of the states in which they operate.

Compliance. Our health plans have established high standards of ethical conduct. Our compliance programs are modeled after the compliance guidance statements published by the Office of the Inspector General of the U.S. Department of Health and Human Services. Our uniform approach to compliance makes it easier for our health plans to share information and practices and reduces the potential for compliance errors and any associated liability.

Disaster Recovery. We have established a disaster recovery and business resumption plan, with back-up operating sites, to be deployed in the case of a major disruptive event.

Competition

We operate in a highly competitive environment. The Medicaid managed care industry is fragmented, and the competitive landscape is subject to ongoing changes as a result of business consolidations and new strategic alliances. We compete with a large number of national, regional, and local Medicaid service providers, principally on the basis of size, location, and quality of provider network, quality of service, and reputation. Competition can vary considerably from state to state. Below is a general description of our principal competitors for state contracts, members, and providers:

- *Multi-Product Managed Care Organizations* — National and regional managed care organizations that have Medicaid members in addition to numerous commercial health plan and Medicare members.
- *Medicaid HMOs* — National and regional managed care organizations that focus principally on providing health care services to Medicaid beneficiaries, many of which operate in only one city or state.
- *Prepaid Health Plans* — Health plans that provide less comprehensive services on an at-risk basis or that provide benefit packages on a non-risk basis.
- *Primary Care Case Management Programs* — Programs established by the states through contracts with primary care providers to provide primary care services to Medicaid beneficiaries, as well as to provide limited oversight of other services.

We will continue to face varying levels of competition. Health care reform proposals may cause organizations to enter or exit the market for government sponsored health programs. However, the licensing requirements and bidding and contracting procedures in some states may present partial barriers to entry into our industry.

We compete for government contracts, renewals of those government contracts, members, and providers. State agencies consider many factors in awarding contracts to health plans. Among such factors are the health plan's provider network, medical management, degree of member satisfaction, timeliness of claims payment, and financial resources. Potential members typically choose a health plan based on a specific provider being a part of the network, the quality of care and services available, accessibility of services, and reputation or name recognition of the health plan. We believe factors that providers consider in deciding whether to contract with a health plan include potential member volume, payment methods, timeliness and accuracy of claims payment, and administrative service capabilities.

Molina Medicaid Solutions competes with large MMIS vendors, such as HP Enterprise Services (formerly known as EDS), ACS (owned by Xerox Corporation), Computer Services Corporation, or CSC, and CNSI.

Regulation

Our health plans are highly regulated by both state and federal government agencies. Regulation of managed care products and health care services varies from jurisdiction to jurisdiction, and changes in applicable laws and rules can occur frequently. Regulatory agencies generally have discretion to issue regulations and interpret and enforce laws and rules. Such agencies have become increasingly active in recent years in their review and scrutiny of health insurers and managed care organization, including those operating in the Medicaid and Medicare programs.

To operate a health plan in a given state, we must apply for and obtain a certificate of authority or license from that state. Our operating health plans are licensed to operate as health maintenance organizations, or HMOs, in each of California, Florida, Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin. In those states we are regulated by the agency with responsibility for the oversight of HMOs which, in most cases, is the state department of insurance. In California, however, the agency with responsibility for the oversight of HMOs is the Department of Managed Health Care. Licensing requirements are the same for us as they are for health plans serving commercial or Medicare members. We must demonstrate that our provider network is adequate, that our quality and utilization management processes comply with state requirements, and that we have adequate procedures in place for responding to member and provider complaints and grievances. We must also demonstrate that we can meet requirements for the timely processing of provider claims, and that we can collect and analyze the information needed to manage our quality improvement activities. In addition, we must prove that we have the financial resources necessary to pay our anticipated medical care expenses and the infrastructure needed to account for our costs.

Our health plans are required to file quarterly and annual reports of their operating results with the appropriate state regulatory agencies. These reports are accessible for public viewing. Each health plan undergoes periodic examinations and reviews by the state in which it operates. The health plans generally must obtain approval from the state before declaring dividends in excess of certain thresholds. Each health plan must maintain its net worth at an amount determined by statute or regulation. The minimum statutory net worth requirements differ by state, and are generally based on statutory minimum risk-based capital, or RBC, requirements. The RBC requirements are based on guidelines established by the National Association of Insurance Commissioners, or NAIC, and are administered by the states. Our Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin health plans are subject to RBC requirements. Any acquisition of another plan's members or its state contracts must also be approved by the state, and our ability to invest in certain financial securities may be prescribed by statute.

In addition, we are also regulated by each state's department of health services or the equivalent agency charged with oversight of Medicaid and CHIP. These agencies typically require demonstration of the same capabilities mentioned above and perform periodic audits of performance, usually annually.

Medicaid. Medicaid was established in 1965 under the U.S. Social Security Act to provide medical assistance to the poor. Although jointly funded by federal and state governments, Medicaid is a state-operated and state-implemented program. Our contracts with the state Medicaid programs impose various requirements on us in addition to those imposed by applicable federal and state laws and regulations. Within broad guidelines established by the federal government, each state:

- establishes its own member eligibility standards;
- determines the type, amount, duration, and scope of services;
- sets the rate of payment for health care services; and
- administers its own program.

We obtain our Medicaid contracts in different ways. Some states award contracts to any applicant demonstrating that it meets the state's requirements. Other states engage in a competitive bidding process. In all cases, we must demonstrate to the satisfaction of the state Medicaid program that we are able to meet the state's operational and financial requirements. These requirements are in addition to those required for a license and are targeted to the specific needs of the Medicaid population. For example:

- We must measure provider access and availability in terms of the time needed to reach the doctor's office using public transportation;
- Our quality improvement programs must emphasize member education and outreach and include measures designed to promote utilization of preventive services;
- We must have linkages with schools, city or county health departments, and other community-based providers of health care, to demonstrate our ability to coordinate all of the sources from which our members may receive care;
- We must be able to meet the needs of the disabled and others with special needs;
- Our providers and member service representatives must be able to communicate with members who do not speak English or who are deaf; and
- Our member handbook, newsletters, and other communications must be written at the prescribed reading level, and must be available in languages other than English.

In addition, we must demonstrate that we have the systems required to process enrollment information, to report on care and services provided, and to process claims for payment in a timely fashion. We must also have the financial resources needed to protect the state, our providers, and our members against the insolvency of one of our health plans.

Medicare. Medicare is a federal program that provides eligible persons age 65 and over and some disabled persons a variety of hospital, medical insurance, and prescription drug benefits. Medicare is funded by Congress, and administered by CMS. Medicare beneficiaries have the option to enroll in a Medicare Advantage plan. Under Medicare Advantage, managed care plans contract with CMS to provide benefits that are comparable to original Medicare in exchange for a fixed PMPM premium payment that varies based on the county in which a member resides, the demographics of the member, and the member's health condition.

The Medicare Prescription Drug, Improvement and Modernization Act of 2003, or MMA, made numerous changes to the Medicare program, including expanding the Medicare program to include a prescription drug benefit. Since 2006, Medicare beneficiaries have had the option of selecting a new prescription drug benefit from an existing Medicare Advantage plan. The drug benefit, available to beneficiaries for a monthly premium, is subject to certain cost sharing depending upon the specific benefit design of the selected plan. Plans are not required to offer the same benefits, but are required to provide coverage that is at least actuarially equivalent to the standard drug coverage delineated in the MMA.

On July 15, 2008, the Medicare Improvements for Patients and Providers Act, or MIPPA, became law and, in September 2008, CMS promulgated implementing regulations. MIPPA impacts a broad range of Medicare activities and impacts all types of Medicare managed care plans. MIPPA and subsequent CMS guidance place prohibitions and limitations on certain sales and marketing activities of Medicare Advantage plans. Among other things, Medicare Advantage plans are not permitted to make unsolicited outbound calls to potential members or engage in other forms of unsolicited contact, establish appointments without documented consent from potential members, or conduct sales events in certain provider-based settings. MIPPA also establishes certain restrictions on agent and broker compensation.

HIPAA. In 1996, Congress enacted the Health Insurance Portability and Accountability Act, or HIPAA. All health plans are subject to HIPAA, including ours. HIPAA generally requires health plans to:

- Establish the capability to receive and transmit electronically certain administrative health care transactions, like claims payments, in a standardized format;
- Afford privacy to patient health information; and
- Protect the privacy of patient health information through physical and electronic security measures.

The ACA created additional tools for fraud prevention, including increased oversight of providers and suppliers participating or enrolling in Medicaid, CHIP, and Medicare. Those enhancements included mandatory licensure for all providers, and site visits, fingerprinting, and criminal background checks for higher risk providers. On September 23, 2010, CMS issued proposed regulations designed to implement these requirements. It is not clear at this time the degree to which managed care providers would have to comply with these new requirements, many of which resemble procedures that we already have in place.

The Health Information Technology for Economic and Clinical Health Act ("HITECH Act"), a part of the American Recovery and Reinvestment Act of 2009, or ARRA, modified certain provisions of HIPAA by, among other things, extending the privacy and security provisions to business associates, mandating new regulations around electronic medical records, expanding enforcement mechanisms, allowing the state Attorneys General to bring enforcement actions, and increasing penalties for violations. The U.S. Department of Health and Human Services, as required by the HITECH Act, has issued interim final rules that set forth the breach notification obligations applicable to covered entities and their business associates, or the HHS Breach Notification Rule. The various requirements of the HITECH Act and the HHS Breach Notification Rule have different compliance dates, some of which have passed and some of which will occur in the future. With respect to those requirements whose compliance dates have passed, we believe that we are in compliance with these provisions. With respect to those requirements whose compliance dates are in the future, we are reviewing our current practices and identifying those which may be impacted by upcoming regulations. It is our intention to implement these new requirements on or before the applicable compliance dates.

Fraud and Abuse Laws. Our operations are subject to various state and federal health care laws commonly referred to as "fraud and abuse" laws. Fraud and abuse prohibitions encompass a wide range of activities, including kickbacks for referral of members, billing for unnecessary medical services, improper marketing, and violations of patient privacy rights. These fraud and abuse laws include the federal False Claims Act which prohibits the knowing filing of a false claim or the knowing use of false statements to obtain payment from the federal government. Many states have false claim act statutes that closely resemble the federal False Claims Act. If an entity is determined to have violated the federal False Claims Act, it must pay three times the actual damages sustained by the government, plus mandatory civil penalties up to fifty thousand dollars for each separate false claim. Suits filed under the Federal False Claims Act, known as *"qui tam"* actions, can be brought by any individual on behalf of the government and such individuals (known as "relators" or, more commonly, as "whistleblowers") may share in any amounts paid by the entity to the government in fines or settlement. *Qui tam* actions have increased significantly in recent years, causing greater numbers of health care companies to have to defend a false claim action, pay fines or be excluded from the Medicaid, Medicare or other state or Federal health care programs as a result of an investigation arising out of such action. In addition, the Deficit Reduction Action of 2005, or DRA, encourages states to enact state-versions of the federal False Claims Act that establish liability to the state for false and fraudulent Medicaid claims and that provide for, among other things, claims to be filed by *qui tam* relators.

Companies involved in public health care programs such as Medicaid are often the subject of fraud and abuse investigations. The regulations and contractual requirements applicable to participants in these public sector programs are complex and subject to change. Violations of certain fraud and abuse laws applicable to us could result in civil monetary penalties, criminal fines and imprisonment, and/or exclusion from participation in Medicaid, Medicare, other federal health care programs and federally funded state health programs.

Federal and state governments have made investigating and prosecuting health care fraud and abuse a priority. Although we believe that our compliance efforts are adequate, we will continue to devote significant resources to support our compliance efforts.

Employees

As of December 31, 2012, we had approximately 5,800 employees. Our employee base is multicultural and reflects the diverse Medicaid and Medicare membership we serve. We believe we have good relations with our employees. None of our employees is represented by a union.

Executive Officers of the Registrant

J. Mario Molina, M.D., 54, has served as President and Chief Executive Officer since succeeding his father and company founder, Dr. C. David Molina, in 1996. He has also served as Chairman of the Board since 1996. Prior to that, he served as Medical Director from 1991 through 1994 and was Vice President responsible for provider contracting and relations, member services, marketing and quality assurance from 1994 to 1996. He earned an M.D. from the University of Southern California and performed his medical internship and residency at the Johns Hopkins Hospital. Dr. Molina is the brother of John C. Molina.

John C. Molina, J.D., 48, has served in the role of Chief Financial Officer since 1995, and has been employed by the Company for over 30 years in a variety of positions. He also has served as a director since 1994. Mr. Molina is a member of the Los Angeles branch of the Federal Reserve Bank of San Francisco’s board of directors. Mr. Molina holds a Juris Doctorate from the University of Southern California School of Law. Mr. Molina is the brother of Dr. J. Mario Molina.

Terry P. Bayer, 62, has served as our Chief Operating Officer since 2005. She had formerly served as our Executive Vice President, Health Plan Operations. Ms. Bayer has over 30 years of health care management experience, including staff model clinic administration, provider contracting, managed care operations, disease management, and home care. Prior to joining us, her professional experience included regional responsibility at FHP, Inc. and multi-state responsibility as Regional Vice President at Maxicare; Partners National Health Plan, a joint venture of Aetna Life Insurance Company and Voluntary Hospital Association (VHA); and Lincoln National. She has also served as Executive Vice President of Managed Care at Matria Healthcare, President and Chief Operating Officer of Praxis Clinical Services, and as Western Division President of AccentCare. She holds a Juris Doctorate from Stanford University, a Master’s degree in Public Health from the University of California, Berkeley, and a Bachelor’s degree in Communications from Northwestern University.

Joseph W. White, 54, has served as our Chief Accounting Officer since 2007. In his role as Chief Accounting Officer, Mr. White is responsible for oversight of the Company’s accounting, reporting, forecasting, budgeting, actuarial, procurement, treasury and facilities functions. Mr. White has over 30 years of financial management experience in the health care industry. Prior to joining the Company in 2003, Mr. White worked for Maxicare Health Plans, Inc. from 1987 through 2002. Mr. White holds a Master’s degree in Business Administration and a Bachelor’s degree in Commerce from the University of Virginia. Mr. White is a Certified Public Accountant.

Jeff D. Barlow, 50, has served as our Senior Vice President, General Counsel, and Secretary since 2010. As General Counsel, Mr. Barlow is responsible for setting the overall legal strategy of the Company, and for providing legal counsel to senior management, to the board of directors, and to the consolidated organization. Before joining the Company, Mr. Barlow worked for the national law firm of DLA Piper in its corporate securities group. Mr. Barlow holds a Juris Doctorate from the University of Pittsburgh School of Law, a Master's degree in Public Health from the University of California, Berkeley, and a Bachelor's degree in Philosophy from the University of Utah.

Intellectual Property

We have registered and maintain various service marks, trademarks and trade names that we use in our businesses, including marks and names incorporating the “Molina” or “Molina Healthcare” phrase, and from time to time we apply for additional registrations of such marks. We utilize these and other marks and names in connection with the marketing and identification of products and services. We believe such marks and names are valuable and material to our marketing efforts.

Item 1A: ***Risk Factors***

RISK FACTORS

Safe Harbor Statement under the Private Securities Litigation Reform Act of 1995

This Annual Report on Form 10-K and the documents we incorporate by reference in this report contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). Other than statements of historical fact, all statements that we include in this report and in the documents we incorporate by reference may be deemed to be forward-looking statements for purposes of the Securities Act and the Exchange Act. Such forward-looking statements may be identified by words such as "anticipates," "believes," "could," "estimates," "expects," "guidance," "intends," "may," "outlook," "plans," "projects," "seeks," "will," or similar words or expressions.

Investing in our securities involves a high degree of risk. Before making an investment decision, you should carefully read and consider the following risk factors, as well as the other information we include or incorporate by reference in this report and the information in the other reports we file with the U.S. Securities Exchange Commission, or SEC. Such risk factors should be considered not only with regard to the information contained in this annual report, but also with regard to the information and statements in the other periodic or current reports we file with the SEC, as well as our press releases, presentations to securities analysts or investors, or other communications made by or with the approval of one of our executive officers. No assurance can be given that we will actually achieve the results contemplated or disclosed in our forward-looking statements. Such statements may turn out to be wrong due to the inherent uncertainties associated with future events. Accordingly, you should not place undue reliance on our forward-looking statements, which reflect management's analyses, judgments, beliefs, or expectations only as of the date they are made.

If any of the events described in the following risk factors actually occur, our business, results of operations, financial condition, cash flows, or prospects could be materially adversely affected. The risks and uncertainties described below are those that we currently believe may materially affect us. Additional risks and uncertainties not currently known to us or that we currently deem immaterial may also affect our business and operations. As such, you should not consider this list to be a complete statement of all potential risks or uncertainties. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update forward-looking statements in future filings or communications regarding our business or operating results, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications.

Risks Related to Our Health Plans Business

Numerous risks associated with the Affordable Care Act and its implementation could have a material adverse effect on our business, financial condition, cash flows, or results of operations.

In March 2010, President Obama signed both the Patient Protection and Affordable Care Act and the Health Care and Education Affordability Reconciliation Act, commonly referred to together as the Affordable Care Act, or the ACA. The ACA enacts comprehensive changes to the United States health care system, elements of which will be phased in at various stages over the next several years. However, the most significant changes effected by the ACA are currently scheduled to be implemented as of January 1, 2014. There are a multitude of risks associated with the scope of change in the health care system represented by the ACA, including, but not limited to, the following:

- ***Risks associated with the health care excise tax.*** One notable provision of the ACA is an excise tax that applies to most health plans, including both commercial health plans and Medicaid and/or Medicare managed care plans like Molina Healthcare. While characterized as a "fee" in the text of the ACA, the intent of Congress was to impose a broad-based health insurance industry excise tax, with the understanding that the tax could be passed on to consumers, most likely through slightly higher commercial insurance premiums. However, Medicaid is jointly paid for by the federal government and by state governments, so the cost of this excise tax, as it may be applied to Medicaid plans, will be passed on in the form of higher Medicaid costs and rates. In Medicaid and Medicare, capitated rates paid to managed care plans are required to be developed using generally accepted principles of actuarial soundness. Actuarial soundness requires that the full costs of doing business, including the costs of both federal and state taxes, be considered and factored into the applicable rate. Thus, for Medicaid and/or Medicare managed care plans like Molina Healthcare, Inc., the excise tax will be included in their capitated rates. Because of the novelty of this new tax, actuaries have never factored the tax into the development of capitated rates, an exercise which must be undertaken during 2013 and well in advance of the 2014 calendar year when the tax is scheduled to go into effect. Moreover, because the tax will be based on a health plan's market share as applied to a total excise tax base of $8 billion in 2014 (and rising thereafter), there is substantial uncertainty regarding the actual size of the tax assessment on Molina. Currently, we project that the excise tax assessment on Molina will be approximately $100 million. Since this amount is not deductible for income tax purposes under current law, and since our total net income for fiscal year 2011 was $20.8 million, and our net income for fiscal year 2012 was $9.8 million, our estimated tax rate for 2014 could be driven to 100%, and the excise tax could effectively equal the entire amount of our projected earnings. We and others in the health care industry are working with Congress to carve out the application of the excise tax on Medicaid plans. As an alternative to the repeal of the tax as it applies to Medicaid managed care plans, we and others in the health care industry will also be working with state actuaries to take account of the tax in the calculation of our 2014 rates. However, state budget constraints, inaccurate actuarial calculations, inadequate federal oversight of actuarial soundness, and market competition could result in a failure to reflect in our rates the full amount of the excise tax. If the excise tax is imposed as enacted on Medicaid managed care plans, or we are unable to obtain premium increases to fully offset the impact of the tax or otherwise adjust our business model, our business, financial condition, cash flows, and results of operations could be materially adversely affected .

- ***Risks associated with the duals expansion.*** Nine million low-income elderly and disabled people are covered under both the Medicare and Medicaid programs. These beneficiaries, often called "dual eligibles," are more likely than other Medicare beneficiaries to be frail, live with multiple chronic conditions, and have functional and cognitive impairments. Medicare is their primary source of health insurance coverage, as it is for the nearly 50 million elderly and under-65 disabled beneficiaries in 2012. Medicaid supplements Medicare by paying for services not covered by Medicare, such as dental care and long-term care services and supports, and by helping to cover Medicare's premiums and cost-sharing requirements. Together, these two programs help to shield very low-income Medicare beneficiaries from potentially unaffordable out-of-pocket medical and long-term care costs. Policymakers at the federal and state level are increasingly developing initiatives for dual eligibles, both to improve the coordination of their care, and to reduce spending. The Centers for Medicare and Medicaid Services, or CMS, has implemented several demonstration projects designed to improve the coordination of care for dual eligibles and to reduce Medicare and Medicaid spending. These demonstrations include issuing contracts to 15 states to design a program to integrate Medicare and Medicaid services for dual eligibles in the relevant state. Our health plans in California, Illinois, Michigan, Ohio, Texas, and Washington intend to take part in the duals demonstrations in those states. Beginning in September 2013, our California plan intends to serve duals in Riverside, San Bernardino, and San Diego counties, and may participate with Health Net, Inc. for the duals contract in Los Angeles County. Our new Illinois plan will serve duals in Central Illinois beginning in 2014. Our Michigan plan will respond to a request for proposals to serve duals beginning in late 2013. Our Ohio plan will serve duals in three regions in southwestern Ohio (Dayton, Columbus and Cincinnati) beginning in late 2013. The state of Texas announced that it intends to cover duals through its existing Medicaid contracts beginning in 2014. Our Washington plan will respond to a request for proposals to serve duals also beginning in 2014.

  There are numerous risks associated with the initial implementation of a new program, with a health plan's expansion into a new service area, or with the provision of medical services to a new population which has not previously been in managed care. One such risk is the development of actuarially sound rates. Because there is limited historical information on which to develop rates, certain assumptions are required to be made which may subsequently prove to have been inaccurate. Rates of utilization could be significantly higher than had been projected, or the assumptions of policymakers about the amount of savings that could be achieved through the use of utilization management in managed care could be seriously flawed. Moreover, because of our lack of actuarial experience for that program, region, or population, our reserve levels may be set at an inadequate level. For instance, these problems arose at our Texas health plan in the second quarter of 2012, leading to extremely elevated medical care costs and substantial losses at the health plan. All of these risks are presented in the implementation of the duals demonstration programs. In the event these risks materialize at one or more of our health plans, the negative results of that health plan or plans could adversely affect our business, financial condition, cash flows, and results of operations.

- ***Risks associated with the Medicaid expansion.*** Among other things, by January 1, 2014, in the states that elect to participate, the ACA provides that the Medicaid program will be greatly expanded to provide eligibility to nearly all low-income people under age 65 with incomes at or below 138% of the federal poverty line. As a result, millions of low-income adults without children who currently cannot qualify for coverage, as well as many low-income parents and, in some instances, children now covered through CHIP, will be made eligible for Medicaid. As of February 27, 2013, among the states where we operate our health plans, the states of California, Florida, Michigan, New Mexico, Ohio, and Washington have indicated that they intend to participate in the Medicaid expansion; the states of Texas and Wisconsin have indicated that they do not intend to participate in the expansion; and the state of Utah is undecided. In those states that participate in the expansion, our Medicaid membership is likely to grow appreciably. The new enrollees in our health plans will represent a population that is different from the population of Medicaid enrollees we have historically managed. In addition, such enrollees may be unfamiliar with managed care, and may have substantial pent-up demand for medical services that could result in greater than anticipated rates of utilization. All of the risk factors described above with regard to the duals demonstration programs apply equally to the Medicaid expansion.

- ***Risks associated with the insurance marketplaces .*** Under the ACA, insurance marketplaces will be online marketplaces organized on a state-by-state basis (although in many instances the insurance marketplace in a state will be operated by the federal government, and there could also be regional marketplaces where states combine their marketplace products).

In the insurance marketplace, individuals and groups can purchase health insurance that in many instances will be federally subsidized (up to 400% of the federal poverty level by individual or family). We currently intend to participate in the insurance marketplaces in the states in which we operate our health plans. Our principal focus in participating in the marketplace is to capture the transition in membership that may result from a Medicaid member's income rising above the 138% level of the federal poverty line. By retaining that member in the marketplace, if the member's income subsequently declines, we will continuously serve that same member in all instances and not "lose" the member to another health plan. We endorse the so-called "bridge plan" as the best way to serve low-income persons who may qualify for coverage through the insurance marketplaces, and will be working with legislators and regulators during 2013 to advocate for the merits of the bridge plan. All of the risk factors described above with regard to the duals demonstration programs apply equally to our participation in the insurance marketplaces.

- ***Risk associated with implementing regulations.*** There are many parts of the ACA that will require further guidance in the form of regulations. Due to the breadth and complexity of the ACA, the lack of implementing regulations and interpretive guidance, and the phased-in nature of the ACA's implementation, the overall impact of the ACA on our business and on the health industry in general over the coming years is difficult to predict and not yet fully known.

Our profitability depends on our ability to accurately predict and effectively manage our medical care costs.

Our profitability depends to a significant degree on our ability to accurately predict and effectively manage our medical care costs. Historically, our medical care ratio, meaning our medical care costs as a percentage of our premium revenue net of premium tax, has fluctuated substantially, and has also varied across our state health plans. Because the premium payments we receive are generally fixed in advance and we operate with a narrow profit margin, relatively small changes in our medical care ratio can create significant changes in our overall financial results. For example, if our overall medical care ratio for the year ended December 31, 2012 of 89.9% had been one percentage point higher, or 90.9%, our results for the year ended December 31, 2012 would have been a net loss of approximately $(0.55) per diluted share rather than our actual net income of $0.21 per diluted share, a decrease of over 300%.

Factors that may affect our medical care costs include the level of utilization of health care services, unexpected patterns in the annual influenza, or flu, season, increases in hospital costs, an increased incidence or acuity of high dollar claims related to catastrophic illnesses or medical conditions such as hemophilia for which we do not have adequate reinsurance coverage, increased maternity costs, payment rates that are not actuarially sound, changes in state eligibility certification methodologies, relatively low levels of hospital and specialty provider competition in certain geographic areas, increases in the cost of pharmaceutical products and services, changes in health care regulations and practices, epidemics, new medical technologies, and other various external factors. Many of these factors are beyond our control and could reduce our ability to accurately predict and effectively manage the costs of providing health care services. The inability to forecast and manage our medical care costs or to establish and maintain a satisfactory medical care ratio, either with respect to a particular state health plan or across the consolidated entity, could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

State and federal budget deficits may result in Medicaid, CHIP, or Medicare funding cuts which could reduce our revenues and profit margins.

Nearly all of our premium revenues come from the joint federal and state funding of the Medicaid and CHIP programs. Due to high unemployment levels, Medicaid enrollment levels and Medicaid costs remain elevated at the same time that state budgets are suffering from significant fiscal strain. Because Medicaid is one of the largest expenditures in every state budget, and one of the fastest-growing, it is a prime target for cost-containment efforts. All of the states in which we currently operate our health plans are currently facing significant budgetary pressures. These budgetary pressures may result in unexpected Medicaid, CHIP, or Medicare rate cuts which could reduce our revenues and profit margins. Moreover, some federal deficit reduction proposals would fundamentally change the structure and financing of the Medicaid program. Recently, various proposals have been advanced to reduce annual federal deficits and to slow the increase in the national debt. A number of these proposals include both tax increases and spending reductions in discretionary programs and mandatory programs, such as Social Security, Medicare, and Medicaid.

In addition, potential reductions in Medicare and Medicaid spending have been included in the discussions in Congress regarding deficit reduction measures. The Budget Control Act of 2011 provides that Medicare payments may be reduced by no more than 2% and certain other programs, including Medicaid, would be exempt from the automatic spending cuts associated with sequestration. At this time, we are unable to determine how any Congressional spending cuts will affect Medicare and Medicaid reimbursement in the future. We also cannot predict the initiatives that may be adopted in the future or their full impact. There likely will continue to be legislative and regulatory proposals at the federal and state levels directed at containing or lowering the cost of health care that, if adopted, could potentially have a material adverse effect on our business, financial condition, cash flows, and results of operations.

A failure to accurately estimate incurred but not reported medical care costs may negatively impact our results of operations.

Because of the time lag between when medical services are actually rendered by our providers and when we receive, process, and pay a claim for those medical services, we must continually estimate our medical claims liability at particular points in time, and establish claims reserves related to such estimates. Our estimated reserves for such “incurred but not paid,” or IBNP, medical care costs, are based on numerous assumptions. We estimate our medical claims liabilities using actuarial methods based on historical data adjusted for claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, health care service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to Medicaid fee schedules, and the incidence of high dollar or catastrophic claims. Our ability to accurately estimate claims for our newer lines of business or populations, such as with respect to duals, Medicaid expansion members, or aged, blind or disabled Medicaid members, is impacted by the more limited experience we have had with those populations. With regard to the new previously uninsured Medicaid members we expect to enroll in 2014 due to the Medicaid expansion, certain new members may be disproportionately costly due to high utilization in their first several months of Medicaid membership as a result of their previously having been uninsured and therefore not seeking or deferring medical treatment.

The IBNP estimation methods we use and the resulting reserves that we establish are reviewed and updated, and adjustments, if deemed necessary, are reflected in the current period. Given the numerous uncertainties inherent in such estimates, our actual claims liabilities for a particular quarter or other period could differ significantly from the amounts estimated and reserved for that quarter or period. Our actual claims liabilities have varied and will continue to vary from our estimates, particularly in times of significant changes in utilization, medical cost trends, and populations and markets served.

If our actual liability for claims payments is higher than estimated, our earnings per share in any particular quarter or annual period could be negatively affected. Our estimates of IBNP may be inadequate in the future, which would negatively affect our results of operations for the relevant time period. Furthermore, if we are unable to accurately estimate IBNP, our ability to take timely corrective actions may be limited, further exacerbating the extent of the negative impact on our results.

An increased incidence of flu in 2013 in one or more of the states in which we operate a health plan could significantly increase utilization rates and medical costs.

Our results during 2009 were significantly impacted by the widespread incidence of the H1N1 flu in the states in which we operate our health plans. During December 2012 and January 2013, the CDC reported that the incidence of the flu nationwide had been very high and is expected to continue through the 2013 flu season. We have taken steps to appropriately set our IBNP reserves to account for the high incidence of the flu. However, if the utilization rates of our members are higher than we anticipated our results in the first quarter of 2013 could be materially and adversely affected.

If the responsive bids of our health plans for new or renewed Medicaid contracts are not successful, or if our government contracts are terminated or are not renewed, our premium revenues could be materially reduced and our operating results could be negatively impacted.

Our government contracts may be subject to periodic competitive bidding. In such process, our health plans may face competition as other plans, many with greater financial resources and greater name recognition, attempt to enter our markets through the competitive bidding process. For instance, the state contract of our Florida health plan will be subject to competitive bidding in 2013 for a new contract commencing January 1, 2014. In the event the responsive bid of our Florida health plan or those of our other health plans are not successful, we will lose our Medicaid contract in the applicable state, and our premium revenues could be materially reduced as a result. Alternatively, even if our responsive bids are successful, the bids may be based upon assumptions regarding enrollment, utilization, medical costs, or other factors which could result in the Medicaid contract being less profitable than we had expected.

In addition, all of our contracts may be terminated for cause if we breach a material provision of the contract or violate relevant laws or regulations. Our contracts with the states are also subject to cancellation by the state in the event of the unavailability of state or federal funding. In some jurisdictions, such cancellation may be immediate and in other jurisdictions a notice period is required. Further, most of our contracts are terminable without cause.

Our government contracts generally run for periods of one year to three years, and may be successively extended by amendment for additional periods if the relevant state agency so elects. Our current contracts expire on various dates over the next several years. Although our health plans have generally been successful in obtaining the renewal and/or extension of their state contracts, there can be no guarantee that any of our state government contracts will be renewed or extended, as shown by the loss of our Missouri contract in 2012. If we are unable to renew, successfully re-bid, or compete for any of our government contracts, or if any of our contracts are terminated or renewed on less favorable terms, our business, financial condition, cash flows, and results of operations could be adversely affected.

In the event the expected reduction in the rates paid to our California health plan is not finally implemented, is not made effective retroactively to July 1, 2011, or is otherwise modified, our results of operations may be affected.

California Assembly Bill 97, or AB 97, is legislation that was signed by Governor Jerry Brown on March 24, 2011. Among other things, AB 97 proposes to effect a 10% reduction in Medi-Cal provider rates. It is currently uncertain whether the rate cut will be implemented, and if it is implemented, whether it will be effective retroactively to July 1, 2011. If the proposed rate cut is not finally implemented, if it is not made effective retroactively to July 1, 2011, or if it is otherwise modified from its current form, the results of our California health plan could be negatively affected depending on the action taken. In addition, recoveries from providers related to any final implemented rate cut could also affect the results of our California health plan.

States may not adequately compensate us for the value of drug rebates that were previously earned by the Company but that are now collectible by the states.

The ACA includes certain provisions that change the way drug rebates are handled for drug claims filled by Medicaid managed care plans. Retroactive to March 23, 2010, state Medicaid programs are now required to collect federal rebates on all Medicaid-covered outpatient drugs dispensed or administered to Medicaid managed care enrollees (excluding certain drugs that are already discounted), and pharmaceutical manufacturers are required to pay specified rebates directly to the state Medicaid programs for those claims. This has impacted the level of rebates received by managed care plans from the manufacturers for Medicaid managed care enrollees. Many manufacturers have renegotiated or discontinued their rebate contracts with Medicaid managed care plans and pharmacy benefits managers to offset these new rebates paid directly to state Medicaid programs. As a result, the drug rebate amounts paid to managed care plans like ours continue to remain at levels that are much lower than prior to the ACA implementation. There are provisions in the ACA that require rates paid to Medicaid managed care to be actuarially sound in regard to drug rebates. Although we will be pursuing rate increases with state agencies to make us whole for the rebate amounts lost, there can be no assurances that the premium increases we may receive, if any, will be adequate to offset the amount of the lost rebates. If such premium increases prove to be inadequate, our business, financial condition, cash flows, and results of operations could be adversely affected.

We derive our premium revenues from a relatively small number of state health plans.

We currently derive our premium revenues from nine state health plans. If we are unable to continue to operate in any of those nine states, or if our current operations in any portion of the states we are in are significantly curtailed, our revenues could decrease materially. Our reliance on operations in a limited number of states could cause our revenue and profitability to change suddenly and unexpectedly, depending on an abrupt loss of membership, significant rate reductions, a loss of a material contract, legislative actions, changes in Medicaid eligibility methodologies, catastrophic claims, an epidemic, an unexpected increase in utilization, general economic conditions, and similar factors in those states. Our inability to continue to operate in any of the states in which we currently operate, or a significant change in the nature of our existing operations, could adversely affect our business, financial condition, cash flows, and results of operations.

There are performance risks and other risks associated with certain provisions in the state Medicaid contracts of several of our health plans.

The state contracts of our New Mexico, Ohio, Texas, and Wisconsin health plans contain provisions pertaining to at-risk premiums that require us to meet certain quality performance measures to earn all of our contract revenues in those states. In the event we are unsuccessful in achieving the stated performance measure, the health plan will be unable to recognize the revenue associated with that measure. Any failure of our health plans to satisfy one of these performance measure provisions could adversely affect our business, financial condition, cash flows, and results of operations. In addition, the state contracts of our California, Florida, New Mexico, Texas, and Washington health plans, and our contract with CMS, contain provisions pertaining to medical cost floors, administrative cost and profit ceilings, and profit-sharing arrangements. These provisions are subject to interpretation and application by our health plans. In the event the applicable state government agency disagrees with our health plan's interpretation or application of the sometimes complicated contract provisions at issue, the health plan could be required to adjust the amount of its obligations under these provisions and/or make a payment or payments to the state. Any interpretation or application of these provisions at variance with our health plan's interpretation or inconsistent with our revenue recognition accounting treatment could adversely affect our business, financial condition, cash flows, and results of operations.

Failure to attain profitability in any new start-up operations could negatively affect our results of operations.

Start-up costs associated with a new business can be substantial. For example, to obtain a certificate of authority to operate as a health maintenance organization in most jurisdictions, we must first establish a provider network, have infrastructure and required systems in place, and demonstrate our ability to obtain a state contract and process claims. Often, we are also required to contribute significant capital to fund mandated net worth requirements, performance bonds or escrows, or contingency guaranties. If we are unsuccessful in obtaining the certificate of authority, winning the bid to provide services, or attracting members in sufficient numbers to cover our costs, any new business of ours would fail. We also could be required by the state to continue to provide services for some period of time without sufficient revenue to cover our ongoing costs or to recover our significant start-up costs.

Even if we are successful in establishing a profitable health plan in a new state, increasing membership, revenues, and medical costs will trigger increased mandated net worth requirements which could substantially exceed the net income generated by the health plan. Rapid growth in an existing state will also result in increased net worth requirements. In such circumstances, we may not be able to fund on a timely basis or at all the increased net worth requirements with our available cash resources. The expenses associated with starting up a health plan in a new state or expanding a health plan in an existing state could have an adverse impact on our business, financial condition, cash flows, and results of operations.

Receipt of inadequate or significantly delayed premiums could negatively affect our business, financial condition, cash flows, and results of operations.

Our premium revenues consist of fixed monthly payments per member, and supplemental payments for other services such as maternity deliveries. These premiums are fixed by contract, and we are obligated during the contract periods to provide health care services as established by the state governments. We use a large portion of our revenues to pay the costs of health care services delivered to our members. If premiums do not increase when expenses related to medical services rise, our medical margins will be compressed, and our earnings will be negatively affected. A state could increase hospital or other provider rates without making a commensurate increase in the rates paid to us, or could lower our rates without making a commensurate reduction in the rates paid to hospitals or other providers. In addition, if the actuarial assumptions made by a state in implementing a rate or benefit change are incorrect or are at variance with the particular utilization patterns of the members of one of our health plans, our medical margins could be reduced. Any of these rate adjustments in one or more of the states in which we operate could adversely affect our business, financial condition, cash flows, and results of operations.

Furthermore, a state undergoing a budget crisis may significantly delay the premiums paid to one of our health plans. For instance, due to a prolonged budget impasse during 2010, some of the monthly premium payments made by the state of California to our California health plan were several months late. Any significant delay in the monthly payment of premiums to any of our health plans could have a material adverse affect on our business, financial condition, cash flows, and results of operations.

Difficulties in executing our acquisition strategy could adversely affect our business.

The acquisitions of other health plans and the assignment and assumption of Medicaid contract rights of other health plans have accounted for a significant amount of our growth over the last several years. Although we cannot predict with certainty our rate of growth as the result of acquisitions, we believe that additional acquisitions of all sizes will be important to our future growth strategy. Many of the other potential purchasers of these assets-particularly operators of large commercial health plans-have significantly greater financial resources than we do. Also, many of the sellers may insist on selling assets that we do not want, such as commercial lines of business, or may insist on transferring their liabilities to us as part of the sale of their companies or assets. Even if we identify suitable targets, we may be unable to complete acquisitions on terms favorable to us or obtain the necessary financing for these acquisitions. For these reasons, among others, we cannot provide assurance that we will be able to complete favorable acquisitions, especially in light of the volatility in the capital markets over the past several years. Further, to the extent we complete an acquisition, we may be unable to realize the anticipated benefits from such acquisition because of operational factors or difficulty in integrating the acquisition with our existing business. This may include problems involving the integration of:

- additional employees who are not familiar with our operations or our corporate culture,
- new provider networks which may operate on terms different from our existing networks,
- additional members who may decide to transfer to other health care providers or health plans,
- disparate information, claims processing, and record-keeping systems,
- internal controls and accounting policies, including those which require the exercise of judgment and complex estimation processes, such as estimates of claims incurred but not paid, accounting for goodwill, intangible assets, stock-based compensation, and income tax matters, and
- new regulatory schemes, relationships, practices, and compliance requirements.

Also, we are generally required to obtain regulatory approval from one or more state agencies when making acquisitions of health plans. In the case of an acquisition of a business located in a state in which we do not already operate, we would be required to obtain the necessary licenses to operate in that state. In addition, although we may already operate in a state in which we acquire a new business, we would be required to obtain regulatory approval if, as a result of the acquisition, we will operate in an area of that state in which we did not operate previously. Furthermore, we may be required to renegotiate contracts with the network providers of the acquired business. We may be unable to obtain the necessary governmental approvals, comply with these regulatory requirements or renegotiate the necessary provider contracts in a timely manner, if at all.

In addition, we may be unable to successfully identify, consummate and integrate future acquisitions, including integrating the acquired businesses on our information technology platform, or to implement our operations strategy in order to operate acquired businesses profitably. Furthermore, we may incur significant transaction expenses in connection with a potential acquisition which may or may not be consummated. These expenses could impact our selling, general and administrative expense ratio.

For all of the above reasons, we may not be able to consummate our proposed acquisitions as announced from time to time to sustain our pattern of growth or to realize benefits from completed acquisitions.

We face periodic routine and non-routine reviews, audits, and investigations by government agencies, and these reviews and audits could have adverse findings, which could negatively impact our business.

We are subject to various routine and non-routine governmental reviews, audits, and investigations. Violation of the laws, regulations, or contract provisions governing our operations, or changes in interpretations of those laws and regulations, could result in the imposition of civil or criminal penalties, the cancellation of our contracts to provide managed care services, the suspension or revocation of our licenses, the exclusion from participation in government sponsored health programs, or the revision and recoupment of past payments made based on audit findings. If we are unable to correct any noted deficiencies, or become subject to material fines or other sanctions, we might suffer a substantial reduction in profitability, and might also lose one or more of our government contracts and as a result lose significant numbers of members and amounts of revenue. In addition, government receivables are subject to government audit and negotiation, and government contracts are vulnerable to disagreements with the government. The final amounts we ultimately receive under government contracts may be different from the amounts we initially recognize in our financial statements.

We rely on the accuracy of eligibility lists provided by state governments. Inaccuracies in those lists would negatively affect our results of operations.

Premium payments to our health plan segment are based upon eligibility lists produced by state governments. From time to time, states require us to reimburse them for premiums paid to us based on an eligibility list that a state later discovers contains individuals who are not in fact eligible for a government sponsored program or are eligible for a different premium category or a different program. Alternatively, a state could fail to pay us for members for whom we are entitled to payment. Our results of operations would be adversely affected as a result of such reimbursement to the state if we make or have made related payments to providers and are unable to recoup such payments from the providers.

We are subject to extensive fraud and abuse laws which may give rise to lawsuits and claims against us, the outcome of which may have a material adverse effect on our financial position, results of operations, and cash flows.

Because we receive payments from federal and state governmental agencies, we are subject to various laws commonly referred to as “fraud and abuse” laws, including the federal False Claims Act, which permit agencies and enforcement authorities to institute suit against us for violations and, in some cases, to seek treble damages, penalties, and assessments. Liability under such federal and state statutes and regulations may arise if we know, or it is found that we should have known, that information we provide to form the basis for a claim for government payment is false or fraudulent, and some courts have permitted False Claims Act suits to proceed if the claimant was out of compliance with program requirements. *Qui tam* actions under federal and state law can be brought by any individual on behalf of the government. *Qui tam* actions have increased significantly in recent years, causing greater numbers of health care companies to have to defend a false claim action, pay fines, or be excluded from the Medicare, Medicaid, or other state or federal health care programs as a result of an investigation arising out of such action. Many states, including states where we currently operate, have enacted parallel legislation. In the event we are subject to liability under a *qui tam* action, our business and operating results could be adversely affected.

Our business could be adversely impacted by adoption of the new ICD-10 standardized coding set for diagnoses.

The U.S. Department of Health and Human Services, or HHS, has released rules pursuant to HIPAA which mandate the use of standard formats in electronic health care transactions. HHS also has published rules requiring the use of standardized code sets and unique identifiers for providers. Originally, the federal government required that health care organizations, including health insurers, upgrade to updated and expanded standardized code sets used for documenting health conditions by October 2013. These new standardized code sets, known as ICD-10, will require substantial investments from health care organizations, including us. However, CMS has now postponed implementation of ICD-10 to October 2014. While use of the ICD-10 code sets will require significant administrative changes, we believe that the cost of compliance with these regulations has not had and is not expected to have a material adverse effect on our cash flows, financial position, or results of operations. However, these changes may result in errors and otherwise negatively impact our service levels, and we may experience complications related to supporting customers that are not fully compliant with the revised requirements as of the applicable compliance date. Furthermore, if physicians fail to provide appropriate codes for services provided as a result of the new coding set, we may not be reimbursed, or adequately reimbursed, for such services.

If we are unable to deliver quality care, maintain good relations with the physicians, hospitals, and other providers with whom we contract, or if we are unable to enter into cost-effective contracts with such providers, our profitability could be adversely affected.

We contract with physicians, hospitals, and other providers as a means to ensure access to health care services for our members, to manage health care costs and utilization, and to better monitor the quality of care being delivered. We compete with other health plans to contract with these providers. We believe providers select plans in which they participate based on criteria including reimbursement rates, timeliness and accuracy of claims payment, potential to deliver new patient volume and/or retain existing patients, effectiveness of resolution of calls and complaints, and other factors. We cannot be sure that we will be able to successfully attract and retain providers to maintain a competitive network in the geographic areas we serve. In addition, in any particular market, providers could refuse to contract with us, demand higher payments, or take other actions which could result in higher health care costs, disruption to provider access for current members, a decline in our growth rate, or difficulty in meeting regulatory or accreditation requirements.

The Medicaid program generally pays doctors and hospitals at levels well below those of Medicare and private insurance. Large numbers of doctors, therefore, do not accept Medicaid patients. In the face of fiscal pressures, some states may reduce rates paid to providers, which may further discourage participation in the Medicaid program.

In some markets, certain providers, particularly hospitals, physician/hospital organizations, and some specialists, may have significant market positions or even monopolies. If these providers refuse to contract with us or utilize their market position to negotiate favorable contracts which are disadvantageous to us, our profitability in those areas could be adversely affected.

Some providers that render services to our members are not contracted with our plans. In those cases, there is no pre-established understanding between the provider and our plan about the amount of compensation that is due to the provider. In some states, the amount of compensation is defined by law or regulation, but in most instances it is either not defined or it is established by a standard that is not clearly translatable into dollar terms. In such instances, providers may believe they are underpaid for their services and may either litigate or arbitrate their dispute with our plan. The uncertainty of the amount to pay and the possibility of subsequent adjustment of the payment could adversely affect our business, financial position, cash flows, and results of operations.

The insolvency of a delegated provider could obligate us to pay its referral claims, which could have an adverse effect on our business, cash flows, and results of operations.

Circumstances may arise where providers to whom we have delegated risk, due to insolvency or other circumstances, are unable to pay claims they have incurred with third parties in connection with referral services provided to our members. The inability of delegated providers to pay referral claims presents us with both immediate financial risk and potential disruption to member care. Depending on states' laws, we may be held liable for such unpaid referral claims even though the delegated provider has contractually assumed such risk. Additionally, competitive pressures may force us to pay such claims even when we have no legal obligation to do so or we have already paid claims to a delegated provider and payments cannot be recouped when the delegated provider becomes insolvent. To reduce the risk that delegated providers are unable to pay referral claims, we monitor the operational and financial performance of such providers. We also maintain contingency plans that include transferring members to other providers in response to potential network instability. In certain instances, we have required providers to place funds on deposit with us as protection against their potential insolvency. These funds are frequently in the form of segregated funds received from the provider and held by us or placed in a third-party financial institution. These funds may be used to pay claims that are the financial responsibility of the provider in the event the provider is unable to meet these obligations. However, there can be no assurances that these precautionary steps will fully protect us against the insolvency of a delegated provider. Liabilities incurred or losses suffered as a result of provider insolvency could have an adverse effect on our business, financial condition, cash flows, and results of operations.

Regulatory actions and negative publicity regarding Medicaid managed care and Medicare Advantage may lead to programmatic changes and intensified regulatory scrutiny and regulatory burdens.

Several of our health care competitors have recently been involved in governmental investigations and regulatory actions which have resulted in significant volatility in the price of their stock. In addition, there has been negative publicity and proposed programmatic changes regarding Medicare Advantage private fee-for-service plans, a part of the Medicare Advantage program in which we do not participate. These actions and the resulting negative publicity could become associated with or imputed to us, regardless of our actual regulatory compliance or programmatic participation. Such an association, as well as any perception of a recurring pattern of abuse among the health plan participants in government programs and the diminished reputation of the managed care sector as a whole, could result in public distrust, political pressure for changes in the programs in which we do participate, intensified scrutiny by regulators, additional regulatory requirements and burdens, increased stock volatility due to speculative trading, and heightened barriers to new managed care markets and contracts, all of which could have a material adverse effect on our business, financial condition, cash flows, and results of operations.

If a state fails to renew its federal waiver application for mandated Medicaid enrollment into managed care or such application is denied, our membership in that state will likely decrease.

States may only mandate Medicaid enrollment into managed care under federal waivers or demonstrations. Waivers and programs under demonstrations are approved for two- to five-year periods and can be renewed on an ongoing basis if the state applies and the waiver request is approved or renewed by CMS. We have no control over this renewal process. If a state does not renew its mandated program or the federal government denies the state's application for renewal, our business would suffer as a result of a likely decrease in membership.

If state regulators do not approve payments of dividends and distributions by our subsidiaries, it may negatively affect our business strategy.

We are a corporate parent holding company and hold most of our assets at, and conduct most of our operations through, direct subsidiaries. As a holding company, our results of operations depend on the results of operations of our subsidiaries. Moreover, we are dependent on dividends or other inter-company transfers of funds from our subsidiaries to meet our debt service and other obligations. The ability of our subsidiaries to pay dividends or make other payments or advances to us will depend on their operating results and will be subject to applicable laws and restrictions contained in agreements governing the debt of such subsidiaries. In addition, our health plan subsidiaries are subject to laws and regulations that limit the amount of dividends and distributions that they can pay to us without prior approval of, or notification to, state regulators. In California, our health plan may dividend, without notice to or approval of the California Department of Managed Health Care, amounts by which its tangible net equity exceeds 130% of the tangible net equity requirement. Our other health plans must give thirty days' advance notice and the opportunity to disapprove “extraordinary” dividends to the respective state departments of insurance for amounts over the lesser of (a) ten percent of surplus or net worth at the prior year end or (b) the net income for the prior year. The discretion of the state regulators, if any, in approving or disapproving a dividend is not clearly defined. Health plans that declare ordinary dividends must usually provide notice to the regulators ten or fifteen days in advance of the intended distribution date of the ordinary dividend. For the years ended December 31, 2012, 2011 and 2010, we received dividends from our health plan subsidiaries amounting to $80.0 million, $76.6 million and $81.3 million, respectively. The aggregate additional amounts our health plan subsidiaries could have paid us at December 31, 2012, 2011 and 2010, without approval of the regulatory authorities, were approximately $8.1 million, $17.5 million, and $18.8 million, respectively. If the regulators were to deny or significantly restrict our subsidiaries' requests to pay dividends to us, the funds available to our company as a whole would be limited, which could harm our ability to implement our business strategy or service our outstanding indebtedness.

Unforeseen changes in pharmaceutical regulations or market conditions may impact our revenues and adversely affect our results of operations.

A significant category of our health care costs relate to pharmaceutical products and services. Evolving regulations and state and federal mandates regarding coverage may impact the ability of our health plans to continue to receive existing price discounts on pharmaceutical products for our members. Other factors affecting our pharmaceutical costs include, but are not limited to, the price of pharmaceuticals, geographic variation in utilization of new and existing pharmaceuticals, and changes in discounts. The unpredictable nature of these factors may have an adverse effect on our business, financial condition, cash flows, and results of operations.

A security breach or unauthorized disclosure of sensitive or confidential member information could have an adverse effect on our business.

As part of our normal operations, we collect, process, and retain confidential member information. We are subject to various federal and state laws and rules regarding the use and disclosure of confidential member information, including HIPAA and the Gramm-Leach-Bliley Act. The Health Information Technology for Economic and Clinical Health Act, or HITECH, provisions of the HITECH American Reinvestment and Recovery Act of 2009 further expand the coverage of HIPAA by, among other things, extending the privacy and security provisions, mandating new regulations around electronic medical records, expanding enforcement mechanisms, allowing the state Attorneys General to bring enforcement actions, increasing penalties for violations, and requiring public disclosure of improper disclosures of the health information of more than 500 individuals.

Under HITECH, civil penalties for HIPAA violations by covered entities and business associates are increased up to an amount of $1.5 million per calendar year for HIPAA violations. In addition, imposition of these penalties is now more likely because HITECH strengthens enforcement. For example, commencing February 2010, HHS was required to conduct periodic audits to confirm compliance. Investigations of violations that indicate willful neglect, for which penalties are now mandatory, are statutorily required. In addition, state attorneys general are authorized to bring civil actions seeking either injunctions or damages in response to violations of HIPAA privacy and security regulations that threaten the privacy of state residents. Initially monies collected will be transferred to a division of HHS for further enforcement, and within three years, a methodology will be adopted for distributing a percentage of those monies to affected individuals to fund enforcement and provide incentive for individuals to report violations. In addition, HITECH requires us to notify affected individuals, HHS, and in some cases the media when unsecured protected health information is subject to a security breach.

HITECH also contains a number of provisions that provide incentives for providers and states to initiate certain programs related to health care and health care technology, such as electronic health records. While some HITECH provisions may not apply to us directly, states wishing to apply for grants under HITECH, or otherwise participating in such programs, may impose new health care technology requirements on us through our contracts with state Medicaid agencies. We are unable to predict what such requirements may entail or what their effect on our business may be.

We will continue to assess our compliance obligations as regulations under HITECH are promulgated and more guidance becomes available from HHS and other federal agencies. The new privacy and security requirements, however, may require substantial operational and systems changes, employee education and resources and there is no guarantee that we be able to implement them adequately or prior to their effective date. Given HIPAA's complexity and the anticipated new regulations, which may be subject to changing and perhaps conflicting interpretation, our ongoing ability to comply with all of the HIPAA requirements is uncertain, which may expose us to the criminal and increased civil penalties provided under HITECH and may require us to incur significant costs in order to seek to comply with its requirements.

While we currently expend significant resources and have implemented solutions, processes and procedures to protect against cyber-attacks and security breaches and have no evidence to suggest that such attacks have resulted in a breach of our systems, we may need to expend additional significant resources in the future to continue to protect against potential security breaches or to address problems caused by such attacks or any breach of our systems. Because the techniques used to circumvent security systems can be highly sophisticated and change frequently, often are not recognized until launched against a target, and may originate from less regulated and remote areas around the world, we may be unable to proactively address these techniques or to implement adequate preventive measures.

Despite the security measures we have in place to ensure compliance with applicable laws and rules, our facilities and systems, and those of our third-party service providers, may be vulnerable to security breaches, acts of vandalism, acts of malicious insiders, computer viruses, misplaced or lost data, programming and/or human errors, or other similar events. Any security breach involving the misappropriation, loss or other unauthorized disclosure or use of confidential member information, whether by us or a third party, could subject us to civil and criminal penalties, divert management's time and energy and have a material adverse effect on our business, financial condition, cash flows, or results of operations.

Risks Related to the Operation of Our Molina Medicaid Solutions Business

We may be unable to retain or renew the state government contracts of the Molina Medicaid Solutions segment on terms consistent with our expectations or at all.

Molina Medicaid Solutions currently has management contracts in only six states. If we are unable to continue to operate in any of those six states, or if our current operations in any of those six states are significantly curtailed, the revenues and cash flows of Molina Medicaid Solutions could decrease materially, and as a result our profitability would be negatively impacted.

If the responsive bids to RFPs of Molina Medicaid Solutions are not successful, our revenues could be materially reduced and our operating results could be negatively impacted.

The government contracts of Molina Medicaid Solutions may be subject to periodic competitive bidding. In such process, Molina Medicaid Solutions may face competition as other service providers, some with much greater financial resources and greater name recognition, attempt to enter our markets through the competitive bidding process. For instance, in 2012, the government contract of Molina Medicaid Solutions in Louisiana was subject to competitive bidding, and we were unsuccessful in being awarded a new contract. Molina Medicaid Solutions also anticipates bidding in other states which have issued RFPs for procurement of a new MMIS. In the event our responsive bids in other states are not successful, we will be unable to grow in a manner consistent with our projections. Even if our responsive bids are successful, the bids may be based upon assumptions or other factors which could result in the contract being less profitable than we had expected or had been the case prior to competitive re-bidding.

Because of the complexity and duration of the services and systems required to be delivered under the government contracts of Molina Medicaid Solutions, there are substantial risks associated with full performance under the contracts.

The state contracts of Molina Medicaid Solutions typically require significant investment in the early stages that is expected to be recovered through billings over the life of the contracts. These contracts involve the construction of new computer systems and communications networks and the development and deployment of complex technologies. Substantial performance risk exists under each contract. Some or all elements of service delivery under these contracts are dependent upon successful completion of the design, development, construction, and implementation phases. Any increased or unexpected costs or unanticipated delays in connection with the performance of these contracts, including delays caused by factors outside our control, could make these contracts less profitable or unprofitable, which could have an adverse effect on our overall business, financial condition, cash flows, and results of operations.

If we fail to comply with our state government contracts or government contracting regulations, our business may be adversely affected.

Molina Medicaid Solutions' contracts with state government customers may include unique and specialized performance requirements. In particular, contracts with state government customers are subject to various procurement regulations, contract provisions, and other requirements relating to their formation, administration, and performance. Any failure to comply with the specific provisions in our customer contracts or any violation of government contracting regulations could result in the imposition of various civil and criminal penalties, which may include termination of the contracts, forfeiture of profits, suspension of payments, imposition of fines, and suspension from future government contracting. Further, any negative publicity related to our state government contracts or any proceedings surrounding them may damage our business by affecting our ability to compete for new contracts. The termination of a state government contract, our suspension from government work, or any negative impact on our ability to compete for new contracts, could have an adverse effect on our business, financial condition, cash flows, and results of operations.

System security risks and systems integration issues that disrupt our internal operations or information technology services provided to customers could adversely affect our financial results and damage our reputation.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate our confidential information or that of third parties, create system disruptions, or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms, and other malicious software programs that attack our products or otherwise exploit any security vulnerabilities of our products. In addition, sophisticated hardware and operating system software and applications that we produce or procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and the efforts to address these problems could result in interruptions, delays, cessation of service, and loss of existing or potential government customers.

Molina Medicaid Solutions routinely processes, stores, and transmits large amounts of data for our clients, including sensitive and personally identifiable information. Breaches of our security measures could expose us, our customers, or the individuals affected to a risk of loss or misuse of this information, resulting in litigation and potential liability for us and damage to our brand and reputation. Accordingly, we could lose existing or potential government customers for outsourcing services or other information technology solutions or incur significant expenses in connection with our customers' system failures or any actual or perceived security vulnerabilities in our products. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Portions of our information technology infrastructure also may experience interruptions, delays, or cessations of service or produce errors in connection with systems integration or migration work that takes place from time to time. We may not be successful in implementing new systems and transitioning data, which could cause business disruptions and be more expensive, time consuming, disruptive, and resource-intensive. Such disruptions could adversely impact our ability to fulfill orders and interrupt other processes. Delayed sales, lower margins, or lost government customers resulting from these disruptions could adversely affect our financial results, reputation, and stock price.

In the course of providing services to customers, Molina Medicaid Solutions may inadvertently infringe on the intellectual property rights of others and be exposed to claims for damages.

The solutions we provide to our state government customers may inadvertently infringe on the intellectual property rights of third parties resulting in claims for damages against us. The expense and time of defending against these claims may have a material and adverse impact on our profitability. Additionally, the publicity we may receive as a result of infringing intellectual property rights may damage our reputation and adversely impact our ability to develop new MMIS business.

Inherent in the government contracting process are various risks which may materially and adversely affect our business and profitability.

We are subject to the risks inherent in the government contracting process. These risks include government audits of billable contract costs and reimbursable expenses and compliance with government reporting requirements. In the event we are found to be out of compliance with government contracting requirements, our reputation may be adversely impacted and our relationship with the government agencies we work with may be damaged, resulting in a material and adverse effect on our profitability.

Our performance on contracts, including those on which we have partnered with third parties, may be adversely affected if we or the third parties fail to deliver on commitments.

In some instances, our contracts require that we partner with other parties including software and hardware vendors to provide the complex solutions required by our state government customers. Our ability to deliver the solutions and provide the services required by our customers is dependent on our and our partners' ability to meet our customers' delivery schedules. If we or our partners fail to deliver services or products on time, our ability to complete the contract may be adversely affected, which may have a material and adverse impact on our revenue and profitability.

Risks Related to our General Business Operations

Ineffective management of our growth may negatively affect our business, financial condition, and results of operations.

Depending on acquisitions and other opportunities, we expect to continue to grow our membership and to expand into other markets. Continued rapid growth could place a significant strain on our management and on other Company resources. Our ability to manage our growth may depend on our ability to strengthen our management team and attract, train, and retain skilled employees, and our ability to implement and improve operational, financial, and management information systems on a timely basis. If we are unable to manage our growth effectively, our business, financial condition, cash flows, and results of operations could be materially and adversely affected. In addition, due to the initial substantial costs related to acquisitions, rapid growth could adversely affect our short-term profitability and liquidity.

Any changes to the laws and regulations governing our business, or the interpretation and enforcement of those laws or regulations, could cause us to modify our operations and could negatively impact our operating results.

Our business is extensively regulated by the federal government and the states in which we operate. The laws and regulations governing our operations are generally intended to benefit and protect health plan members and providers rather than managed care organizations. The government agencies administering these laws and regulations have broad latitude in interpreting and applying them. These laws and regulations, along with the terms of our government contracts, regulate how we do business, what services we offer, and how we interact with members and the public. For instance, some states mandate minimum medical expense levels as a percentage of premium revenues. These laws and regulations, and their interpretations, are subject to frequent change. The interpretation of certain contract provisions by our governmental regulators may also change. Changes in existing laws or regulations, or their interpretations, or the enactment of new laws or regulations, could reduce our profitability by imposing additional capital requirements, increasing our liability, increasing our administrative and other costs, increasing mandated benefits, forcing us to restructure our relationships with providers, or requiring us to implement additional or different programs and systems. Changes in the interpretation of our contracts could also reduce our profitability if we have detrimentally relied on a prior interpretation.

Our business depends on our information and medical management systems, and our inability to effectively integrate, manage, and keep secure our information and medical management systems, could disrupt our operations.

Our business is dependent on effective and secure information systems that assist us in, among other things, processing provider claims, monitoring utilization and other cost factors, supporting our medical management techniques, and providing data to our regulators. Our providers also depend upon our information systems for membership verifications, claims status, and other information. If we experience a reduction in the performance, reliability, or availability of our information and medical management systems, our operations, ability to pay claims, and ability to produce timely and accurate reports could be adversely affected. In addition, if the licensor or vendor of any software which is integral to our operations were to become insolvent or otherwise fail to support the software sufficiently, our operations could be negatively affected.

Our information systems and applications require continual maintenance, upgrading, and enhancement to meet our operational needs. Moreover, our acquisition activity requires transitions to or from, and the integration of, various information systems. If we experience difficulties with the transition to or from information systems or are unable to properly implement, maintain, upgrade or expand our system, we could suffer from, among other things, operational disruptions, loss of members, difficulty in attracting new members, regulatory problems, and increases in administrative expenses.

Our business requires the secure transmission of confidential information over public networks. Advances in computer capabilities, new discoveries in the field of cryptography, or other events or developments could result in compromises or breaches of our security systems and member data stored in our information systems. Anyone who circumvents our security measures could misappropriate our confidential information or cause interruptions in services or operations. The internet is a public network, and data is sent over this network from many sources. In the past, computer viruses or software programs that disable or impair computers have been distributed and have rapidly spread over the internet. Computer viruses could be introduced into our systems, or those of our providers or regulators, which could disrupt our operations, or make our systems inaccessible to our members, providers, or regulators. We may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by breaches. Because of the confidential health information we store and transmit, security breaches could expose us to a risk of regulatory action, litigation, possible liability, and loss. Our security measures may be inadequate to prevent security breaches, and our business operations would be negatively impacted by cancellation of contracts and loss of members if security breaches are not prevented.

Because our corporate headquarters are located in Southern California, our business operations may be significantly disrupted as a result of a major earthquake.

Our corporate headquarters is located in Long Beach, California. In addition, the claims of our health plans are also processed in Long Beach. Southern California is exposed to a statistically greater risk of a major earthquake than most other parts of the United States. If a major earthquake were to strike the Los Angeles area, our corporate functions and claims processing could be significantly impaired for a substantial period of time. Although we have established a disaster recovery and business resumption plan with back-up operating sites to be deployed in the case of such a major disruptive event, there can be no assurances that the disaster recovery plan will be successful or that the business operations of all our health plans, including those that are remote from any such event, would not be substantially impacted by a major Southern California earthquake.

We face claims related to litigation which could result in substantial monetary damages.

We are subject to a variety of legal actions, including medical malpractice actions, provider disputes, employment related disputes, and breach of contract actions. In the event we incur liability materially in excess of the amount for which we have insurance coverage, our profitability would suffer. In addition, our providers involved in medical care decisions are exposed to the risk of medical malpractice claims. As an employer of physicians and ancillary medical personnel and as an operator of primary care clinics, our plans are subject to liability for negligent acts, omissions, or injuries occurring at one of their clinics or caused by one of their employees. We maintain medical malpractice insurance for our clinics in an amount which we believe to be reasonable in light of our experience to date. However, given the significant amount of some medical malpractice awards and settlements, this insurance may not be sufficient or available at a reasonable cost to protect us from damage awards or other liabilities. Even if any claims brought against us are unsuccessful or without merit, we may have to defend ourselves against such claims. The defense of any such actions may be time-consuming and costly, and may distract our management's attention. As a result, we may incur significant expenses and may be unable to effectively operate our business.

Furthermore, claimants often sue managed care organizations for improper denials of or delays in care, and in some instances improper authorizations of care. Claims of this nature could result in substantial damage awards against us and our providers that could exceed the limits of any applicable medical malpractice insurance coverage. Successful malpractice or tort claims asserted against us, our providers, or our employees could adversely affect our financial condition and profitability.

We cannot predict the outcome of any lawsuit with certainty. While we currently have insurance coverage for some of the potential liabilities relating to litigation, other such liabilities may not be covered by insurance, the insurers could dispute coverage, or the amount of insurance could be insufficient to cover the damages awarded. In addition, insurance coverage for all or certain types of liability may become unavailable or prohibitively expensive in the future or the deductible on any such insurance coverage could be set at a level which would result in us effectively self-insuring cases against us.

Although we establish reserves for litigation as we believe appropriate, we cannot provide assurance that our recorded reserves will be adequate to cover such costs. Therefore, the litigation to which we are subject could have a material adverse effect on our business, financial condition, cash flows, and results of operations, and could prompt us to change our operating procedures.

We are subject to competition which negatively impacts our ability to increase penetration in the markets we serve and could result in the loss of members to other health plans.

We operate in a highly competitive environment and in an industry that is subject to ongoing changes from business consolidations, new strategic alliances, and aggressive marketing practices by other managed care organizations. We compete for members principally on the basis of size, location, and quality of provider network, benefits supplied, quality of service, and reputation. A number of these competitive elements are partially dependent upon and can be positively affected by the financial resources available to a health plan. Many other organizations with which we compete, including large commercial plans, have substantially greater financial and other resources than we do. For these reasons, we may be unable to grow our membership, or may lose members to other health plans.

Failure to maintain effective internal controls over financial reporting could have a material adverse effect on our business, operating results, and stock price.

The Sarbanes-Oxley Act of 2002 requires, among other things, that we maintain effective internal controls over financial reporting. In particular, we must perform system and process evaluation and testing of our internal controls over financial reporting to allow management to report on, and our independent registered public accounting firm to attest to, our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002. Our future testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal controls over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 will continue to require that we incur substantial accounting expense and expend significant management time and effort. Moreover, if we are not able to continue to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identifies deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock could decline and we could be subject to sanctions or investigations by the New York Stock Exchange, SEC, or other regulatory authorities, which would require additional financial and management resources.

Changes in accounting may affect our results of operations.

U.S. generally accepted accounting principles and related implementation guidelines and interpretations can be highly complex and involve subjective judgments. Changes in these rules or their interpretation, or the adoption of new pronouncements could significantly affect our stated results of operations.

The value of our investments is influenced by varying economic and market conditions, and a decrease in value could have an adverse effect on our results of operations, liquidity, and financial condition.

Our investments consist solely of investment-grade debt securities. The unrestricted portion of this portfolio is designated as available-for-sale. Our non-current restricted investments are designated as held-to-maturity. Available-for-sale investments are carried at fair value, and the unrealized gains or losses are included in accumulated other comprehensive income or loss as a separate component of stockholders' equity, unless the decline in value is deemed to be other-than-temporary and we do not have the intent and ability to hold such securities until their full cost can be recovered. For our available-for-sale investments and held-to-maturity investments, if a decline in value is deemed to be other-than-temporary and we do not have the intent and ability to hold such security until its full cost can be recovered, the security is deemed to be other-than-temporarily impaired and it is written down to fair value and the loss is recorded as an expense.

In accordance with applicable accounting standards, we review our investment securities to determine if declines in fair value below cost are other-than-temporary. This review is subjective and requires a high degree of judgment. We conduct this review on a quarterly basis, using both quantitative and qualitative factors, to determine whether a decline in value is other-than-temporary. Such factors considered include the length of time and the extent to which market value has been less than cost, the financial condition and near term prospects of the issuer, recommendations of investment advisors, and forecasts of economic, market or industry trends. This review process also entails an evaluation of our ability and intent to hold individual securities until they mature or full cost can be recovered.

The current economic environment and recent volatility of the securities markets increase the difficulty of assessing investment impairment and the same influences tend to increase the risk of potential impairment of these assets. Over time, the economic and market environment may provide additional insight regarding the fair value of certain securities, which could change our judgment regarding impairment. This could result in realized losses relating to other-than-temporary declines to be recorded as an expense. Given the current market conditions and the significant judgments involved, there is continuing risk that declines in fair value may occur and material other-than-temporary impairments may result in realized losses in future periods which could have an adverse effect on our business, financial condition, cash flows, and results of operations.

Unanticipated changes in our tax rates or exposure to additional income tax liabilities could affect our profitability.

We are subject to income taxes in the United States. Our effective tax rate could be adversely affected by changes in the mix of earnings in states with different statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in U.S. tax laws and regulations, and changes in our interpretations of tax laws, including pending tax law changes, such as the ACA excise tax discussed above. In addition, we are subject to the routine examination of our income tax returns by the Internal Revenue Service and other local and state tax authorities. We regularly assess the likelihood of outcomes resulting from these examinations to determine the adequacy of our estimated income tax liabilities. Adverse outcomes from tax examinations could have an adverse effect on our provision for income taxes, estimated income tax liabilities, and results of operations.

We are dependent on our executive officers and other key employees.

Our operations are highly dependent on the efforts of our executive officers. The loss of their leadership, knowledge, and experience could negatively impact our operations. Replacing many of our executive officers might be difficult or take an extended period of time because a limited number of individuals in the managed care industry have the breadth and depth of skills and experience necessary to operate and expand successfully a business such as ours. Our success is also dependent on our ability to hire and retain qualified management, technical, and medical personnel. It is critical that we recruit, manage, enable, and retain talent to successfully execute our strategic objections which requires aligned policies, a positive work environment, and a robust succession and talent development process. Further, particularly in light of the changing health care environment, we must focus on building employee capabilities to help ensure that we can meet upcoming challenges and opportunities. If we are unsuccessful in recruiting, retaining, managing, and enabling such personnel and are unable to meet upcoming challenges and opportunities, our operations could be negatively impacted.

We are subject to risks associated with outsourcing services and functions to third parties.

We contract with independent third party vendors and service providers who provide services to us and our subsidiaries or to whom we delegate selected functions. Our arrangements with third party vendors and service providers may make our operations vulnerable if those third parties fail to satisfy their obligations to us, including their obligations to maintain and protect the security and confidentiality of our information and data. In addition, we may have disagreements with third party vendors and service providers regarding relative responsibilities for any such failures under applicable business associate agreements or other applicable outsourcing agreements. Further, we may not be adequately indemnified against all possible losses through the terms and conditions of our contracts with third party vendors and service providers. Our outsourcing arrangements could be adversely impacted by changes in vendors' or service providers' operations or financial condition or other matters outside of our control. If we fail to adequately monitor and regulate the performance of our third party vendors and service providers, we could be subject to additional risk. Violations of, or noncompliance with, laws and/or regulations governing our business or noncompliance with contract terms by third party vendors and service providers could increase our exposure to liability to our members, providers, or other third parties, or sanctions and/or fines from the regulators that oversee our business. In turn, this could increase the costs associated with the operation of our business or have an adverse impact on our business and reputation. Moreover, if these vendor and service provider relationships were terminated for any reason, we may not be able to find alternative partners in a timely manner or on acceptable financial terms, and may incur significant costs in connection with any such vendor or service provider transition. As a result, we may not be able to meet the full demands of our customers and, in turn, our business, financial condition, and results of operations may be harmed. In addition, we may not fully realize the anticipated economic and other benefits from our outsourcing projects or other relationships we enter into with third party vendors and service providers, as a result of regulatory restrictions on outsourcing, unanticipated delays in transitioning our operations to the third party, vendor or service provider noncompliance with contract terms or violations of laws and/or regulations, or otherwise. This could result in substantial costs or other operational or financial problems that could adversely impact our business, financial condition, and results of operations.

An impairment charge with respect to our recorded goodwill and indefinite-lived intangible assets, or our finite-lived intangible assets, could have a material impact on our financial results.

As of December 31, 2012, the balance of goodwill and indefinite-lived intangible assets was $151.1 million. Goodwill and indefinite-lived intangible assets are not amortized, but are subject to annual impairment testing. Testing is performed more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the underlying reporting units below their carrying amounts. The underlying reporting units generally comprise our health plan subsidiaries and our Molina Medicaid Solutions segment. As of December 31, 2012, the balance of intangible assets, net, was $77.7 million. Intangible assets are amortized generally on a straight-line basis over their estimated useful lives. Our intangible assets are subject to impairment tests when events or circumstances indicate that such an asset's (or asset group's) carrying value may not be recoverable. Consideration is given to a number of potential impairment indicators, including legal factors, market conditions, and operational performance. Such evaluation is significantly impacted by estimates and assumptions of future revenues, costs and expenses, and other factors.

For example, our health plan subsidiaries have generally been successful in obtaining the renewal by amendment of their contracts in each state prior to the actual expiration of their contracts. However, there can be no assurance that these contracts will continue to be renewed. The non-renewal of such a contract would be an indicator of impairment.

If an event or events occur that would cause us to revise our estimates and assumptions used in analyzing the value of our goodwill and indefinite-lived intangible assets, and intangible assets, net, such revision could result in a non-cash impairment charge that could have a material adverse impact on our financial results.

We are subject to the risks of owning real property.

We own an approximately 460,000 square foot office building housing our principal executive offices, which we purchased in a transaction that closed on December 7, 2011. We also own a nearby 32,000 square-foot office building in Long Beach, California, a 160,000 square-foot office building in Columbus, Ohio, a 26,000 square-foot data center in Albuquerque, New Mexico, and a 24,000 square-foot mixed use (office and clinic) facility in Pomona, California. Accordingly, we are subject to all of the risks generally associated with owning real estate, which include, but are not limited to: the possibility of environmental contamination, the costs associated with fixing any environmental problems and the risk of damages resulting from such contamination; risks related to natural disasters, such as earthquakes, flooding or severe weather; adverse changes in the value of the property due to interest rate changes, changes in the neighborhood in which the property is located, or other factors; ongoing maintenance expenses and costs of improvements; the possible need for structural improvements in order to comply with changes in zoning, seismic, disability act, or other requirements; inability to renew or enter into leases for space not utilized by the Company on commercially acceptable terms or at all; and possible disputes with neighboring owners or other individuals and entities.

Because we have guaranteed one of our subsidiary's obligations under a loan agreement, if this subsidiary fails to meet its obligations under the loan agreement, we may be required to satisfy such obligations, and such an undertaking could have an adverse affect on our financial condition.

On December 7, 2011, Molina Center LLC, or Molina Center, a wholly owned subsidiary of the Company, entered into a Term Loan Agreement with various lenders and East West Bank, as Administrative Agent, to borrow the aggregate principal amount of $48.6 million to finance a portion of the $81 million purchase price for the acquisition of the office building housing our corporate headquarters. While all amounts due under the Term Loan Agreement and related loan documents are secured by a security interest in the office building in favor of and for the benefit of the Administrative Agent and the other lenders under the Term Loan Agreement, the Company has additionally guaranteed Molina Center's obligations of payment and performance under the Term Loan Agreement, certain promissory notes executed in connection therewith, and other loan documents. The maximum amount of the promissory notes for which the Company is liable under the Guaranty will in no event exceed $20 million, but there is no cap on the Company's total liability under the Guaranty. Furthermore, Molina Center and the Company also entered into an Environmental Indemnity in favor of the Administrative Agent and the other lenders pursuant to which the Company, jointly and severally with Molina Center, has agreed to indemnify and hold harmless the Administrative Agent and each of the other lenders under the Term Loan Agreement from and against any loss, damage, cost, expense, claim, or liability directly or indirectly arising out of or attributable to the use, generation, storage, release, discharge or disposal, or presence of certain hazardous materials on or about the office building. Neither the Company's nor Molina Center's liability under the Environmental Indemnity is limited by a maximum dollar amount. If Molina Center is unable to comply with the various customary financial covenants of the Term Loan Agreement, if it defaults under the Term Loan Agreement or if there are major environmental liabilities attributed to hazardous materials, such events could have an adverse effect on our business, financial condition, cash flows, and results of operations.

Risks Related to Our Common Stock

Delaware law and our charter documents may impede or discourage a takeover, which could cause the market price of our common stock to decline.

We are subject to the Delaware anti-takeover laws regulating corporate takeovers. These provisions may prohibit stockholders owning 15% or more of our outstanding voting stock from merging or combining with us. In addition, any change in control of our state health plans would require the approval of the applicable insurance regulator in each state in which we operate.

Our certificate of incorporation and bylaws also contain provisions that could have the effect of delaying, deferring, or preventing a change in control of our company that stockholders may consider favorable or beneficial. These provisions could discourage proxy contests and make it more difficult for our stockholders to elect directors and take other corporate actions. These provisions could also limit the price that investors might be willing to pay in the future for shares of our common stock. These provisions include:

- a staggered board of directors, so that it would take three successive annual meetings to replace all directors,
- prohibition of stockholder action by written consent,
- advance notice requirements for the submission by stockholders of nominations for election to the board of directors and for proposing matters that can be acted upon by stockholders at a meeting, and
- the ability of our board of directors, without stockholder approval, to designate the terms of one or more series of preferred stock and issue shares of preferred stock.

In addition, changes of control are often subject to state regulatory notification, and in some cases, prior approval.

Volatility of our stock price could adversely affect stockholders.

Since our initial public offering in July 2003, the sales price of our common stock has ranged from a low of $10.75 to a high of $36.83. A number of factors could continue to influence the market price of our common stock, including:

- the implementation of the ACA and duals demonstration programs,
- state and federal budget pressures,
- changes in expectations as to our future financial performance or changes in financial estimates, if any, by us or by security analysts or investors,
- revisions in securities analysts' estimates,
- announcements by us or our competitors of significant acquisitions or dispositions, strategic partnerships, joint ventures, or capital commitments,
- announcements relating to our business or the business of our competitors,
- changes in government payment levels,
- adverse publicity regarding health maintenance organizations and other managed care organizations,
- government action regarding member eligibility,
- changes in state mandatory programs,
- conditions generally affecting the managed care industry or our provider networks,
- the success of our operating or acquisition strategy,
- the operating and stock price performance of other comparable companies in the health care industry,

- the termination of our Medicaid or CHIP contracts with state or county agencies, or subcontracts with other Medicaid managed care organizations that contract with such state or county agencies,
- regulatory or legislative change,
- general economic conditions, including unemployment rates, inflation, and interest rates, and
- the other factors set forth under "Risk factors" in this Annual Report on Form 10-K.

Our common stock may not trade at the same levels as the stock of other health care companies or the market in general. Also, if the trading market for our common stock does not continue to develop, securities analysts may not maintain or initiate research coverage of us and our common stock, and this could depress the market for our common stock.

Members of the Molina family own a significant amount of our capital stock, decreasing the influence of other stockholders on stockholder decisions.

Members of the Molina family, either directly or as trustees or beneficiaries of Molina family trusts, in the aggregate own or are entitled to receive upon certain events approximately 37% of our capital stock as of December 31, 2012. Our president and chief executive officer, as well as our chief financial officer, are members of the Molina family, and they are also on our board of directors. Because of the amount of their shareholdings, Molina family members, if they were to act as a group with the trustees of their family trusts, have the ability to significantly influence all matters submitted to stockholders for approval, including the election of directors, amendments to our charter, and any merger, consolidation, or sale of the Company. A significant concentration of share ownership can also adversely affect the trading price for our common stock because investors often discount the value of stock in companies that have controlling stockholders. Furthermore, the concentration of share ownership in the Molina family could delay or prevent a merger or consolidation, takeover, or other business combination that could be favorable to our stockholders.

Future sales of our common stock or equity-linked securities in the public market could adversely affect the trading price of our common stock and our ability to raise funds in new stock offerings.

We may issue equity securities in the future, or securities that are convertible into or exchangeable for, or that represent the right to receive, shares of our common stock. Sales of a substantial number of shares of our common stock or other equity securities, including sales of shares in connection with any future acquisitions, could be substantially dilutive to our stockholders. These sales may have a harmful effect on prevailing market prices for our common stock and our ability to raise additional capital in the financial markets at a time and price favorable to us. Moreover, to the extent that we issue restricted stock units, stock appreciation rights, options, or warrants to purchase our common stock in the future and those stock appreciation rights, options, or warrants are exercised or as the restricted stock units vest, our stockholders may experience further dilution. Holders of our shares of common stock have no preemptive rights that entitle holders to purchase a pro rata share of any offering of shares of any class or series and, therefore, such sales or offerings could result in increased dilution to our stockholders. Our certificate of incorporation provides that we have authority to issue 80,000,000 shares of common stock and 20,000,000 shares of preferred stock. As of December 31, 2012, approximately 46,762,000 shares of common stock and no shares of preferred or other capital stock were issued and outstanding.

Item 1B: *Unresolved Staff Comments*

None.

Item 2: *Properties*

We lease a total of 75 facilities. We own a 460,000 square foot office building housing our corporate headquarters in Long Beach, California, and we also own a nearby 32,000 square-foot office building in Long Beach, California, a 160,000 square-foot office building in Columbus, Ohio, a 26,000 square-foot data center in Albuquerque, New Mexico, and a 24,000 square-foot mixed use (office and clinic) facility in Pomona, California. We anticipate leasing additional space in the Long Beach, California area during 2013. While we believe our current and anticipated facilities will be adequate to meet our operational needs for the foreseeable future, we are continuing to periodically evaluate our employee and operations growth prospects to determine if additional space is required, and where it would be best located.

Item 3: *Legal Proceedings*

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Penalties associated with violations of these laws and regulations include significant fines, exclusion from participating in publicly-funded programs, and the repayment of previously billed and collected revenues.

We are involved in various legal actions in the normal course of business, some of which seek monetary damages, including claims for punitive damages, which are not covered by insurance. Based upon the evaluation of information currently available, we believe that these actions, when finally concluded and determined, are not likely to have a material adverse effect on our business, financial condition, cash flows, or results of operations.

Item 4: ***Mine Safety Disclosures***

None.

PART II

Item 5: *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Our common stock is listed on the New York Stock Exchange under the trading symbol "MOH." As of December 31, 2012, there were 130 holders of record of our common stock. The high and low intra-day sales prices of our common stock for specified periods are set forth below:

Date Range	High	Low
2012		
First Quarter	$ 36.83	$ 22.25
Second Quarter	$ 35.37	$ 17.63
Third Quarter	$ 27.73	$ 21.62
Fourth Quarter	$ 29.82	$ 21.74
2011		
First Quarter	$ 26.86	$ 17.77
Second Quarter	$ 29.03	$ 24.72
Third Quarter	$ 28.21	$ 14.82
Fourth Quarter	$ 26.31	$ 13.93

Dividends

To date we have not paid cash dividends on our common stock. We currently intend to retain any future earnings to fund our projected business growth. However, we intend to periodically evaluate our cash position to determine whether to pay a cash dividend in the future.

Our ability to pay dividends is partially dependent on, among other things, our receipt of cash dividends from our regulated subsidiaries. The ability of our regulated subsidiaries to pay dividends to us is limited by the state departments of insurance in the states in which we operate or may operate, as well as requirements of the government-sponsored health programs in which we participate. Any future determination to pay dividends will be at the discretion of our Board and will depend upon, among other factors, our results of operations, financial condition, capital requirements and contractual and regulatory restrictions. For more information regarding restrictions on the ability of our regulated subsidiaries to pay dividends to us, please see Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations — Liquidity and Capital Resources —Regulatory Capital and Dividends Restrictions.

Unregistered Issuances of Equity Securities

None.

Stock Repurchase Programs

Common Stock Repurchase in Connection with Offering of 1.125% Cash Convertible Senior Notes Due 2020. We used a portion of the net proceeds in this offering to repurchase $50 million of our common stock in negotiated transactions with institutional investors in the offering, concurrently with the pricing of the offering. On February 12, 2013, we repurchased a total of 1,624,959 shares at $30.77 per share, which was our closing stock price on that date.

Securities Repurchases and Repurchase Programs. Effective as of February 13, 2013, our board of directors authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior note due 2014. The repurchase program extends through December 31, 2014.

Effective as of October 26, 2011, our board of directors authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior notes due 2014. The repurchase program expired October 25, 2012. No securities were purchased under this program in 2012.

Purchases of common stock made by or on behalf of the Company during the quarter ended December 31, 2012, including shares withheld by the Company to satisfy our employees' income tax obligations, are set forth below:

	Total Number of Shares Purchased (a)(b)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
October 1 — October 31	2,150	$ 25.03	—	$ —
November 1 — November 30	1,892	$ 25.31	—	$ —
December 1 — December 31	194,974	$ 27.97	—	$ —
Total	199,016	$ 27.91	—	

(a) During the three months ended December 31, 2012, we repurchased shares of our common stock from certain Molina family trusts. Janet M. Watt is the sister, and her husband Lawrence B. Watt is the brother-in-law, of Dr. J. Mario Molina, the Company's Chief Executive Officer, and John Molina, the Company's Chief Financial Officer. Ms. Watt is the sole trustee of the Janet M. Watt Separate Property Trust dated 10/22/2007 (the “Separate Property Trust”) and a co-trustee with Lawrence B. Watt, of the Watt Family Trust dated 10/11/1996 (the “Family Trust” and together with the Separate Property Trust, the “Trusts”). On December 26, 2012, pursuant to a Stock Purchase Agreement between the Company and the Trusts, the Company purchased an aggregate of 110,988 shares of its common stock from the Trusts for an aggregate purchase price of $3,000,005.64, as follows: (i) 43,767 shares from the Family Trust for an aggregate purchase price of $ 1,183,022.01 and (ii) 67,221 shares from the Separate Property Trust for an aggregate purchase price of $1,816,983.63. The shares were purchased at a price per share of $27.03, representing the closing price per share of the Company's common stock on December 26, 2012, as reported by the New York Stock Exchange. The transaction was approved by the Company's board of directors. Other than these repurchases from the Trusts, we did not repurchase any shares of our common stock outside of our publicly announced repurchase program except shares of common stock withheld to settle our employees' income tax obligations described below.

(b) During the quarter we withheld 88,028 shares of common stock under our 2002 Equity Incentive Plan and 2011 Equity Incentive Plan to settle our employees' income tax obligations.

Securities Authorized for Issuance Under Equity Compensation Plans (as of December 31, 2012)

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	414,061 (1)	$ 22.39	6,537,592 (2)

(1) Options to purchase shares of our common stock issued under the 2002 Equity Incentive Plan. Further grants under the 2002 Equity Incentive Plan have been suspended.

(2) Includes only shares remaining available to issue under the 2011 Equity Incentive Plan, and the 2011 Employee Stock Purchase Plan. Further grants under the 2002 Equity Incentive Plan and the 2002 Employee Stock Purchase Plan have been suspended.

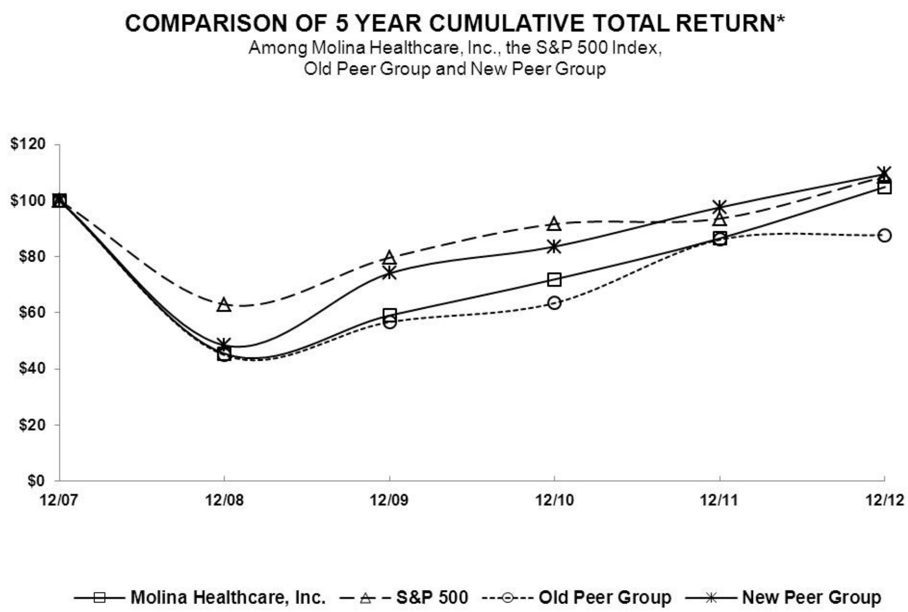
STOCK PERFORMANCE GRAPH

The following graph and related discussion are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed to be "soliciting materials" or to be "filed" with the SEC (other than as provided in Item 201) nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that the Company specifically incorporates it by reference into a filing.

The following line graph compares the percentage change in the cumulative total return on our common stock against the cumulative total return of the Standard & Poor's Corporation Composite 500 Index (the "S&P 500"), our old peer group index (as described below), and a new peer group index (as described below) for the five-year period from December 31, 2007 to December 31, 2012. We have revised our peer group to match the peer group that is used by our Compensation Committee in benchmarking our executive officers' compensation. The comparison assumes $100 was invested on December 31, 2007, in the Company's common stock and in each of the foregoing indices and assumes reinvestment of dividends. The stock performance shown on the graph below represents historical stock performance and is not necessarily indicative of future stock price performance.

The old peer group index, used in last year's Annual Report on Form 10-K and also set forth below, consists of Amerigroup Corporation (AGP), Centene Corporation (CNC), Coventry Health Care, Inc. (CVH), Health Net, Inc. (HNT), Humana, Inc. (HUM), UnitedHealth Group Incorporated (UNH), and WellPoint, Inc. (WLP).

The new peer group index consists of Centene Corporation (CNC), Community Health Systems, Inc. (CYH), Coventry Health Care, Inc. (CVH), Health Management Associates, Inc. (HMA), Health Net, Inc. (HNT), Laboratory Corporation of America Holdings (LH), Lifepoint Hospitals, Inc. (LPNT), Magellan Health Services, Inc. (MGLN), Select Medical Holdings Corporation (SEM), Team Health Holdings, Inc. (TMH), Triple-S Management Corporation (GTS), Universal American Corporation (UAM), and WellCare Health Plans, Inc. (WCG).



Name	12/07	12/08	12/09	12/10	12/11	12/12
Molina Healthcare, Inc.	$ 100.00	$ 45.50	$ 59.10	$ 71.96	$ 86.55	$ 104.88
S&P 500	100.00	63.00	79.67	91.67	93.61	108.59
Old Peer Group	100.00	44.97	56.76	63.52	86.09	87.78
New Peer Group	100.00	48.44	74.11	83.64	97.61	109.47

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Item 6. ***Selected Financial Data***

SELECTED FINANCIAL DATA

We derived the following selected consolidated financial data (other than the data under the caption "Operating Statistics") for the five years ended December 31, 2012 from our audited consolidated financial statements. You should read the data in conjunction with our consolidated financial statements, related notes and other financial information included herein. All dollars are in thousands, except per share data. The data under the caption "Operating Statistics" has not been audited.

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Statements of Income Data:					
Revenue:					
Premium revenue	$ 5,826,491	$ 4,603,407	$ 3,989,909	$ 3,660,207	$ 3,091,240
Service revenue (1)	187,710	160,447	89,809	—	—
Investment income	5,188	5,539	6,259	9,149	21,126
Rental income	9,374	547	—	—	—
Total revenue	6,028,763	4,769,940	4,085,977	3,669,356	3,112,366
Expenses:					
Medical care costs	5,096,760	3,859,994	3,370,857	3,176,236	2,621,312
Cost of service revenue (1)	141,208	143,987	78,647	—	—
General and administrative expenses	532,627	415,932	345,993	276,027	249,646
Premium tax expenses	158,991	154,589	139,775	128,581	100,165
Depreciation and amortization	63,704	50,690	45,704	38,110	33,688
Total operating costs and expenses	5,993,290	4,625,192	3,980,976	3,618,954	3,004,811
Impairment of goodwill and intangible assets (2)	—	(64,575)	—	—	—
Gain on purchase of convertible senior notes	—	—	—	1,532	—
Operating income	35,473	80,173	105,001	51,934	107,555
Other expenses (income):					
Interest expense	16,769	15,519	15,509	13,777	13,231
Other income	(361)	—	—	—	—
Total other expenses	16,408	15,519	15,509	13,777	13,231
Income before income taxes	19,065	64,654	89,492	38,157	94,324
Provision for income taxes	9,275	43,836	34,522	7,289	34,726
Net income	$ 9,790	$ 20,818	$ 54,970	$ 30,868	$ 59,598
Net income per share:					
Basic	$ 0.21	$ 0.45	$ 1.34	$ 0.80	$ 1.44
Diluted	$ 0.21	$ 0.45	$ 1.32	$ 0.79	$ 1.43
Weighted average number of common shares outstanding	46,380,000	45,756,000	41,174,000	38,765,000	41,514,000
Weighted average number of common shares and potential dilutive common shares outstanding	46,999,000	46,425,000	41,631,000	38,976,000	41,658,000
Operating Statistics:					
Medical care ratio (3)	89.9%	86.8%	87.6%	89.9%	87.6%
General and administrative expense ratio (4)	8.8%	8.7%	8.5%	7.5%	8.0%
Premium tax ratio (5)	2.8%	3.5%	3.6%	3.6%	3.3%
Members (6)	1,797,000	1,697,000	1,613,000	1,455,000	1,256,000

	Year Ended December 31,				
	2012	2011	2010	2009	2008
Balance Sheet Data:					
Cash and cash equivalents	$ 795,770	$ 493,827	$ 455,886	$ 469,501	$ 387,162
Total assets	1,934,822	1,652,146	1,509,214	1,244,035	1,148,068
Long-term debt (including current maturities)	262,939	218,126	164,014	158,900	164,873
Total liabilities	1,152,508	897,073	790,157	701,297	616,306
Stockholders' equity	782,314	755,073	719,057	542,738	531,762

(1) Service revenue and cost of service revenue represent revenue and costs generated by our Molina Medicaid Solutions segment. Because we acquired this business on May 1, 2010, results for the year ended December 31, 2010 include eight months of results for this segment.

(2) On February 17, 2012, the Division of Purchasing of the Missouri Office of Administration notified us that our Missouri health plan was not awarded a contract under the Missouri HealthNet Managed Care Request for Proposal; therefore, our Missouri health plan's existing contract with the state expired without renewal on June 30, 2012. In connection with this notification, we recorded a non-cash impairment charge of $64.6 million in the fourth quarter of 2011.

(3) Medical care ratio represents medical care costs as a percentage of premium revenue, net of premium tax. We now compute the medical care ratio by dividing total medical care costs by premium revenue, net of premium taxes. Previously, we did not adjust premium revenue to remove the impact of premium taxes. We have made this change for all periods presented. The medical care ratio is a key operating indicator used to measure our performance in delivering efficient and cost effective health care services. Changes in the medical care ratio from period to period result from changes in Medicaid funding by the states, utilization of medical services, our ability to effectively manage costs, contract changes, and changes in accounting estimates related to incurred but not paid claims. See Item 7 — Management's Discussion and Analysis of Financial Condition and Results of Operations for further discussion.

(4) General and administrative expense ratio represents such expenses as a percentage of total revenue.

(5) Premium tax ratio represents such expenses as a percentage of premium revenue, net of premium tax.

(6) Number of members at end of period.

Item 7. ***Management's Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion of our financial condition and results of operations should be read in conjunction with the "Selected Financial Data" and the accompanying consolidated financial statements and the notes to those statements appearing elsewhere in this report. This discussion contains forward-looking statements that involve known and unknown risks and uncertainties, including those set forth under Item 1A — Risk Factors, above.

Overview

Molina Healthcare, Inc. provides quality and cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals, and to assist state agencies in their administration of the Medicaid program. We report our financial performance based on two reportable segments: Health Plans and Molina Medicaid Solutions.

Our Health Plans segment comprises health plans in California, Florida, Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin, and includes our direct delivery business. As of December 31, 2012, these health plans served approximately 1.8 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals. The health plans are operated by our respective wholly owned subsidiaries in those states, each of which is licensed as a health maintenance organization, or HMO. Our direct delivery business consists of primary care clinics in California, Florida, New Mexico and Washington; additionally, we manage three county-owned primary care clinics under a contract with Fairfax County, Virginia.

Our health plans' state Medicaid contracts generally have terms of three to four years with annual adjustments to premium rates. These contracts are renewable at the discretion of the state. In general, either the state Medicaid agency or the health plan may terminate the state contract with or without cause. Most of these contracts contain renewal options that are exercisable by the state. Our health plan subsidiaries have generally been successful in obtaining the renewal of their contracts in each state prior to the actual expiration of their contracts. Our state contracts are generally at greatest risk of loss when a state issues a new request for proposals, or RFP, subject to competitive bidding by other health plans. If one of our health plans is not a successful responsive bidder to a state RFP, its contract may be subject to non-renewal. For instance, on February 17, 2012, the Division of Purchasing of the Missouri Office of Administration notified us that our Missouri health plan was not awarded a contract under the Missouri HealthNet Managed Care Request for Proposal; therefore, our Missouri health plan's prior contract with the state expired without renewal on June 30, 2012 subject to certain transition obligations. As of December 31, 2012, we continued to process claims that were incurred by the Missouri health plan's members through the June 30, 2012 termination date. For the six months ended June 30, 2012, our Missouri health plan contributed premium revenue of $113.8 million, or 4.1% of total premium revenue, and comprised 79,000 members, or 4.3% of total Health Plans segment membership as of June 30, 2012.

With regard to our Ohio health plan, as a result of a lawsuit challenging the selection of several plans including our health plan for the new Medicaid managed care program in Ohio, the Ohio Office of Medical Assistance announced on October 5, 2012, that the operation of the program is being delayed from the previously scheduled January 1, 2013 start date and will now commence on July 1, 2013. Following the trial court's dismissal of the lawsuit, the court of appeals has permitted the state of Ohio to move forward with implementation of the new program and finalizing the provider agreements with our Ohio plan and the other selected managed care plans.

Our state Medicaid contracts may be periodically adjusted to include or exclude certain health benefits (such as pharmacy services, behavioral health services, or long-term care services); populations (such as the aged, blind or disabled, or ABD); and regions or service areas. For example, our Texas health plan added significant membership effective March 1, 2012, in service areas we had not previously served (the Hidalgo and El Paso service areas); and among populations we had not previously served within existing service areas, such as the Temporary Assistance for Needy Families, or TANF, population in the Dallas service area. Additionally, the health benefits provided to our TANF and ABD members in Texas under our contracts with the state were expanded to include inpatient facility and pharmacy services.

During fiscal year 2012, we responded to several RFPs and invitations to negotiate with respect to new business, including proposals to serve dual eligible populations and applications to participate in the Centers for Medicare and Medicaid Services, or CMS', Capitated Financial Alignment Demonstration project. On August 27, 2012, our Ohio health plan was chosen to participate in the Southwest, West Central, and Central markets under the Ohio Integrated Care Delivery System, or ICDS. The Ohio ICDS is intended to improve care coordination for individuals enrolled in both Medicaid and Medicare. The selection of our Ohio health plan was made by the Ohio Department of Jobs and Family Services, or ODJFS, pursuant to the request for applications for qualified health plans to serve in the ICDS issued in April 2012. The commencement of the ICDS is subject to the readiness review of the selected health plans, and the execution of three-way provider agreements between the health plans, ODJFS, and CMS. Enrollment of dual eligible members in the ICDS is expected to begin during the second half of 2013.

On November 15, 2012, we announced that our new Illinois health plan had been chosen to serve members in Central Illinois under the state's Medicare-Medicaid Alignment Initiative (MMAI). The operational start date for the program is currently scheduled for October 2013 with an effective date of January 2014. In addition to the MMAI, we will also serve other seniors and persons with disabilities in the Medicaid Program as the state expands the Integrated Care Program that was implemented in suburban Cook County and the five collar counties in May of 2011.

On February 14, 2013, we announced that the Florida Agency for Health Care Administration awarded our Florida health plan contracts in three regions under the Statewide Medicaid Managed Care Long-Term Care program. As a result of the awards, we will now enter into a comprehensive pre-contracting assessment, with the program currently scheduled to commence on December 1, 2013. Under the program, we will provide long-term care benefits, including institutional and home and community-based services.

On February 11, 2013, we announced that our New Mexico health plan was selected by the New Mexico Human Services Department, or HSD, to participate in the new Centennial Care program. In addition to continuing to provide physical and acute health care services, under the new program our New Mexico health plan will expand its services to provide behavioral health and long-term care services. The selection of our New Mexico health plan was made by HSD pursuant to its request for proposals issued in August 2012. The operational start date for the program is currently scheduled for January 2014.

Our Molina Medicaid Solutions segment provides design, development, implementation, and business process outsourcing solutions to state governments for their Medicaid Management Information Systems, or MMIS. MMIS is a core tool used to support the administration of state Medicaid and other health care entitlement programs. Molina Medicaid Solutions currently holds MMIS contracts with the states of Idaho, Louisiana, Maine, New Jersey, and West Virginia, as well as a contract to provide drug rebate administration services for the Florida Medicaid program.

On October 12, 2012, the Governor of the U.S. Virgin Islands announced a partnership in which we will provide MMIS to the U.S. Virgin Islands through our West Virginia fiscal agent operation. The contract outlining the sharing of our platform went through several rounds of review at the federal level and has been approved by CMS. The partnership will benefit both the Virgin Islands and taxpayers by circumventing the costs associated with establishing an independent system while gaining leverage from operating under a common platform. This partnership can serve as a model for the country by demonstrating that state and territorial governments can reduce local and federal costs by sharing such technologies for their Medicaid populations.

On July 13, 2012, our Molina Medicaid Solutions segment received full federal certification of its Medicaid Management Information System, or MMIS, in the state of Idaho from CMS. As a result of the CMS certification, the state of Idaho is entitled to receive federal reimbursement of 75% of its MMIS operations costs retroactive to June 1, 2010, the date that the system first began processing claims. Our MMIS in Maine received full federal certification from CMS on December 19, 2011.

On June 9, 2011, Molina Medicaid Solutions received notice from the state of Louisiana that the state intends to award the contract for a replacement MMIS to another company. For the year ended December 31, 2012, our revenue under the Louisiana MMIS contract was $54.9 million, or 29.2% of total service revenue. We expect that we will continue to perform under this contract through implementation and acceptance of the successor MMIS. Based upon our past experience and our knowledge of the Louisiana MMIS bid process, we believe that implementation and acceptance of the successor MMIS will not occur until 2014 at the earliest. Through implementation and acceptance of the successor MMIS we expect to recognize approximately $40 million in revenue annually under our Louisiana MMIS contract.

Composition of Revenue and Membership

Health Plans Segment

Our Health Plans segment derives its revenue, in the form of premiums, chiefly from Medicaid contracts with the states in which our health plans operate. Premium revenue is fixed in advance of the periods covered and, except as described in “Critical Accounting Policies” below, is not generally subject to significant accounting estimates. For the year ended December 31, 2012, we received approximately 96% of our premium revenue as a fixed amount per member per month, or PMPM, pursuant to our Medicaid contracts with state agencies, our Medicare contracts with CMS, and our contracts with other managed care organizations for which we operate as a subcontractor. These premium revenues are recognized in the month that members are entitled to receive health care services. The state Medicaid programs and the federal Medicare program periodically adjust premium rates.

For the year ended December 31, 2012, we recognized approximately 4% of our premium revenue in the form of “birth income” — a one-time payment for the delivery of a child — from the Medicaid programs in all of our state health plans except New Mexico. Such payments are recognized as revenue in the month the birth occurs.

The amount of the premiums paid to us may vary substantially between states and among various government programs. PMPM premiums for the Children’s Health Insurance Program, or CHIP, members are generally among our lowest, with rates as low as approximately $75 PMPM in California. Premium revenues for Medicaid members are generally higher. Among the TANF, Medicaid population — the Medicaid group that includes mostly mothers and children — PMPM premiums range between approximately $110 in California to $260 in Ohio. Among our ABD membership, PMPM premiums range from approximately $330 in Utah to $1,400 in Ohio. Contributing to the variability in Medicaid rates among the states is the practice of some states to exclude certain benefits from the managed care contract (most often pharmacy, inpatient, behavioral health and catastrophic case benefits) and retain responsibility for those benefits at the state level. Medicare membership generates the highest PMPM premiums in the aggregate, at approximately $1,200 PMPM.

The following table sets forth the approximate total number of members by state health plan as of the dates indicated:

	As of December 31,		
	2012	2011	2010
Total Ending Membership by Health Plan:			
California	336,000	355,000	344,000
Florida	73,000	69,000	61,000
Michigan	220,000	222,000	227,000
Missouri (1)	—	79,000	81,000
New Mexico	91,000	88,000	91,000
Ohio	244,000	248,000	245,000
Texas	282,000	155,000	94,000
Utah	87,000	84,000	79,000
Washington	418,000	355,000	355,000
Wisconsin	46,000	42,000	36,000
Total	1,797,000	1,697,000	1,613,000
Total Ending Membership by State for our Medicare Advantage Plans:			
California	7,700	6,900	4,900
Florida	900	800	500
Michigan	9,700	8,200	6,300
New Mexico	900	800	600
Ohio	300	200	—
Texas	1,500	700	700
Utah	8,200	8,400	8,900
Washington	6,500	5,000	2,600
Total	35,700	31,000	24,500
Total Ending Membership by State for our Aged, Blind or Disabled Population:			
California	44,700	31,500	13,900
Florida	10,300	10,400	10,000
Michigan	41,900	37,500	31,700
New Mexico	5,700	5,600	5,700
Ohio	28,200	29,100	28,200
Texas	95,900	63,700	19,000
Utah	9,000	8,500	8,000
Washington	30,000	4,800	4,000
Wisconsin	1,700	1,700	1,700
Total	267,400	192,800	122,200

(1) Our contract with the state of Missouri expired without renewal on June 30, 2012

Molina Medicaid Solutions Segment

The payments received by our Molina Medicaid Solutions segment under its state contracts are based on the performance of multiple services. The first of these is the design, development and implementation, or DDI, of an MMIS. An additional service, following completion of DDI, is the operation of the MMIS under a business process outsourcing, or BPO arrangement. While providing BPO services (which include claims payment and eligibility processing) we also provide the state with other services including both hosting and support and maintenance. Because we have determined the services provided under our Molina Medicaid Solutions contracts represent a single unit of accounting, we recognize revenue associated with such contracts on a straight-line basis over the period during which BPO, hosting, and support and maintenance services are delivered.

Composition of Expenses

Health Plans Segment

Operating expenses for the Health Plans segment include expenses related to the provision of medical care services, general and administrative expenses, and premium tax expenses. Our results of operations are impacted by our ability to effectively manage expenses related to medical care services and to accurately estimate medical costs incurred. Expenses related to medical care services are captured in the following four categories:

- *Fee-for-service:* Physician providers paid on a fee-for-service basis are paid according to a fee schedule set by the state or by our contracts with these providers. Most hospitals are paid on a fee-for-service basis in a variety of ways, including per diem amounts, diagnostic-related groups or DRGs, percent of billed charges, and case rates. As discussed below, we also pay a small portion of hospitals on a capitated basis. We also have stop-loss agreements with the hospitals with which we contract. Under all fee-for-service arrangements, we retain the financial responsibility for medical care provided. Expenses related to fee-for-service contracts are recorded in the period in which the related services are dispensed. The costs of drugs administered in a physician or hospital setting that are not billed through our pharmacy benefit manager are included in fee-for-service costs.
- *Capitation:* Many of our primary care physicians and a small portion of our specialists and hospitals are paid on a capitated basis. Under capitation contracts, we typically pay a fixed PMPM payment to the provider without regard to the frequency, extent, or nature of the medical services actually furnished. Under capitated contracts, we remain liable for the provision of certain health care services. Certain of our capitated contracts also contain incentive programs based on service delivery, quality of care, utilization management, and other criteria. Capitation payments are fixed in advance of the periods covered and are not subject to significant accounting estimates. These payments are expensed in the period the providers are obligated to provide services. The financial risk for pharmacy services for a small portion of our membership is delegated to capitated providers.
- *Pharmacy:* Pharmacy costs include all drug, injectibles, and immunization costs paid through our pharmacy benefit manager. As noted above, drugs and injectibles not paid through our pharmacy benefit manager are included in fee-for-service costs, except in those limited instances where we capitate drug and injectible costs.
- *Other:* Other medical care costs include medically related administrative costs, certain provider incentive costs, reinsurance cost, and other health care expense. Medically related administrative costs include, for example, expenses relating to health education, quality assurance, case management, disease management, and 24-hour on-call nurses. Salary and benefit costs are a substantial portion of these expenses. For the years ended December 31, 2012, 2011, and 2010, medically related administrative costs were approximately $127.5 million, $102.3 million, and $85.5 million, respectively.

Our medical care costs include amounts that have been paid by us through the reporting date as well as estimated liabilities for medical care costs incurred but not paid by us as of the reporting date. See “Critical Accounting Policies” below for a comprehensive discussion of how we estimate such liabilities.

Molina Medicaid Solutions Segment

Cost of service revenue consists primarily of the costs incurred to provide business process outsourcing and technology outsourcing services under our MMIS contracts. General and administrative costs consist primarily of indirect administrative costs and business development costs.

In some circumstances we may defer recognition of incremental direct costs (such as direct labor, hardware, and software) associated with a contract if revenue recognition is also deferred. Such deferred contract costs are amortized on a straight-line basis over the remaining original contract term, consistent with the revenue recognition period.

2012 Financial Performance Summary

The following table and narrative briefly summarizes our financial and operating performance for the years ended December 31, 2012, 2011, and 2010. All ratios, with the exception of the medical care ratio and the premium tax ratio, are shown as a percentage of total revenue. The medical care ratio and the premium tax ratio are computed as a percentage of premium revenue, net of premium tax, because there are direct relationships between premium revenue earned, and the cost of health care and premium taxes.

We have changed our method of calculating the medical care ratio effective December 31, 2012. We now calculate the medical care ratio by dividing total medical care costs by premium revenue, net of premium taxes. Previously, we did not adjust premium revenue to remove the impact of premium taxes when calculating the medical care ratio. We made this change for all periods presented to allow better comparability of the medical care ratio between periods for health plans operating in states where premium taxes are either increased or decreased. Two states where we operate health plans (Michigan and California) either reduced or eliminated their premium tax during 2012.

	Year Ended December 31,		
	2012	2011	2010
	(Dollar amounts in thousands, except per-share data)		
Earnings per diluted share	$ 0.21	$ 0.45	$ 1.32
Premium revenue	$ 5,826,491	$ 4,603,407	$ 3,989,909
Service revenue	$ 187,710	$ 160,447	$ 89,809
Operating income	$ 35,473	$ 80,173	$ 105,001
Net income	$ 9,790	$ 20,818	$ 54,970
Total ending membership	1,797,000	1,697,000	1,613,000
Premium revenue	96.6%	96.5%	97.6%
Service revenue	3.1%	3.4%	2.2%
Investment income	0.1%	0.1%	0.2%
Rental income	0.2%	—%	—%
Total revenue	100.0%	100.0%	100.0%
Medical care ratio (1)	89.9%	86.8%	87.6%
General and administrative expense ratio	8.8%	8.7%	8.5%
Premium tax ratio (1)	2.8%	3.5%	3.6%
Operating income	0.6%	1.7%	2.6%
Net income	0.2%	0.4%	1.3%
Effective tax rate	48.6%	67.8%	38.6%

(1) Medical care ratio represents medical care costs as a percentage of premium revenue, net of premium taxes; premium tax ratio represents premium taxes as a percentage of premium revenue, net of premium taxes.

Earnings before Interest, Taxes, Depreciation and Amortization, or EBITDA

We calculate a non-GAAP measure, EBITDA, which management uses as a supplemental metric in evaluating our financial performance, in evaluating financing and business development decisions, and in forecasting and analyzing future periods. For these reasons, management believes that EBITDA is a useful supplemental measure to investors in evaluating our performance and the performance of other companies in our industry. The reconciliation of this non-GAAP to GAAP financial measure is as follows (GAAP stands for U.S. generally accepted accounting principles):

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Net income	$ 9,790	$ 20,818	$ 54,970
Add back:			
Depreciation and amortization reported in the consolidated statements of cash flows	78,764	74,383	60,765
Interest expense	16,769	15,519	15,509
Provision for income taxes	9,275	43,836	34,522
EBITDA[(1)]	$ 114,598	$ 154,556	$ 165,766

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(1) EBITDA is not prepared in conformity with GAAP because it excludes depreciation and amortization, as well as interest expense, and the provision for income taxes. This non-GAAP financial measure should not be considered as an alternative to the GAAP measures of net income, operating income, operating margin, or cash provided by operating activities; nor should EBITDA be considered in isolation from these GAAP measures of operating performance.

Year Ended December 31, 2012 Compared with the Year Ended December 31, 2011

Fiscal Year 2012 Overview and Highlights

Earnings decreased in 2012 compared with 2011 because lower margins in the Health Plans segment more than offset higher premium revenue. Net income for the year ended December 31, 2012, was $9.8 million, or $0.21 per diluted share, compared with net income of $20.8 million, or $0.45 per diluted share, for the year ended December 31, 2011. Results for the quarter and year ended December 31, 2011, were affected by an impairment charge of $64.6 million related to our Missouri health plan.

Lower net income in 2012 was in large part tied to growth in our ABD membership in California and Texas, where margins were considerably lower than our margins in the aggregate. During 2012, both California and Texas transitioned large numbers of ABD members from fee-for-service reimbursement to managed care contracts. It has been our experience that members transitioning from fee-for-service reimbursement to managed care often bring with them pent up demand for medical services; and that the realization of both improved medical outcomes and costs savings from the application of managed care practices takes time as both members and providers acquaint themselves to new ways of accessing and providing care.

The initial reduction to margins associated with the transition of members from fee-for-service reimbursement to managed care was exacerbated by premium rates that assumed unrealistic costs savings from managed care practices. Premium rate increases received later in 2012 at least partially addressed this issue.

Those rate increases, together with the improved health outcomes and the gradual reduction in medical costs resulting from the application of managed care practices, produced improved financial results in the fourth quarter of 2012. Nevertheless, the aggregate impact of the ABD membership transitioned in 2012 was to substantially reduce margins. We believe, however, that in time the higher premium revenue associated with ABD members will allow us to earn acceptable returns on a total dollar basis even if percentage margins remain lower than those earned by serving TANF members, for whom PMPM revenue is much lower.

Health Plans Segment

Premium Revenue

Premium revenue grew 27% in the year ended December 31, 2012, compared with the year ended December 31, 2011, primarily due to a shift in member mix to populations generating higher premium revenue PMPM, benefit expansions, and an increase in membership. Medicare premium revenue was $468 million in the year ended December 31, 2012, compared with $388 million in the year ended December 31, 2011.

Growth in our ABD membership led to higher premium revenue PMPM in 2012. ABD membership, as a percent of total membership, has increased approximately 31% year over year. Premium revenue PMPM also increased in the year ended December 31, 2012, as a result of the inclusion of revenue from the pharmacy benefit for our Ohio health plan effective October 1, 2011, and as a result of the inclusion of revenue for the inpatient facility and pharmacy benefits across all of our Texas health plan membership effective March 1, 2012.

Medical Care Costs

The following table provides the details of consolidated medical care costs for the periods indicated (dollars in thousands except PMPM amounts):

	Year Ended December 31,					
	2012			2011		
	Amount	PMPM	% of Total	Amount	PMPM	% of Total
Fee for service	$ 3,521,960	$ 162.60	69.1%	$ 2,764,309	$ 139.02	71.6%
Capitation	557,087	25.72	10.9	518,835	26.09	13.4
Pharmacy	835,830	38.59	16.4	418,007	21.02	10.8
Other	181,883	8.39	3.6	158,843	8.00	4.2
Total	$ 5,096,760	$ 235.30	100.0%	$ 3,859,994	$ 194.13	100.0%

Medical care costs increased in 2012 primarily due to the same shifts in member mix and the benefit expansions that led to increased premium revenue, particularly in California and Texas. Medical care costs as a percentage of premium revenue, net of premium taxes (the medical care ratio) also increased in 2012 when compared with 2011 because increases in premium rates have not kept pace with increases in medical costs.

Individual Health Plan Analysis

Membership and premium revenue increased significantly at the Texas health plan in 2012 as a result of the transition of large numbers of ABD, TANF and CHIP members from fee-for-service reimbursement into managed care effective March 1, 2012. Also on that date inpatient facility and pharmacy benefits that had previously been reimbursed through fee for service for managed care members were transitioned into managed care contracts; further increasing premium revenue and related medical costs. As noted above, margins on newly transitioned ABD members were considerably less than those experienced by the Company overall. The medical care ratio for the Texas health plan's ABD membership in total was approximately 97.8% for all of 2012. Nevertheless, the medical care ratio for the Texas health plan overall decreased to 93.7% for all of 2012 compared with 95.1% for 2011.

The medical care ratio at the California health plan increased significantly in 2012, to 91.1% in 2012 from 86.9% in 2011. As noted above, margins on newly transitioned ABD members were considerably less than those experienced by the Company overall.

The medical care ratio of the Florida health plan decreased to 85.3% in 2012, from 91.9% in 2011 due to a premium rate increase effective September 1, 2011, the re-contracting of portions of the health plan's specialty care network, lower inpatient utilization and lower pharmacy costs.

The medical care ratio of the Michigan health plan increased to 88.3% in 2012, from 86.3% in 2011. The primary reason for the increase in the medical care ratio in 2012 was a reduction to premium rates linked to a decrease in premium taxes effective April 1, 2012. The result was a higher medical care ratio in 2012 because premium revenue decreased. There was no impact on profitability because premium tax expense was reduced by the same amount as premium revenue. The remainder of the deterioration in the Michigan plan's medical care ratio was the result of higher pharmacy and fee for service costs. We received a blended rate increase in Michigan of approximately 2%, effective October 1, 2012.

The medical care ratio of the New Mexico health plan increased to 84.7% in 2012, from 82.4% in 2011, primarily as a result of lower premiums and higher inpatient facility costs. The New Mexico health plan received a premium rate reduction of approximately 2.5% effective July 1, 2011.

The medical care ratio of the Ohio health plan increased to 88.6% in 2012, from 84.1% in 2011. The increase in the Ohio health plan's medical care ratio was partially the result of a 2% rate reduction effective January 1, 2012, together with the assumption of the lower margin pharmacy benefit effective October 1, 2011.

The medical care ratio of the Utah health plan increased to 82.3% in 2012 from 78.1% in 2011. The Utah health plan received a premium rate reduction of approximately 2% effective July 1, 2012.

The addition of ABD members to the Washington health plan effective July 1, 2012 increased its medical care ratio to 86.8% in the 2012, compared with 85.4% in 2011. The higher premium revenue PMPM associated with the ABD membership, however, offset the increased medical care ratio so that income from operations was consistent between 2012 and 2011.

The medical care ratio of the Wisconsin health plan increased to 96.2% in 2012, compared with 92.5% in 2011 primarily due to increases in inpatient costs. The plan has implemented provider contracting initiatives and new utilization management techniques as a part of its efforts to improve profitability.

Health Plans Segment Operating Data

The following table summarizes member months, premium revenue, medical care costs, medical care ratio, and premium taxes by health plan for the periods indicated (PMPM amounts are in whole dollars; member months and other dollar amounts are in thousands):

	Year Ended December 31, 2012						
		Premium Revenue		Medical Care Costs			
	Member Months[(1)]	Total	PMPM	Total	PMPM	Premium Tax Expense	MCR Excluding Premium Tax Expense[(4)]
California	4,177	$ 671,489	$ 160.77	$ 606,494	$ 145.20	$ 5,697	91.1%
Florida	850	228,828	269.36	195,226	229.80	(4)	85.3
Michigan	2,639	658,741	249.59	570,636	216.20	12,190	88.3
Missouri[(2)]	483	113,818	236.87	113,101	234.15	—	99.4
New Mexico	1,069	338,770	316.90	280,108	262.03	8,208	84.7
Ohio	3,065	1,187,422	387.48	970,504	316.69	92,285	88.6
Texas	3,245	1,255,722	386.99	1,155,433	356.08	22,101	93.7
Utah	1,026	298,392	290.78	245,671	239.41	—	82.3
Washington	4,600	992,748	215.83	845,733	183.87	18,036	86.8
Wisconsin	508	70,673	139.24	67,968	133.91	(5)	96.2
Other[(3)]	—	9,888	—	45,886	—	483	—
	21,662	$ 5,826,491	$ 268.99	$ 5,096,760	$ 235.30	$ 158,991	89.9%

	Year Ended December 31, 2011						
		Premium Revenue		Medical Care Costs			
	Member Months[(1)]	Total	PMPM	Total	PMPM	Premium Tax Expense	MCR Excluding Premium Tax Expense[(4)]
California	4,190	$ 575,176	$ 137.27	$ 493,419	$ 117.75	$ 7,499	86.9%
Florida	788	203,945	258.70	187,358	237.66	41	91.9
Michigan	2,660	662,127	248.91	537,779	202.16	38,733	86.3
Missouri[(2)]	959	229,584	239.38	195,832	204.19	—	85.3
New Mexico	1,074	345,732	321.94	277,338	258.25	9,285	82.4
Ohio	2,966	988,896	333.40	766,949	258.57	76,677	84.1
Texas	1,616	409,295	253.40	382,390	236.74	7,117	95.1
Utah	972	287,290	295.51	224,513	230.94	—	78.1
Washington	4,171	823,323	197.42	690,513	165.57	14,865	85.4
Wisconsin	488	69,596	142.56	64,346	131.81	44	92.5
Other[(3)]	—	8,443	—	39,557	—	328	—
	19,884	$ 4,603,407	$ 231.51	$ 3,859,994	$ 194.13	$ 154,589	86.8%

(1) A member month is defined as the aggregate of each month's ending membership for the period presented.

(2) Our contract with the state of Missouri expired without renewal on June 30, 2012. The Missouri health plan's claims run-out activity subsequent to June 30, 2012, is reported in "Other."

(3) "Other" medical care costs also include medically related administrative costs of the parent company.

(4) The "MCR Excluding Premium Tax Expense" represents medical costs as a percentage of premium revenues, where premium revenue is reduced by premium tax expense.

Days in Medical Claims and Benefits Payable

The days in medical claims and benefits payable were as follows:

	December 31, 2012	December 31, 2011	December 31, 2010
Days in claims payable: fee-for-service only	40 days	40 days	42 days
Number of claims in inventory at end of period	122,700	111,100	143,600
Billed charges of claims in inventory at end of period (in thousands)	$ 255,200	$ 207,600	$ 218,900

Molina Medicaid Solutions Segment

Performance of the Molina Medicaid Solutions segment was as follows:

	Year Ended December 31, 2012	Year Ended December 31, 2011
	(In thousands)	
Service revenue before amortization	$ 189,281	$ 167,269
Amortization recorded as reduction of service revenue	(1,571)	(6,822)
Service revenue	187,710	160,447
Cost of service revenue	141,208	143,987
General and administrative costs	17,648	9,270
Amortization of customer relationship intangibles recorded as amortization	5,127	5,127
Operating income	$ 23,727	$ 2,063

Operating income for our Molina Medicaid Solutions segment improved $21.7 million for the year ended December 31, 2012, compared with 2011. This improvement was primarily the result of stabilization of our newest contracts in Idaho and Maine.

Consolidated Expenses

General and Administrative Expenses

General and administrative expenses increased to 8.8% of total revenue for the year ended December 31, 2012, compared with 8.7% of total revenue for the year ended December 31, 2011.

Premium Tax Expense

Premium tax expense decreased to 2.8% of premium revenue net of premium tax for the year ended December 31, 2012, compared with 3.5% of total premium revenue for the year ended December 31, 2011. The decrease in 2012 was primarily due to the reduction of premium taxes at the Michigan and California health plans effective in 2012, and the growth in revenue at our Texas health plan, which is subject to a lower premium tax rate (measured as a percentage of premium revenue) than our consolidated average.

Depreciation and Amortization

Depreciation and amortization related to our Health Plans segment is all recorded in "Depreciation and Amortization" in the consolidated statements of income. Depreciation and amortization related to our Molina Medicaid Solutions segment is recorded within three different headings in the consolidated statements of income as follows:

- Amortization of purchased intangibles relating to customer relationships is reported as amortization within the heading "Depreciation and amortization;"
- Amortization of purchased intangibles relating to contract backlog is recorded as a reduction of "Service revenue;" and
- Depreciation is recorded within the heading "Cost of service revenue."

The following table presents all depreciation and amortization recorded in our consolidated statements of income, regardless of whether the item appears as depreciation and amortization, a reduction of revenue, or as cost of service revenue.

	Year Ended December 31,			
	2012		2011	
	Amount	% of Total Revenue	Amount	% of Total Revenue
	(Dollar amounts in thousands)			
Depreciation, and amortization of capitalized software	$ 43,201	0.7%	$ 30,864	0.7%
Amortization of intangible assets	20,503	0.3	19,826	0.4
Depreciation and amortization reported as such in the consolidated statements of income	63,704	1.0	50,690	1.1
Amortization recorded as reduction of service revenue	1,571	—	6,822	0.1
Amortization of capitalized software recorded as cost of service revenue	13,489	0.2	16,871	0.4
Total	$ 78,764	1.2%	$ 74,383	1.6%

Impairment of Goodwill and Intangible Assets

We did not record an impairment charge in 2012. On February 17, 2012, our Missouri health plan was notified that it was not awarded a new contract under the state's RFP, and therefore its contract expired on June 30, 2012. As a result, we recorded a non-cash impairment charge of approximately $64.6 million, or $1.34 per diluted share, in the fourth quarter of 2011. Of the total charge, $58.5 million was not tax deductible, resulting in a disproportionate impact to net income and to the effective tax rate.

Interest Expense

Interest expense was $16.8 million for the year ended December 31, 2012, compared with $15.5 million for the year ended December 31, 2011. Interest expense includes non-cash interest expense relating to our convertible senior notes, which amounted to $5.9 million and $5.5 million for the years ended December 31, 2012 and 2011, respectively.

Income Taxes

Income tax expense is recorded at an effective rate of 48.6% for the year ended December 31, 2012, compared with 67.8% for the year ended December 31, 2011. The effective rate for the year ended December 31, 2012 is higher than our statutory rate primarily due to nondeductible expenses primarily relating to compensation and changes in the fair value of contingent consideration. The effective rate for the year ended December 31, 2011 reflects the nondeductible nature of the majority of the Missouri impairment charge and certain discrete tax benefits.

Year Ended December 31, 2011 Compared with the Year Ended December 31, 2010

Fiscal Year 2011 Overview and Highlights

For the year, our net income was $20.8 million, or $0.45 per diluted share, a decrease of 66% over 2010. We recorded a non-cash impairment charge of approximately $64.6 million, or $1.34 per diluted share, in connection with the expiration of our Missouri health plan's contract with the state of Missouri effective June 30, 2012. Absent this impairment charge, improved performance of the Health Plans segment drove our improved performance overall for the year ended December 31, 2011.

We earned premium revenues of $4.6 billion, up 15.4% over the previous year. Meanwhile, we achieved a medical care ratio of 86.8%, compared with a medical care ratio of 87.6% for fiscal year 2010.

Health Plans Segment

Premium Revenue

Premium revenue increased 15.4% in the year ended December 31, 2011, compared with the year ended December 31, 2010, due to a membership increase of approximately 8.4% (on a member-month basis), and PMPM revenue increase of approximately 6.4%. Premium revenues were impacted by the following in 2011:

- In the fourth quarter of 2011, our New Mexico health plan entered into a contract amendment that more closely aligns the calculation of revenue with the methodology adopted under the Affordable Care Act. The contract amendment changed the calculation of the amount of revenue that may be recognized relative to medical costs, and resulted in the recognition of approximately $5.6 million of premium revenue which all related to periods prior to 2011.
- Also in the fourth quarter of 2011, the addition of pharmacy benefits at our Ohio health plan effective October 1, 2011, increased premium revenue.

Absent the adjustment to New Mexico premium revenue and the addition of the pharmacy benefit in Ohio, premium revenue PMPM increased approximately 4.4%, from $218 in 2010 to $227 in 2011. Increased enrollment among the ABD and Medicare populations contributed to the higher premium revenue PMPM. Medicare premium revenue was $388 million for the year ended December 31, 2011, compared with $265 million for the year ended December 31, 2010.

Medical Care Costs

The following table provides the details of consolidated medical care costs for the periods indicated (dollars in thousands except PMPM amounts):

	Year Ended December 31,					
	2011			2010		
	Amount	PMPM	% of Total	Amount	PMPM	% of Total
Fee for service	$ 2,764,309	$ 139.02	71.6%	$ 2,360,858	$ 128.73	70.0%
Capitation	518,835	26.09	13.4	555,487	30.29	16.5
Pharmacy	418,007	21.02	10.8	325,935	17.77	9.7
Other	158,843	8.00	4.2	128,577	7.01	3.8
Total	$ 3,859,994	$ 194.13	100.0%	$ 3,370,857	$ 183.80	100.0%

The medical care ratio decreased to 86.8% for the year ended December 31, 2011, compared with 87.6% for the year ended December 31, 2010.

The medical care ratio of the California health plan increased to 86.9% for the year ended December 31, 2011, from 84.6% for the year ended December 31, 2010. The California health plan received premium reductions of approximately 3% and 1% effective July 1, 2011, and October 1, 2011, respectively. In the second half of 2011, the California health plan added approximately 14,500 new ABD members with average premium revenue of approximately $385 PMPM.

The medical care ratio of the Florida health plan decreased to 91.9% for the year ended December 31, 2011, from 95.4% for the year ended December 31, 2010, primarily due to initiatives that have reduced pharmacy and behavioral health costs, and a premium rate increase of approximately 7.5% effective September 1, 2011.

The medical care ratio of the Michigan health plan decreased to 86.3% for the year ended December 31, 2011, from 89.3% for the year ended December 31, 2010, primarily due to improved Medicare performance and lower inpatient facility costs. The Michigan health plan received a premium rate increase of approximately 1% effective October 1, 2011.

The medical care ratio of the Missouri health plan decreased to 85.3% for the year ended December 31, 2011, from 85.5% for the year ended December 31, 2010. The health plan received a premium rate increase of approximately 5% effective July 1, 2011.

The medical care ratio of the New Mexico health plan decreased to 82.4% for the year ended December 31, 2011, from 82.7% for the year ended December 31, 2010. The New Mexico health plan received a premium rate reduction of approximately 2.5% effective July 1, 2011. As discussed above, the New Mexico health plan entered into a contract amendment that changed the calculation of the amount of revenue that may be recognized relative to medical costs in the fourth quarter of 2011. Consequently, premium revenue recognized in the year ended December 31, 2011, includes $5.6 million related to periods prior to 2011.

The medical care ratio of the Ohio health plan decreased to 84.1% for the year ended December 31, 2011, from 85.9% for the year ended December 31, 2010, due to an increase in Medicaid premium PMPM of approximately 4.5% effective January 1, 2011, and relatively flat fee-for-service costs. The pharmacy benefit was restored to all managed care plans in Ohio effective October 1, 2011.

The medical care ratio of the Texas health plan increased to 95.1% for the year ended December 31, 2011, from 87.7% for the year ended December 31, 2010. Effective February 1, 2011, we added approximately 30,000 ABD members in the Dallas-Fort Worth area and effective September 1, 2011, we added approximately 8,000 ABD members and 3,000 TANF members in the Jefferson Service area. Medical costs in the Dallas-Fort Worth area were well in excess of premium revenue. Excluding the ABD population in the Dallas-Fort Worth region, the medical care ratio of the Texas health plan was 87.2% for the year ended December 31, 2011.

The medical care ratio of the Utah health plan decreased to 78.1% for the year ended December 31, 2011, from 91.3% for the year ended December 31, 2010, primarily due to reduced fee-for-service inpatient and physician costs and an increase in

Medicaid premiums PMPM. Effective July 1, 2010, the Utah health plan received a premium rate increase of approximately 7%. Lower fee-for-service costs were the result of both lower unit costs and lower utilization. During the second quarter of 2011 we settled certain claims with the state regarding the savings share provision of our contract in effect from 2003 through June of 2009. We settled for the contract years 2006 through 2009 and recognized $6.9 million in premium revenue without any corresponding charge to expense. The Utah health plan received a premium rate reduction of approximately 2% effective July 1, 2011.

The medical care ratio of the Washington health plan remained flat at 85.4% for the year ended December 31, 2011 compared with the year ended December 31, 2010. Higher fee-for-service and pharmacy costs were offset by lower capitation costs.

The medical care ratio of the Wisconsin health plan (acquired September 1, 2010) was 92.5% for the year ended December 31, 2011. The state of Wisconsin reduced capitation rates by 11% on January 1, 2011.

Health Plans Segment Operating Data

The following table summarizes member months, premium revenue, medical care costs, medical care ratio, and premium taxes by health plan for the periods indicated (PMPM amounts are in whole dollars; member months and other dollar amounts are in thousands):

	Year Ended December 31, 2011						
	Member Months[1]	Premium Revenue Total	Premium Revenue PMPM	Medical Care Costs Total	Medical Care Costs PMPM	Premium Tax Expense	MCR Excluding Premium Tax Expense[4]
California	4,190	$ 575,176	$ 137.27	$ 493,419	$ 117.75	$ 7,499	86.9%
Florida	788	203,945	258.70	187,358	237.66	41	91.9
Michigan	2,660	662,127	248.91	537,779	202.16	38,733	86.3
Missouri[2]	959	229,584	239.38	195,832	204.19	—	85.3
New Mexico	1,074	345,732	321.94	277,338	258.25	9,285	82.4
Ohio	2,966	988,896	333.40	766,949	258.57	76,677	84.1
Texas	1,616	409,295	253.40	382,390	236.74	7,117	95.1
Utah	972	287,290	295.51	224,513	230.94	—	78.1
Washington	4,171	823,323	197.42	690,513	165.57	14,865	85.4
Wisconsin	488	69,596	142.56	64,346	131.81	44	92.5
Other[3]	—	8,443	—	39,557	—	328	—
	19,884	$ 4,603,407	$ 231.51	$ 3,859,994	$ 194.13	$ 154,589	86.8%

	Year Ended December 31, 2010						
	Member Months[1]	Premium Revenue Total	Premium Revenue PMPM	Medical Care Costs Total	Medical Care Costs PMPM	Premium Tax Expense	MCR Excluding Premium Tax Expenses[4]
California	4,197	$ 506,871	$ 120.77	$ 423,021	$ 100.79	$ 6,912	84.6%
Florida	664	170,683	256.87	162,839	245.07	1	95.4
Michigan	2,708	630,134	232.66	527,596	194.80	39,187	89.3
Missouri[2]	946	210,852	222.98	180,291	190.66	—	85.5
New Mexico	1,104	366,784	332.02	295,633	267.61	9,300	82.7
Ohio	2,817	860,324	305.42	680,802	241.69	67,358	85.9
Texas	708	188,716	266.72	162,714	229.97	3,251	87.7
Utah	921	258,076	280.27	235,576	255.84	—	91.3
Washington	4,141	758,849	183.27	636,617	153.75	13,513	85.4
Wisconsin	134	30,033	224.75	27,574	206.35	—	91.8
Other[3]	—	8,587	—	38,194	—	253	—
	18,340	$ 3,989,909	$ 217.56	$ 3,370,857	$ 183.80	$ 139,775	87.6%

(1) A member month is defined as the aggregate of each month's ending membership for the period presented.

(2) Our contract with the state of Missouri expired without renewal on June 30, 2012.

(3) "Other" medical care costs also include medically related administrative costs at the parent company.

(4) The "MCR Excluding Premium Tax Expense" represents medical costs as a percentage of premium revenues, where premium revenue is reduced by premium tax expense.

Molina Medicaid Solutions Segment

We acquired Molina Medicaid Solutions on May 1, 2010; therefore, the year ended December 31, 2010, includes only eight months of operating results for this segment. Performance of the Molina Medicaid Solutions segment was as follows:

	Year Ended December 31, 2011	Eight Months Ended December 31, 2010
	(In thousands)	
Service revenue before amortization	$ 167,269	$ 98,125
Amortization recorded as reduction of service revenue	(6,822)	(8,316)
Service revenue	160,447	89,809
Cost of service revenue	143,987	78,647
General and administrative costs	9,270	5,135
Amortization of customer relationship intangibles recorded as amortization	5,127	3,418
Operating income	$ 2,063	$ 2,609

For the year ended December 31, 2011, cost of service revenue included $11.5 million of direct costs associated with the Idaho contract that would otherwise have been recorded as deferred contract costs. In assessing the recoverability of the deferred contract costs associated with the Idaho contract during 2011, we determined that these costs should be expensed as a period cost. In December 2011, our MMIS in Maine received full certification from CMS.

Consolidated Expenses and Other

General and Administrative Expenses

General and administrative expenses were $415.9 million, or 8.7% of total revenue, for the year ended December 31, 2011, compared with $346.0 million, or 8.5% of total revenue, for the year ended December 31, 2010.

Premium Tax Expense

Premium tax expense decreased to 3.5% of premium revenue net of premium tax for the year ended December 31, 2011, compared with 3.6% for December 31, 2010.

Depreciation and Amortization

The following table presents all depreciation and amortization recorded in our consolidated statements of income, regardless of whether the item appears as depreciation and amortization, a reduction of service revenue, or as cost of service revenue.

	Year Ended December 31,						
	2011			2010			
	Amount		% of Total Revenue	Amount		% of Total Revenue	
	(Dollar amounts in thousands)						
Depreciation, and amortization of capitalized software	$	30,864	0.7%	$	27,230	0.7%	
Amortization of intangible assets		19,826	0.4		18,474	0.4	
Depreciation and amortization reported as such in the consolidated statements of income		50,690	1.1		45,704	1.1	
Amortization recorded as reduction of service revenue		6,822	0.1		8,316	0.2	
Amortization of capitalized software recorded as cost of service revenue		16,871	0.4		6,745	0.2	
Total	$	74,383	1.6%	$	60,765	1.5%	

Impairment of Goodwill and Intangible Assets

On February 17, 2012, our Missouri health plan was notified that it was not awarded a new contract under the state's RFP, and therefore its contract expired on June 30, 2012. As a result, we recorded a non-cash impairment charge of approximately $64.6 million, or $1.34 per diluted share, in the fourth quarter of 2011. Of the total charge, $58.5 million is not tax deductible, resulting in a disproportionate impact to net income and the effective tax rate. We did not record an impairment charge in 2010.

Interest Expense

Interest expense was $15.5 million for each of the years ended December 31, 2011 and 2010. Interest expense includes non-cash interest expense relating to our convertible senior notes, which amounted to $5.5 million and $5.1 million for the years ended December 31, 2011 and 2010, respectively.

Income Taxes

Income tax expense was recorded at an effective rate of 67.8% for the year ended December 31, 2011, compared with 38.6% for the year ended December 31, 2010. The effective rate for the year ended December 31, 2011 reflects the non-deductible nature of the majority of the Missouri impairment charge, discrete tax benefits of $1.7 million recognized for statute closures, prior year tax return to provision reconciliations, and certain non-recurring income that is not subject to income tax. Excluding the impact from the Missouri impairment charge and discrete tax benefits, the effective tax rate for the year ended December 31, 2011 was 37.9%.

Acquisitions

Molina Center. On December 7, 2011, our wholly owned subsidiary Molina Center LLC closed on its acquisition of the 460,000 square foot office building located in Long Beach, California. The building, or Molina Center, consists of two conjoined fourteen-story office towers on approximately five acres of land. For the last several years we have leased approximately 155,000 square feet of the Molina Center for use as our corporate headquarters and also for use by our California health plan subsidiary. The final purchase price was $81 million, which amount was paid with a combination of cash on hand and bank financing under a term loan agreement. We acquired this business primarily to facilitate space needs for the projected future growth of the Company.

Molina Medicaid Solutions. On May 1, 2010, we acquired a health information management business which we operate under the name, *Molina Medicaid Solutions*SM.

Other Transactions

As described above, our Missouri health plan, Alliance for Community Health, LLC, or ACH, was not awarded a contract under the Missouri HealthNet Managed Care Request for Proposal; therefore, our Missouri health plan's prior contract with the state (the "MC+ Contract") expired without renewal on June 30, 2012, subject to certain transition obligations which terminate 365 days after June 30, 2012. ACH intends to enter into an assignment and assumption agreement with another one of our wholly owned subsidiaries, Molina Healthcare of Illinois, Inc., or Molina Illinois, pursuant to which ACH intends to assign to Molina Illinois substantially all of its assets and liabilities, including its surviving rights, duties and obligations, including all of the post-expiration duties and services under the MC+ Contract. Such assignment is subject to prior approval by the Missouri Department of Insurance, Financial Institutions and Professional Registration, the Illinois Department of Insurance, and the written consent of Mo HealthNet. Subsequent to the effectiveness of the assignment and assumption agreement between ACH and Molina Illinois and ACH's surrender of its Missouri certificate of authority, we intend to abandon our equity interests in ACH to an unrelated entity. Subject to appropriate regulatory approvals discussed above, ACH will retain certain assets and investments, to which we will no longer have access after the abandonment transaction is effected and which amounts we intend to write off.

Liquidity and Capital Resources

Introduction

We manage our cash, investments, and capital structure to meet the short- and long-term obligations of our business while maintaining liquidity and financial flexibility. We forecast, analyze, and monitor our cash flows to enable prudent investment management and financing within the confines of our financial strategy.

Our regulated subsidiaries generate significant cash flows from premium revenue. Such cash flows are our primary source of liquidity. Thus, any future decline in our profitability may have a negative impact on our liquidity. We generally receive premium revenue in advance of the payment of claims for the related health care services. A majority of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents, and investments. After considering expected cash flows from operating activities, we generally invest cash of regulated subsidiaries that exceeds our expected short-term obligations in longer term, investment-grade, and marketable debt securities to improve our overall investment return. These investments are made pursuant to board approved investment policies which conform to applicable state laws and regulations. Our investment policies are designed to provide liquidity, preserve capital, and maximize total return on invested assets, all in a manner consistent with state requirements that prescribe the types of instruments in which our subsidiaries may invest. These investment policies require that our investments have final maturities of five years or less (excluding auction rate securities and variable rate securities, for which interest rates are periodically reset) and that the average maturity be two years or less. Professional portfolio managers operating under documented guidelines manage our investments. As of December 31, 2012, a substantial portion of our cash was invested in a portfolio of highly liquid money market securities, and our investments consisted solely of investment-grade debt securities. All of our investments are classified as current assets, except for our restricted investments, and our investments in auction rate securities, which are classified as non-current assets. Our restricted investments are invested principally in certificates of deposit and U.S. treasury securities.

Investment income decreased to $5.2 million for the year ended December 31, 2012, compared with $5.5 million for the year ended December 31, 2011. Our annualized portfolio yields for the years ended December 31, 2012, 2011, and 2010 were 0.5%, 0.6%, and 0.7%, respectively.

Investments and restricted investments are subject to interest rate risk and will decrease in value if market rates increase. We have the ability to hold our restricted investments until maturity. Declines in interest rates over time will reduce our investment income.

Cash in excess of the capital needs of our regulated health plans is generally paid to our non-regulated parent company in the form of dividends, when and as permitted by applicable regulations, for general corporate use. See further discussion below, under *Regulatory Capital and Dividend Restrictions.*

Liquidity

Cash provided by operating activities was $347.8 million in 2012 compared with $225.4 million in 2011, an increase of $122.4 million. In 2012, deferred revenue was a source of cash from operations amounting to $90.9 million, compared with a use of cash amounting to $8.2 million in 2011. This increase was primarily due to an increase in deferred revenue relating to an advance premium payment received by our Washington health plan in December 2012. In 2011, cash provided by operating activities was $225.4 million compared with $161.4 million for 2010, an increase of $64.0 million. This increase was primarily due to higher operating income before giving effect to the $64.6 million non-cash impairment of goodwill and intangible assets relating to our Missouri health plan's state contract termination recorded in the fourth quarter of 2011.

Cash used in investing activities was $93.6 million in 2012 compared with $236.9 million in 2011, a decrease of $143.3 million. This decrease was primarily due to the change in cash paid in business combinations resulting from our fourth quarter 2011 acquisition of the Molina Center amounting to $81.0 million, with no comparable activity in 2012. In 2011, cash provided by financing activities was $236.9 million compared with $288.8 million in 2010, a decrease of $51.9 million. This decrease was primarily due to $46.5 million less cash paid for business combinations in 2011. We acquired Molina Medicaid Solutions in the second quarter of 2010 for $131.1 million, compared with $81.0 million spent to acquire the Molina Center in 2011.

Cash provided by financing activities was $47.7 million in 2012 compared with $49.5 million in 2011, a decrease of $1.8 million. Cash provided from borrowings under our credit facility in 2012 amounting to $40.0 million was consistent with cash provided from the $48.6 million term loan in 2011 used to finance the acquisition of the Molina Center. In 2011, cash provided by financing activities was $49.5 million compared with $113.8 million in 2010, a decrease of $64.3 million. This decrease was due to $111.1 million of net proceeds from our common stock offering in the third quarter of 2010, compared with the $48.6 million term loan to acquire the Molina Center in 2011.

Financial Condition

On a consolidated basis, at December 31, 2012, we had working capital of $521.1 million compared with $446.2 million at December 31, 2011. At December 31, 2012 we had cash and investments of $1,196.1 million, compared with $893.0 million of cash and investments at December 31, 2011. We believe that our cash resources and internally generated funds will be sufficient to support our operations, regulatory requirements, and capital expenditures for at least the next 12 months.

Regulatory Capital and Dividend Restrictions

Our health plans, which are operated by our respective wholly owned subsidiaries in those states, are subject to state laws and regulations that, among other things, require the maintenance of minimum levels of statutory capital, as defined by each state. Such state laws and regulations also restrict the timing, payment, and amount of dividends and other distributions that may be paid to us as the sole stockholder. To the extent the subsidiaries must comply with these regulations, they may not have the financial flexibility to transfer funds to us. The net assets in these subsidiaries (after inter-company eliminations) which may not be transferable to us in the form of loans, advances, or cash dividends was $549.7 million at December 31, 2012, and $492.4 million at December 31, 2011. Because of the statutory restrictions that inhibit the ability of our health plans to transfer net assets to us, the amount of retained earnings readily available to pay dividends to our stockholders are generally limited to cash, cash equivalents and investments held by the parent company – Molina Healthcare, Inc. Such cash, cash equivalents and investments amounted to $46.9 million and $23.6 million as of December 31, 2012, and 2011, respectively. This increase was primarily due to increased dividends received from our subsidiaries during 2012.

The National Association of Insurance Commissioners, or NAIC, adopted rules effective December 31, 1998, which, if implemented by the states, set minimum capitalization requirements for insurance companies, HMOs, and other entities bearing risk for health care coverage. The requirements take the form of risk-based capital, or RBC, rules. Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin have adopted these rules, which may vary from state to state. California and Florida have not yet adopted NAIC risk-based capital requirements for HMOs and have not formally given notice of their intention to do so. Such requirements, if adopted by California and Florida, may increase the minimum capital required for those states.

As of December 31, 2012, our health plans had aggregate statutory capital and surplus of approximately $557.9 million compared with the required minimum aggregate statutory capital and surplus of approximately $345.7 million. All of our health plans were in compliance with the minimum capital requirements at December 31, 2012. We have the ability and commitment to provide additional capital to each of our health plans when necessary to ensure that statutory capital and surplus continue to meet regulatory requirements.

Future Sources and Uses of Liquidity

1.125% Cash Convertible Senior Notes due 2020

On February 15, 2013, we issued $550 million aggregate principal amount of 1.125% Cash Convertible Senior Notes due 2020, or the Notes. The Notes bear interest at a rate of 1.125% per year, payable semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2013. The Notes will mature on January 15, 2020.

The Notes are not convertible into our common stock or any other securities under any circumstances. Holders may convert their Notes solely into cash at their option at any time prior to the close of business on the business day immediately preceding July 15, 2019 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2013 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period immediately after any five consecutive trading day period in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after July 15, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes solely into cash at any time, regardless of the foregoing circumstances. Upon conversion, in lieu of receiving shares of our common stock, a holder will receive an amount in cash, per $1,000 principal amount of Notes, equal to the settlement amount, determined in the manner set forth in the Indenture.

The initial conversion rate will be 24.5277 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $40.77 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, we will pay a cash make-whole premium by increasing the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event in certain circumstances. We may not redeem the Notes prior to the maturity date, and no sinking fund is provided for the Notes.

If we undergo a fundamental change (as defined in the indenture to the Notes), holders may require us to repurchase for cash all or part of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The indenture provides for customary events of default, including cross acceleration to certain other indebtedness of ours, and our significant subsidiaries.

The Notes will be senior unsecured obligations of the Company and will rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of our unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

Cash Convertible Note Hedge and Warrant Transactions

In connection with the pricing of the Notes, on February 11, 2013, we entered into cash convertible note hedge transactions and warrant transactions relating to a notional number of shares of our common stock underlying the Notes to be issued by us (without regard to the initial purchasers' $100 million over-allotment option) with two counterparties, JPMorgan Chase Bank, National Association, London Branch and Bank of America, N.A. (the “Option Counterparties”). The cash convertible note hedge transactions are intended to offset cash payments due upon any conversion of the Notes. However, the warrant transactions could separately have a dilutive effect to the extent that the market value per share of our common stock (as measured under the terms of the warrant transactions) exceeds the applicable strike price of the warrants. The strike price of the warrants will initially be $53.8475 per share, which is 75% above the last reported sale price of our common stock on February 11, 2013.

In connection with the exercise in full by the initial purchasers of their over-allotment option in respect of the Notes, on February 13, 2013, we and the Option Counterparties amended the cash convertible note hedge transactions entered into on February 11, 2013 to upsize such transactions by a notional number of shares of our common stock corresponding to the number of shares underlying the Notes purchased pursuant to the exercise of such over-allotment option. On February 13, 2013, we also entered into additional warrant transactions with the Option Counterparties relating to a number of shares of our common stock corresponding to the number of shares underlying the Notes purchased pursuant to the exercise of such over-allotment option. Each of the amendments to the cash convertible note hedge transactions and the additional warrant transactions were on substantially similar terms to the corresponding transactions entered into on February 11, 2013. Pursuant to these warrant transactions, we issued 13,490,236 warrants with a strike price of $53.8475 per share. The number of warrants and the strike price are subject to adjustment under certain circumstances.

We used approximately $74.3 million of the net proceeds from the offering to pay the cost of the cash convertible note hedge transactions (after such cost was partially offset by the proceeds to us from the sale of warrants in the warrant transactions and the additional warrant transactions).

Aside from the initial payment of a premium to the Option Counterparties of approximately $149.3 million, we will not be required to make any cash payments to the Option Counterparties under the cash convertible note hedge transactions and will be entitled to receive from the Option Counterparties an amount of cash, generally equal to the amount by which the market price per share of common stock exceeds the strike price of the cash convertible note hedge transactions during the relevant valuation period. The strike price under the cash convertible note hedge transactions is initially equal to the conversion price of the Notes. Additionally, if the market value per share of our common stock exceeds the strike price of the warrants on any trading day during the 160 trading day measurement period under the warrant transactions and the additional warrant transactions, we will be obligated to issue to the Option Counterparties a number of shares equal in value to the product of the amount by which such market value exceeds such strike price and 1/160th of the aggregate number of shares of our common stock underlying the warrant transactions and the additional warrant transactions, subject to a share delivery cap. The Company will not receive any additional proceeds if warrants are exercised.

Repurchase in Connection with Offering of 1.125% Cash Convertible Senior Notes Due 2020

We used a portion of the net proceeds in this offering to repurchase $50 million of our common stock in negotiated transactions with institutional investors in the offering, concurrently with the pricing of the offering. On February 12, 2013, we repurchased a total of 1,624,959 shares at $30.77 per share, which was our closing stock price on that date.

Credit Facility

On February 15, 2013, we used approximately $40.0 million of the net proceeds from the offering of the Notes to repay all of the outstanding indebtedness under our $170 million revolving credit facility, or the Credit Facility, with various lenders and U.S. Bank National Association, as Line of Credit Issuer, Swing Line Lender, and Administrative Agent. As of December 31, 2012, there was $40.0 million outstanding under the Credit Facility.

We terminated the Credit Facility in connection with the closing of the offering and sale of the Notes. Two letters of credit in the aggregate principal amount of $10.3 million that reduced the amount available for borrowing under the Credit Facility as of December 31, 2012, were transferred to direct issue letters of credit with another financial institution. The Credit Facility had a term of five years under which all amounts outstanding would have been due and payable on September 9, 2016.

Borrowings under the Credit Facility accrued interest based, at our election, on the base rate plus an applicable margin or the Eurodollar rate. The base rate is, for any day, a rate of interest per annum equal to the highest of (i) the prime rate of interest announced from time to time by U.S. Bank or its parent, (ii) the sum of the federal funds rate for such day plus 0.50% per annum and (iii) the Eurodollar rate (without giving effect to the applicable margin) for a one month interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1.00%. The Eurodollar rate is a reserve adjusted rate at which Eurodollar deposits are offered in the interbank Eurodollar market plus an applicable margin. In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the Credit Facility, we were required to pay a quarterly commitment fee of 0.25% to 0.50% (based upon our leverage ratio) of the unused amount of the lenders' commitments under the Credit Facility. The applicable margins ranged between 0.75% to 1.75% for base rate loans and 1.75% to 2.75% for Eurodollar loans, in each case, based upon our leverage ratio.

Our obligations under the Credit Facility were secured by a lien on substantially all of our assets, with the exception of certain of our real estate assets, and by a pledge of the capital stock or membership interests of our operating subsidiaries and health plans (with the exception of the California health plan). The Credit Facility included usual and customary covenants for credit facilities of this type, including covenants limiting liens, mergers, asset sales, other fundamental changes, debt, acquisitions, dividends and other distributions, capital expenditures, and investments. The Credit Facility also required us to maintain as of the end of any fiscal quarter (calculated for each four consecutive fiscal quarter period) a ratio of total consolidated debt to total consolidated EBITDA, as defined in the Credit Facility, of not more than 2.75 to 1.00, and a fixed charge coverage ratio of not less than 1.75 to 1.00. At December 31, 2012, we were in compliance with all financial covenants under the Credit Facility.

3.75% Convertible Senior Notes due 2014

As of December 31, 2012, $187.0 million in aggregate principal amount of our 3.75% Convertible Senior Notes due 2014, or the 3.75% Notes, remain outstanding. The 3.75% Notes rank equally in right of payment with our existing and future senior indebtedness. The 3.75% Notes are convertible into cash and, under certain circumstances, shares of our common stock. The initial conversion rate is 31.9601 shares of our common stock per one thousand dollar principal amount of the 3.75% Notes. This represents an initial conversion price of approximately $31.29 per share of our common stock. In addition, if certain corporate transactions that constitute a change of control occur prior to maturity, we will increase the conversion rate in certain circumstances.

Term Loan

On December 7, 2011, our wholly owned subsidiary Molina Center LLC entered into a Term Loan Agreement, dated as of December 1, 2011, with various lenders and East West Bank, as Administrative Agent (the “Administrative Agent”). Pursuant to the terms of the Term Loan Agreement, Molina Center LLC borrowed the aggregate principal amount of $48.6 million to finance a portion of the $81 million purchase price for the acquisition of the Molina Center, located in Long Beach, California.

The outstanding principal amount under the Term Loan Agreement bears interest at the Eurodollar rate for each Interest Period (as defined below) commencing January 1, 2012. The Eurodollar rate is a per annum rate of interest equal to the greater of (a) the rate that is published in the Wall Street Journal as the London interbank offered rate for deposits in United States dollars, for a period of one month, two business days prior to the commencement of an Interest Period, multiplied by a statutory reserve rate established by the Board of Governors of the Federal Reserve System, or (b) 4.25%. "Interest Period" means the period commencing on the first day of each calendar month and ending on the last day of each calendar month. The loan matures on November 30, 2018, and is subject to a 25-year amortization schedule that commenced on January 1, 2012.

The Term Loan Agreement contains customary representations, warranties, and financial covenants. In the event of a default as described in the Term Loan Agreement, the outstanding principal amount under the Term Loan Agreement will bear interest at a rate 5.00% per annum higher than the otherwise applicable rate. All amounts due under the Term Loan Agreement and related loan documents are secured by a security interest in the Molina Center in favor of and for the benefit of the Administrative Agent and the other lenders under the Term Loan Agreement.

Interest Rate Swap

In May 2012, we entered into a $42.5 million notional amount interest rate swap agreement, or Swap Agreement, with an effective date of March 1, 2013. While not designated as a hedge during the year ended December 31, 2012, the Swap Agreement is intended to reduce our exposure to fluctuations in the contractual variable interest rates under our Term Loan Agreement, and expires on the maturity date of the Term Loan Agreement, which is November 30, 2018. Under the Swap Agreement, we will receive a variable rate of the one-month LIBOR plus 3.25%, and pay a fixed rate of 5.34%. The Swap Agreement is measured and reported at fair value on a recurring basis, within Level 2 of the fair value hierarchy. Gains and losses relating to changes in fair value are reported in earnings in the current period. For the year ended December 31, 2012, we have recorded losses of $1.3 million to general and administrative expense. As of December 31, 2012 the fair value of the Swap Agreement is a liability of $1.3 million, recorded to other noncurrent liabilities. We do not use derivatives for trading or speculative purposes. We believe that we are not exposed to more than a nominal amount of credit risk relating to the Swap Agreement because the counterparty is an established and well-capitalized financial institution.

Shelf Registration Statement

In May 2012, we filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission covering the issuance of an indeterminate number of our securities, including common stock, warrants, or debt securities. We may publicly offer securities from time to time at prices and terms to be determined at the time of the offering.

Securities Repurchase Program

Effective as of February 13, 2013, our board of directors authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior note due 2014. The repurchase program extends through December 31, 2014.

Critical Accounting Policies

When we prepare our consolidated financial statements, we use estimates and assumptions that may affect reported amounts and disclosures. Actual results could differ from these estimates. Our most significant accounting policies relate to:

- Health plan contractual provisions that may limit revenue based upon the costs incurred or the profits realized under a specific contract;
- Health plan quality incentives that allow us to recognize incremental revenue if certain quality standards are met;
- The recognition of revenue and costs associated with contracts held by our Molina Medicaid Solutions segment; and;
- The determination of medical claims and benefits payable.

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.

Certain components of premium revenue are subject to accounting estimates. The components of premium revenue subject to estimation fall into two categories:

Contractual provisions that may limit revenue based upon the costs incurred or the profits realized under a specific contract. These are contractual provisions that require the health plan to return premiums to the extent that certain thresholds are not met. In some instances premiums are returned when medical costs fall below a certain percentage of gross premiums; or when administrative costs or profits exceed a certain percentage of gross premiums. In other instances, premiums are partially determined by the acuity of care provided to members (risk adjustment). To the extent that our expenses and profits change from the amounts previously reported (due to changes in estimates) our revenue earned for those periods will also change. In all of these instances our revenue is only subject to estimate due to the fact that the thresholds themselves contain elements (expense or profit) that are subject to estimate. While we have adequate experience and data to make sound estimates of our expenses or profits, changes to those estimates may be necessary, which in turn will lead to changes in our estimates of revenue. In general, a change in estimate relating to expense or profit would offset any related change in estimate to premium, resulting in no or small impact to net income. The following contractual provisions fall into this category:

- *California Health Plan Medical Cost Floors (Minimums):* A portion of certain premiums received by our California health plan may be returned to the state if certain minimum amounts are not spent on defined medical care costs. We recorded a liability under the terms of these contract provisions of $0.3 million and $1.0 million at December 31, 2012, and December 31, 2011, respectively.

- *Florida Health Plan Medical Cost Floor (Minimum) for Behavioral Health:* A portion of premiums received by our Florida health plan may be returned to the state if certain minimum amounts are not spent on defined behavioral health care costs. At both December 31, 2012 and December 31, 2011, we had not recorded any liability under the terms of this contract provision since behavioral health expenses are not less than the contractual floor.
- *New Mexico Health Plan Medical Cost Floors (Minimums) and Administrative Cost and Profit Ceilings (Maximums):* Our contract with the state of New Mexico directs that a portion of premiums received may be returned to the state if certain minimum amounts are not spent on defined medical care costs, or if administrative costs or profit (as defined) exceed certain amounts. At both December 31, 2012, and December 31, 2011, we had not recorded any liability under the terms of these contract provisions.
- *Texas Health Plan Profit Sharing:* Under our contract with the state of Texas, there is a profit-sharing agreement under which we pay a rebate to the state of Texas if our Texas health plan generates pretax income, as defined in the contract, above a certain specified percentage, as determined in accordance with a tiered rebate schedule. We are limited in the amount of administrative costs that we may deduct in calculating the rebate, if any. As a result of profits in excess of the amount we are allowed to fully retain, we accrued an aggregate liability of approximately $3.2 million and $0.7 million pursuant to our profit-sharing agreement with the state of Texas at December 31, 2012 and December 31, 2011, respectively.
- *Washington Health Plan Medical Cost Floors (Minimums):* A portion of certain premiums received by our Washington health plan may be returned to the state if certain minimum amounts are not spent on defined medical care costs. At both December 31, 2012, and December 31, 2011, we had not recorded any liability under the terms of this contract provision because medical expenses are not less than the contractual floor.
- *Medicare Revenue Risk Adjustment:* Based on member encounter data that we submit to CMS, our Medicare premiums are subject to retroactive adjustment for both member risk scores and member pharmacy cost experience for up to two years after the original year of service. This adjustment takes into account the acuity of each member's medical needs relative to what was anticipated when premiums were originally set for that member. In the event that a member requires less acute medical care than was anticipated by the original premium amount, CMS may recover premium from us. In the event that a member requires more acute medical care than was anticipated by the original premium amount, CMS may pay us additional retroactive premium. A similar retroactive reconciliation is undertaken by CMS for our Medicare members' pharmacy utilization. We estimate the amount of Medicare revenue that will ultimately be realized for the periods presented based on our knowledge of our members' heath care utilization patterns and CMS practices. Based on our knowledge of member health care utilization patterns and expenses we have recorded a net receivable of approximately $0.3 million and $5.0 million for anticipated Medicare risk adjustment premiums at December 31, 2012, and December 31, 2011, respectively.

Quality incentives that allow us to recognize incremental revenue if certain quality standards are met. These are contract provisions that allow us to earn additional premium revenue in certain states if we achieve certain quality-of-care or administrative measures. We estimate the amount of revenue that will ultimately be realized for the periods presented based on our experience and expertise in meeting the quality and administrative measures as well as our ongoing and current monitoring of our progress in meeting those measures. The amount of the revenue that we will realize under these contractual provisions is determinable based upon that experience. The following contractual provisions fall into this category:

- *New Mexico Health Plan Quality Incentive Premiums:* Under our contract with the state of New Mexico, incremental revenue of up to 0.75% of our total premium is earned if certain performance measures are met. These performance measures are generally linked to various quality-of-care and administrative measures dictated by the state.
- *Ohio Health Plan Quality Incentive Premiums:* Under our contract with the state of Ohio, incremental revenue of up to 1% of our total premium is earned if certain performance measures are met. These performance measures are generally linked to various quality-of-care measures dictated by the state.
- *Texas Health Plan Quality Incentive Premiums:* Effective March 1, 2012, under our contract with the state of Texas, incremental revenue of up to 5% of our total premium may be earned if certain performance measures are met. These performance measures are generally linked to various quality-of-care measures established by the state.
- *Wisconsin Health Plan Quality Incentive Premiums:* Under our contract with the state of Wisconsin, effective beginning in 2011, up to 3.25% of premium revenue is withheld by the state. The withheld premiums can be earned by the health plan by meeting certain performance measures. These performance measures are generally linked to various quality-of-care measures dictated by the state.

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 December 31, 2012 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 December 31, 2012.

	Year Ended December 31, 2012				
	Maximum Available Quality Incentive Premium – Current Year	Amount of Current Year Quality Incentive Premium Revenue Recognized	Amount of Quality Incentive Premium Revenue Recognized from Prior Year	Total Quality Incentive Premium Revenue Recognized	Total Revenue Recognized
	(In thousands)				
New Mexico	$ 2,244	$ 1,889	$ 643	$ 2,532	$ 338,770
Ohio	12,033	8,079	966	9,045	1,187,422
Texas	58,516	52,521	—	52,521	1,255,722
Wisconsin	1,771	—	593	593	70,673
	$ 74,564	$ 62,489	$ 2,202	$ 64,691	$ 2,852,587

	Year Ended December 31, 2011				
	Maximum Available Quality Incentive Premium – Current Year	Amount of Current Year Quality Incentive Premium Revenue Recognized	Amount of Quality Incentive Premium Revenue Recognized from Prior Year	Total Quality Incentive Premium Revenue Recognized	Total Revenue Recognized
	(In thousands)				
New Mexico	$ 2,271	$ 1,558	$ 378	$ 1,936	$ 345,732
Ohio	10,212	8,363	3,501	11,864	988,896
Texas	—	—	—	—	409,295
Wisconsin	1,705	542	—	542	69,596
	$ 14,188	$ 10,463	$ 3,879	$ 14,342	$ 1,813,519

	Year Ended December 31, 2010				
	Maximum Available Quality Incentive Premium – Current Year	Amount of Current Year Quality Incentive Premium Revenue Recognized	Amount of Quality Incentive Premium Revenue Recognized from Prior Year	Total Quality Incentive Premium Revenue Recognized	Total Revenue Recognized
	(In thousands)				
New Mexico	$ 2,581	$ 1,311	$ 579	$ 1,890	$ 366,784
Ohio	9,881	3,114	(1,248)	1,866	860,324
Texas	1,771	1,771	—	1,771	188,716
	$ 14,233	$ 6,196	$ (669)	$ 5,527	$ 1,415,824

Service Revenue and Cost of Service Revenue — Molina Medicaid Solutions Segment

The payments received by our Molina Medicaid Solutions segment under its state contracts are based on the performance of multiple services. The first of these is the design, development and implementation, or DDI, of a Medicaid Management Information System, or MMIS. An additional service, following completion of DDI, is the operation of the MMIS under a business process outsourcing, or BPO arrangement. While providing BPO services (which include claims payment and eligibility processing) we also provide the state with other services including both hosting and support and maintenance. Our Molina Medicaid Solutions contracts may extend over a number of years, particularly in circumstances where we are delivering extensive and complex DDI services, such as the initial design, development and implementation of a complete MMIS. For example, the terms of our most recently implemented Molina Medicaid Solutions contracts (in Idaho and Maine) were each seven years in total, consisting of two years allocated for the delivery of DDI services, followed by five years for the performance of BPO services. We receive progress payments from the state during the performance of DDI services based upon the attainment of predetermined milestones. We receive a flat monthly payment for BPO services under our Idaho and Maine contracts. The terms of our other Molina Medicaid

Solutions contracts - which primarily involve the delivery of BPO services with only minimal DDI activity (consisting of system enhancements) - are shorter in duration than our Idaho and Maine contracts.

We have evaluated our Molina Medicaid Solutions contracts to determine if such arrangements include a software element. Based on this evaluation, we have concluded that these arrangements do not include a software element. As such, we have concluded that our Molina Medicaid Solutions contracts are multiple-element service arrangements under the scope of FASB Accounting Standards Codification Subtopic 605-25, Revenue Recognition — Multiple –Element Arrangements, and SEC Staff Accounting Bulletin Topic 13, Revenue Recognition.

Effective January 1, 2011, we adopted a new accounting standard that amends the guidance on the accounting for multiple-element arrangements. Pursuant to the new standard, each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting which is generally based on whether the deliverable has standalone value to the customer. In addition to standalone value, previous guidance also required objective and reliable evidence of fair value of a deliverable in order to treat the deliverable as a separate unit of accounting. The arrangement's consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the relative selling price of each deliverable. In general, the consideration allocated to each unit of accounting is recognized as the related goods or services are delivered, limited to the consideration that is not contingent. We have adopted this guidance on a prospective basis for all new or materially modified revenue arrangements with multiple deliverables entered into on or after January 1, 2011. Our adoption of this guidance has not impacted the timing or pattern of our revenue recognition in 2011 or 2012. Also, there would have been no change in revenue recognized relating to multiple-element arrangements if we had adopted this guidance retrospectively for contracts entered into prior to January 1, 2011.

We have concluded that the various service elements in our Molina Medicaid Solutions contracts represent a single unit of accounting due to the fact that DDI, which is the only service performed in advance of the other services (all other services are performed over an identical period), does not have standalone value because our DDI services are not sold separately by any vendor and the customer could not resell our DDI services. Further, we have no objective and reliable evidence of fair value for any of the individual elements in these contracts, and at no point in the contract will we have objective and reliable evidence of fair value for the undelivered elements in the contracts. For contracts entered into prior to January 1, 2011, objective and reliable evidence of fair value would be required, in addition to DDI standalone value which we do not have, in order to treat DDI as a separate unit of accounting. We lack objective and reliable evidence of the fair value of the individual elements of our Molina Medicaid Solutions contracts for the following reasons:

- Each contract calls for the provision of its own specific set of services. While all contracts support the system of record for state MMIS, the actual services we provide vary significantly between contracts; and

- The nature of the MMIS installed varies significantly between our older contracts (proprietary mainframe systems) and our new contracts (commercial off-the-shelf technology solutions)

Because we have determined the services provided under our Molina Medicaid Solutions contracts represent a single unit of accounting, and because we are unable to determine a pattern of performance of services during the contract period, we recognize all revenue (both the DDI and BPO elements) associated with such contracts on a straight-line basis over the period during which BPO, hosting, and support and maintenance services are delivered. As noted above, the period of performance of BPO services under our Idaho and Maine contracts is five years. Therefore, absent any contingencies as discussed in the following paragraph, we would recognize all revenue associated with those contracts over a period of five years. In cases where there is no DDI element associated with our contracts, BPO revenue is recognized on a monthly basis as specified in the applicable contract or contract extension.

Provisions specific to each contract may, however, lead us to modify this general principle. In those circumstances, the right of the state to refuse acceptance of services, as well as the related obligation to compensate us, may require us to delay recognition of all or part of our revenue until that contingency (the right of the state to refuse acceptance) has been removed. In those circumstances we defer recognition of any contingent revenue (whether DDI, BPO services, hosting, and support and maintenance services) until the contingency has been removed. These types of contingency features are present in our Maine and Idaho contracts. In those states, we deferred recognition of revenue until the contingencies were removed.

Costs associated with our Molina Medicaid Solutions contracts include software related costs and other costs. With respect to software related costs, we apply the guidance for internal-use software and capitalize external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs associated with employees who are directly associated with and who devote time to the computer software project. With respect to all other direct costs, such costs are expensed as incurred, unless corresponding revenue is being deferred. If revenue is being deferred, direct costs relating to delivered service elements are deferred as well and are recognized on a straight-line basis over the period of revenue recognition, in a manner consistent with our recognition of revenue that has been deferred. Such direct costs can include:

- Transaction processing costs.
- Employee costs incurred in performing transaction services.
- Vendor costs incurred in performing transaction services.
- Costs incurred in performing required monitoring of and reporting on contract performance.
- Costs incurred in maintaining and processing member and provider eligibility.
- Costs incurred in communicating with members and providers.

The recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, the deferred contract costs are written down by the amount of the cash flow deficiency. If a cash flow deficiency remains after reducing the balance of the deferred contract costs to zero, any remaining long-lived assets are evaluated for impairment. Any such impairment recognized would equal the amount by which the carrying value of the long-lived assets exceeds the fair value of those assets.

Medical Claims and Benefits Payable — Health Plans Segment

The following table provides the details of our medical claims and benefits payable as of the dates indicated:

	December 31,		
	2012	**2011**	**2010**
		(In thousands)	
Fee-for-service claims incurred but not paid (IBNP)	$ 377,614	$ 301,020	$ 275,259
Capitation payable	49,066	53,532	49,598
Pharmacy	38,992	26,178	14,649
Other	28,858	21,746	14,850
	$ 494,530	$ 402,476	$ 354,356

The determination of our liability for claims and medical benefits payable is particularly important to the determination of our financial position and results of operations in any given period. Such determination of our liability requires the application of a significant degree of judgment by our management.

As a result, the determination of our liability for claims and medical benefits payable is subject to an inherent degree of uncertainty. Our medical care costs include amounts that have been paid by us through the reporting date, as well as estimated liabilities for medical care costs incurred but not paid by us as of the reporting date. Such medical care cost liabilities include, among other items, unpaid fee-for-service claims, capitation payments owed providers, unpaid pharmacy invoices, and various medically related administrative costs that have been incurred but not paid. We use judgment to determine the appropriate assumptions for determining the required estimates.

The most important element in estimating our medical care costs is our estimate for fee-for-service claims which have been incurred but not paid by us. These fee-for-service costs that have been incurred but have not been paid at the reporting date are collectively referred to as medical costs that are “Incurred But Not Paid,” or IBNP. Our IBNP, as reported on our balance sheet, 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. As indicated in the table above, our estimated IBNP liability represented $377.6 million of our total medical claims and benefits payable of $494.5 million as of December 31, 2012. Excluding amounts that we anticipate paying on behalf of a capitated provider in Ohio (which we will subsequently withhold from that provider’s monthly capitation payment), our IBNP liability at December 31, 2012, was $371.4 million.

The factors we consider when estimating our IBNP include, without limitation, claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, health care service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to Medicaid fee schedules, and the incidence of high dollar or catastrophic claims. Our assessment of these factors is then translated into an estimate of our IBNP liability at the relevant measuring point through the calculation of a base estimate of IBNP, a further reserve for adverse claims development, and an estimate of the administrative costs of settling all claims incurred through the reporting date. The base estimate of IBNP is derived through application of claims payment completion factors and trended PMPM cost estimates.

For the fifth month of service prior to the reporting date and earlier, we estimate our outstanding claims liability based on actual claims paid, adjusted for estimated completion factors. Completion factors seek to measure the cumulative percentage of claims expense that will have been paid for a given month of service as of the reporting date, based on historical payment patterns.

The following table reflects the change in our estimate of claims liability as of December 31, 2012 that would have resulted had we changed our completion factors for the fifth through the twelfth months preceding December 31, 2012, by the percentages indicated. A reduction in the completion factor results in an increase in medical claims liabilities. Dollar amounts are in thousands.

(Decrease) Increase in Estimated Completion Factors	Increase (Decrease) in Medical Claims and Benefits Payable
(6)%	$ 152,598
(4)%	101,732
(2)%	50,866
2%	(50,866)
4%	(101,732)
6%	(152,598)

For the four months of service immediately prior to the reporting date, actual claims paid are not a reliable measure of our ultimate liability, given the inherent delay between the patient/physician encounter and the actual submission of a claim for payment. For these months of service, we estimate our claims liability based on trended PMPM cost estimates. These estimates are designed to reflect recent trends in payments and expense, utilization patterns, authorized services, and other relevant factors. The following table reflects the change in our estimate of claims liability as of December 31, 2012 that would have resulted had we altered our trend factors by the percentages indicated. An increase in the PMPM costs results in an increase in medical claims liabilities. Dollar amounts are in thousands.

(Decrease) Increase in Trended Per member Per Month Cost Estimates	Increase (Decrease) in Medical Claims and Benefits Payable
(6)%	$ (75,312)
(4)%	(50,208)
(2)%	(25,104)
2%	25,104
4%	50,208
6%	75,312

The following per-share amounts are based on a combined federal and state statutory tax rate of 37.5%, and $47.0 million diluted shares outstanding for the year ended December 31, 2012. Assuming a hypothetical 1% change in completion factors from those used in our calculation of IBNP at December 31, 2012, net income for the year ended December 31, 2012 would increase or decrease by approximately $15.9 million, or $0.34 per diluted share. Assuming a hypothetical 1% change in PMPM cost estimates from those used in our calculation of IBNP at December 31, 2012, net income for the year ended December 31, 2012 would increase or decrease by approximately $7.8 million, or $0.17 per diluted share. The corresponding figures for a 5% change in completion factors and PMPM cost estimates would be $79.5 million, or $1.69 per diluted share, and $39.2 million, or $0.83 per diluted share, respectively.

It is important to note that any change in the estimate of either completion factors or trended PMPM costs would usually be accompanied by a change in the estimate of the other component, and that a change in one component would almost always compound rather than offset the resulting distortion to net income. When completion factors are *overestimated*, trended PMPM costs tend to be *underestimated*. Both circumstances will create an overstatement of net income. Likewise, when completion factors are *underestimated*, trended PMPM costs tend to be *overestimated*, creating an understatement of net income. In other words, errors in estimates involving both completion factors and trended PMPM costs will usually act to drive estimates of claims liabilities and medical care costs in the same direction. If completion factors were overestimated by 1%, resulting in an overstatement of net income by approximately $15.9 million, it is likely that trended PMPM costs would be underestimated, resulting in an additional overstatement of net income.

After we have established our base IBNP reserve through the application of completion factors and trended PMPM cost estimates, we then compute an additional liability, once again using actuarial techniques, to account for adverse developments in our claims payments which the base actuarial model is not intended to and does not account for. We refer to this additional liability as the provision for adverse claims development. The provision for adverse claims development is a component of our overall determination of the adequacy of our IBNP. It is intended to capture the potential inadequacy of our IBNP estimate as a result of our inability to adequately assess the impact of factors such as changes in the speed of claims receipt and payment, the relative magnitude or severity of claims, known outbreaks of disease such as influenza, our entry into new geographical markets, our provision of services to new populations such as the aged, blind or disabled (ABD), changes to state-controlled fee schedules upon which a large proportion of our provider payments are based, modifications and upgrades to our claims processing systems and practices, and increasing medical costs. Because of the complexity of our business, the number of states in which we operate, and the need to account for different health care benefit packages among those states, we make an overall assessment of IBNP after considering the base actuarial model reserves and the provision for adverse claims development. We also include in our IBNP liability an estimate of the administrative costs of settling all claims incurred through the reporting date. The development of IBNP is a continuous process that we monitor and refine on a monthly basis as additional claims payment information becomes available. As additional information becomes known to us, we adjust our actuarial model accordingly to establish IBNP.

On a monthly basis, we review and update our estimated IBNP and the methods used to determine that liability. Any adjustments, if appropriate, are reflected in the period known. While we believe our current estimates are adequate, we have in the past been required to increase significantly our claims reserves for periods previously reported, and may be required to do so again in the future. Any significant increases to prior period claims reserves would materially decrease reported earnings for the period in which the adjustment is made.

In our judgment, the estimates for completion factors will likely prove to be more accurate than trended PMPM cost estimates because estimated completion factors are subject to fewer variables in their determination. Specifically, completion factors are developed over long periods of time, and are most likely to be affected by changes in claims receipt and payment experience and by provider billing practices. Trended PMPM cost estimates, while affected by the same factors, will also be influenced by health care service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, outbreaks of disease or increased incidence of illness, provider contract changes, changes to Medicaid fee schedules, and the incidence of high dollar or catastrophic claims. As discussed above, however, errors in estimates involving trended PMPM costs will almost always be accompanied by errors in estimates involving completion factors, and vice versa. In such circumstances, errors in estimation involving both completion factors and trended PMPM costs will act to drive estimates of claims liabilities (and therefore medical care costs) in the same direction.

Assuming that our initial estimate of IBNP is accurate, we believe that amounts ultimately paid out would generally be between 8% and 10% less than the liability recorded at the end of the period as a result of the inclusion in that liability of the allowance for adverse claims development and the accrued cost of settling those claims. Because the amount of our initial liability is merely an estimate (and therefore never 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 not be higher or lower than this 8% to 10% range. For example, for the years ended December 31, 2011 and 2010, the amounts ultimately paid out were less than the amount of the reserves we had established as of December 31, 2010 and 2009, by 14.6% and 15.7%, respectively. Furthermore, because the 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 of those factors are out of the ordinary.

As shown in greater detail in the table below, the amounts ultimately paid out on our liabilities in fiscal years 2012, 2011, and 2010 were less than what we had expected when we established our reserves. 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 estimate.

We recognized a benefit from prior period claims development in the amount of $39.3 million for the year ended December 31, 2012. This amount represents our estimate as of December 31, 2012, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2011 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe that the overestimation of our claims liability at December 31, 2011 was due primarily to the following factors:

- At our Washington health plan, we underestimated the amount of recoveries we would collect for certain high-cost newborn claims, resulting in an overestimation of reserves at year end.

- At our Texas health plan, we overestimated the cost of new members in STAR+PLUS (the name of our ABD program in Texas), in the Dallas region.
- In early 2011, the state of Michigan was delayed in the enrollment of newborns in managed care plans; the delay was resolved by mid-2011. This caused a large number of claims with older dates of service to be paid during late 2011, resulting in an artificial increase in the lag time for claims payment at our Michigan health plan. We adjusted reserves downward for this issue at December 31, 2011, but the adjustment did not capture all of the claims overestimation.
- The overestimation of our liability for medical claims and benefits payable was partially offset by an underestimation of that liability at our Missouri health plan, as a result of the costs associated with an unusually large number of premature infants during the fourth quarter of 2011.

We recognized a benefit from prior period claims development in the amount of $51.8 million for the year ended December 31, 2011. This amount represents our estimate as of December 31, 2011, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2010 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe that the overestimation of our claims liability at December 31, 2010 was due primarily to the following factors:

- At our Ohio health plan, we overestimated the impact of a buildup in claims inventory.
- At our California health plan, we overestimated the impact of the settlement of disputed provider claims.
- At our New Mexico health plan, we underestimated the impact of a reduction in the outpatient facility fee schedule.

We recognized a benefit from prior period claims development in the amount of $49.4 million for the year ended December 31, 2010. This amount represents our estimate as of December 31, 2010, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2009 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe that the overestimation of our claims liability at December 31, 2009 was due primarily to the following factors:

- At our New Mexico health plan, we underestimated the degree to which cuts to the Medicaid fees schedule would reduce our liability as of December 31, 2009.
- At our California health plan, we underestimated the extent to which various network restructuring, provider contracting, and medical management initiatives had reduced our medical care costs during the second half of 2009, thereby resulting in a lower liability at December 31, 2009.

In estimating our claims liability at December 31, 2012, we adjusted our base calculation to take account of the numerous factors that we believe will likely change our final claims liability amount. We believe that the most significant among those factors are:

- Our Texas health plan membership nearly doubled effective March 1, 2012. In addition, effective March 1, 2012, we assumed inpatient medical liability for ABD members for which we were not previously responsible. Reserves for new coverage and new regions are now based on the newly developing claims lag patterns. While the lag patterns are now beginning to stabilize for the new membership and coverage, the true reserve liability continues to be more uncertain than usual.
- Data published by the Centers for Disease Control, or CDC, indicated a significant increase in the percentage of office visits for influenza-like illnesses, or ILI, during December 2012. This indicated that the annual flu season was starting earlier than it had in most recent years. This was most noticeable in the southeast region of the country, but impacted other areas as well. Our leading indicators, including inpatient authorizations and overall pharmacy utilization, did not show as great an increase as we had expected based on the severity of the CDC's flu-related indices. However, we did see a significant increase in the use of prescription flu medication, especially in our Texas health plan. Therefore, we increased our reserves to account for expected additional utilization due to the early onset of the flu season.
- Our California health plan has enrolled approximately 20,000 new ABD members since September 30, 2011, as a result of the mandatory assignment of ABD members to managed care plans effective July 1, 2011. These new members converted from a fee-for-service environment. Due to the relatively recent transition of these members to managed care, their utilization of medical services is less predictable than it is for many of our other members.
- Prior to July 2012, it was the state of Washington's practice to disenroll certain sick newborns from the Healthy Options Medicaid managed care program and cover them under the Supplemental Security Income program, or SSI, instead. When this occurred, the health plan would reimburse the premiums received for that member back to the state and the state in turn reimbursed the health plan for the cost of care, usually retroactively to the date of birth. Effective July 1, 2012, the health plans now retain these members and cover them under a new ABD program entitled Healthy Options Blind and Disabled, or HOBD. The premium we receive from the state for the HOBD members is very high to cover

the substantial cost of care. By December, we had enrolled approximately 26,000 members under HOBD. Because the program is relatively new, there is still some uncertainty as to the level of claims to be expected from these high-cost members.

The use of a consistent methodology in estimating our liability for claims and medical 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. 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. In 2012, 2011 and 2010, the absence of adverse development of the liability for claims and medical benefits payable at the close of the previous period resulted in the recognition of substantial favorable prior period development. In these years, however, the recognition of a benefit from prior period claims development did not have a material impact on our consolidated results of operations because the amount of benefit recognized in each year was roughly consistent with that recognized in the previous year.

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

	Year ended December 31,		
	2012	2011	2010
	(Dollars in thousands, except per-member amounts)		
Balances at beginning of period	$ 402,476	$ 354,356	$ 315,316
Balance of acquired subsidiary	—	—	3,228
Components of medical care costs related to:			
Current year	5,136,055	3,911,803	3,420,235
Prior year	(39,295)	(51,809)	(49,378)
Total medical care costs	5,096,760	3,859,994	3,370,857
Payments for medical care costs related to:			
Current year	4,649,363	3,516,994	3,085,388
Prior year	355,343	294,880	249,657
Total paid	5,004,706	3,811,874	3,335,045
Balances at end of year	$ 494,530	$ 402,476	$ 354,356
Benefit from prior years as a percentage of:			
Balance at beginning of year	9.8%	14.6%	15.7%
Premium revenue	0.7%	1.1%	1.2%
Total medical care costs	0.8%	1.3%	1.5%
Claims Data			
Days in claims payable, fee for service	40	40	42
Number of members at end of period	1,797,000	1,697,000	1,613,000
Number of claims in inventory at end of period	122,700	111,100	143,600
Billed charges of claims in inventory at end of period	$ 255,200	$ 207,600	$ 218,900
Claims in inventory per member at end of period	0.07	0.07	0.09
Billed charges of claims in inventory per member end of period	$ 142.01	$ 122.33	$ 135.71
Number of claims received during the period	20,842,400	17,207,500	14,554,800
Billed charges of claims received during the period	$ 19,429,300	$ 14,306,500	$ 11,686,100

Commitments and Contingencies

We are not an obligor to or guarantor of any indebtedness of any other party, except for our obligation to pay benefits under policies in-force relating to an insurance subsidiary we sold in the first quarter of 2012, in the event such benefits are not paid by the reinsurer or current owner. This transaction is more fully described in Note 19 to the accompanying audited consolidated financial statements for the year ended December 31, 2012.

We are not a party to off-balance sheet financing arrangements except for operating leases which are disclosed in Note 19 to the accompanying audited consolidated financial statements for the year ended December 31, 2012.

Contractual Obligations

In the table below, we present our contractual obligations as of December 31, 2012. Some of the amounts we have included in this table are based on management's estimates and assumptions about these obligations, including their duration, the possibility of renewal, anticipated actions by third parties, and other factors. Because these estimates and assumptions are necessarily subjective, the contractual obligations we will actually pay in future periods may vary from those reflected in the table. Amounts are in thousands.

	Total	2013	2014-2015	2016-2017	2018 and Beyond
Medical claims and benefits payable	$ 494,530	$ 494,530	$ —	$ —	$ —
Principal amount of long-term debt(1)	274,471	1,155	189,465	42,681	41,170
Operating leases	86,276	26,866	36,228	15,411	7,771
Interest on long-term debt	23,465	9,035	9,150	3,675	1,605
Purchase commitments	37,537	19,367	17,645	525	—
Total contractual obligations	$ 916,279	$ 550,953	$ 252,488	$ 62,292	$ 50,546

(1) Represents the principal amount due on our 3.75% Convertible Senior Notes due 2014, our term loan due 2018, and the Credit Facility due 2016.

As of December 31, 2012, we have recorded approximately $10.6 million of unrecognized tax benefits. The above table does not contain this amount because we cannot reasonably estimate when or if such amount may be settled. See Note 13 to the accompanying audited consolidated financial statements for the year ended December 31, 2012 for further information.

Item 7A. ***Quantitative and Qualitative Disclosures About Market Risk***

Quantitative and Qualitative Disclosures About Market Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments, receivables, and restricted investments. We invest a substantial portion of our cash in the PFM Fund Prime Series — Institutional Class, and the PFM Fund Government Series. These funds represent a portfolio of highly liquid money market securities that are managed by PFM Asset Management LLC (PFM), a Virginia business trust registered as an open-end management investment fund. Our investments and a portion of our cash equivalents are managed by professional portfolio managers operating under documented investment guidelines. No investment that is in a loss position can be sold by our managers without our prior approval. Our investments consist solely of investment grade debt securities with a maximum maturity of five years and an average duration of two years or less. Restricted investments are invested principally in certificates of deposit and U.S. treasury securities. Concentration of credit risk with respect to accounts receivable is limited due to payors consisting principally of the governments of each state in which our Health Plans segment and our Molina Medicaid Solutions segment operate.

We are also exposed to interest rate risk relating to contractual variable interest rates under our Term Loan Agreement which matures on November 30, 2018. The outstanding principal amount under the Term Loan Agreement bears interest at the Eurodollar rate for each Interest Period commencing January 1, 2012. We manage this floating rate debt using an Interest Rate Swap Agreement that is intended to reduce our exposure to the impact of changing interest rates to our consolidated results of operations and future outflows for interest expense. Under the Swap Agreement, we will receive a variable rate of one-month LIBOR plus 3.25%, and pay a fixed rate of 5.34%. At December 31, 2012, a hypothetical 1% increase in the Eurodollar rate would result in a $1.6 million favorable change in the fair value of our Interest Rate Swap Agreement. This favorable change would reduce our exposure to a hypothetical 1% increase in the Eurodollar rate on the outstanding borrowings of our Term Loan, that would result in additional interest expense of only $0.5 million. See Note 12 of the accompanying audited consolidated financial statements for the year ended December 31, 2012 for more information on the Term Loan Agreement and Interest Rate Swap Agreement.

Inflation

We use various strategies to mitigate the negative effects of health care cost inflation. Specifically, our health plans try to control medical and hospital costs through contracts with independent providers of health care services. Through these contracted providers, our health plans emphasize preventive health care and appropriate use of specialty and hospital services. There can be no assurance, however, that our strategies to mitigate health care cost inflation will be successful. Competitive pressures, new health care and pharmaceutical product introductions, demands from health care providers and customers, applicable regulations, or other factors may affect our ability to control health care costs.

Compliance Costs

Our health plans are regulated by both state and federal government agencies. Regulation of managed care products and health care services is an evolving area of law that varies from jurisdiction to jurisdiction. Regulatory agencies generally have discretion to issue regulations and interpret and enforce laws and rules. Changes in applicable laws and rules occur frequently. Compliance with such laws and rules may lead to additional costs related to the implementation of additional systems, procedures and programs that we have not yet identified.

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
of Molina Healthcare, Inc.

We have audited the accompanying consolidated balance sheets of Molina Healthcare, Inc. (the Company) as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2012. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Molina Healthcare, Inc. at December 31, 2012 and 2011, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2012, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), Molina Healthcare, Inc.'s internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 28, 2013

MOLINA HEALTHCARE, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2012	December 31, 2011
	(Amounts in thousands, except per-share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 795,770	$ 493,827
Investments	342,845	336,916
Receivables	149,682	167,898
Income tax refundable	—	11,679
Deferred income taxes	32,443	18,327
Prepaid expenses and other current assets	28,386	19,435
Total current assets	1,349,126	1,048,082
Property, equipment, and capitalized software, net	221,443	190,934
Deferred contract costs	58,313	54,582
Intangible assets, net	77,711	101,796
Goodwill and indefinite-lived intangible assets	151,088	153,954
Auction rate securities	13,419	16,134
Restricted investments	44,101	46,164
Receivable for ceded life and annuity contracts	—	23,401
Other assets	19,621	17,099
	$ 1,934,822	$ 1,652,146
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims and benefits payable	$ 494,530	$ 402,476
Accounts payable and accrued liabilities	184,034	147,214
Deferred revenue	141,798	50,947
Income taxes payable	6,520	—
Current maturities of long-term debt	1,155	1,197
Total current liabilities	828,037	601,834
Long-term debt	261,784	216,929
Deferred income taxes	37,900	33,127
Liability for ceded life and annuity contracts	—	23,401
Other long-term liabilities	24,787	21,782
Total liabilities	1,152,508	897,073
Stockholders' equity:		
Common stock, $0.001 par value; 80,000 shares authorized; outstanding: 46,762 shares at December 31, 2012 and 45,815 shares at December 31, 2011	47	46
Preferred stock, $0.001 par value; 20,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	285,524	266,022
Accumulated other comprehensive loss	(457)	(1,405)
Treasury stock, at cost; 111 shares at December 31, 2012	(3,000)	—
Retained earnings	500,200	490,410
Total stockholders' equity	782,314	755,073
	$ 1,934,822	$ 1,652,146

See accompanying notes.

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2012	2011	2010
	(In thousands, except per-share data)		
Revenue:			
Premium revenue	$ 5,826,491	$ 4,603,407	$ 3,989,909
Service revenue	187,710	160,447	89,809
Investment income	5,188	5,539	6,259
Rental income	9,374	547	—
Total revenue	6,028,763	4,769,940	4,085,977
Expenses:			
Medical care costs	5,096,760	3,859,994	3,370,857
Cost of service revenue	141,208	143,987	78,647
General and administrative expenses	532,627	415,932	345,993
Premium tax expenses	158,991	154,589	139,775
Depreciation and amortization	63,704	50,690	45,704
Total expenses	5,993,290	4,625,192	3,980,976
Impairment of goodwill and intangible assets	—	(64,575)	—
Operating income	35,473	80,173	105,001
Other expenses (income):			
Interest expense	16,769	15,519	15,509
Other income	(361)	—	—
Total other expenses (income)	16,408	15,519	15,509
Income before income taxes	19,065	64,654	89,492
Provision for income taxes	9,275	43,836	34,522
Net income	$ 9,790	$ 20,818	$ 54,970
Net income per share:			
Basic	$ 0.21	$ 0.45	$ 1.34
Diluted	0.21	0.45	1.32
Weighted average shares outstanding:			
Basic	46,380	45,756	41,174
Diluted	46,999	46,425	41,631

See accompanying notes.

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Net income	$ 9,790	$ 20,818	$ 54,970
Other comprehensive income (loss), before tax:			
Unrealized gain (loss) on investments	1,529	1,167	(613)
Total other comprehensive income (loss), before tax	1,529	1,167	(613)
Income tax expense (benefit) related to items of other comprehensive income	581	380	(233)
Total other comprehensive income (loss), net of tax	948	787	(380)
Comprehensive income	$ 10,738	$ 21,605	$ 54,590

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MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2012	2011	2010
		(In thousands)	
Operating activities:			
Net income	$ 9,790	$ 20,818	$ 54,970
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	78,764	74,383	60,765
Deferred income taxes	(9,887)	13,836	(4,092)
Stock-based compensation	20,018	17,052	9,531
Non-cash interest on convertible senior notes	5,942	5,512	5,114
Impairment of goodwill and intangible assets	—	64,575	—
Change in fair value of interest rate swap	1,307	—	—
Amortization of premium/discount on investments	6,746	7,242	2,029
Amortization of deferred financing costs	1,089	2,818	1,780
Gain on sale of subsidiary	(1,747)	—	—
Loss on disposal of property and equipment	2,608	—	—
Gain on acquisition	—	(1,676)	—
Unrealized gain on trading securities	—	—	(4,170)
Loss on rights agreement	—	—	3,807
Tax deficiency from employee stock compensation	(526)	(714)	(968)
Changes in operating assets and liabilities:			
Receivables	18,216	352	(7,539)
Prepaid expenses and other current assets	(8,958)	3,308	(12,034)
Medical claims and benefits payable	92,054	48,120	34,363
Accounts payable and accrued liabilities	23,345	2,778	40,482
Deferred revenue	90,851	(8,154)	(41,899)
Income taxes	18,172	(24,855)	19,258
Net cash provided by operating activities	347,784	225,395	161,397
Investing activities:			
Purchases of equipment	(78,145)	(60,581)	(48,538)
Purchases of investments	(306,437)	(345,968)	(302,842)
Sales and maturities of investments	298,006	302,667	223,077
Net cash paid in business combinations	—	(84,253)	(130,743)
Proceeds from sale of subsidiary, net of cash surrendered	9,162	—	—
Increase in deferred contract costs	(11,610)	(42,830)	(29,319)
Increase in restricted investments	(2,647)	(4,064)	(5,566)
Change in other noncurrent assets and liabilities	(1,913)	(1,898)	5,108
Net cash used in investing activities	(93,584)	(236,927)	(288,823)
Financing activities:			
Amount borrowed under term loan	—	48,600	—
Amount borrowed under credit facility	60,000	—	105,000
Proceeds from common stock offering, net of issuance costs	—	—	111,131
Repayment of amount borrowed under credit facility	(20,000)	—	(105,000)
Treasury stock purchases	(3,000)	(7,000)	—
Credit facility fees paid	—	(1,125)	(1,671)
Principal payments on term loan	(1,129)	—	—
Proceeds from employee stock plans	8,205	7,347	4,056
Excess tax benefits from employee stock compensation	3,667	1,651	295
Net cash provided by financing activities	47,743	49,473	113,811
Net increase (decrease) in cash and cash equivalents	301,943	37,941	(13,615)
Cash and cash equivalents at beginning of period	493,827	455,886	469,501
Cash and cash equivalents at end of period	$ 795,770	$ 493,827	$ 455,886

See accompanying notes.

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (continued)

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Supplemental cash flow information:			
Cash (received) paid during the period for:			
Income taxes	$ (4,634)	$ 54,663	$ 18,299
Interest	$ 10,099	$ 11,399	$ 10,951
Schedule of non-cash investing and financing activities:			
Retirement of treasury stock	$ —	$ 7,000	$ —
Retirement of common stock used for stock-based compensation	$ (11,862)	$ (3,926)	$ (2,316)
Details of sale of subsidiary			
Decrease in carrying value of assets	30,942	—	—
Decrease in carrying value of liabilities	(23,527)	—	—
Gain on sale	1,747	—	—
Proceeds from sale of subsidiary, net of cash surrendered	9,162	—	—
Details of business combinations:			
Increase in fair value of assets acquired	$ —	$ (81,256)	$ (159,916)
(Decrease) increase in fair value of liabilities assumed	—	(1,045)	24,450
(Decrease) increase in payable to seller	—	(1,952)	4,723
Net cash paid in business combinations	$ —	$ (84,253)	$ (130,743)

See accompanying notes.

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
	Outstanding	Amount					
				(In thousands)			
Balance at January 1, 2010	38,410	$ 38	$ 129,890	$ (1,812)	$ 414,622	$ —	$ 542,738
Net income	—	—	—	—	54,970	—	54,970
Other comprehensive loss, net of tax	—	—	—	(380)	—	—	(380)
Common stock issued, net of issuance costs	6,525	7	111,124	—	—	—	111,131
Employee stock grants and employee stock purchase plans	528	—	11,271	—	—	—	11,271
Tax deficiency from employee stock compensation	—	—	(673)	—	—	—	(673)
Balance at December 31, 2010	45,463	45	251,612	(2,192)	469,592	—	719,057
Net income	—	—	—	—	20,818	—	20,818
Other comprehensive income, net of tax	—	—	—	787	—	—	787
Purchase of treasury stock	—	—	—	—	—	(7,000)	(7,000)
Retirement of treasury stock	(400)	—	(7,000)	—	—	7,000	—
Employee stock grants and employee stock plan purchases	752	1	20,473	—	—	—	20,474
Tax benefit from employee stock compensation	—	—	937	—	—	—	937
Balance at December 31, 2011	45,815	46	266,022	(1,405)	490,410	—	755,073
Net income	—	—	—	—	9,790	—	9,790
Other comprehensive income, net of tax	—	—	—	948	—	—	948
Purchase of treasury stock	(111)	—	—	—	—	(3,000)	(3,000)
Employee stock grants and employee stock plan purchases	1,058	1	16,361	—	—	—	16,362
Tax benefit from employee stock compensation	—	—	3,141	—	—	—	3,141
Balance at December 31, 2012	46,762	$ 47	$ 285,524	$ (457)	$ 500,200	$ (3,000)	$ 782,314

See accompanying notes.

MOLINA HEALTHCARE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

Organization and Operations

Molina Healthcare, Inc. provides quality and cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals, and to assist state agencies in their administration of the Medicaid program. We report our financial performance based on two reportable segments: Health Plans and Molina Medicaid Solutions.

Our Health Plans segment comprises health plans in California, Florida, Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin, and includes our direct delivery business. As of December 31, 2012, these health plans served approximately 1.8 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals. The health plans are operated by our respective wholly owned subsidiaries in those states, each of which is licensed as a health maintenance organization, or HMO. Our direct delivery business consists of primary care clinics in California, Florida, New Mexico and Washington; additionally, we manage three county-owned primary care clinics under a contract with Fairfax County, Virginia.

Our health plans' state Medicaid contracts generally have terms of three to four years with annual adjustments to premium rates. These contracts are renewable at the discretion of the state. In general, either the state Medicaid agency or the health plan may terminate the state contract with or without cause. Most of these contracts contain renewal options that are exercisable by the state. Our health plan subsidiaries have generally been successful in obtaining the renewal of their contracts in each state prior to the actual expiration of their contracts. Our state contracts are generally at greatest risk of loss when a state issues a new request for proposals, or RFP, subject to competitive bidding by other health plans. If one of our health plans is not a successful responsive bidder to a state RFP, its contract may be subject to non-renewal. For instance, on February 17, 2012, the Division of Purchasing of the Missouri Office of Administration notified us that our Missouri health plan was not awarded a contract under the Missouri HealthNet Managed Care Request for Proposal; therefore, our Missouri health plan’s prior contract with the state expired without renewal on June 30, 2012 subject to certain transition obligations. As of December 31, 2012, we continued to process claims that were incurred by the Missouri health plan's members through the June 30, 2012 termination date. For the six months ended June 30, 2012, our Missouri health plan contributed premium revenue of $113.8 million, or 4.1% of total premium revenue, and comprised 79,000 members, or 4.3% of total Health Plans segment membership as of June 30, 2012.

Our state Medicaid contracts may be periodically adjusted to include or exclude certain health benefits (such as pharmacy services, behavioral health services, or long-term care services); populations (such as the aged, blind or disabled, or ABD); and regions or service areas. For example, our Texas health plan added significant membership effective March 1, 2012, in service areas we had not previously served (the Hidalgo and El Paso service areas); and among populations we had not previously served within existing service areas, such as the Temporary Assistance for Needy Families, or TANF, population in the Dallas service area. Additionally, the health benefits provided to our TANF and ABD members in Texas under our contracts with the state were expanded to include inpatient facility and pharmacy services.

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

On July 13, 2012, our Molina Medicaid Solutions segment received full federal certification of its Medicaid Management Information System, or MMIS, in the state of Idaho from CMS. As a result of the CMS certification, the state of Idaho is entitled to receive federal reimbursement of 75% of its MMIS operations costs retroactive to June 1, 2010, the date that the system first began processing claims. Our MMIS in Maine received full federal certification from CMS on December 19, 2011.

On June 9, 2011, Molina Medicaid Solutions received notice from the state of Louisiana that the state intends to award the contract for a replacement MMIS to another company. For the year ended December 31, 2012, our revenue under the Louisiana MMIS contract was $54.9 million, or 29.2% of total service revenue. We expect that we will continue to perform under this contract through implementation and acceptance of the successor MMIS. Based upon our past experience and our knowledge of the Louisiana MMIS bid process, we believe that implementation and acceptance of the successor MMIS will not occur until 2014 at the earliest. Through implementation and acceptance of the successor MMIS we expect to recognize approximately $40 million in revenue annually under our Louisiana MMIS contract.

Consolidation and Presentation

The consolidated financial statements include the accounts of Molina Healthcare, Inc., its wholly owned subsidiaries, and two variable interest entities in which Molina Healthcare, Inc. is considered to be the primary beneficiary. See Note 18, "Variable Interest Entities," for more information regarding these variable interest entities. 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 inter-company balances and transactions have been eliminated in consolidation. Financial information related to subsidiaries acquired during any year is included only for periods subsequent to their acquisition.

Use of Estimates

The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Principal areas requiring the use of estimates include:

- Health plan contractual provisions that may limit revenue based upon the costs incurred or the profits realized under a specific contract;
- Health plan quality incentives that allow us to recognize incremental revenue if certain quality standards are met;
- The determination of medical claims and benefits payable of our Health Plans segment;
- The valuation of certain investments;
- Settlements under risk or savings sharing programs;
- The assessment of deferred contract costs, deferred revenue, long-lived and intangible assets, and goodwill for impairment;
- The determination of professional and general liability claims, and reserves for potential absorption of claims unpaid by insolvent providers;
- The determination of reserves for the outcome of litigation;
- The determination of valuation allowances for deferred tax assets; and
- The determination of unrecognized tax benefits.

2. Significant Accounting Policies

Cash and Cash Equivalents

Cash and cash equivalents consist of cash and short-term, highly liquid investments that are both readily convertible into known amounts of cash and have a maturity of three months or less on the date of purchase.

Investments

Our investments are principally held in debt securities, which are grouped into two separate categories for accounting and reporting purposes: available-for-sale securities, and held-to-maturity securities. Available-for-sale securities are recorded at fair value and unrealized gains and losses, if any, are recorded in stockholders' equity as other comprehensive income, net of applicable income taxes. Held-to-maturity securities are recorded at amortized cost, which approximates fair value, and unrealized holding gains or losses are not generally recognized. Realized gains and losses and unrealized losses judged to be other than temporary with respect to available-for-sale and held-to-maturity securities are included in the determination of net income. The cost of securities sold is determined using the specific-identification method, on an amortized cost basis.

Our investment policy requires that all of our investments have final maturities of five years or less (excluding auction rate and variable rate securities where interest rates may be periodically reset), and that the average maturity be two years or less. Investments and restricted investments are subject to interest rate risk and will decrease in value if market rates increase. Declines in interest rates over time will reduce our investment income.

In general, our available-for-sale securities are classified as current assets without regard to the securities' contractual maturity dates because they may be readily liquidated. Our auction rate securities are classified as non-current assets. For comprehensive discussions of the fair value and classification of our current and non-current investments, including auction rate securities, see Note 5, "Fair Value Measurements," Note 6, "Investments" and Note 10, "Restricted Investments."

Receivables

Receivables are readily determinable, our creditors are primarily state governments, and our allowance for doubtful accounts is immaterial. Any amounts determined to be uncollectible are charged to expense when such determination is made. See Note 7, "Receivables."

Property, Equipment, and Capitalized Software

Property and equipment are stated at historical cost. Replacements and major improvements are capitalized, and repairs and maintenance are charged to expense as incurred. Furniture and equipment are generally depreciated using the straight-line method over estimated useful lives ranging from three to seven years. Software developed for internal use is capitalized. Software is generally amortized over its estimated useful life of three years. Leasehold improvements are amortized over the term of the lease, or over their useful lives from five to 10 years, whichever is shorter. Buildings are depreciated over their estimated useful lives of 31.5 to 40 years. See Note 8, “Property, Equipment, and Capitalized Software.”

As discussed below, the costs associated with certain of our Molina Medicaid Solutions segment equipment and software are capitalized and recorded as deferred contract costs. Such costs are amortized on a straight-line basis over the shorter of the useful life or the contract period.

Depreciation and Amortization

Depreciation and amortization related to our Health Plans segment is all recorded in “Depreciation and Amortization” in the consolidated statements of income. Depreciation and amortization related to our Molina Medicaid Solutions segment is recorded within three different headings in the consolidated statements of income as follows:

- Amortization of purchased intangibles relating to customer relationships is reported as amortization within the heading “Depreciation and amortization;”
- Amortization of purchased intangibles relating to contract backlog is recorded as a reduction of “Service revenue;” and
- Depreciation is recorded within the heading “Cost of service revenue.”

The following table presents all depreciation and amortization recorded in our consolidated statements of income, regardless of whether the item appears as depreciation and amortization, a reduction of revenue, or as cost of service revenue.

	Year Ended December 31,		
	2012	**2011**	**2010**
	(Dollar amounts in thousands)		
Depreciation, and amortization of capitalized software	$ 43,201	$ 30,864	$ 27,230
Amortization of intangible assets	20,503	19,826	18,474
Depreciation and amortization reported as such in the consolidated statements of income	63,704	50,690	45,704
Amortization recorded as reduction of service revenue	1,571	6,822	8,316
Amortization of capitalized software recorded as cost of service revenue	13,489	16,871	6,745
Total	$ 78,764	$ 74,383	$ 60,765

Long-Lived Assets, including Intangible Assets

Long-lived assets comprise primarily property, equipment, capitalized software and intangible assets. Finite-lived, separately-identifiable intangible assets are acquired in business combinations and are assets that represent future expected benefits but lack physical substance (such as purchased contract rights and provider contracts). Intangible assets are initially recorded at their fair values and are then amortized on a straight-line basis over their expected useful lives, generally between one and 15 years.

Identifiable intangible assets associated with Molina Medicaid Solutions are classified as either contract backlog or customer relationships as follows:

- The contract backlog intangible asset comprises all contractual cash flows anticipated to be received during the remaining contracted period for each specific contract relating to work that was performed prior to the acquisition. Because each acquired contract constitutes a single revenue stream, amortization of the contract backlog intangible is recorded to contra-service revenue so that amortization is matched to any revenues associated with contract performance that occurred prior to the acquisition date. The contract backlog intangible asset is amortized on a straight-line basis for each specific contract over periods generally ranging from one to six years. The contract backlog intangible assets will be fully amortized in 2015.

- The customer relationship intangible asset comprises all contractual cash flows that are anticipated to be received during the option periods of each specific contract as well as anticipated renewals of those contracts. The customer relationship intangible is amortized on a straight-line basis for each specific contract over periods generally ranging from four to nine years.

Our intangible assets are subject to impairment tests when events or circumstances indicate that a finite-lived intangible asset's (or asset group's) carrying value may not be recoverable. Consideration is given to a number of potential impairment indicators. For example, our health plan subsidiaries have generally been successful in obtaining the renewal by amendment of their contracts in each state prior to the actual expiration of their contracts. However, there can be no assurance that these contracts will continue to be renewed as in the case of our Missouri health plan, described below.

Following the identification of any potential impairment indicators, to determine whether an impairment exists, we would compare the carrying amount of a finite-lived intangible asset with the undiscounted cash flows that are expected to result from the use of the asset or related group of assets. If it is determined that the carrying amount of the asset is not recoverable, the amount by which the carrying value exceeds the estimated fair value is recorded as an impairment.

On February 17, 2012, we received notification that our Missouri Health plan's contract with the state of Missouri would expire without renewal on June 30, 2012. As a result, we recorded a total non-cash impairment charge of $64.6 million in 2011, of which $6.1 million related to finite-lived intangible assets, and $58.5 million related to goodwill, discussed below. The impairment charge comprised substantially all intangible assets relating to contract rights and licenses, and provider networks recorded at the time of our acquisition of the Missouri health plan in 2007. No impairment charges relating to long-lived assets, including intangible assets, were recorded in the years ended December 31, 2012, and 2010.

Goodwill

Goodwill represents the amount of the purchase price in excess of the fair values assigned to the underlying identifiable net assets of acquired businesses. Goodwill is not amortized, but is subject to an annual impairment test. Tests are performed more frequently if events occur or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying amount.

To determine whether goodwill is impaired, we measure the fair values of our reporting units and compare them to their aggregate carrying values, including goodwill. If the fair value is less than the carrying value of the reporting unit, then the implied value of goodwill would be calculated and compared to the carrying amount of goodwill to determine whether goodwill is impaired.

We estimate the fair values of our reporting units using discounted cash flows. To determine fair values, we must make assumptions about a wide variety of internal and external factors. Significant assumptions used in the impairment analysis include financial projections of free cash flow (including significant assumptions about operations, capital requirements and income taxes), long-term growth rates for determining terminal value, and discount rates.

In connection with our Missouri health plan as described above, we recorded a non-cash impairment charge of $58.5 million in the fourth quarter of 2011. The impairment charge comprised all of the goodwill recorded at the time of our acquisition of the Missouri health plan in 2007, and was not tax deductible. No impairment charges relating to goodwill were recorded in the years ended December 31, 2012, and 2010.

Restricted Investments

Restricted investments, which consist of certificates of deposit and treasury securities, are designated as held-to-maturity and are carried at amortized cost, which approximates market value. The use of these funds is limited to specific purposes as required by each state, or as protection against the insolvency of capitated providers. We have the ability to hold our restricted investments until maturity and, as a result, we would not expect the value of these investments to decline significantly due to a sudden change in market interest rates. See Note 10, "Restricted Investments."

Other Assets

Significant items included in other assets include deferred financing costs associated with our convertible senior notes and with our credit facility, certain investments held in connection with our employee deferred compensation program, and an investment in a vision services provider (see Note 17, “Related Party Transactions”). The deferred financing costs are being amortized on a straight-line basis over the seven-year term of the convertible senior notes and the five-year term of the credit facility. See Note 12, "Long-Term Debt," regarding the termination of the Credit Facility.

Delegated Provider Insolvency

Circumstances may arise where providers to whom we have delegated risk, due to insolvency or other circumstances, are unable to pay claims they have incurred with third parties in connection with referral services (including hospital inpatient services) provided to our members. The inability of delegated providers to pay referral claims presents us with both immediate financial risk and potential disruption to member care. Depending on states’ laws, we may be held liable for such unpaid referral claims even though the delegated provider has contractually assumed such risk. Additionally, competitive pressures may force us to pay such claims even when we have no legal obligation to do so. To reduce the risk that delegated providers are unable to pay referral claims, we monitor the operational and financial performance of such providers. We also maintain contingency plans that include transferring members to other providers in response to potential network instability.

In certain instances, we have required providers to place funds on deposit with us as protection against their potential insolvency. These reserves are frequently in the form of segregated funds received from the provider and held by us or placed in a third-party financial institution. These funds may be used to pay claims that are the financial responsibility of the provider in the event the provider is unable to meet these obligations. Additionally, we have recorded liabilities for estimated losses arising from provider instability or insolvency in excess of provider funds on deposit with us. Such liabilities were not material at December 31, 2012, or December 31, 2011.

Premium Revenue

Premium revenue is fixed in advance of the periods covered and, except as described below, is not generally subject to significant accounting estimates. For the year ended December 31, 2012 we received approximately 96% of our premium revenue as a fixed amount per member per month, or PMPM, pursuant to our contracts with state Medicaid agencies, Medicare and other managed care organizations for which we operate as a subcontractor. These premium revenues are recognized in the month that members are entitled to receive health care services. The state Medicaid programs and the federal Medicare program periodically adjust premium rates.

The following table summarizes premium revenue by health plan for the periods indicated:

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
California	$ 671,489	$ 575,176	$ 506,871
Florida	228,828	203,945	170,683
Michigan	658,741	662,127	630,134
Missouri(1)	113,818	229,584	210,852
New Mexico	338,770	345,732	366,784
Ohio	1,187,422	988,896	860,324
Texas	1,255,722	409,295	188,716
Utah	298,392	287,290	258,076
Washington	992,748	823,323	758,849
Wisconsin	70,673	69,596	30,033
Other	9,888	8,443	8,587
	$ 5,826,491	$ 4,603,407	$ 3,989,909

(1) Our contract with the state of Missouri expired without renewal on June 30, 2012.

For the year ended December 31, 2012, we received approximately 4% of our premium revenue in the form of “birth income” — a one-time payment for the delivery of a child — from the Medicaid programs in all of our state health plans except New Mexico. Such payments are recognized as revenue in the month the birth occurs.

Certain components of premium revenue are subject to accounting estimates. The components of premium revenue subject to estimation fall into two categories:

Contractual provisions that may limit revenue based upon the costs incurred or the profits realized under a specific contract. These are contractual provisions that require the health plan to return premiums to the extent that certain thresholds are not met. In some instances premiums are returned when medical costs fall below a certain percentage of gross premiums; or when administrative costs or profits exceed a certain percentage of gross premiums. In other instances, premiums are partially determined by the acuity of care provided to members (risk adjustment). To the extent that our expenses and profits change from the amounts previously reported (due to changes in estimates) our revenue earned for those periods will also change. In all of these instances our revenue is only subject to estimate due to the fact that the thresholds themselves contain elements (expense or profit) that are subject to estimate. While we have adequate experience and data to make sound estimates of our expenses or profits, changes to those estimates may be necessary, which in turn will lead to changes in our estimates of revenue. In general, a change in estimate relating to expense or profit would offset any related change in estimate to premium, resulting in no or small impact to net income. The following contractual provisions fall into this category:

- *California Health Plan Medical Cost Floors (Minimums):* A portion of certain premiums received by our California health plan may be returned to the state if certain minimum amounts are not spent on defined medical care costs. We recorded a liability under the terms of these contract provisions of $0.3 million and $1.0 million at December 31, 2012, and December 31, 2011, respectively.

- *Florida Health Plan Medical Cost Floor (Minimum) for Behavioral Health:* A portion of premiums received by our Florida health plan may be returned to the state if certain minimum amounts are not spent on defined behavioral health care costs. At both December 31, 2012, and December 31, 2011, we had not recorded any liability under the terms of this contract provision since behavioral health expenses are not less than the contractual floor.

- *New Mexico Health Plan Medical Cost Floors (Minimums) and Administrative Cost and Profit Ceilings (Maximums):* Our contract with the state of New Mexico directs that a portion of premiums received may be returned to the state if certain minimum amounts are not spent on defined medical care costs, or if administrative costs or profit (as defined) exceed certain amounts. At both December 31, 2012, and December 31, 2011 we had not recorded any liability under the terms of these contract provisions.

- *Texas Health Plan Profit Sharing:* Under our contract with the state of Texas, there is a profit-sharing agreement under which we pay a rebate to the state of Texas if our Texas health plan generates pretax income, as defined in the contract, above a certain specified percentage, as determined in accordance with a tiered rebate schedule. We are limited in the amount of administrative costs that we may deduct in calculating the rebate, if any. As a result of profits in excess of the amount we are allowed to fully retain, we accrued an aggregate liability of approximately $3.2 million and $0.7 million pursuant to our profit-sharing agreement with the state of Texas at December 31, 2012 and December 31, 2011, respectively.

- *Washington Health Plan Medical Cost Floors (Minimums):* A portion of certain premiums received by our Washington health plan may be returned to the state if certain minimum amounts are not spent on defined medical care costs. At both December 31, 2012, and December 31, 2011, we had not recorded any liability under the terms of this contract provision because medical expenses are not less than the contractual floor.

- *Medicare Revenue Risk Adjustment:* Based on member encounter data that we submit to CMS, our Medicare premiums are subject to retroactive adjustment for both member risk scores and member pharmacy cost experience for up to 2 years after the original year of service. This adjustment takes into account the acuity of each member's medical needs relative to what was anticipated when premiums were originally set for that member. In the event that a member requires less acute medical care than was anticipated by the original premium amount, CMS may recover premium from us. In the event that a member requires more acute medical care than was anticipated by the original premium amount, CMS may pay us additional retroactive premium. A similar retroactive reconciliation is undertaken by CMS for our Medicare members' pharmacy utilization. We estimate the amount of Medicare revenue that will ultimately be realized for the periods presented based on our knowledge of our members' heath care utilization patterns and CMS practices. Based on our knowledge of member health care utilization patterns and expenses we have recorded a net receivable of approximately $0.3 million and $5.0 million for anticipated Medicare risk adjustment premiums at December 31, 2012 and December 31, 2011, respectively.

Quality incentives that allow us to recognize incremental revenue if certain quality standards are met. These are contract provisions that allow us to earn additional premium revenue in certain states if we achieve certain quality-of-care or administrative measures. We estimate the amount of revenue that will ultimately be realized for the periods presented based on our experience and expertise in meeting the quality and administrative measures as well as our ongoing and current monitoring of our progress in meeting those measures. The amount of the revenue that we will realize under these contractual provisions is determinable based upon that experience. The following contractual provisions fall into this category:

- *New Mexico Health Plan Quality Incentive Premiums:* Under our contract with the state of New Mexico, incremental revenue of up to 0.75% of our total premium is earned if certain performance measures are met. These performance measures are generally linked to various quality-of-care and administrative measures dictated by the state.
- *Ohio Health Plan Quality Incentive Premiums:* Under our contract with the state of Ohio, incremental revenue of up to 1% of our total premium is earned if certain performance measures are met. These performance measures are generally linked to various quality-of-care measures dictated by the state.
- *Texas Health Plan Quality Incentive Premiums:* Effective March 1, 2012, under our contract with the state of Texas, incremental revenue of up to 5% of our total premium may be earned if certain performance measures are met. These performance measures are generally linked to various quality-of-care measures established by the state.
- *Wisconsin Health Plan Quality Incentive Premiums:* Under our contract with the state of Wisconsin, effective beginning in 2011, up to 3.25% of premium revenue is withheld by the state. The withheld premiums can be earned by the health plan by meeting certain performance measures. These performance measures are generally linked to various quality-of-care measures dictated by the state.

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 December 31, 2012 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 December 31, 2012.

	Year Ended December 31, 2012				
	Maximum Available Quality Incentive Premium – Current Year	**Amount of Current Year Quality Incentive Premium Revenue Recognized**	**Amount of Quality Incentive Premium Revenue Recognized from Prior Year**	**Total Quality Incentive Premium Revenue Recognized**	**Total Revenue Recognized**
	(In thousands)				
New Mexico	$ 2,244	$ 1,889	$ 643	$ 2,532	$ 338,770
Ohio	12,033	8,079	966	9,045	1,187,422
Texas	58,516	52,521	—	52,521	1,255,722
Wisconsin	1,771	—	593	593	70,673
	$ 74,564	$ 62,489	$ 2,202	$ 64,691	$ 2,852,587

	Year Ended December 31, 2011				
	Maximum Available Quality Incentive Premium – Current Year	**Amount of Current Year Quality Incentive Premium Revenue Recognized**	**Amount of Quality Incentive Premium Revenue Recognized from Prior Year**	**Total Quality Incentive Premium Revenue Recognized**	**Total Revenue Recognized**
	(In thousands)				
New Mexico	$ 2,271	$ 1,558	$ 378	$ 1,936	$ 345,732
Ohio	10,212	8,363	3,501	11,864	988,896
Texas	—	—	—	—	409,295
Wisconsin	1,705	542	—	542	69,596
	$ 14,188	$ 10,463	$ 3,879	$ 14,342	$ 1,813,519

	Year Ended December 31, 2010				
	Maximum Available Quality Incentive Premium – Current Year	Amount of Current Year Quality Incentive Premium Revenue Recognized	Amount of Quality Incentive Premium Revenue Recognized from Prior Year	Total Quality Incentive Premium Revenue Recognized	Total Revenue Recognized
	(In thousands)				
New Mexico	$ 2,581	$ 1,311	$ 579	$ 1,890	$ 366,784
Ohio	9,881	3,114	(1,248)	1,866	860,324
Texas	1,771	1,771	—	1,771	188,716
	$ 14,233	$ 6,196	$ (669)	$ 5,527	$ 1,415,824

Medical Care Costs

Expenses related to medical care services are captured in the following four categories:

- *Fee-for-service:* Physician providers paid on a fee-for-service basis are paid according to a fee schedule set by the state or by our contracts with these providers. Most hospitals are paid on a fee-for-service basis in a variety of ways, including per diem amounts, diagnostic-related groups, or DRGs, percent of billed charges, and case rates. As discussed below, we also pay a small portion of hospitals on a capitated basis. We also have stop-loss agreements with the hospitals with which we contract. Under all fee-for-service arrangements, we retain the financial responsibility for medical care provided. Expenses related to fee-for-service contracts are recorded in the period in which the related services are dispensed. The costs of drugs administered in a physician or hospital setting that are not billed through our pharmacy benefit manager are included in fee-for-service costs.
- *Capitation:* Many of our primary care physicians and a small portion of our specialists and hospitals are paid on a capitated basis. Under capitation contracts, we typically pay a fixed per-member per-month, or PMPM, payment to the provider without regard to the frequency, extent, or nature of the medical services actually furnished. Under capitated contracts, we remain liable for the provision of certain health care services. Certain of our capitated contracts also contain incentive programs based on service delivery, quality of care, utilization management, and other criteria. Capitation payments are fixed in advance of the periods covered and are not subject to significant accounting estimates. These payments are expensed in the period the providers are obligated to provide services. The financial risk for pharmacy services for a small portion of our membership is delegated to capitated providers.
- *Pharmacy:* Pharmacy costs include all drug, injectibles, and immunization costs paid through our pharmacy benefit manager. As noted above, drugs and injectibles not paid through our pharmacy benefit manager are included in fee-for-service costs, except in those limited instances where we capitate drug and injectible costs.
- *Other:* Other medical care costs include medically related administrative costs, certain provider incentive costs, reinsurance cost, and other health care expense. Medically related administrative costs include, for example, expenses relating to health education, quality assurance, case management, disease management, and 24-hour on-call nurses. Salary and benefit costs are a substantial portion of these expenses. For the years ended December 31, 2012, 2011, and 2010, medically related administrative costs were approximately $127.5 million, $102.3 million, and $85.5 million, respectively.

The following table provides the details of our consolidated medical care costs for the periods indicated (dollars in thousands, except PMPM amounts):

	Year Ended December 31,								
	2012			2011			2010		
	Amount	PMPM	% of Total	Amount	PMPM	% of Total	Amount	PMPM	% of Total
Fee-for-service	$ 3,521,960	$ 162.60	69.1%	$ 2,764,309	$ 139.02	71.6%	$ 2,360,858	$ 128.73	70.0%
Capitation	557,087	25.72	10.9	518,835	26.09	13.4	555,487	30.29	16.5
Pharmacy	835,830	38.59	16.4	418,007	21.02	10.8	325,935	17.77	9.7
Other	181,883	8.39	3.6	158,843	8.00	4.2	128,577	7.01	3.8
Total	$ 5,096,760	$ 235.30	100.0%	$ 3,859,994	$ 194.13	100.0%	$ 3,370,857	$ 183.80	100.0%

Our medical care costs include amounts that have been paid by us through the reporting date, as well as estimated liabilities for medical care costs incurred but not paid by us as of the reporting date. Such medical care cost liabilities include, among other items, unpaid fee-for-service claims, capitation payments owed providers, unpaid pharmacy invoices, and various medically related administrative costs that have been incurred but not paid. We use judgment to determine the appropriate assumptions for determining the required estimates.

The most important element in estimating our medical care costs is our estimate for fee-for-service claims which have been incurred but not paid by us. These fee-for-service costs that have been incurred but have not been paid at the reporting date are collectively referred to as medical costs that are "Incurred But Not Paid," or IBNP. Our IBNP claims reserve, as reported in our balance sheet, 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.

The factors we consider when estimating our IBNP include, without limitation, claims receipt and payment experience (and variations in that experience), changes in membership, provider billing practices, health care service utilization trends, cost trends, product mix, seasonality, prior authorization of medical services, benefit changes, known outbreaks of disease or increased incidence of illness such as influenza, provider contract changes, changes to Medicaid fee schedules, and the incidence of high dollar or catastrophic claims. Our assessment of these factors is then translated into an estimate of our IBNP liability at the relevant measuring point through the calculation of a base estimate of IBNP, a further reserve for adverse claims development, and an estimate of the administrative costs of settling all claims incurred through the reporting date. The base estimate of IBNP is derived through application of claims payment completion factors and trended PMPM cost estimates. See Note 11, "Medical Claims and Benefits Payable."

We report reinsurance premiums as medical care costs, while related reinsurance recoveries are reported as deductions from medical care costs. We limit our risk of catastrophic losses by maintaining high deductible reinsurance coverage. We do not consider this coverage to be material because the cost is not significant and the likelihood that coverage will apply is low.

Taxes Based on Premiums

Our California (through June 30, 2012), Florida, Michigan, New Mexico, Ohio, Texas and Washington health plans are assessed a tax based on premium revenue collected. We report these taxes on a gross basis, included in premium tax expense.

Premium Deficiency Reserves on Loss Contracts

We assess the profitability of our contracts for providing medical care services to our members and identify those contracts where current operating results or forecasts indicate probable future losses. Anticipated future premiums are compared to anticipated medical care costs, including the cost of processing claims. If the anticipated future costs exceed the premiums, a loss contract accrual is recognized. No such accrual was recorded as of December 31, 2012, or 2011.

Service Revenue and Cost of Service Revenue — Molina Medicaid Solutions Segment

The payments received by our Molina Medicaid Solutions segment under its state contracts are based on the performance of multiple services. The first of these is the design, development and implementation, or DDI, of a Medicaid Management Information System, or MMIS. An additional service, following completion of DDI, is the operation of the MMIS under a business process outsourcing, or BPO arrangement. While providing BPO services (which include claims payment and eligibility processing) we also provide the state with other services including both hosting and support and maintenance. Our Molina Medicaid Solutions contracts may extend over a number of years, particularly in circumstances where we are delivering extensive and complex DDI services, such as the initial design, development and implementation of a complete MMIS. For example, the terms of our most recently implemented Molina Medicaid Solutions contracts (in Idaho and Maine) were each seven years in total, consisting of two years allocated for the delivery of DDI services, followed by five years for the performance of BPO services. We receive progress payments from the state during the performance of DDI services based upon the attainment of predetermined milestones. We receive a flat monthly payment for BPO services under our Idaho and Maine contracts. The terms of our other Molina Medicaid Solutions contracts - which primarily involve the delivery of BPO services with only minimal DDI activity (consisting of system enhancements) - are shorter in duration than our Idaho and Maine contracts.

We have evaluated our Molina Medicaid Solutions contracts to determine if such arrangements include a software element. Based on this evaluation, we have concluded that these arrangements do not include a software element. As such, we have concluded that our Molina Medicaid Solutions contracts are multiple-element service arrangements under the scope of FASB Accounting Standards Codification Subtopic 605-25, Revenue Recognition — Multiple –Element Arrangements, and SEC Staff Accounting Bulletin Topic 13, Revenue Recognition.

Effective January 1, 2011, we adopted a new accounting standard that amends the guidance on the accounting for multiple-element arrangements. Pursuant to the new standard, each required deliverable is evaluated to determine whether it qualifies as a separate unit of accounting which is generally based on whether the deliverable has standalone value to the customer. In addition to standalone value, previous guidance also required objective and reliable evidence of fair value of a deliverable in order to treat the deliverable as a separate unit of accounting. The arrangement's consideration that is fixed or determinable is then allocated to each separate unit of accounting based on the relative selling price of each deliverable. In general, the consideration allocated to each unit of accounting is recognized as the related goods or services are delivered, limited to the consideration that is not contingent. We have adopted this guidance on a prospective basis for all new or materially modified revenue arrangements with multiple deliverables entered into on or after January 1, 2011. Our adoption of this guidance has not impacted the timing or pattern of our revenue recognition in 2011 or 2012. Also, there would have been no change in revenue recognized relating to multiple-element arrangements if we had adopted this guidance retrospectively for contracts entered into prior to January 1, 2011.

We have concluded that the various service elements in our Molina Medicaid Solutions contracts represent a single unit of accounting due to the fact that DDI, which is the only service performed in advance of the other services (all other services are performed over an identical period), does not have standalone value because our DDI services are not sold separately by any vendor and the customer could not resell our DDI services. Further, we have no objective and reliable evidence of fair value for any of the individual elements in these contracts, and at no point in the contract will we have objective and reliable evidence of fair value for the undelivered elements in the contracts. For contracts entered into prior to January 1, 2011, objective and reliable evidence of fair value would be required, in addition to DDI standalone value which we do not have, in order to treat DDI as a separate unit of accounting. We lack objective and reliable evidence of the fair value of the individual elements of our Molina Medicaid Solutions contracts for the following reasons:

- Each contract calls for the provision of its own specific set of services. While all contracts support the system of record for state MMIS, the actual services we provide vary significantly between contracts; and
- The nature of the MMIS installed varies significantly between our older contracts (proprietary mainframe systems) and our new contracts (commercial off-the-shelf technology solutions).

Because we have determined the services provided under our Molina Medicaid Solutions contracts represent a single unit of accounting, and because we are unable to determine a pattern of performance of services during the contract period, we recognize all revenue (both the DDI and BPO elements) associated with such contracts on a straight-line basis over the period during which BPO, hosting, and support and maintenance services are delivered. As noted above, the period of performance of BPO services under our Idaho and Maine contracts is five years. Therefore, absent any contingencies as discussed in the following paragraph, we would recognize all revenue associated with those contracts over a period of five years. In cases where there is no DDI element associated with our contracts, BPO revenue is recognized on a monthly basis as specified in the applicable contract or contract extension.

Provisions specific to each contract may, however, lead us to modify this general principle. In those circumstances, the right of the state to refuse acceptance of services, as well as the related obligation to compensate us, may require us to delay recognition of all or part of our revenue until that contingency (the right of the state to refuse acceptance) has been removed. In those circumstances we defer recognition of any contingent revenue (whether DDI, BPO services, hosting, and support and maintenance services) until the contingency has been removed. These types of contingency features are present in our Maine and Idaho contracts. In those states, we deferred recognition of revenue until the contingencies were removed.

Costs associated with our Molina Medicaid Solutions contracts include software related costs and other costs. With respect to software related costs, we apply the guidance for internal-use software and capitalize external direct costs of materials and services consumed in developing or obtaining the software, and payroll and payroll-related costs associated with employees who are directly associated with and who devote time to the computer software project. With respect to all other direct costs, such costs are expensed as incurred, unless corresponding revenue is being deferred. If revenue is being deferred, direct costs relating to delivered service elements are deferred as well and are recognized on a straight-line basis over the period of revenue recognition, in a manner consistent with our recognition of revenue that has been deferred. Such direct costs can include:

- Transaction processing costs.
- Employee costs incurred in performing transaction services.
- Vendor costs incurred in performing transaction services.
- Costs incurred in performing required monitoring of and reporting on contract performance.
- Costs incurred in maintaining and processing member and provider eligibility.
- Costs incurred in communicating with members and providers.

The recoverability of deferred contract costs associated with a particular contract is analyzed on a periodic basis using the undiscounted estimated cash flows of the whole contract over its remaining contract term. If such undiscounted cash flows are insufficient to recover the long-lived assets and deferred contract costs, the deferred contract costs are written down by the amount of the cash flow deficiency. If a cash flow deficiency remains after reducing the balance of the deferred contract costs to zero, any remaining long-lived assets are evaluated for impairment. Any such impairment recognized would equal the amount by which the carrying value of the long-lived assets exceeds the fair value of those assets.

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 and nondeductible compensation and other general and administrative expenses. The effective tax rate may be subject to fluctuations during the year 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 derecognition 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. For further discussion and disclosure, see Note 13, "Income Taxes."

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash and cash equivalents, investments, receivables, and restricted investments. We invest a substantial portion of our cash in the PFM Funds Prime Series — Institutional Class, and the PFM Funds Government Series. These funds represent a portfolio of highly liquid money market securities that are managed by PFM Asset Management LLC (PFM), a Virginia business trust registered as an open-end management investment fund. As of December 31, 2012, and 2011, our investments with PFM totaled $428 million and $209 million, respectively. Our investments and a portion of our cash equivalents are managed by professional portfolio managers operating under documented investment guidelines. No investment that is in a loss position can be sold by our managers without our prior approval. Concentration of credit risk with respect to accounts receivable is limited due to payors consisting principally of the governments of each state in which our health plan subsidiaries operate.

Risks and Uncertainties

Our profitability depends in large part on our ability to accurately predict and effectively manage medical care costs. We continually review our medical costs in light of our underlying claims experience and revised actuarial data. However, several factors could adversely affect medical care costs. These factors, which include changes in health care practices, inflation, new technologies, major epidemics, natural disasters, and malpractice litigation, are beyond our control and may have an adverse effect on our ability to accurately predict and effectively control medical care costs. Costs in excess of those anticipated could have a material adverse effect on our financial condition, results of operations, or cash flows.

At December 31, 2012, we operated health plans in nine states, primarily as a direct contractor with the states, and in Los Angeles County, California, as a subcontractor to another health plan holding a direct contract with the state. We are therefore dependent upon a small number of contracts to support our revenue. The loss of any one of those contracts could have a material adverse effect on our financial position, results of operations, or cash flows. Our ability to arrange for the provision of medical services to our members is dependent upon our ability to develop and maintain adequate provider networks. Our inability to develop or maintain such networks might, in certain circumstances, have a material adverse effect on our financial position, results of operations, or cash flows.

Recent Accounting Pronouncements

Technical Corrections and Improvements. In October 2012, the Financial Accounting Standards Board, or FASB, issued guidance related to amendments that cover a wide range of Topics in the Accounting Standards Codification. These amendments include technical corrections and improvements to the Accounting Standards Codification and conforming amendments related to fair value measurements. The amendments that do not have transition guidance became effective upon issuance. The amendments that are subject to transition guidance become effective for fiscal periods beginning after December 15, 2012. The adoption of this new guidance in 2012 did not impact our financial position, results of operations or cash flows.

Balance Sheet Offsetting. In January 2013, the FASB issued guidance for new disclosure requirements related to the nature of an entity's rights of setoff and related arrangements associated with certain financial instruments and derivative instruments. The new guidance is effective for annual reporting periods, and interim periods within those years, beginning on or after January 1, 2013. While we do not expect the adoption of this guidance in 2013 to impact our financial position, results of operations or cash flows, it may change our disclosure policies relative to certain arrangements with rights of setoff.

Goodwill. In September 2011, the FASB issued guidance related to evaluating goodwill for impairment. The new guidance provides entities with the option to perform a qualitative assessment of whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount before applying the quantitative two-step goodwill impairment test. If an entity concludes that it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it would not be required to perform the quantitative two-step goodwill impairment test. Entities also have the option to bypass the assessment of qualitative factors for any reporting unit in any period and proceed directly to performing the first step of the quantitative two-step goodwill impairment test, as was required prior to the issuance of this new guidance. An entity may begin or resume performing the qualitative assessment in any subsequent period. The new guidance became effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2011, with early adoption permitted. The adoption of this new guidance in 2012 did not impact our financial position, results of operations or cash flows.

Federal Premium-Based Assessment. In July 2011, the FASB issued guidance related to accounting for the fees to be paid by health insurers to the federal government under the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act (the "Affordable Care Act"). The Affordable Care Act imposes an annual fee on health insurers for each calendar year beginning on or after January 1, 2014 that is allocated to health insurers based on the ratio of the amount of an entity's net premium revenues written during the preceding calendar year to the amount of health insurance for any U.S. health risk that is written during the preceding calendar year. The new guidance specifies that the liability for the fee should be estimated and recorded in full once the entity provides qualifying health insurance in the applicable calendar year in which the fee is payable with a corresponding deferred cost that is amortized to expense using a straight-line method of allocation unless another method better allocates the fee over the calendar year that it is payable. The new guidance is effective for annual reporting periods beginning after December 31, 2013, when the fee initially becomes effective. As enacted, this federal premium-based assessment is non-deductible for income tax purposes, and is anticipated to be significant. It is yet undetermined how this premium-based assessment will be factored into the calculation of our premium rates, if at all. Accordingly, adoption of this guidance and the enactment of this assessment as currently written will have a material impact on our financial position, results of operations, or cash flows in future periods.

Comprehensive Income. In June 2011, the FASB issued guidance, as amended in December 2011, related to the presentation of other comprehensive income. The new guidance provides entities with an option to either replace the statement of income with a statement of comprehensive income which would display both the components of net income and comprehensive income in a combined statement, or to present a separate statement of comprehensive income immediately following the statement of income. The new guidance does not affect the components of other comprehensive income or the calculation of earnings per share. To be applied retrospectively with early adoption permitted, the new guidance became effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2011. We have elected to present a separate statement of comprehensive income immediately following the statement of income. The adoption of this new guidance in 2012 did not impact our financial position, results of operations or cash flows.

Fair Value. In May 2011, the FASB issued guidance related to fair value measurement and disclosure. The new guidance is a result of joint efforts by the FASB and the International Accounting Standards Board to develop a single converged fair value framework. The new guidance expands existing disclosure requirements for fair value measurements and makes other amendments; mostly to eliminate wording differences between U.S. generally accepted accounting principles, or GAAP, and international financial reporting standards. To be applied prospectively, the new guidance became effective for annual reporting periods, and interim periods within those years, beginning after December 15, 2011. Although the adoption of this new guidance in 2012 did not impact our financial position, results of operations or cash flows, it did change our disclosure policies relative to fair value measurements.

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

3. Earnings per Share

The denominators for the computation of basic and diluted earnings per share were calculated as follows:

	December 31,		
	2012	2011	2010
	(In thousands)		
Shares outstanding at the beginning of the period	45,815	45,463	38,410
Weighted-average number of shares issued under equity offering	—	—	2,506
Weighted-average number of shares purchased	(2)	(160)	—
Weighted-average number of shares issued under employee stock plans	567	453	258
Denominator for basic earnings per share	46,380	45,756	41,174
Dilutive effect of employee stock options and stock grants(1)	619	669	457
Denominator for diluted earnings per share(2)	46,999	46,425	41,631

(1) Options to purchase common shares are included in the calculation of diluted earnings per share when their exercise prices are below the average fair value of the common shares for each of the periods presented. For the years ended December 31, 2012, 2011, and 2010 there were approximately 87,000, 137,000 and 478,000 anti-dilutive weighted options, respectively. Restricted shares are included in the calculation of diluted earnings per share when their grant date fair values are below the average fair value of the common shares for each of the periods presented. For the year ended December 31, 2012, there were approximately 304,000 anti-dilutive restricted shares. For the years ended December 31, 2011 and 2010, anti-dilutive restricted shares were insignificant.

(2) Potentially dilutive shares issuable pursuant to our convertible senior notes were not included in the computation of diluted earnings per share because to do so would have been anti-dilutive for the years ended December 31, 2012, 2011, and 2010.

4. Business Combinations

Molina Center

On December 7, 2011, our wholly owned subsidiary Molina Center LLC acquired a 460,000 square foot office building located in Long Beach, California. The building, or Molina Center, consists of two conjoined fourteen-story office towers on approximately five acres of land. For the last several years we have leased approximately 155,000 square feet of the Molina Center for use as our corporate headquarters and also for use by our California health plan subsidiary. The final purchase price was $81 million, which amount was paid with a combination of cash on hand and bank financing under a term loan agreement. We acquired this business primarily to facilitate space needs for the projected future growth of the Company.

5. Fair Value Measurements

Our consolidated balance sheets include the following financial instruments: cash and cash equivalents, investments, receivables, trade accounts payable, medical claims and benefits payable, long-term debt, and other liabilities. We consider the carrying amounts of cash and cash equivalents, receivables, other current assets and current liabilities to approximate their fair value 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 such as quoted prices in active markets:* Our Level 1 financial instruments recorded at fair value consist of investments including government-sponsored enterprise securities (GSEs) and U.S. treasury notes that are classified as current investments in the accompanying consolidated balance sheets. These 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 — Inputs other than quoted prices in active markets that are either directly or indirectly observable:* Our Level 2 financial instruments recorded at fair value consist of investments including corporate debt securities, municipal securities, and certificates of deposit that are classified as current investments in the accompanying consolidated balance sheets, and an interest rate swap derivative recorded as a noncurrent liability. Our investments classified as Level 2 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. Fair value for the interest rate swap derivative is based on forward LIBOR rates that are and will be observable at commonly

quoted intervals for the full term of the interest rate swap agreement. See Note 12, "Long-Term Debt," for further information regarding the interest rate swap agreement.

- *Level 3 — Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions:* Our Level 3 financial instruments recorded at fair value consist of non-current auction rate securities that are designated as available-for-sale, and are reported at fair value of $13.4 million (par value of $14.7 million) as of December 31, 2012. To estimate the fair value of these securities we use valuation data from our primary pricing source, a third party who provides a marketplace for illiquid assets with over 10,000 participants including global financial institutions, hedge funds, private equity funds, mutual funds, corporations and other institutional investors. This valuation data is based on a range of prices that represent indicative bids from potential buyers. To validate the reasonableness of the data, we compare these valuations to data from two other third-party pricing sources, which also provide a range of prices representing indicative bids from potential buyers. We have concluded that these estimates, given the lack of market available pricing, provide a reasonable basis for determining the fair value of the auction rate securities as of December 31, 2012.

Our financial instruments measured at fair value on a recurring basis at December 31, 2012, were as follows:

	Total	Level 1	Level 2	Level 3
	(In thousands)			
Corporate debt securities	$ 191,008	$ —	$ 191,008	$ —
GSEs	29,525	29,525	—	—
Municipal securities	75,848	—	75,848	—
U.S. treasury notes	35,740	35,740	—	—
Auction rate securities	13,419	—	—	13,419
Certificates of deposit	10,724	—	10,724	—
Total assets at fair value	$ 356,264	$ 65,265	$ 277,580	$ 13,419
Interest rate swap liability	$ 1,307	$ —	$ 1,307	$ —

Our financial instruments measured at fair value on a recurring basis at December 31, 2011, were as follows:

	Total	Level 1	Level 2	Level 3
	(In thousands)			
Corporate debt securities	$ 231,634	$ —	$ 231,634	$ —
GSEs	33,949	33,949	—	—
Municipal securities	47,313	—	47,313	—
U.S. treasury notes	21,748	21,748	—	—
Auction rate securities	16,134	—	—	16,134
Certificates of deposit	2,272	—	2,272	—
Total assets at fair value	$ 353,050	$ 55,697	$ 281,219	$ 16,134
Interest rate swap liability	$ —	$ —	$ —	$ —

The following table presents activity for the year ended December 31, 2012, relating to our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	(Level 3)
	(In thousands)
Balance at December 31, 2011	$ 16,134
Total gains (unrealized only):	
Included in other comprehensive income	1,635
Settlements	(4,350)
Balance at December 31, 2012	$ 13,419
The amount of total unrealized gains for the period included in other comprehensive income attributable to the change in accumulated other comprehensive losses relating to assets still held at December 31, 2012	$ 1,059

Fair Value Measurements - Disclosure Only

The carrying amounts and estimated fair values of our long-term debt as well as the applicable fair value hierarchy tier, at December 31, 2012, are contained in the table below. Our convertible senior notes are classified as Level 2 financial instruments. Fair value for these securities 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. Borrowings under our credit facility and our term loan are classified as Level 3 financial instruments, because certain inputs used to determine the fair value of these agreements are unobservable. The carrying value of the credit facility at December 31, 2012 is equal to fair value because we repaid the $40 million outstanding under the Credit Facility in February 2013. The carrying value of the term loan at December 31, 2012, approximates its fair value because there has been no significant change to our credit risk relating to this instrument from the term loan's origination date in December 2011, to December 31, 2012.

	December 31, 2012				
	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Convertible senior notes	$ 175,468	$ 208,460	$ —	$ 208,460	$ —
Credit facility	40,000	40,000	—	—	40,000
Term loan	47,471	47,471	—	—	47,471
	$ 262,939	$ 295,931	$ —	$ 208,460	$ 87,471

	December 31, 2011				
	Carrying Value	Total Fair Value	Level 1	Level 2	Level 3
	(In thousands)				
Convertible senior notes	$ 169,526	$ 192,049	$ —	$ 192,049	$ —
Credit facility	—	—	—	—	—
Term loan	48,600	48,600	—	—	48,600
	$ 218,126	$ 240,649	$ —	$ 192,049	$ 48,600

6. Investments

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

	December 31, 2012			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$ 190,545	$ 528	$ 65	$ 191,008
GSEs	29,481	45	1	29,525
Municipal securities	75,909	185	246	75,848
U.S. treasury notes	35,700	42	2	35,740
Auction rate securities	14,650	—	1,231	13,419
Certificates of deposit	10,715	9	—	10,724
	$ 357,000	$ 809	$ 1,545	$ 356,264

	December 31, 2011			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$ 231,407	$ 442	$ 215	$ 231,634
GSEs	33,912	46	9	33,949
Municipal securities	47,099	232	18	47,313
U.S. treasury notes	21,627	121	—	21,748
Auction rate securities	19,000	—	2,866	16,134
Certificates of deposit	2,272	—	—	2,272
	$ 355,317	$ 841	$ 3,108	$ 353,050

The contractual maturities of our investments as of December 31, 2012 are summarized below:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 195,986	$ 196,201
Due one year through five years	146,364	146,644
Due after ten years	14,650	13,419
	$ 357,000	$ 356,264

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. Total proceeds from sales and maturities of available-for-sale securities were $298.0 million, $302.7 million, and $182.3 million for the year ended December 31, 2012, 2011, and 2010, respectively. Net realized investment gains for the year ended December 31, 2012, 2011, and 2010 were $293,000, $367,000, and $110,000, respectively.

We monitor our investments for other-than-temporary impairment. For investments other than our auction rate securities as described below, we have determined that unrealized gains and losses at December 31, 2012, and 2011, 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 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.

Auction Rate Securities

Due to events in the credit markets, the auction rate securities held by us experienced failed auctions beginning in the first quarter of 2008, and such auctions have not resumed. Therefore, quoted prices in active markets have not been available since early 2008. Our investments in auction rate securities are collateralized by student loan portfolios guaranteed by the U.S.

government, and the range of maturities for such securities is from 18 years to 34 years. Considering the relative insignificance of these securities when compared with our liquid assets and other sources of liquidity, we have no current intention of selling these securities nor do we expect to be required to sell these securities before a recovery in their cost basis. For this reason, and because the decline in the fair value of the auction securities was not due to the credit quality of the issuers, we do not consider the auction rate securities to be other-than-temporarily impaired at December 31, 2012. At the time of the first failed auctions during first quarter 2008, we held a total of $82.1 million in auction rate securities at par value; since that time, we have settled $67.4 million of these instruments at par value. For the years ended December 31, 2012, and 2011, we recorded pretax unrealized gains of $1.6 million and $1.2 million, respectively, to accumulated other comprehensive income for the changes in their fair value. Any future fluctuations in fair value related to these instruments that we deem to be temporary, including any recoveries of previous write-downs, would be recorded to accumulated other comprehensive income. If we determine that any future valuation adjustment was other-than-temporary, we would record a charge to earnings as appropriate.

The following tables segregate 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, 2012.

	In a Continuous Loss Position for Less than 12 Months			In a Continuous Loss Position for 12 Months or More		
	Estimated Fair Value	Unrealized Losses	Total Number of Securities	Estimated Fair Value	Unrealized Losses	Total Number of Securities
	(In thousands, except number of securities)					
Corporate debt securities	$ 44,457	$ 65	23	$ —	$ —	—
GSEs	5,004	1	1	—	—	—
Municipal securities	35,223	246	43	—	—	—
U.S. treasury notes	4,511	2	5	—	—	—
Auction rate securities	—	—	—	13,419	1,231	21
Total temporarily impaired securities	$ 89,195	$ 314	72	$ 13,419	$ 1,231	21

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, 2011.

	In a Continuous Loss Position for Less than 12 Months			In a Continuous Loss Position for 12 Months or More		
	Estimated Fair Value	Unrealized Losses	Total Number of Securities	Estimated Fair Value	Unrealized Losses	Total Number of Securities
	(In thousands, except number of securities)					
Corporate debt securities	$ 72,766	$ 215	47	$ —	$ —	—
GSEs	11,493	9	9	—	—	—
Municipal securities	12,033	18	8	—	—	—
Auction rate securities	—	—	—	16,134	2,866	27
Total temporarily impaired securities	$ 96,292	$ 242	64	$ 16,134	$ 2,866	27

7. Receivables

Health Plans segment receivables consist primarily of amounts due from the various states in which we operate. Accounts receivable were as follows:

	December 31,	
	2012	2011
	(In thousands)	
Health Plans segment:		
California	$ 28,553	$ 22,175
Michigan	12,873	8,864
Missouri	1,053	27,092
New Mexico	9,059	9,350
Ohio	40,980	27,458
Texas	7,459	1,608
Utah	3,359	2,825
Washington	17,587	15,006
Wisconsin	4,098	4,909
Others	2,077	2,489
Total Health Plans segment	127,098	121,776
Molina Medicaid Solutions segment	22,584	46,122
	$ 149,682	$ 167,898

8. Property, Equipment, and Capitalized Software

A summary of property, equipment, and capitalized software is as follows:

	December 31,	
	2012	2011
	(In thousands)	
Land	$ 15,764	$ 14,094
Building and improvements	124,163	109,789
Furniture and equipment	97,865	79,112
Capitalized software	154,708	116,389
	392,500	319,384
Less: accumulated depreciation and amortization on building and improvements, furniture and equipment	(84,156)	(65,518)
Less: accumulated amortization for capitalized software	(86,901)	(62,932)
	(171,057)	(128,450)
Property, equipment, and capitalized software, net	$ 221,443	$ 190,934

Depreciation recognized for building and improvements, and furniture and equipment was $20.5 million, $17.5 million, and $13.9 million for the years ended December 31, 2012, 2011 and 2010, respectively. Amortization of capitalized software was $36.2 million, $30.2 million, and $20.1 million for the years ended December 31, 2012, 2011 and 2010, respectively.

Molina Center

As described in Note 4, "Business Combinations," we acquired the Molina Center in December 2011. At December 31, 2012, the carrying amount of the Molina Center building and leasehold improvements was $44.4 million and the accumulated depreciation was $1.8 million. Future minimum rentals on noncancelable leases are as follows:

		(In thousands)
2013	$	9,784
2014		9,954
2015		9,878
2016		8,054
2017		7,419
Thereafter		10,295
Total minimum future rentals	$	55,384

9. Goodwill and Intangible Assets

Other intangible assets are amortized over their useful lives ranging from one to 15 years. The weighted average amortization period for contract rights and licenses is approximately 11 years, for customer relationships is approximately five years, for backlog is approximately two years, and for provider networks is approximately 10 years. Based on the balances of our identifiable intangible assets as of December 31, 2012, we estimate that our intangible asset amortization will be $17.9 million in 2013, $17.0 million in 2014, $12.1 million in 2015, $9.4 million in 2016, and $9.3 million in 2017. The following table provides the details of identified intangible assets, by major class, for the periods indicated. As described in Note 2, "Significant Accounting Policies," no impairment charges relating to long-lived assets, including intangible assets, were recorded in the year ended December 31, 2012. For a description of our goodwill and intangible assets by reportable segment, refer to Note 20, "Segment Reporting."

	Cost	Accumulated Amortization	Net Balance
		(In thousands)	
Intangible assets:			
Contract rights and licenses	$ 135,932	$ 81,376	$ 54,556
Customer relationships	24,550	12,513	12,037
Contract backlog	23,600	17,870	5,730
Provider networks	11,990	6,602	5,388
Balance at December 31, 2012	$ 196,072	$ 118,361	$ 77,711
Intangible assets:			
Contract rights and licenses	$ 140,242	$ 69,515	$ 70,727
Customer relationships	24,550	8,546	16,004
Contract backlog	23,600	15,139	8,461
Provider networks	11,990	5,386	6,604
Balance at December 31, 2011	$ 200,382	$ 98,586	$ 101,796

The following table presents the balances of goodwill and indefinite-lived intangible assets as of December 31, 2012 and 2011:

	December 31, 2011	Reductions	December 31, 2012
		(In thousands)	
Goodwill and indefinite-lived intangible assets, gross	$ 212,484	$ (2,866)	$ 209,618
Accumulated impairment losses	(58,530)	—	(58,530)
Goodwill and indefinite-lived intangible assets, net	$ 153,954	$ (2,866)	$ 151,088

The change in the carrying amount in 2012 was due to the sale of the Molina Healthcare Insurance Company.

10. Restricted Investments

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

	December 31,	
	2012	2011
	(In thousands)	
California	$ 373	$ 372
Florida	5,738	5,198
Insurance Company	—	4,711
Michigan	1,014	1,000
Missouri	500	504
New Mexico	15,915	15,905
Ohio	9,082	9,078
Texas	3,503	3,518
Utah	3,126	2,895
Washington	151	151
Other	4,699	2,832
	$ 44,101	$ 46,164

The contractual maturities of our held-to-maturity restricted investments as of December 31, 2012 are summarized below.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 39,733	$ 39,738
Due one year through five years	4,368	4,368
	$ 44,101	$ 44,106

11. Medical Claims and Benefits Payable

The following table presents the components of the change in our medical claims and benefits payable for the years ended December 31, 2012, 2011, and 2010. The amounts displayed for “Components of medical care costs related to: Prior period” represent the amount by which our original estimate of claims and benefits payable at the beginning of the period were (more) or less than the actual amount of the liability based on information (principally the payment of claims) developed since that liability was first reported.

	Year Ended December 31,		
	2012	2011	2010
	(Dollars in thousands, except per-member amounts)		
Balances at beginning of period	$ 402,476	$ 354,356	$ 315,316
Balance of acquired subsidiary	—	—	3,228
Components of medical care costs related to:			
Current period	5,136,055	3,911,803	3,420,235
Prior period	(39,295)	(51,809)	(49,378)
Total medical care costs	5,096,760	3,859,994	3,370,857
Payments for medical care costs related to:			
Current period	4,649,363	3,516,994	3,085,388
Prior period	355,343	294,880	249,657
Total paid	5,004,706	3,811,874	3,335,045
Balances at end of period	$ 494,530	$ 402,476	$ 354,356
Benefit from prior period as a percentage of:			
Balance at beginning of period	9.8%	14.6%	15.7%
Premium revenue	0.7%	1.1%	1.2%
Total medical care costs	0.8%	1.3%	1.5%

Assuming that our initial estimate of IBNP is accurate, we believe that amounts ultimately paid out would generally be between 8% and 10% less than the liability recorded at the end of the period as a result of the inclusion in that liability of the allowance for adverse claims development and the accrued cost of settling those claims. Because the amount of our initial liability is merely an estimate (and therefore never 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 not be higher or lower than this 8% to 10% range. For example, for the years ended December 31, 2011 and 2010, the amounts ultimately paid out were less than the amount of the reserves we had established as of December 31, 2010 and 2009, by 14.6% and 15.7%, respectively. Furthermore, because the 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 of those factors are out of the ordinary.

As indicated above, the amounts ultimately paid out on our liabilities in fiscal years 2012, 2011, and 2010 were less than what we had expected when we established our reserves. 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 estimate.

We recognized a benefit from prior period claims development in the amount of $39.3 million for the year ended December 31, 2012. This amount represents our estimate as of December 31, 2012, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2011 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe that the overestimation of our claims liability at December 31, 2011 was due primarily to the following factors:

- At our Washington health plan, we underestimated the amount of recoveries we would collect for certain high-cost newborn claims, resulting in an overestimation of reserves at year end.
- At our Texas health plan, we overestimated the cost of new members in STAR+PLUS (the name of our ABD program in Texas), in the Dallas region.
- In early 2011, the state of Michigan was delayed in the enrollment of newborns in managed care plans; the delay was resolved by mid-2011. This caused a large number of claims with older dates of service to be paid during late 2011, resulting in an artificial increase in the lag time for claims payment at our Michigan health plan. We adjusted reserves downward for this issue at December 31, 2011, but the adjustment did not capture all of the claims overestimation.

- The overestimation of our liability for medical claims and benefits payable was partially offset by an underestimation of that liability at our Missouri health plan, as a result of the costs associated with an unusually large number of premature infants during the fourth quarter of 2011.

We recognized a benefit from prior period claims development in the amount of $51.8 million for the year ended December 31, 2011. This amount represents our estimate as of December 31, 2011, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2010 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe that the overestimation of our claims liability at December 31, 2010 was due primarily to the following factors:

- At our Ohio health plan, we overestimated the impact of a buildup in claims inventory.
- At our California health plan, we overestimated the impact of the settlement of disputed provider claims.
- At our New Mexico health plan, we underestimated the impact of a reduction in the outpatient facility fee schedule.

We recognized a benefit from prior period claims development in the amount of $49.4 million for the year ended December 31, 2010. This amount represents our estimate as of December 31, 2010, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2009 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe that the overestimation of our claims liability at December 31, 2009 was due primarily to the following factors:

- At our New Mexico health plan, we underestimated the degree to which cuts to the Medicaid fees schedule would reduce our liability as of December 31, 2009.

- At our California health plan, we underestimated the extent to which various network restructuring, provider contracting, and medical management initiatives had reduced our medical care costs during the second half of 2009, thereby resulting in a lower liability at December 31, 2009.

In estimating our claims liability at December 31, 2012, we adjusted our base calculation to take account of the numerous factors that we believe will likely change our final claims liability amount. We believe that the most significant among those factors are:

- Our Texas health plan membership nearly doubled effective March 1, 2012. In addition, effective March 1, 2012, we assumed inpatient medical liability for ABD members for which we were not previously responsible. Reserves for new coverage and new regions are now based on the newly developing claims lag patterns. While the lag patterns are now beginning to stabilize for the new membership and coverage, the true reserve liability continues to be more uncertain than usual.

- Data published by the Centers for Disease Control, or CDC, indicated a significant increase in the percentage of office visits for influenza-like illnesses, or ILI, during December 2012. This indicated that the annual flu season was starting earlier than it had in most recent years. This was most noticeable in the southeast region of the country, but impacted other areas as well. Our leading indicators, including inpatient authorizations and overall pharmacy utilization, did not show as great an increase as we had expected based on the severity of the CDC's flu-related indices. However, we did see a significant increase in the use of prescription flu medication, especially in our Texas health plan. Therefore, we increased our reserves to account for expected additional utilization due to the early onset of the flu season.

- Our California health plan has enrolled approximately 20,000 new ABD members since September 30, 2011, as a result of the mandatory assignment of ABD members to managed care plans effective July 1, 2011. These new members converted from a fee-for-service environment. Due to the relatively recent transition of these members to managed care, their utilization of medical services is less predictable than it is for many of our other members.

- Prior to July 2012, it was the state of Washington's practice to disenroll certain sick newborns from the Healthy Options Medicaid managed care program and cover them under the Supplemental Security Income program, or SSI, instead. When this occurred, the health plan would reimburse the premiums received for that member back to the state and the state in turn reimbursed the health plan for the cost of care, usually retroactively to the date of birth. Effective July 1, 2012, the health plans now retain these members and cover them under a new ABD program entitled Healthy Options Blind and Disabled, or HOBD. The premium we receive from the state for the HOBD members is very high to cover the substantial cost of care. By December, we had enrolled approximately 26,000 members under HOBD. Because the program is relatively new, there is still some uncertainty as to the level of claims to be expected from these high-cost members.

The use of a consistent methodology in estimating our liability for claims and medical 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. 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. In 2012, 2011 and 2010, the absence of adverse development of the liability for claims and medical benefits payable at the close of the previous period resulted in the recognition of substantial favorable prior period development. In these years, however, the recognition of a benefit from prior period claims development did not have a material impact on our consolidated results of operations because the amount of benefit recognized in each year was roughly consistent with that recognized in the previous year.

12. Long-Term Debt

1.125% Cash Convertible Senior Notes due 2020

On February 15, 2013, we issued $550 million aggregate principal amount of 1.125% Cash Convertible Senior Notes due 2020, or the Notes. The Notes bear interest at a rate of 1.125% per year, payable semiannually in arrears on January 15 and July 15 of each year, beginning on July 15, 2013. The Notes will mature on January 15, 2020.

The Notes are not convertible into our common stock or any other securities under any circumstances. Holders may convert their Notes solely into cash at their option at any time prior to the close of business on the business day immediately preceding July 15, 2019 only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2013 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period immediately after any five consecutive trading day period in which the trading price per $1,000 principal amount of Notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of our common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On or after July 15, 2019 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their Notes solely into cash at any time, regardless of the foregoing circumstances. Upon conversion, in lieu of receiving shares of our common stock, a holder will receive an amount in cash, per $1,000 principal amount of Notes, equal to the settlement amount, determined in the manner set forth in the Indenture.

The initial conversion rate will be 24.5277 shares of our common stock per $1,000 principal amount of Notes (equivalent to an initial conversion price of approximately $40.77 per share of common stock). The conversion rate will be subject to adjustment in some events but will not be adjusted for any accrued and unpaid interest. In addition, following certain corporate events that occur prior to the maturity date, we will pay a cash make-whole premium by increasing the conversion rate for a holder who elects to convert its Notes in connection with such a corporate event in certain circumstances. We may not redeem the Notes prior to the maturity date, and no sinking fund is provided for the Notes.

If we undergo a fundamental change (as defined in the indenture to the Notes), holders may require us to repurchase for cash all or part of their Notes at a repurchase price equal to 100% of the principal amount of the Notes to be repurchased, plus accrued and unpaid interest to, but excluding, the fundamental change repurchase date. The indenture provides for customary events of default, including cross acceleration to certain other indebtedness of ours, and our significant subsidiaries.

The Notes will be senior unsecured obligations of the Company and will rank senior in right of payment to any of our indebtedness that is expressly subordinated in right of payment to the Notes; equal in right of payment to any of our unsecured indebtedness that is not so subordinated; effectively junior in right of payment to any of our secured indebtedness to the extent of the value of the assets securing such indebtedness; and structurally junior to all indebtedness and other liabilities (including trade payables) of our subsidiaries.

Cash Convertible Note Hedge and Warrant Transactions

In connection with the pricing of the Notes, on February 11, 2013, we entered into cash convertible note hedge transactions and warrant transactions relating to a notional number of shares of our common stock underlying the Notes to be issued by us (without regard to the initial purchasers' $100 million over-allotment option) with two counterparties, JPMorgan Chase Bank, National Association, London Branch and Bank of America, N.A. (the “Option Counterparties”). The cash convertible note hedge transactions are intended to offset cash payments due upon any conversion of the Notes. However, the warrant transactions could separately have a dilutive effect to the extent that the market value per share of our common stock (as measured under the terms of the warrant transactions) exceeds the applicable strike price of the warrants. The strike price of the warrants will initially be $53.8475 per share, which is 75% above the last reported sale price of our common stock on February 11, 2013.

In connection with the exercise in full by the initial purchasers of their over-allotment option in respect of the Notes, on February 13, 2013, we and the Option Counterparties amended the cash convertible note hedge transactions entered into on February 11, 2013 to upsize such transactions by a notional number of shares of our common stock corresponding to the number of shares underlying the Notes purchased pursuant to the exercise of such over-allotment option. On February 13, 2013, we also entered into additional warrant transactions with the Option Counterparties relating to a number of shares of our common stock corresponding to the number of shares underlying the Notes purchased pursuant to the exercise of such over-allotment option. Each of the amendments to the cash convertible note hedge transactions and the additional warrant transactions were on substantially similar terms to the corresponding transactions entered into on February 11, 2013. Pursuant to these warrant transactions, we issued 13,490,236 warrants with a strike price of $53.8475 per share. The number of warrants and the strike price are subject to adjustment under certain circumstances.

We used approximately $74.3 million of the net proceeds from the offering to pay the cost of the cash convertible note hedge transactions (after such cost was partially offset by the proceeds to us from the sale of warrants in the warrant transactions and the additional warrant transactions).

Aside from the initial payment of a premium to the Option Counterparties of approximately $149.3 million, we will not be required to make any cash payments to the Option Counterparties under the cash convertible note hedge transactions and will be entitled to receive from the Option Counterparties an amount of cash, generally equal to the amount by which the market price per share of common stock exceeds the strike price of the cash convertible note hedge transactions during the relevant valuation period. The strike price under the cash convertible note hedge transactions is initially equal to the conversion price of the Notes. Additionally, if the market value per share of our common stock exceeds the strike price of the warrants on any trading day during the 160 trading day measurement period under the warrant transactions and the additional warrant transactions, we will be obligated to issue to the Option Counterparties a number of shares equal in value to the product of the amount by which such market value exceeds such strike price and 1/160th of the aggregate number of shares of our common stock underlying the warrant transactions and the additional warrant transactions, subject to a share delivery cap. The Company will not receive any additional proceeds if warrants are exercised.

As of December 31, 2012, maturities of long-term debt for the years ending December 31 are as follows (in thousands):

	Total	2013	2014	2015	2016	2017	Thereafter
Credit Facility	$ 40,000	$ —	$ —	$ —	$ 40,000	$ —	$ —
Convertible senior notes	187,000	—	187,000	—	—	—	—
Term loan	47,471	1,155	1,206	1,259	1,309	1,372	41,170
	$ 274,471	$ 1,155	$ 188,206	$ 1,259	$ 41,309	$ 1,372	$ 41,170

Credit Facility

On February 15, 2013, we used approximately $40.0 million of the net proceeds from the offering of the Notes to repay all of the outstanding indebtedness under our $170 million revolving credit facility, or the Credit Facility, with various lenders and U.S. Bank National Association, as Line of Credit Issuer, Swing Line Lender, and Administrative Agent. As of December 31, 2012, there was $40.0 million outstanding under the Credit Facility.

We terminated the Credit Facility in connection with the closing of the offering and sale of the Notes. two letters of credit in the aggregate principal amount of $10.3 million that reduced the amount available for borrowing under the Credit Facility as of December 31, 2012, were transferred to direct issue letters of credit with another financial institution. The Credit Facility had a term of five years under which all amounts outstanding would have been due and payable on September 9, 2016.

Borrowings under the Credit Facility accrued interest based, at our election, on the base rate plus an applicable margin or the Eurodollar rate. The base rate is, for any day, a rate of interest per annum equal to the highest of (i) the prime rate of interest announced from time to time by U.S. Bank or its parent, (ii) the sum of the federal funds rate for such day plus 0.50% per annum and (iii) the Eurodollar rate (without giving effect to the applicable margin) for a one month interest period on such day (or if such day is not a business day, the immediately preceding business day) plus 1.00%. The Eurodollar rate is a reserve adjusted rate at which Eurodollar deposits are offered in the interbank Eurodollar market plus an applicable margin. In addition to interest payable on the principal amount of indebtedness outstanding from time to time under the Credit Facility, we were required to pay a quarterly commitment fee of 0.25% to 0.50% (based upon our leverage ratio) of the unused amount of the lenders' commitments under the Credit Facility. The applicable margins ranged between 0.75% to 1.75% for base rate loans and 1.75% to 2.75% for Eurodollar loans, in each case, based upon our leverage ratio.

Our obligations under the Credit Facility were secured by a lien on substantially all of our assets, with the exception of certain of our real estate assets, and by a pledge of the capital stock or membership interests of our operating subsidiaries and health plans (with the exception of the California health plan). The Credit Facility included usual and customary covenants for credit facilities of this type, including covenants limiting liens, mergers, asset sales, other fundamental changes, debt, acquisitions, dividends and other distributions, capital expenditures, and investments. The Credit Facility also required us to maintain as of the end of any fiscal quarter (calculated for each four consecutive fiscal quarter period) a ratio of total consolidated debt to total consolidated EBITDA, as defined in the Credit Facility, of not more than 2.75 to 1.00, and a fixed charge coverage ratio of not less than 1.75 to 1.00.. At December 31, 2012, we were in compliance with all financial covenants under the Credit Facility.

3.75% Convertible Senior Notes due 2014

As of December 31, 2012, $187.0 million in aggregate principal amount of our 3.75% Convertible Senior Notes due 2014, or the 3.75% Notes, remain outstanding. The 3.75% Notes rank equally in right of payment with our existing and future senior indebtedness. The 3.75% Notes are convertible into cash and, under certain circumstances, shares of our common stock. The initial conversion rate is 31.9601 shares of our common stock per one thousand dollar principal amount of the 3.75% Notes. This represents an initial conversion price of approximately $31.29 per share of our common stock. In addition, if certain corporate transactions that constitute a change of control occur prior to maturity, we will increase the conversion rate in certain circumstances. Prior to July 2014, holders may convert their 3.75% Notes only under the following circumstances:

- During any fiscal quarter after our fiscal quarter ending December 31, 2007, if the closing sale price per share of our common stock, for each of at least 20 trading days during the period of 30 consecutive trading days ending on the last trading day of the previous fiscal quarter, is greater than or equal to 120% of the conversion price per share of our common stock;
- During the five business day period immediately following any five consecutive trading day period in which the trading price per one thousand dollar principal amount of the 3.75% Notes for each trading day of such period was less than 98% of the product of the closing price per share of our common stock on such day and the conversion rate in effect on such day; or
- Upon the occurrence of specified corporate transactions or other specified events.

On or after July 1, 2014, holders may convert their 3.75% Notes at any time prior to the close of business on the scheduled trading day immediately preceding the stated maturity date regardless of whether any of the foregoing conditions is satisfied.

We will deliver cash and shares of our common stock, if any, upon conversion of each $1,000 principal amount of 3.75% Notes, as follows:

- An amount in cash (the “principal return”) equal to the sum of, for each of the 20 Volume-Weighted Average Price ("VWAP") trading days during the conversion period, the lesser of the daily conversion value for such VWAP trading day and fifty dollars (representing 1/20th of one thousand dollars); and
- A number of shares based upon, for each of the 20 VWAP trading days during the conversion period, any excess of the daily conversion value above fifty dollars.

The proceeds from the issuance of the 3.75% Notes have been allocated between a liability component and an equity component. We have determined that the effective interest rate of the 3.75% Notes is 7.5%, principally based on the seven-year U.S. Treasury note rate as of the October 2007 issuance date, plus an appropriate credit spread. The resulting debt discount is being amortized over the period the 3.75% Notes are expected to be outstanding, as additional non-cash interest expense. As of December 31, 2012, we expect the 3.75% Notes to be outstanding until their October 1, 2014 maturity date, for a remaining amortization period of 21 months. The 3.75% Notes’ if-converted value did not exceed their principal amount as of December 31, 2012. At December 31, 2012, the equity component of the 3.75% Notes, net of the impact of deferred taxes, was $24.0 million. The following table provides the details of the liability amounts recorded:

	December 31,	
	2012	2011
	(In thousands)	
Details of the liability component:		
Principal amount	$ 187,000	$ 187,000
Unamortized discount	(11,532)	(17,474)
Net carrying amount	$ 175,468	$ 169,526

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Interest cost recognized for the period relating to the:			
Contractual interest coupon rate of 3.75%	$ 7,012	$ 7,012	$ 7,012
Amortization of the discount on the liability component	5,942	5,512	5,114
Total interest cost recognized	$ 12,954	$ 12,524	$ 12,126

Term Loan

On December 7, 2011, our wholly owned subsidiary Molina Center LLC entered into a Term Loan Agreement, dated as of December 1, 2011, with various lenders and East West Bank, as Administrative Agent (the "Administrative Agent"). Pursuant to the terms of the Term Loan Agreement, Molina Center LLC borrowed the aggregate principal amount of $48.6 million to finance a portion of the $81 million purchase price for the acquisition of the Molina Center, located in Long Beach, California.

The outstanding principal amount under the Term Loan Agreement bears interest at the Eurodollar rate for each Interest Period (as defined below) commencing January 1, 2012. The Eurodollar rate is a per annum rate of interest equal to the greater of (a) the rate that is published in the Wall Street Journal as the London interbank offered rate for deposits in United States dollars, for a period of one month, two business days prior to the commencement of an Interest Period, multiplied by a statutory reserve rate established by the Board of Governors of the Federal Reserve System, or (b) 4.25%. "Interest Period" means the period commencing on the first day of each calendar month and ending on the last day of each calendar month. The loan matures on November 30, 2018, and is subject to a 25-year amortization schedule that commenced on January 1, 2012.

The Term Loan Agreement contains customary representations, warranties, and financial covenants. In the event of a default as described in the Term Loan Agreement, the outstanding principal amount under the Term Loan Agreement will bear interest at a rate 5.00% per annum higher than the otherwise applicable rate. All amounts due under the Term Loan Agreement and related loan documents are secured by a security interest in the Molina Center in favor of and for the benefit of the Administrative Agent and the other lenders under the Term Loan Agreement.

Interest Rate Swap

In May 2012, we entered into a $42.5 million notional amount interest rate swap agreement, or Swap Agreement, with an effective date of March 1, 2013. While not designated as a hedge during the year ended December 31, 2012, the Swap Agreement is intended to reduce our exposure to fluctuations in the contractual variable interest rates under our Term Loan Agreement, and expires on the maturity date of the Term Loan Agreement, which is November 30, 2018. Under the Swap Agreement, we will receive a variable rate of the one-month LIBOR plus 3.25%, and pay a fixed rate of 5.34%. The Swap Agreement is measured and reported at fair value on a recurring basis, within Level 2 of the fair value hierarchy. Gains and losses relating to changes in fair value are reported in earnings in the current period. For the year ended December 31, 2012, we have recorded losses of $1.3 million to general and administrative expense. As of December 31, 2012 the fair value of the Swap Agreement is a liability of $1.3 million, recorded to other noncurrent liabilities. We do not use derivatives for trading or speculative purposes. We believe that we are not exposed to more than a nominal amount of credit risk relating to the Swap Agreement because the counterparty is an established and well-capitalized financial institution.

13. Income Taxes

The provision for income taxes consisted of the following:

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Current:			
Federal	$ 17,853	$ 28,336	$ 36,395
State	1,308	1,639	2,144
Total current	19,161	29,975	38,539
Deferred:			
Federal	(6,300)	14,028	(4,717)
State	(3,586)	(167)	700
Total deferred	(9,886)	13,861	(4,017)
Total provision for income taxes	$ 9,275	$ 43,836	$ 34,522

A reconciliation of the U.S. federal statutory income tax rate to the combined effective income tax rate is as follows:

	Years Ended December 31,		
	2012	2011	2010
Statutory federal tax rate	35.0 %	35.0 %	35.0 %
State income taxes, net of federal benefit	(7.8)	1.5	2.1
Benefit for unrecognized tax benefits	(1.2)	(0.6)	(0.1)
Nondeductible compensation	7.6	—	1.0
Nondeductible goodwill	—	31.7	—
Nondeductible lobbying	5.2	1.1	0.7
Purchase accounting adjustment	—	(1.5)	—
Change in fair value of contingent consideration	5.9	—	—
Other	3.9	0.6	(0.1)
Effective tax rate	48.6 %	67.8 %	38.6 %

Our effective tax rate is based on expected income, statutory tax rates, and tax planning opportunities available to us in the various jurisdictions in which we operate. Significant management estimates and judgments are required in determining our effective tax rate. We are routinely under audit by federal, state, or local authorities regarding the timing and amount of deductions, nexus of income among various tax jurisdictions, and compliance with federal, state, and local tax laws. We have pursued various strategies to reduce our federal, state and local taxes. As a result, we have reduced our state income tax expense due to California enterprise zone credits.

During 2012 and 2011, excess tax benefits from shared-based compensation were $3.1 million and $937,000, respectively. These amounts were recorded as a decrease to income taxes payable and an increase to additional paid-in capital. During 2010, tax-related deficiencies on share-based compensation were $673,000. This amount was recorded as an adjustment to income taxes payable with a corresponding decrease to additional paid-in capital.

Deferred tax assets and liabilities are classified as current or non-current according to the classification of the related asset or liability. Significant components of our deferred tax assets and liabilities as of December 31, 2012 and 2011 were as follows:

	December 31, 2012	December 31, 2011
	(In thousands)	
Accrued expenses	$ 15,381	$ 14,541
Reserve liabilities	2,936	1,292
State taxes	(606)	(396)
Other accrued medical costs	2,518	2,051
Net operating losses	27	27
Unrealized gains	(283)	(316)
Unearned premiums	15,675	4,139
Prepaid expenses	(4,390)	(3,032)
Deferred compensation	1,611	—
Other, net	(426)	21
Deferred tax asset, net of valuation allowance — current	32,443	18,327
Accrued expenses	—	223
Reserve liabilities	2,013	3,015
State tax credit carryover	4,149	2,609
Net operating losses	3,341	2,694
Unrealized losses	563	1,176
Depreciation and amortization	(44,198)	(39,939)
Deferred compensation	3,323	7,904
Debt basis	(5,410)	(7,604)
Other, net	702	(278)
Valuation allowance	(2,383)	(2,927)
Deferred tax liability, net of valuation allowance — long term	(37,900)	(33,127)
Net deferred income tax liability	$ (5,457)	$ (14,800)

At December 31, 2012, we had federal and state net operating loss carryforwards of $319,000 and $73.0 million, respectively. The federal net operating loss begins expiring in 2018, and state net operating losses begin expiring in 2013. The utilization of the net operating losses is subject to certain limitations under federal law.

At December 31, 2012, we had California enterprise zone tax credit carryovers of $6.3 million which do not expire.

We evaluate the need for a valuation allowance taking into consideration the ability to carry back and carry forward tax credits and losses, available tax planning strategies and future income, including reversal of temporary differences. We have determined that as of December 31, 2012, $3.0 million of deferred tax assets did not satisfy the recognition criteria due to uncertainty regarding the realization of some of our state tax operating loss carryforwards. We increased our valuation allowance $100,000 from $2.9 million at December 31, 2011 to $3.0 million as of December 31, 2012.

We recognize tax benefits only if the tax position is more likely than not to be sustained. We are subject to income taxes in the U.S. and numerous state jurisdictions. Significant judgment is required in evaluating our tax positions and determining our provision for income taxes. During the ordinary course of business, there are many transactions and calculations for which the ultimate tax determination is uncertain. We establish reserves for tax-related uncertainties based on estimates of whether, and the extent to which, additional taxes will be due. These reserves are established when we believe that certain positions might be challenged despite our belief that our tax return positions are fully supportable. We adjust these reserves in light of changing facts and circumstances, such as the outcome of tax audits. The provision for income taxes includes the impact of reserve provisions and changes to reserves that are considered appropriate.

The roll-forward of our unrecognized tax benefits is as follows:

	Years Ended December 31,		
	2012	2011	2010
	(In thousands)		
Gross unrecognized tax benefits at beginning of period	$ (10,712)	$ (10,962)	$ (4,128)
Increases in tax positions for prior years	(441)	(137)	(6,891)
Decreases in tax positions for prior years	320	—	—
Settlements	—	—	—
Lapse in statute of limitations	211	387	57
Gross unrecognized tax benefits at end of period	$ (10,622)	$ (10,712)	$ (10,962)

As of December 31, 2012, we had $10.6 million of unrecognized tax benefits of which $7.4 million, if fully recognized, would affect our effective tax rate. Approximately $8.4 million of the unrecognized tax benefits recorded at December 31, 2012 relates to a tax position claimed on a state refund claim that will not result in a cash payment for income taxes if our claim is denied. We expect that during the next 12 months it is reasonably possible that unrecognized tax benefit liabilities may decrease by as much as $8.6 million due the resolution to the state refund claim as well as the normal expiration of statute of limitations.

Our continuing practice is to recognize interest and/or penalties related to unrecognized tax benefits in income tax expense. As of December 31, 2012, December 31, 2011, and December 31, 2010, we had accrued $56,000, $65,000, and $82,000, respectively, for the payment of interest and penalties.

We may be subject to examination by the Internal Revenue Service, or IRS, for calendar years 2009 through 2012. We are under examination, or may be subject to examination, in certain state and local jurisdictions, with the major jurisdictions being California, Missouri, and Michigan, for the years 2004 through 2012.

14. Stockholders' Equity

Repurchase in Connection with Offering of 1.125% Cash Convertible Senior Notes Due 2020. Subsequent to December 31, 2012, we used a portion of the net proceeds from the offering to repurchase $50 million of our common stock in negotiated transactions with institutional investors in the offering, concurrently with the pricing of the offering. On February 12, 2013, we repurchased a total of 1,624,959 shares at $30.77 per share, which was our closing stock price on that date.

Securities Repurchases and Repurchase Programs. Effective as of February 13, 2013, our board of directors authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior note due 2014. The repurchase program extends through December 31, 2014.

On December 26, 2012, we purchased 110,988 shares of our common stock from certain Molina family trusts for an aggregate purchase price of $3.0 million. This purchase transaction was approved by our board of directors. The shares were purchased at a price of $27.03, representing the closing price per share of our common stock on December 26, 2012. See Note 17, "Related Party Transactions."

Effective as of October 26, 2011, our board of directors authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior notes due 2014 (see Note 12, "Long-Term Debt"). The repurchase program expired October 25, 2012. No securities were purchased under this program in 2012.

In July 2011, our board of directors approved a stock repurchase program of up to $7.0 million, to be used to purchase shares of our common stock under a Rule 10b5-1 trading plan. Under this program, we purchased approximately 400,000 shares of our common stock for $7.0 million (average cost of approximately $17.47 per share) during August 2011. These purchases did not materially impact diluted earnings per share for the year ended December 31, 2011. Subsequently, we retired the $7.0 million of treasury shares purchased, which reduced additional paid-in capital as of December 31, 2011.

Shelf Registration Statement. In May 2012, we filed an automatic shelf registration statement on Form S-3 with the Securities and Exchange Commission covering the issuance of an indeterminate number of our securities, including common stock, warrants, or debt securities. We may publicly offer securities from time to time at prices and terms to be determined at the time of the offering.

Stock Split. On April 27, 2011, we announced that our board of directors authorized a 3-for-2 stock split of our common stock to be effected in the form of a stock dividend of one share of our stock for every two shares outstanding. The dividend was distributed on May 20, 2011.

Stock Plans. In connection with the plans described in Note 16, "Share-Based Compensation," we issued approximately 1,057,000 shares of common stock, net of shares used to settle employees' income tax obligations, for the year ended December 31, 2012. Stock plan activity resulted in a $19.5 million increase to additional paid-in capital for the same period.

15. Employee Benefits

We sponsor a defined contribution 401(k) plan that covers substantially all full-time salaried and hourly employees of our company and its subsidiaries. Eligible employees are permitted to contribute up to the maximum amount allowed by law. We match up to the first 4% of compensation contributed by employees. Expense recognized in connection with our contributions to the 401(k) plan totaled $10.7 million, $8.5 million and $5.9 million in the years ended December 31, 2012, 2011, and 2010, respectively.

We also have a nonqualified deferred compensation plan for certain key employees. Under this plan, eligible participants may defer up to 100% of their base salary and 100% of their bonus to provide tax-deferred growth for retirement. The funds deferred are invested in corporate-owned life insurance, under a rabbi trust.

16. Share-Based Compensation

In 2011, we adopted the 2011 Equity Incentive Plan (the "2011 Plan") , which provides for the award of stock options, restricted shares and units, performance shares and units, and stock bonuses to the company's officers, employees, directors, consultants, advisors, and other service providers. The 2011 Plan allows for the issuance of 4.5 million shares of common stock.

At December 31, 2012, we had equity incentives outstanding under two plans: (1) the 2011 Plan; and (2) the 2002 Equity Incentive Plan (from which equity incentives are no longer awarded). In March 2012, our chief executive officer, chief financial officer, and chief operating officer were awarded 94,050 performance units, 53,236 performance units, and 30,167 performance units, respectively, that would vest and be settled in shares of the Company's common stock equal in number to the units awarded upon the achievement of certain performance and service conditions as follows: (i) the Company's total operating revenue for 2012 is equal to or greater than $5.5 billion, and (ii) the respective officer continues to be employed by the Company if and when the operating revenue target is met. Such awards vested when the performance and service conditions were met in December 2012. Also in March 2012, our chief executive officer, chief financial officer, chief operating officer, and chief accounting officer were awarded 8,000 performance units, 8,000 performance units, 8,000 performance units, and 3,000 performance units respectively, that would vest and be settled in shares of the Company's common stock equal in number to the units granted upon the certification of our Idaho MMIS by CMS. Such awards vested when the Idaho MMIS was certified in July 2012.

Restricted share awards are granted with a fair value equal to the market price of our common stock on the date of grant, and generally vest in equal annual installments over periods up to four years from the date of grant. Stock option awards have an exercise price equal to the fair market value of our common stock on the date of grant, generally vest in equal annual installments over periods up to four years from the date of grant, and have a maximum term of ten years from the date of grant.

Under our employee stock purchase plan (the "ESPP"), eligible employees may purchase common shares at 85% of the lower of the fair market value of our common stock on either the first or last trading day of each six-month offering period. Each participant is limited to a maximum purchase of $25,000 (as measured by the fair value of the stock acquired) per year through payroll deductions. We issued 277,400 and 201,700 shares of our common stock under the ESPP during the years ended December 31, 2012 and 2011, respectively. In 2011, stockholders approved our 2011 ESPP, which superseded the 2002 Employee Stock Purchase Plan. The 2011 ESPP allows for the issuance of three million shares of common stock.

The following table illustrates the components of our share-based compensation expense that are reported in general and administrative expenses in the consolidated statements of income:

	Year Ended December 31,					
	2012		2011		2010	
	(In thousands)					
	Pretax Charges	Net-of-Tax Amount	Pretax Charges	Net-of-Tax Amount	Pretax Charges	Net-of-Tax Amount
Restricted share and performance unit awards	$ 18,106	$ 12,943	$ 15,914	$ 9,946	$ 8,007	$ 5,044
Stock options (including expense relating to our ESPP)	1,912	1,613	1,138	712	1,524	960
	$ 20,018	$ 14,556	$ 17,052	$ 10,658	$ 9,531	$ 6,004

As of December 31, 2012, there was $15.1 million of total unrecognized compensation expense related to unvested restricted share awards, which we expect to recognize over a remaining weighted-average period of 2.1 years. This unrecognized compensation cost assumes an estimated forfeiture rate of 7.5% as of December 31, 2012. Also as of December 31, 2012, there was $0.1 million of unrecognized compensation expense related to unvested stock options, which we expect to recognize over a weighted-average period of 2.1 years.

Restricted share activity for the year ended December 31, 2012 is summarized below:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance as of December 31, 2011	1,435,882	$ 18.97
Granted	511,557	31.71
Vested	(786,135)	20.49
Forfeited	(174,727)	22.53
Unvested balance as of December 31, 2012	986,577	23.74

The total fair value of restricted shares and performance shares granted during the year ended December 31, 2012, 2011, and 2010 was $16.2 million, $18.4 million, and $12.7 million, respectively. The total fair value of restricted shares vested during the year ended December 31, 2012, 2011, and 2010 was $25.4 million, $12.2 million, and $6.4 million, respectively.

Performance and restricted unit activity for the year ended December 31, 2012 is summarized below:

	Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value	Weighted Average Remaining Contractual term
			(In thousands)	(Years)
Outstanding as of December 31, 2011	—	$ —		
Granted	213,022	33.59		
Vested	(210,880)	33.58	$ 6,066	
Outstanding as of December 31, 2012	2,142	35.01	$ 58	0.2
Performance and restricted units expected to vest as of December 31, 2012	2,142	35.01	$ 58	0.2

The total fair value of performance and restricted units granted during the year ended December 31, 2012 was $7.2 million No performance or restricted units were granted or vested in 2011 and 2010.

Stock option activity for the year ended December 31, 2012 is summarized below:

	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Weighted Average Remaining Contractual term
			(In thousands)	(Years)
Stock options outstanding as of December 31, 2011	553,049	$ 20.91		
Granted	15,000	34.82		
Exercised	(153,238)	18.27		
Forfeited	(750)	22.37		
Stock options outstanding as of December 31, 2012	414,061	22.39	$ 2,204	3.3
Stock options exercisable and expected to vest as of December 31, 2012	414,061	22.39	$ 2,204	3.3
Exercisable as of December 31, 2012	399,061	21.93	$ 2,204	3.1

The weighted-average grant date fair value per share of the sole stock option awarded during 2012 was $13.97. To determine this fair value we applied a risk-free interest rate of 1.1%, expected volatility of 43.0%, an expected option life of 6 years, and expected dividend yield of 0%. No stock options were granted in 2011 or 2010. The following is a summary of information about stock options outstanding and exercisable at December 31, 2012:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$16.89 – $19.11	137,161	2.5	$ 18.46	137,161	$ 18.46
$20.88	148,500	4.1	20.88	148,500	20.88
$22.86 – $34.82	128,400	3.3	28.35	113,400	27.49
	414,061			399,061	

17. Related Party Transactions

On February 27, 2013, we entered into a lease (the “Lease”) with 6 th & Pine Development, LLC (the “Landlord”) for office space located in Long Beach, California. The lease consists of two office buildings as follows:

- an existing building, which comprises approximately 70,000 square feet of office space, and
- a new building, which is expected to comprise approximately 120,000 square feet of office space.

The term of the Lease with respect to the existing building is expected to commence on June 1, 2013, and the term of the Lease with respect to the new building is expected to commence on November 1, 2014. The initial term of the Lease with respect to both buildings expires on December 31, 2024, subject to two options to extend the term for a period of five years each. Initial annual rent for the existing building is expected to be approximately $2.5 million and initial annual rent for the new building is expected to be approximately $4.0 million. Rent will increase 3.75% per year through the initial term. Rent during the extension terms will be the greater of then-current rent or fair market rent.

The principal members of the Landlord are John C. Molina, the Chief Financial Officer and a director of the Company, and his wife. In addition, in connection with the development of the buildings being leased, the Landlord has pledged shares of common stock in the Company he holds as trustee. Dr. J. Mario Molina, the Company's Chief Executive Officer and Chairman of the Board of Directors, holds a partial interest in such shares as trust beneficiary.

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 confers significant influence over operating and financial policies of the investee. For both years ended December 31, 2012, and 2011 our carrying amount for this investment amounted to $3.9 million. For the years ended December 31, 2012, 2011, and 2010, we paid $28.4 million, $24.3 million, and $22.0 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, or Pacific Hospital. Pacific Hospital is owned by Abrazos Healthcare, Inc. Until October 12, 2010, the majority of the shares of Abrazos Healthcare, Inc. were held as community property by Dr. Martha Bernadett and her husband. Dr. Martha Bernadett is the sister of Joseph M. Molina, M.D. (Dr. J. Mario Molina), our Chief Executive Officer, and John Molina, our Chief Financial Officer. On October 12, 2010, Dr. Bernadett and her husband sold their shares in Abrazos Healthcare, Inc., terminating our related party relationship with Pacific Hospital. Under the terms of this fee-for-service agreement we paid Pacific Hospital $0.8 million for the period from January 1, 2010 to October 12, 2010.

On December 26, 2012, we purchased 110,988 shares of our common stock from certain Molina family trusts for an aggregate purchase price of $3.0 million. This purchase transaction was approved by our board of directors. The shares were purchased at a price of $27.03, representing the closing price per share of our common stock on December 26, 2012. The shares were purchased from the Janet M. Watt Separate Property Trust dated 10/22/2007, or the Separate Property Trust, and the Watt Family Trust dated 10/11/1996, or the Family Trust. Janet M. Watt is the sister, and her husband Lawrence B. Watt is the brother-in-law, of Dr. J. Mario Molina and John Molina. Ms. Watt is the sole trustee of the Separate Property Trust, and a co-trustee with Lawrence B. Watt of the Family Trust.

18. Variable Interest Entities

Joseph M. Molina M.D., Professional Corporations

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

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

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

New Markets Tax Credit

During the fourth quarter of 2011 our New Mexico data center subsidiary entered into a financing transaction with Wells Fargo Community Investment Holdings, LLC, or Wells Fargo, its wholly owned subsidiary New Mexico Healthcare Data Center Investment Fund, LLC, or Investment Fund, and certain of Wells Fargo's affiliated Community Development Entities, or CDEs, in connection with our participation in the federal government's New Markets Tax Credit Program, or NMTC. The NMTC was established by Congress in 2000 to facilitate new or increased investments in businesses and real estate projects in low-income communities. The NMTC attracts investment capital to low-income communities by permitting investors to receive a tax credit against their federal income tax return in exchange for equity investments in specialized financial institutions, called CDEs, which provide financing to qualified active businesses operating in low-income communities. The credit amounts to 39% of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period.

In the fourth quarter of 2011, as a result of a series of simultaneous financing transactions, Wells Fargo contributed capital of $5.9 million to the Investment Fund, and Molina Healthcare, Inc. loaned the principal amount of $ 15.5 million to the Investment Fund. The Investment Fund then contributed the proceeds to certain CDEs, which, in turn, loaned the proceeds of $20.9 million to our New Mexico data center subsidiary. Wells Fargo will be entitled to claim the NMTC while we effectively received net loan proceeds equal to Wells Fargo's contribution to the Investment Fund, or approximately $5.9 million. Additionally, financing costs incurred in structuring the arrangement amounting to $1.2 million were deferred and will be recognized as expense over the term of the loans. This transaction also includes a put/call feature that becomes enforceable at the end of the seven-year compliance period. Wells Fargo may exercise its put option or we can exercise the call, both of which will serve to transfer the debt obligation to us. Incremental costs to maintain the structure during the compliance period will be recognized as incurred.

We have determined that the financing arrangement with Investment Fund and CDEs is a VIE, and that we are the primary beneficiary of the VIE. We reached this conclusion based on the following:

- The ongoing activities of the VIE-collecting and remitting interest and fees and NMTC compliance-were all considered in the initial design and are not expected to significantly affect economic performance throughout the life of the VIE;

- Contractual arrangements obligate us to comply with NMTC rules and regulations and provide various other guarantees to Investment Fund and CDEs;
- Wells Fargo lacks a material interest in the underling economics of the project; and
- We are obligated to absorb losses of the VIE.

Because we are the primary beneficiary of the VIE, we have included it in our consolidated financial statements. Wells Fargo's contribution of $5.9 million is included in cash at December 31, 2012 and the offsetting Wells Fargo's interest in the financing arrangement is included in other liabilities in the accompanying consolidated balance sheets.

As described above, this transaction also includes a put/call provision whereby we may be obligated or entitled to repurchase Wells Fargo's interest in the Investment Fund. The value attributed to the put/call is nominal. The NMTC is subject to 100% recapture for a period of seven years as provided in the Internal Revenue Code and applicable U.S. Treasury regulations. We are required to be in compliance with various regulations and contractual provisions that apply to the NMTC arrangement. Non-compliance with applicable requirements could result in Wells Fargo's projected tax benefits not being realized and, therefore, require us to indemnify Wells Fargo for any loss or recapture of NMTCs related to the financing until such time as the recapture provisions have expired under the applicable statute of limitations. We do not anticipate any credit recaptures will be required in connection with this arrangement.

19. Commitments and Contingencies

Leases

We lease administrative and clinic facilities and certain equipment under non-cancelable operating leases expiring at various dates through 2021. Facility lease terms generally range from five to ten years with one to two renewal options for extended terms. In most cases, we are required to make additional payments under facility operating leases for taxes, insurance and other operating expenses incurred during the lease period. Certain of our leases contain rent escalation clauses or lease incentives, including rent abatements and tenant improvement allowances. Rent escalation clauses and lease incentives are taken into account in determining total rent expense to be recognized during the lease term. Future minimum lease payments by year and in the aggregate under all operating leases consist of the following approximate amounts:

	(In thousands)
2013	$ 26,866
2014	21,420
2015	14,808
2016	8,472
2017	6,939
Thereafter	7,771
Total minimum lease payments	$ 86,276

Rental expense related to these leases amounted to $20.5 million, $23.1 million, and $25.1 million for the years ended December 31, 2012, 2011, and 2010, respectively.

Employment Agreements

In 2002 we entered into employment agreements with our Chief Executive Officer and Chief Financial Officer, which have been amended and restated as of December 31, 2009. These employment agreements had initial terms of one to three years and are subject to automatic one-year extensions thereafter. Should the executives be terminated without cause or resign for good reason before a change of control, as defined, we will pay one year's base salary and termination bonus, as defined, in addition to full vesting of 401(k) employer contributions and stock-based awards, and a cash sum equal in value to health and welfare benefits provided for 18 months. If the executives are terminated for cause, no further payments are due under the contracts.

If termination occurs within two years following a change of control, the executives will receive two times their base salary and termination bonus, in addition to full vesting of 401(k) employer contributions and stock-based awards, and a cash sum equal in value to health and welfare benefits provided for three years.

Legal Proceedings

The health care and business process outsourcing industries are subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Penalties associated with violations of these laws and regulations include significant fines and penalties, exclusion from participating in publicly funded programs, and the repayment of previously billed and collected revenues.

We are involved in legal actions in the ordinary course of business, some of which seek monetary damages, including claims for punitive damages, which are not covered by insurance. We have accrued liabilities for certain matters for which we deem the loss to be both probable and estimable. Although we believe that our estimates of such losses are reasonable, these estimates could change as a result of further developments of these matters. The outcome of legal actions is inherently uncertain and such pending matters for which accruals have not been established have not progressed sufficiently through discovery and/or development of important factual information and legal issues to enable us to estimate a range of possible loss, if any. While it is not possible to accurately predict or determine the eventual outcomes of these items, an adverse determination in one or more of these pending matters could have a material adverse effect on our consolidated financial position, results of operations, or cash flows.

Professional Liability Insurance

We carry medical professional liability insurance for health care services rendered through our clinics in California, Florida, New Mexico, Virginia, and Washington. We also carry claims-made managed care errors and omissions professional liability insurance for our health plan operations.

Provider Claims

Many of our medical contracts are complex in nature and may be subject to differing interpretations regarding amounts due for the provision of various services. Such differing interpretations have led certain medical providers to pursue us for additional compensation. The claims made by providers in such circumstances often involve issues of contract compliance, interpretation, payment methodology, and intent. These claims often extend to services provided by the providers over a number of years.

Various providers have contacted us seeking additional compensation for claims that we believe to have been settled. These matters, when finally concluded and determined, will not, in our opinion, have a material adverse effect on our business, consolidated financial position, results of operations, or cash flows.

Regulatory Capital and Dividend Restrictions

Our health plans, which are operated by our respective wholly owned subsidiaries in those states, are subject to state laws and regulations that, among other things, require the maintenance of minimum levels of statutory capital, as defined by each state. Such state laws and regulations also restrict the timing, payment, and amount of dividends and other distributions that may be paid to us as the sole stockholder. To the extent the subsidiaries must comply with these regulations, they may not have the financial flexibility to transfer funds to us. The net assets in these subsidiaries (after inter-company eliminations) which may not be transferable to us in the form of loans, advances, or cash dividends was $549.7 million at December 31, 2012, and $492.4 million December 31, 2011. Because of the statutory restrictions that inhibit the ability of our health plans to transfer net assets to us, the amount of retained earnings readily available to pay dividends to our stockholders are generally limited to cash, cash equivalents and investments held by the parent company – Molina Healthcare, Inc. Such cash, cash equivalents and investments amounted to $46.9 million and $23.6 million as of December 31, 2012, and 2011, respectively.

The National Association of Insurance Commissioners, or NAIC, adopted rules effective December 31, 1998, which, if implemented by the states, set minimum capitalization requirements for insurance companies, HMOs, and other entities bearing risk for health care coverage. The requirements take the form of risk-based capital, or RBC, rules. Michigan, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin have adopted these rules, which may vary from state to state. California and Florida have not yet adopted NAIC risk-based capital requirements for HMOs and have not formally given notice of their intention to do so. Such requirements, if adopted by California and Florida, may increase the minimum capital required for those states.

As of December 31, 2012, our health plans had aggregate statutory capital and surplus of approximately $557.9 million compared with the required minimum aggregate statutory capital and surplus of approximately $345.7 million. All of our health plans were in compliance with the minimum capital requirements at December 31, 2012. We have the ability and commitment to provide additional capital to each of our health plans when necessary to ensure that statutory capital and surplus continue to meet regulatory requirements.

Receivable/Liability for Ceded Life and Annuity Contracts

Prior to February 17, 2012, we reported a 100% ceded reinsurance arrangement for life insurance policies written and held by our then wholly owned insurance subsidiary, Molina Healthcare Insurance Company, by recording a non-current receivable from the reinsurer with a corresponding non-current liability for ceded life and annuity contracts. Effective February 17, 2012, we sold Molina Healthcare Insurance Company. The transaction resulted in the elimination of both the noncurrent receivable and liability for ceded life and annuity contracts, each amounting to $23.4 million as of December 31, 2011. Additionally, we recorded a gain of approximately $1.7 million to general and administrative expenses in the first quarter of 2012 upon closing of the transaction.

Molina Healthcare Insurance Company is now named Catamaran Insurance of Ohio, or Catamaran. In the event that both the reinsurer and Catamaran are unable to pay benefit on policies that were in-force as of the sale date, we remain ultimately liable for payment of such benefits. Because we no longer own Catamaran, we no longer have access to its financial records; therefore, the maximum amount of potential future payments is not determinable. We believe the possibility of our having to pay such benefits is remote, and no provision for the payment of such benefits is included in our consolidated financial statements.

20. Segment Reporting

We report our financial performance based on two reportable segments: Health Plans and Molina Medicaid Solutions. Our reportable segments are consistent with how we manage the business and view the markets we serve. Our Health Plans segment consists of our state health plans which serve Medicaid populations in nine states, subsequent to the termination of our Medicaid contract in Missouri effective June 30, 2012, and also includes our smaller direct delivery line of business. Our state health plans represent operating segments that have been aggregated for reporting purposes because they share similar economic characteristics.

Our Molina Medicaid Solutions segment provides design, development, implementation; business process outsourcing solutions; hosting services; and information technology support services to Medicaid agencies in an additional five states. The Molina Medicaid Solutions segment was added to our internal financial reporting structure when we acquired this business in the second quarter of 2010.

We rely on an internal management reporting process that provides segment information to the operating income level for purposes of making financial decisions and allocating resources. The accounting policies of the segments are the same as those described in Note 2, “Significant Accounting Policies.” The cost of services shared between the Health Plans and Molina Medicaid Solutions segments is charged to the Health Plans segment.

Molina Medicaid Solutions was acquired on May 1, 2010; therefore, the year ended December 31, 2010 includes only eight months of operating results for this segment. Operating segment information is as follows:

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Segment Information:			
Revenue:			
Health Plans:			
Premium revenue	$ 5,826,491	$ 4,603,407	$ 3,989,909
Investment income	5,188	5,539	6,259
Rental income	9,374	547	—
Molina Medicaid Solutions:			
Service revenue	187,710	160,447	89,809
	$ 6,028,763	$ 4,769,940	$ 4,085,977
Depreciation and amortization:			
Health Plans	$ 58,577	$ 45,734	$ 42,282
Molina Medicaid Solutions	20,187	28,649	18,483
	$ 78,764	$ 74,383	$ 60,765
Operating Income:			
Health Plans	$ 11,746	$ 78,110	$ 102,392
Molina Medicaid Solutions	23,727	2,063	2,609
Total operating income	35,473	80,173	105,001
Interest expense	(16,769)	(15,519)	(15,509)
Other income	361	—	—
Income before income taxes	$ 19,065	$ 64,654	$ 89,492

	As of December 31,	
	2012	2011
	(In thousands)	
Goodwill and intangible assets, net:		
Health Plans	$ 139,710	$ 159,963
Molina Medicaid Solutions	89,089	95,787
	$ 228,799	$ 255,750
Total assets:		
Health Plans	$ 1,702,212	$ 1,429,283
Molina Medicaid Solutions	232,610	222,863
	$ 1,934,822	$ 1,652,146

21. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2012 and 2011.

	For The Quarter Ended,			
	March 31, 2012	June 30, 2012	September 30, 2012	December 31, 2012
	(In thousands, except per-share data)			
Premium revenue	$ 1,327,449	$ 1,492,272	$ 1,488,718	$ 1,518,052
Service revenue	42,205	41,724	48,422	55,359
Operating income (loss)	33,420	(59,267)	7,187	54,133
Income (loss) before income taxes	29,122	(63,075)	2,872	50,146
Net income (loss)	18,089	(37,306)	3,364	25,643
Net income (loss) per share (2):				
Basic	$ 0.39	$ (0.80)	$ 0.07	$ 0.55
Diluted	$ 0.39	$ (0.80)	$ 0.07	$ 0.54

	For The Quarter Ended,			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011(1)
	(In thousands, except per-share data)			
Premium revenue	$ 1,081,438	$ 1,128,770	$ 1,138,230	$ 1,254,969
Service revenue	36,674	36,888	37,728	49,157
Operating income (loss)	31,300	31,410	33,566	(16,103)
Income (loss) before income taxes	27,697	27,727	29,186	(19,956)
Net income (loss)	17,388	17,440	18,950	(32,960)
Net income (loss) per share (2):				
Basic	$ 0.38	$ 0.38	$ 0.41	$ (0.72)
Diluted	$ 0.38	$ 0.38	$ 0.41	$ (0.72)

(1) On February 17, 2012, the Division of Purchasing of the Missouri Office of Administration notified us that our Missouri health plan was not awarded a contract under the Missouri HealthNet Managed Care Request for Proposal; therefore, our Missouri health plan's existing contract with the state expired without renewal on June 30, 2012. In connection with this notification, we recorded a total non-cash impairment charge of $64.6 million in the fourth quarter of 2011, of which $6.1 million related to finite-lived intangible assets, and $58.5 million related to goodwill. The impairment charge comprised substantially all intangible assets relating to contract rights and licenses, and provider networks recorded at the time of our acquisition of the Missouri health plan in 2007. For the quarter ended December 31, 2011, the impairment charge reduced diluted earnings per share by $1.34.

(2) Potentially dilutive shares issuable pursuant to our 2007 offering of convertible senior notes were not included in the computation of diluted net income per share because to do so would have been anti-dilutive for the years ended December 31, 2012, and 2011.

22. Condensed Financial Information of Registrant

Following are our parent company only condensed balance sheets as of December 31, 2012 and 2011, and our condensed statements of income and condensed statements of cash flows for each of the three years in the period ended December 31, 2012.

Condensed Balance Sheets

	December 31,	
	2012	2011
	(Amounts in thousands, except per-share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 39,068	$ 14,650
Investments	2,015	2,010
Income tax refundable	8,868	14,126
Deferred income taxes	9,706	9,133
Due from affiliates	55,382	60,569
Prepaid and other current assets	19,164	10,467
Total current assets	134,203	110,955
Property and equipment, net	108,808	82,437
Goodwill	52,302	53,769
Auction rate securities	3,615	4,694
Investments in subsidiaries	768,765	740,345
Advances to related parties and other assets	34,600	32,473
	$ 1,102,293	$ 1,024,673
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Accounts payable and accrued liabilities	$ 73,883	$ 71,392
Long-term debt	215,468	169,526
Deferred income taxes	17,122	16,909
Other long-term liabilities	13,506	11,773
Total liabilities	319,979	269,600
Stockholders' equity:		
Common stock, $0.001 par value; 80,000 shares authorized; outstanding:		
46,762 shares at December 31, 2012 and 45,815 shares at December 31, 2011	47	46
Preferred stock, $0.001 par value; 20,000 shares authorized, no shares issued and outstanding	—	—
Paid-in capital	285,524	266,022
Accumulated other comprehensive loss	(457)	(1,405)
Treasury stock, at cost; 111 shares at December 31, 2012	(3,000)	—
Retained earnings	500,200	490,410
Total stockholders' equity	782,314	755,073
	$ 1,102,293	$ 1,024,673

Condensed Statements of Income

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Revenue:			
Management fees and other operating revenue	$ 406,981	$ 308,287	$ 238,883
Investment income	550	81	1,153
Total revenue	407,531	308,368	240,036
Expenses:			
Medical care costs	33,102	31,672	30,582
General and administrative expenses	367,606	272,302	218,834
Depreciation and amortization	38,794	31,355	27,166
Total expenses	439,502	335,329	276,582
Operating loss	(31,971)	(26,961)	(36,546)
Interest expense	14,469	14,958	15,500
Loss before income taxes and equity in net income of subsidiaries	(46,440)	(41,919)	(52,046)
Income tax benefit	(15,779)	(14,826)	(16,936)
Net loss before equity in net income of subsidiaries	(30,661)	(27,093)	(35,110)
Equity in net income of subsidiaries	40,451	47,911	90,080
Net income	$ 9,790	$ 20,818	$ 54,970

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Condensed Statements of Cash Flows

	Year Ended December 31,		
	2012	2011	2010
	(In thousands)		
Operating activities:			
Cash provided by operating activities	$ 20,611	$ 28,606	$ 19,380
Investing activities:			
Net dividends from and capital contributions to subsidiaries	1,579	27,872	70,800
Purchases of investments	(1,905)	(2,020)	(2,019)
Sales and maturities of investments	4,067	3,760	14,083
Cash paid in business combinations	—	—	(139,762)
Proceeds from sale of subsidiary, net of cash surrendered	9,162	—	—
Purchases of equipment	(61,813)	(30,930)	(40,419)
Changes in amounts due to and due from affiliates	5,187	(50,090)	(5,723)
Change in other assets and liabilities	(1,342)	(20,441)	829
Net cash used in investing activities	(45,065)	(71,849)	(102,211)
Financing activities:			
Proceeds from common stock offering, net of issuance costs	—	—	111,131
Amount borrowed under credit facility	60,000	—	105,000
Repayment of amount borrowed under credit facility	(20,000)	—	(105,000)
Treasury stock repurchases	(3,000)	(7,000)	—
Payment of credit facility fees	—	(1,125)	(1,671)
Excess tax benefits from employee stock compensation	3,667	1,651	295
Proceeds from exercise of stock options and employee stock plan purchases	8,205	7,347	4,056
Net cash provided by financing activities	48,872	873	113,811
Net increase (decrease) in cash and cash equivalents	24,418	(42,370)	30,980
Cash and cash equivalents at beginning of year	14,650	57,020	26,040
Cash and cash equivalents at end of year	$ 39,068	$ 14,650	$ 57,020

Notes to Condensed Financial Information of Registrant

Note A - Basis of Presentation

Molina Healthcare, Inc., or the Registrant, was incorporated on July 24, 2002. Prior to that date, Molina Healthcare of California (formerly known as Molina Medical Centers) operated as a California health plan and as the parent company for Molina Healthcare of Utah, Inc. Molina Healthcare of Michigan, Inc. and Molina Healthcare of Washington, Inc. In June 2003, the employees and operations of the corporate entity were transferred from Molina Healthcare of California to the Registrant.

The Registrant's investment in subsidiaries is stated at cost plus equity in undistributed earnings of subsidiaries since the date of acquisition. The accompanying condensed financial information of the Registrant should be read in conjunction with the consolidated financial statements and accompanying notes.

Note B - Transactions with Subsidiaries

The Registrant provides certain centralized medical and administrative services to its subsidiaries pursuant to administrative services agreements, including medical affairs and quality management, health education, credentialing, management, financial, legal, information systems and human resources services. Fees are based on the fair market value of services rendered and are recorded as operating revenue. Payment is subordinated to the subsidiaries' ability to comply with minimum capital and other restrictive financial requirements of the states in which they operate. Charges in 2012, 2011, and 2010 for these services totaled $406.4 million, $307.9 million, and $238.5 million, respectively, which are included in operating revenue.

The Registrant and its subsidiaries are included in the consolidated federal and state income tax returns filed by the Registrant. Income taxes are allocated to each subsidiary in accordance with an intercompany tax allocation agreement. The agreement allocates income taxes in an amount generally equivalent to the amount which would be expensed by the subsidiary if it filed a separate tax return. Net operating loss benefits are paid to the subsidiary by the Registrant to the extent such losses are utilized in the consolidated tax returns.

Note C - Capital Contribution, Dividends and Surplus Note

During 2012, 2011, and 2010, the Registrant received dividends from its subsidiaries amounting to $101.8 million, $76.6 million, and $81.3 million, respectively. Such amounts have been recorded as a reduction to the investments in the respective subsidiaries. In addition, in 2011 a subsidiary of the Registrant repaid a surplus note in favor of the Registrant amounting to $9.7 million, including accrued interest. Such amount was a reduction of due from affiliates and prepaid and other current assets.

During 2012, 2011, and 2010, the Registrant made capital contributions to certain subsidiaries amounting to $100.2 million, $58.4 million, and $10.5 million, respectively, primarily to comply with minimum net worth requirements and to fund contract acquisitions. Such amounts have been recorded as an increase in investment in the respective subsidiaries.

Note D - Related Party Transactions

On February 27, 2013, the Registrant entered into a lease (the "Lease") with 6th & Pine Development, LLC (the "Landlord") for office space located in Long Beach, California. The lease consists of two office buildings as follows:

- an existing building, which comprises approximately 70,000 square feet of office space, and
- a new building, which is expected to comprise approximately 120,000 square feet of office space.

The term of the Lease with respect to the existing building is expected to commence on June 1, 2013, and the term of the Lease with respect to the new building is expected to commence on November 1, 2014. The initial term of the Lease with respect to both buildings expires on December 31, 2024, subject to two options to extend the term for a period of five years each. Initial annual rent for the existing building is expected to be approximately $2.5 million and initial annual rent for the new building is expected to be approximately $4.0 million. Rent will increase 3.75% per year through the initial term. Rent during the extension terms will be the greater of then-current rent or fair market rent.

The principal members of the Landlord are John C. Molina, the Chief Financial Officer and a director of the Registrant, and his wife. In addition, in connection with the development of the buildings being leased, the Landlord has pledged shares of common stock in the Registrant he holds as trustee. Dr. J. Mario Molina, the Registrant's Chief Executive Officer and Chairman of the Board of Directors, holds a partial interest in such shares as trust beneficiary.

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

The Registrant is party to a fee-for-service agreement with Pacific Hospital of Long Beach, or Pacific Hospital. Pacific Hospital is owned by Abrazos Healthcare, Inc. Until October 12, 2010, the majority of the shares of Abrazos Healthcare, Inc. were held as community property by Dr. Martha Bernadett and her husband. Dr. Martha Bernadett is the sister of Joseph M. Molina, M.D. (Dr. J. Mario Molina), our Chief Executive Officer, and John Molina, our Chief Financial Officer. On October 12, 2010, Dr. Bernadett and her husband sold their shares in Abrazos Healthcare, Inc., terminating our related party relationship with Pacific Hospital. Under the terms of this fee-for-service agreement we paid Pacific Hospital $0.8 million for the period from January 1, 2010 to October 12, 2010.

On December 26, 2012, the Registrant purchased 110,988 shares of its common stock from certain Molina family trusts for an aggregate purchase price of $3.0 million. This purchase transaction was approved by the Registrant's board of directors. The shares were purchased at a price of $27.03, representing the closing price per share of the Registrant's common stock on December 26, 2012. The shares were purchased from the Janet M. Watt Separate Property Trust dated 10/22/2007, or the Separate Property Trust, and the Watt Family Trust dated 10/11/1996, or the Family Trust. Janet M. Watt is the sister, and her husband Lawrence B. Watt is the brother-in-law, of Dr. J. Mario Molina and John Molina. Ms. Watt is the sole trustee of the Separate Property Trust, and a co-trustee with Lawrence B. Watt of the Family Trust.

23. Subsequent Event

New Mexico Health Plan

On February 11, 2013, we announced that our New Mexico health plan was selected by the New Mexico Human Services Department (HSD) to participate in the new Centennial Care program. In addition to continuing to provide physical and acute health care services, under the new program Molina Healthcare of New Mexico will expand its services to provide behavioral health and long-term care services. The selection of Molina Healthcare of New Mexico was made by HSD pursuant to its request for proposals issued in August 2012. The operational start date for the program is currently scheduled for January 2014.

Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosures***

None.

Item 9A. ***Controls and Procedures***

Disclosure Controls and Procedures: Our management is responsible for establishing and maintaining effective internal control over financial reporting as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934 (the "Exchange Act"). Our internal control over financial reporting is designed to provide reasonable assurance to our management and board of directors regarding the preparation and fair presentation of published financial statements. We maintain controls and procedures designed to ensure that we are able to collect the information we are required to disclose in the reports we file with the Securities and Exchange Commission, and to process, summarize and disclose this information within the time periods specified in the rules of the Securities and Exchange Commission.

Evaluation of Disclosure Controls and Procedures: Our management, with the participation of our Chief Executive Officer and our Chief Financial Officer, has conducted an evaluation of the design and operation of our "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e)) under the Exchange Act. Based on this evaluation, our Chief Executive Officer and our Chief Financial Officer have concluded that our disclosure controls and procedures are effective as of the end of the period covered by this report to ensure that information required to be disclosed in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation.

Changes in Internal Controls: There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2012, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting: Management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rule 13a-15(f) under the Exchange Act. The Company's internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles in the United States. However, all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and reporting.

Management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2012. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in *Internal Control-Integrated Framework.*

Based on our assessment, management believes that the Company maintained effective internal control over financial reporting as of December 31, 2012, based on those criteria.

The effectiveness of the Company's internal control over financial reporting has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report appearing on page 117 of this Annual Report on Form 10-K, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2012.

Item 9B. ***Other Information***

6th and Pine Lease

On February 27, 2013, Molina Healthcare, Inc. (the "Company") entered into a build-to-suit office building lease (the "Lease") with 6th & Pine Development, LLC (the "Landlord") for approximately 190,000 rentable square feet of office space and 15,000 square feet of storage space located at 604 Pine Avenue, Long Beach, California (the "Project"). The Landlord is expected to construct the Project on a "turnkey" basis, which will consist of two office buildings, on-site parking, common areas and certain amenities, and the right to use up to 500 off-site parking spaces to be secured by the Landlord. The two office buildings will be comprised of:

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

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

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

Commencing on the commencement date of the lease for the Existing Building, the monthly base rent due under the Lease is (i) for the office space, initially $2.70 per rentable square foot, increasing by 3.75% per year through the initial term, and (ii) for the storage space, $1.40 per rentable square foot, increasing by 3.75% per year through the initial term. Base rent during the extension terms will be the greater of then-current base rent or fair market rent. The Lease is a full service, base year, gross lease. Accordingly, the rent payable by the Company includes the cost of all utilities, taxes, insurance and maintenance with respect to the Project for the base year, 2015. The Company will be responsible for any increases in the cost of utilities, taxes, insurance and/or maintenance in excess of the cost therefor during the base year, 2015 (subject to certain customary limitations). The Company will also pay $600 per year for each on-site parking space (213) and for each off-site parking space that the Company elects to use (up to 500). The per year, per space parking rate will increase by 3% each year for each on-site parking space and by CPI, with a cap of 3%, for each off-site space.

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

The principal members of the Landlord are John C. Molina, the Chief Financial Officer and a director of the Company, and his wife. In addition, in connection with the Project the Landlord has pledged shares of common stock in the Company he holds as trustee. Dr. J. Mario Molina, the Company's Chief Executive Officer and Chairman of the Board of Directors, holds a partial interest in such shares as trust beneficiary.

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

The foregoing description of the Lease is not complete and is qualified in its entirety by reference to the full text of such agreement, a copy of which is filed as Exhibit 10.32 herewith and which is incorporated herein by reference.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Stockholders
of Molina Healthcare, Inc.

We have audited Molina Healthcare, Inc.'s (the "Company's") internal control over financial reporting as of December 31, 2012, based on criteria established in *Internal Control — Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). The Company's management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, Molina Healthcare, Inc. maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Molina Healthcare, Inc. as of December 31, 2012 and 2011, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2012 and our report dated February 28, 2013 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 28, 2013

PART III

Item 10. ***Directors, Executive Officers, and Corporate Governance***

Pursuant to General Instruction G(3) to Form 10-K and Instruction 3 to Item 401(b) of Regulation S-K, information regarding our executive officers is provided in Item 1 of Part I of this Annual Report on Form 10-K under the caption “Executive Officers of the Registrant,” and will also appear in our definitive proxy statement for our 2013 Annual Meeting of Stockholders. The remaining information required by Items 401, 405, 406 and 407(c)(3), (d)(4) and (d)(5) of Regulation S-K will be included under the headings “Election of Directors,” “Corporate Governance,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive proxy statement for our 2013 Annual Meeting of Shareholders, and such required information is incorporated herein by reference.

Item 11. ***Executive Compensation***

The information required by Items 402, 407(e)(4), and (e)(5) of Regulation S-K will be included under the headings “Executive Compensation” and “Compensation Committee Interlocks and Insider Participation” in our definitive proxy statement for our 2013 Annual Meeting of Shareholders, and such required information is incorporated herein by reference.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

The information required by this item regarding our equity compensation plans is set forth in Part II, Item 5 of this report and incorporated herein by reference. The remaining information required by Item 403 of Regulation S-K will be included under the heading “Security Ownership of Certain Beneficial Owners and Management” in our definitive proxy statement for our 2013 Annual Meeting of Shareholders, and such required information is incorporated herein by reference.

Item 13. ***Certain Relationships and Related Transactions, and Director Independence***

The information required by Items 404 and 407(a) of Regulation S-K will be included under the headings “Certain Relationships and Transactions” and “Corporate Governance” in our definitive proxy statement for our 2013 Annual Meeting of Shareholders, and such required information is incorporated herein by reference.

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

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

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

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

Stock Repurchase

Janet M. Watt is the sister, and her husband Lawrence B. Watt is the brother-in-law, of Dr. J. Mario Molina, the Company's Chief Executive Officer, and John Molina, the Company's Chief Financial Officer. Ms. Watt is the sole trustee of the Janet M. Watt Separate Property Trust dated 10/22/2007 (the "Separate Property Trust") and a co-trustee with Lawrence B. Watt, of the Watt Family Trust dated 10/11/1996 (the "Family Trust" and together with the Separate Property Trust, the "Trusts"). On December 26, 2012, pursuant to a Stock Purchase Agreement between the Company and the Trusts, the Company purchased an aggregate of 110,988 shares of its common stock from the Trusts for an aggregate purchase price of $3,000,005.64, as follows: (i) 43,767 shares from the Family Trust for an aggregate purchase price of $ 1,183,022.01 and (ii) 67,221 shares from the Separate Property Trust for an aggregate purchase price of $1,816,983.63. The shares were purchased at a price per share of $27.03, representing the closing price per share of the Company's common stock on December 26, 2012, as reported by the New York Stock Exchange. The transaction was approved by the Company's Board of Directors.

6th and Pine Lease

Please see the information disclosed under Part II, Item 9B. Other Information, in this Annual Report, which disclosure is incorporated herein by reference.

Item 14. ***Principal Accountant Fees and Services***

The information required by Item 9(e) of Schedule 14A will be included under the heading "Independent Registered Public Accounting Firm" in our definitive proxy statement for our 2013 Annual Meeting of Shareholders, and such required information is incorporated herein by reference.

PART IV

Item 15. *Exhibits and Financial Statement Schedules*

(a) The consolidated financial statements and exhibits listed below are filed as part of this report.

(1) The Company's consolidated financial statements, the notes thereto and the report of the Independent Registered Public Accounting Firm are on pages 64 through 108 of this Annual Report on Form 10-K and are incorporated by reference.

Report of Independent Registered Public Accounting Firm

Consolidated Balance Sheets - At December 31, 2012 and 2011

Consolidated Statements of Income - Years ended December 31, 2012, 2011, and 2010

Consolidated Statements of Stockholders' Equity - Years ended December 31, 2012, 2011, and 2010

Consolidated Statements of Cash Flows - Years ended December 31, 2012, 2011, and 2010

Notes to Consolidated Financial Statements

(2) Financial Statement Schedules

None of the schedules apply, or the information required is included in the Notes to the Consolidated Financial Statements.

(3) Exhibits

Reference is made to the accompanying Index to Exhibits.

The following exhibits, which are furnished with this annual report or incorporated herein by reference, are filed as part of this annual report.

The agreements included or incorporated by reference as exhibits to this Annual Report on Form 10-K contain representations and warranties by each of the parties to the applicable agreement. These representations and warranties were made solely for the benefit of the other parties to the applicable agreement and (i) were not intended to be treated as categorical statements of fact, but rather as a way of allocating the risk to one of the parties if those statements prove to be inaccurate; (ii) may have been qualified in such agreement by disclosures that were made to the other party in connection with the negotiation of the applicable agreement; (iii) may apply contract standards of "materiality" that are different from "materiality" under the applicable securities laws; and (iv) were made only as of the date of the applicable agreement or such other date or dates as may be specified in the agreement. The Company acknowledges that, notwithstanding the inclusion of the foregoing cautionary statements, it is responsible for considering whether additional specific disclosures of material information regarding material contractual provisions are required to make the statements in this Annual Report on Form 10-K not misleading.

Number	Description	Method of Filing
1.1	Purchase Agreement, dated as of February 11, 2013, among Molina Healthcare, Inc. and J.P. Morgan Securities LLC and Merrill Lynch, Pierce, Fenner & Smith Incorporated, as Representatives of the Initial Purchasers.	Filed as Exhibit 1.1 to registrant's Form 8-K filed February 15, 2013.
2.1	Asset Purchase Agreement between Molina Healthcare, Inc. and Unisys Corporation dated as of January 18, 2010	Filed as Exhibit 2.1 to registrant's Form 8-K filed January 19, 2010.
3.1	Certificate of Incorporation	Filed as Exhibit 3.2 to registrant's Registration Statement on Form S-1 filed December 30, 2002.
3.2	Amended and Restated Bylaws	Filed as Exhibit 3.2 to registrant's Form 8-K filed February 17, 2009.
4.1	Indenture dated as of October 11, 2008	Filed as Exhibit 4.1 to registrant's Form 8-K filed October 5, 2007.
4.2	First Supplemental Indenture dated as of October 11, 2008	Filed as Exhibit 4.2 to registrant's Form 8-K filed October 5, 2007.
4.3	Global Form of 3.75% Convertible Senior Note due 2014	Filed as Exhibit 4.3 to registrant's Form 8-K filed October 5, 2007.
4.4	Indenture, dated as of February 15, 2013, by and between Molina Healthcare, Inc. and U.S. Bank, National Association.	Filed as Exhibit 4.1 to registrant's Form 8-K filed February 15, 2013.
4.5	Form of 1.125% Cash Convertible Senior Note due 2020	Included in Exhibit 4.1 to registrant's Form 8-K filed February 15, 2013.
10.1	2000 Omnibus Stock and Incentive Plan	Filed as Exhibit 10.12 to registrant's Form S-1 filed December 30, 2002.
10.2	2002 Equity Incentive Plan	Filed as Exhibit 10.13 to registrant's Form S-1 filed December 30, 2002.
10.3	2002 Employee Stock Purchase Plan	Filed as Exhibit 10.14 to registrant's Form S-1 filed December 30, 2002.
10.4	2005 Molina Deferred Compensation Plan adopted November 6, 2006	Filed as Exhibit 10.4 to registrant's Form 10-Q filed November 9, 2006.
10.5	2005 Incentive Compensation Plan	Filed as Appendix A to registrant's Proxy Statement filed March 28, 2005.
10.6	2011 Equity Incentive Plan	Filed as Exhibit 10.2 to registrant's Form 8-K filed May 2, 2011.
10.7	2011 Employee Stock Purchase Plan	Filed as Exhibit 10.1 to registrant's Form 8-K filed May 2, 2011.
10.8	Form of Restricted Stock Award Agreement (Executive Officer) under Molina Healthcare, Inc. Equity Incentive Plan	Filed as Exhibit 10.1 to registrant's Form 10-Q filed August 9, 2005.
10.9	Form of Restricted Stock Award Agreement (Outside Director) under Molina Healthcare, Inc. Equity Incentive Plan	Filed as Exhibit 10.1 to registrant's Form 10-Q filed August 9, 2005.

Number	Description	Method of Filing
10.10	Form of Restricted Stock Award Agreement (Employee) under Molina Healthcare, Inc. Equity Incentive Plan	Filed as Exhibit 10.1 to registrant's Form 10-Q filed August 9, 2005.
10.11	Form of Stock Option Agreement under Equity Incentive Plan	Filed as Exhibit 10.3 to registrant's Form 10-K filed March 14, 2007.
10.12	Amended and Restated Employment Agreement with J. Mario Molina, M.D. dated as of December 31, 2009	Filed as Exhibit 10.1 to registrant's Form 8-K filed January 7, 2010.
10.13	Amended and Restated Employment Agreement with John C. Molina dated as of December 31, 2009	Filed as Exhibit 10.2 to registrant's Form 8-K filed January 7, 2010.
10.14	Amended and Restated Change in Control Agreement with Terry Bayer, dated as of December 31, 2009	Filed as Exhibit 10.4 to registrant's Form 8-K filed January 7, 2010.
10.15	Amended and Restated Change in Control Agreement with Joseph W. White, dated as of December 31, 2009	Filed as Exhibit 10.6 to registrant's Form 8-K filed January 7, 2010.
10.16	Change in Control Agreement with Jeff D. Barlow, dated as of September 18, 2012	Filed herewith.
10.17	Form of Indemnification Agreement	Filed as Exhibit 10.14 to registrant's Form 10-K filed March 14, 2007.
10.18	Base Call Option Transaction Confirmation, dated as of February 11, 2013, between Molina Healthcare, Inc. and JPMorgan Chase Bank, National Association, London Branch.	Filed as Exhibit 10.1 to registrant's Form 8-K filed February 15, 2013.
10.19	Base Call Option Transaction Confirmation, dated as of February 11, 2013, between Molina Healthcare, Inc. and Bank of America, N.A.	Filed as Exhibit 10.2 to registrant's Form 8-K filed February 15, 2013.
10.20	Base Warrants Confirmation, dated as of February 11, 2013, between Molina Healthcare, Inc. and JPMorgan Chase Bank, National Association, London Branch.	Filed as Exhibit 10.3 to registrant's Form 8-K filed February 15, 2013.
10.21	Base Warrants Confirmation, dated as of February 11, 2013, between Molina Healthcare, Inc. and Bank of America, N.A.	Filed as Exhibit 10.4 to registrant's Form 8-K filed February 15, 2013.
10.22	Amendment to Base Call Option Transaction Confirmation, dated as of February 13, 2013, between Molina Healthcare, Inc. and JPMorgan Chase Bank, National Association, London Branch.	Filed as Exhibit 10.5 to registrant's Form 8-K filed February 15, 2013.
10.23	Amendment to Base Call Option Transaction Confirmation, dated as of February 13, 2013, between Molina Healthcare, Inc. and Bank of America, N.A.	Filed as Exhibit 10.6 to registrant's Form 8-K filed February 15, 2013.
10.24	Additional Base Warrants Confirmation, dated as of February 13, 2013, between Molina Healthcare, Inc. and JPMorgan Chase Bank, National Association, London Branch.	Filed as Exhibit 10.7 to registrant's Form 8-K filed February 15, 2013.
10.25	Additional Base Warrants Confirmation, dated as of February 13, 2013, between Molina Healthcare, Inc. and Bank of America, N.A.	Filed as Exhibit 10.8 to registrant's Form 8-K filed February 15, 2013.
10.26	Term Loan Agreement, dated as of December 1, 2011, among Molina Center LLC, various lenders and East West Bank, as Administrative Agent	Filed as Exhibit 10.18 to registrant's From 10-K filed February 29, 2012.
10.27	Guaranty, dated as of December 1, 2011, by Molina Healthcare, Inc. in favor of East West Bank, as Administrative Agent	Filed as Exhibit 10.9 to registrant's Form 10-K filed February 29, 2012.
10.28	Environmental Indemnity, dated as of December 1, 2011, by Molina Center LLC and Molina Healthcare, Inc. for the benefit of certain lenders and East West Bank, as Administrative Agent	Filed as Exhibit 10.20 to registrant's Form 10-K filed February 29, 2012.
10.29	Purchase Agreement, dated as of October 11, 2011, between Molina Center LLC and 200 Oceangate, LLC	Filed as Exhibit 10.21 to registrant's Form 10-K filed February 29, 2012.

Number	Description	Method of Filing
10.30	First Amendment to Purchase Agreement, dated as of November 10, 2011, between Molina Center LLC and 200 Oceangate, LLC	Filed as Exhibit 10.22 to registrant's Form 10-K filed February 29, 2012.
10.31	Second Amendment to Purchase Agreement, dated as of November 30, 2011, between Molina Center LLC and 200 Oceangate, LLC	Filed as Exhibit 10.23 to registrant's Form 10-K filed February 29, 2012.
10.32	Lease Agreement, dated as of February 27, 2013, by and between 6th & Pine Development, LLC and Molina Healthcare, Inc.	Filed herewith.
12.1	Computation of Ratio of Earnings to Fixed Charges	Filed herewith.
21.1	List of subsidiaries	Filed herewith.
23.1	Consent of Independent Registered Public Accounting Firm	Filed herewith.
31.1	Section 302 Certification of Chief Executive Officer	Filed herewith.
31.2	Section 302 Certification of Chief Financial Officer	Filed herewith.
32.1	Certificate of Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
32.2	Certificate of Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed herewith.
101.INS(1)	XBRL Taxonomy Instance Document	Filed herewith.
101.SCH(1)	XBRL Taxonomy Extension Schema Document	Filed herewith.
101.CAL(1)	XBRL Taxonomy Extension Calculation Linkbase Document	Filed herewith.
101.DEF(1)	XBRL Taxonomy Extension Definition Linkbase Document	Filed herewith.
101.LAB(1)	XBRL Taxonomy Extension Label Linkbase Document	Filed herewith.
101.PRE(1)	XBRL Taxonomy Extension Presentation Linkbase Document	Filed herewith.

(1) Pursuant to Rule 406T of Regulation S-T, XBRL (eXtensible Business Reporting Language) information is furnished and not filed or a part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, is deemed not filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and otherwise is not subject to liability under these sections.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the undersigned registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on the 28th day of February, 2013.

MOLINA HEALTHCARE, INC.

By: /s/ Joseph M. Molina

Joseph M. Molina, M.D. (Dr. J. Mario Molina)
Chief Executive Officer
(Principal Executive Officer)

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ Joseph M. Molina **Joseph M. Molina, M.D.**	Chairman of the Board, Chief Executive Officer, and President (Principal Executive Officer)	February 28, 2013
/s/ John C. Molina **John C. Molina, J.D.**	Director, Chief Financial Officer, and Treasurer (Principal Financial Officer)	February 28, 2013
/s/ Joseph W. White **Joseph W. White, CPA, MBA**	Chief Accounting Officer (Principal Accounting Officer)	February 28, 2013
/s/ Garrey E. Carruthers **Garrey E. Carruthers, Ph.D.**	Director	February 28, 2013
/s/ Charles Z. Fedak **Charles Z. Fedak, CPA, MBA**	Director	February 28, 2013
/s/ Frank E. Murray **Frank E. Murray, M.D.**	Director	February 28, 2013
/s/ Steven Orlando **Steven Orlando, CPA (inactive)**	Director	February 28, 2013
/s/ Ronna Romney **Ronna Romney**	Director	February 28, 2013
/s/ John P. Szabo, Jr. **John P. Szabo, Jr.**	Director	February 28, 2013

EXHIBIT 10.16

CHANGE IN CONTROL AGREEMENT

THIS CHANGE IN CONTROL AGREEMENT (the "Agreement") is entered into as of September 18, 2012, (the "Effective Date"), by and between Jeff Barlow (the "Executive") and Molina Healthcare, Inc., a Delaware corporation (the "Company").

RECITALS

1. Definitions. The following definitions shall apply for all purposes under this Agreement:

(a) Annual Base Salary. "Annual Base Salary" shall mean the Executive's annualized fiscal year base salary (as paid in accordance with the Company's regular payroll practices) as in effect on the date of Executive's Separation from Service (or if Executive's salary was greater, on the date of the Announcement (as such term is defined below)).

(b) Change in Control. "Change in Control" means the occurrence of any of the following events after the Effective Date:

(i) The acquisition (other than by an Excluded Person), directly or indirectly, in one or more transactions, by any person or by any group of persons, within the meaning of Section 13(d) or 14(d) of the Exchange Act, of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of more than fifty percent (50%) of either the outstanding shares of common stock or the combined voting power of the Company's outstanding voting securities entitled to vote generally, whether or not the acquisition was previously approved by the existing directors, other than an acquisition that complies with clause (x) and (y) of paragraph (ii);

(ii) Consummation of a reorganization, merger, or consolidation of the Company or the sale or other disposition of all or substantially all of the Company's assets unless, immediately following such event, (x) all or substantially all of the stockholders of the Company immediately prior to such event own, directly or indirectly, more than fifty percent (50%) of the then outstanding voting securities of the resulting corporation (including without limitation, a corporation which as a result of such event owns the Company or all or substantially all of the Company's assets either directly or indirectly through one or more subsidiaries) and (y) the securities of the surviving or resulting corporation received or retained by the stockholders of the Company are publicly traded;

(iii) Approval by the stockholders of the complete liquidation or dissolution of the Company; or

(iv) A change in the composition of a majority of the directors on the Company's Board of Directors within 12 months if not approved by a majority of the pre-existing directors.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(c) Excluded Person. "Excluded Person" means:

(i) Any person described in and satisfying the conditions of Rule 13d-1(b)(1) under the Exchange Act;

(ii) The Company;

(iii) An employee benefit plan (or related trust) sponsored or maintained by the Company or its successor;

(iv) Any person who is the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than 15% of the Common Stock on the Effective Date (or any affiliate, successor, heir, descendant, or related party of or to such person).

(d) Good Reason. "Good Reason" shall mean that, on or after the effective date of a Change in Control, the Executive (without Executive's written consent):

(i) Has incurred a material reduction in his authority or responsibility with the Company in comparison to the Executive's authority or responsibility prior to the public announcement of the Change in Control (the "Announcement");

(ii) Has incurred one or more reductions in his "total compensation" with the Company which is defined as follows:

(A) A material reduction in Annual Base Salary, or

(B) A material reduction in the target annual bonus percentage of Annual Base Salary; or

(iii) A material change in the geographic location of the Executive's principal office with the Company.

(iv) The Executive gives to the Company written notice of the event in clause (i), (ii), or (iii) giving rise to Good Reason within ninety (90) days of the initial existence of such event and the Company has not cured the event giving rise to Good Reason within thirty (30) days of receipt of written notification by Executive and the Executive resigns from employment with the Company within sixty (60) days following the end of the cure period.

(e) Cause. "Cause" includes any of the following committed by Executive (or omitted to be done by Executive) that occur on or after the Effective Date:

(i) Theft, unlawful acts involving moral turpitude, or fraud with respect to any aspect of the Company's business;

(ii) Neglect of or failure to perform employment duties;

(iii) Insubordination;

(iv) Abuse of alcohol or other drugs or substances;

(v) A conviction of or plea of "guilty" or "no contest" to a felony under the laws of the United States or any state thereof (or admission or confession with respect thereto);

(vi) Any violation or breach of any Company policy that has been established to comply with either the Sarbanes-Oxley Act of 2002 (or any regulations or rules or decisions that implement/interpret such Act) or any laws, rules, or requirements of the Securities and Exchange Commission or the New York Stock Exchange;

(vii) Conduct on the part of Executive that constitutes a breach of any fiduciary duty or duty of loyalty owed to the Company or its affiliates by Executive; or

(viii) Breach of this Agreement; provided, however, that any such breach or violation of Sections 1(e)(ii), (iii), (iv), or (viii) hereof shall not constitute Cause unless it is (A) not reasonably curable or (B) if reasonably curable, is not cured by the Executive within thirty (30) days notice from the Company.

(f) Total Disability. "Total Disability" shall be deemed to occur on the ninetieth (90th) consecutive or non-consecutive calendar day within any twelve (12) month period that Executive is unable to perform his duties because of any physical or mental illness or disability.

(g) Target Bonus. "Target Bonus" shall mean the Executive's fiscal year target bonus opportunity.

2. Severance Payment and Equity Compensation .

(a) The Executive shall be entitled to receive a severance payment from the Company as provided herein (the "Severance Payment") if the Executive has a Separation of Service within the first twelve (12) month period after the occurrence of a Change in Control, by reason of either:

(i) The Executive's voluntary resignation of his employment with the Company for Good Reason pursuant to Section 1(d); or

(ii) The Company's discharge of the Executive from employment with the Company for any reason other than Cause, death, or Total Disability.

For all purposes under this Agreement, the amount of the Severance Payment shall be equal to two times (2X) the Annual Base Salary, plus a pro rata portion of the Executive's Target Bonus for the year in which Executive's employment is terminated based on the number of entire months of such year that have elapsed through the date of Executive's termination of employment as a fraction of twelve (12), plus a cash payment of $50,000 for all Company group health benefits. The Severance Payment shall be distributable upon Executive's Separation from Service as follows:

(iii) the portion thereof that does not exceed the Exemption Limit shall satisfy the involuntary separation pay exemption under Treasury Regulation Section 1.409A-1(b)(9)(iii), shall be exempt from Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and shall be paid in a lump sum payment within the ten (10) day period commencing on the 60th day after the date of Executive's Separation from Service, and

(iv) the remaining portion (if any) shall be subject to and shall comply with Section 409A of the Code and shall be paid in a lump sum payment within the ten (10) day period commencing on the 60th day after the date of the Executive's Separation from Service; provided, however, that, if Executive is a Specified Employee on the date of the Executive's Separation from S ervice, such payment shall be paid within the ten (10) day period following the earlier of (x) the expiration of the six (6) month period commencing on the date of the Executive's Separation from Service and (y) the date of Executive's death.

Except as may be provided under Sections 2(b) and 2(c), the Severance Payment shall be in lieu of any other post-termination employment payments.

(b) Incentive, Deferred Compensation, and Retirement Programs . If the Executive is entitled to a Severance Payment under Section 2(a) and notwithstanding anything to the contrary in any equity incentive, stock option, stock appreciation right (SAR), or deferred compensation plan or retirement plan or agreements, then (i) the Executive shall become immediately fully vested in all of his outstanding restricted stock, stock options, SARs, warrants, phantom stock, deferred compensation, retirement, or similar plans or agreements of the Company, and (ii) the Executive (or his personal representative if applicable) shall be permitted to exercise any of his vested stock options/SARs until the earlier of: (i) one (1) year after Executive's termination of employment, and (ii) the term of such unexercised stock options, warrants, or SARs.

(c) Mitigation. Except as may be expressly provided elsewhere in this Agreement, the Executive shall not be required to mitigate the amount of any payment or benefit contemplated by this Section 2 (whether by seeking new employment or in any other manner). No such payment shall be reduced by earnings that the Executive may receive from any other source.

(d) Conditions. All payments and benefits provided under this Section 2 are conditioned on Executive's continuing compliance with this Agreement and the Company's policies. All payments and benefits are also conditioned on, and in consideration for, Executive's execution (and effectiveness) of a release of claims and covenant not to sue substantially in the form provided in Exhibit A to be delivered by Executive no later than sixty (60) days following the Executive's Separation of Service, any revocation period required by law has run, and Executive has not revoked the release of claims and covenant not to sue.

3. Limitation on Payments.

(a) Anything in this Agreement to the contrary notwithstanding, in the event it shall be determined that any payment or distribution made, or benefit provided, by the Company to or for the benefit of the Executive under this Agreement or any other agreement between the Company and the Executive or plan of the Company would constitute a "parachute payment" as defined in Section 280G of the Code, then the benefits payable pursuant to this Agreement shall be reduced so that the aggregate present value of all payments in the nature of compensation to (or for the benefit of) the Executive which are contingent on a change of control (as defined in Section 280G(b)(2)(A) of the Code) is One Dollar ($1.00) less than the amount which the Executive could receive without being considered to have received any parachute payment (the amount of this reduction in the benefits payable is referred to herein as the "Excess Amount"). The determination of the amount of any reduction required by this Section 3(a) shall be made by a nationally recognized tax counsel selected by the Company, and such determination shall be conclusive and binding on the parties hereto.

(b) Notwithstanding the provisions of Section 3(a), if it is established, pursuant to a final determination of a court or an Internal Revenue Service proceeding which has been finally and conclusively resolved, that an Excess Amount was received by the Executive from the Company, then such Excess Amount shall be deemed for all purposes to be a loan to the Executive made on the date the Executive received the Excess Amount and the Executive shall repay the Excess Amount to the Company on demand (but no less than ten (10) days after written demand is received by the Executive) together with interest on the Excess Amount at the "applicable Federal rate" (as defined in Section 1274(d) of the Code) from the date of the Executive's receipt of such Excess Amount until the date of such repayment.

4. Successors.

(a) Company's Successors. Any successor (whether direct or indirect and whether by purchase, lease, merger, consolidation, liquidation, or otherwise) to all or substantially all of the Company's business and/or assets, shall be obligated to perform this Agreement in the same manner and to the same extent as the Company would be required to perform it in the absence of a succession.

(b) Executive's Successors. This Agreement and all rights of the Executive hereunder shall inure to the benefit of, and be enforceable by, the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees, and legatees.

5. Miscellaneous Provisions.

(a) Notice. Notices and all other communications contemplated by this Agreement shall be in writing and shall be deemed to have been duly given when personally delivered or when mailed by U.S. registered or certified mail, return receipt requested and postage prepaid. In the case of the Executive, mailed notices shall be addressed to him or her at the home address which he most recently communicated to the Company in writing. In the case of the Company, mailed notices shall be addressed to its corporate headquarters, and all notices shall be directed to the attention of its Secretary.

(b) Waiver. No provision of this Agreement shall be modified, waived or discharged unless the modification, waiver or discharge is agreed to in writing and signed by the Executive and by an authorized officer of the Company (other than the Executive). No waiver by either party of any breach of, or of compliance with, any condition or provision of this Agreement by the other party shall be considered a waiver of any other condition or provision or of the same condition or provision at another time.

(c) Whole Agreement. This Agreement contains all the legally binding understandings and agreements between Executive and the Company pertaining to the subject matter of this Agreement and supersedes all such agreements, whether oral or in writing, previously entered into between the parties.

(d) Withholding Taxes. All payments made under this Agreement shall be subject to reduction to reflect taxes required to be withheld by law.

(e) Choice of Law. The validity, interpretation, construction, and performance of this Agreement shall be governed by the laws of the State of California without regard to the conflicts of laws principles thereof.

(f) Severability. The invalidity or unenforceability of any provision or provisions of this Agreement shall not affect the validity or enforceability of any other provision hereof, which shall remain in full force and effect.

(g) No Assignment. The rights of Executive to payments or benefits under this Agreement shall not be made subject to option or assignment, either by voluntary or involuntary assignment or by operation of law, including (without limitation) bankruptcy, garnishment, attachment or other creditor's process, and any action in violation of this Subsection (h) shall be void.

(h) Nondisparagement; Confidentiality. On the Effective Date and thereafter, Executive agrees that he will not disparage the Company or its directors, officers, employees, affiliates, subsidiaries, predecessors, successors or assigns in any written or oral communications to any third party. Executive further agrees that he will not direct anyone to make any disparaging oral or written remarks to any third parties. During Executive's employment and following Executive's termination of employment for any reason, Executive agrees to not use or disclose the confidential information or trade secrets of the Company.

(i) Nonsolicitation. During the Executive's employment with Company and for twelve months after Executive's termination of employment and payment of the Severance Payment hereunder, the Executive shall not, directly or indirectly, either as an individual or as an employee, agent, consultant, advisor, independent contractor, general partner, officer, director, stockholder, investor, lender, or in any other capacity whatsoever, of any person, firm, corporation, or partnership, (i) induce or attempt to induce, or hire, any person who at the time of such inducement or hire is an employee of the Company (or who was, within six months prior to such inducement or hire, an employee) to perform work or service for any other person or entity other than the Company or (ii) through the use of confidential information or trade secrets, solicit customers, suppliers, or clients of the Company to reduce or discontinue their business with the Company or to engage in business with any competing entity.

(j) Unfunded and Unsecured. The obligations of the Company under this Agreement shall be unfunded and unsecured. With respect to any payments to which the Executive has a fixed and vested interest but that have not yet been made by the Company, nothing contained herein shall give the Executive any rights that are greater than those of a general unsecured creditor of the Company.

(k) Exhibit B. Exhibit B hereto regarding Code Section 409A is incorporated herein by this reference.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, as of the day and year first above written.

EXECUTIVE:

—

Jeff Barlow

MOLINA HEALTHCARE, INC.:

By: Joseph M. Molina, M.D.
Its: President and Chief Executive Officer

EXHIBIT A

Form of Release of Claims and Covenant Not To Sue

In consideration of the payments and other benefits that Molina Healthcare, Inc., a Delaware corporation (the "Company"), is providing to Jeff Barlow ("Executive") under the Change in Control Agreement entered into by and between Executive and the Company, dated September 18, 2012, the Executive, on his own behalf and on behalf of Employee's representatives, agents, heirs and assigns, waives, releases, discharges and promises never to assert any and all claims, demands, actions, costs, rights, liabilities, damages or obligations of every kind and nature, whether known or unknown, suspected or unsuspected that Executive ever had, now have or might have as of the date of Executive's termination of employment with the Company against the Company or its predecessors, parent, affiliates, subsidiaries, stockholders, owners, directors, officers, employees, agents, attorneys, insurers, successors, or assigns (including all such persons or entities that have a current and/or former relationship with the Company) for any claims arising from or related to Executive's employment with the Company, its parent or any of its affiliates and subsidiaries and the termination of that employment.

These released claims also specifically include, but are not limited to, any claims arising under any federal, state and local statutory or common law, such as (as amended and as applicable) Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act, the Family Medical Leave Act, the Equal Pay Act, the Fair Labor Standards Act, the Industrial Welfare Commission's Orders, the California Fair Employment and Housing Act, the California Constitution, the California Government Code, the California Labor Code and any other federal, state or local constitution, law, regulation or ordinance governing the terms and conditions of employment or the termination of employment, and the law of contract and tort and any claim for attorneys' fees.

Furthermore, the Executive acknowledges that this waiver and release is knowing and voluntary and that the consideration given for this waiver and release is in addition to anything of value to which Executive was already entitled. Executive acknowledges that there may exist facts or claims in addition to or different from those which are now known or believed by Executive to exist. Nonetheless, this Agreement extends to all claims of every nature and kind whatsoever, whether known or unknown, suspected or unsuspected, past or present. Executive also expressly waives the provisions of California Civil Code section 1542, which provides: "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him/her must have materially affected his settlement with the debtor." With respect to the claims released in the preceding sentences, the Executive will not initiate or maintain any legal action or proceeding of any kind against the Company or its predecessors, parent, affiliates, subsidiaries, stockholders, owners, directors, officers, employees, agents, successors, or assigns (including all such persons or entities that have a current or former relationship with the Company), for the purpose of obtaining any personal relief, nor assist or participate in any such proceedings, including any proceedings brought by any third parties (except as otherwise required or permitted by law). The Executive further acknowledges that he has been advised by this writing that:

- he should consult with an attorney prior to executing this release;
- he has at least twenty-one (21) days within which to consider this release;
- he has up to seven (7) days following the execution of this release by the parties to revoke the release; and
- this release shall not be effective until such seven (7) day revocation period has expired.

Executive agrees that the release set forth above shall be and remain in effect in all respects as a complete general release as to the matters released.

EXECUTIVE

____

Jeff Barlow

Date:

Exhibit B

SECTION 409A PROVISIONS

1. EXEMPTION FROM AND COMPLIANCE WITH SECTION 409A OF THE CODE

a. ADMINISTRATION OF AGREEMENT. Certain payments and benefits payable under the Agreement are intended to be exempt from, or comply with, the requirements of Section 409A of the Code. The Agreement shall be interpreted in accordance with the applicable exemptions from Section 409A of the Code and the Treasury Regulations thereunder. To the extent the payments and benefits under the Agreement are subject to Section 409A of the Code, the Agreement shall be interpreted, construed and administered in a manner that satisfies the requirements of Sections 409A(a)(2), (3) and (4) of the Code and the Treasury Regulations and interpretive guidance issued thereunder. If the Company and Executive determine that any compensation, benefits or other payments that are payable under the Agreement and intended to comply with Sections 409A(a)(2), (3) and (4) of the Code do not comply with Section 409A of the Code, the Treasury Regulations and interpretive guidance issued thereunder, the Company and Executive agree to amend the Agreement, or take such other actions as the Company and Executive deem reasonably necessary or appropriate, to comply with the requirements of Section 409A of the Code, the Treasury Regulations and interpretive guidance issued thereunder. In the case of any compensation, benefits or other payments that are payable under the Agreement and intended to comply with Sections 409A (a)(2), (3) and (4) of the Code, if any provision of the Agreement would cause such compensation, benefits or other payments to fail to so comply, such provision shall not be effective and shall be null and void with respect to such compensation, benefits or other payments, and such provision shall otherwise remain in full force and effect.

b. DELAYED DISTRIBUTION UNDER SECTION 409A OF THE CODE. If Executive is a Specified Employee on the date of Executive's Separation from Service, any payments or benefits under the Agreement that are subject to Section 409A of the Code shall be delayed in order to comply with Section 409A(a)(2)(B)(i) of the Code, and such payments or benefits shall be paid or distributed to Executive within the ten (10) day period following the earlier of (x) the expiration of the six (6) month period commencing on the date of Executive's Separation from Service, or (y) the date of Executive's death.

2. DEFINITIONS

For purposes of this Agreement, the following capitalized terms have the meanings set forth below:

a. The "Exemption Limit" shall mean the exemption limit set forth in Treasury Regulation Section 1.409A-1(b)(9)(iii)(A) and shall equal two times the lesser of:

(i) the amount of Executive's annualized compensation based upon the Executive's annual rate of pay for the calendar year immediately preceding the calendar year in which Executive's Separation from Service occurs (adjusted for any increase during the calendar year in which such Separation from Service occurs that would be expected to continue indefinitely had Executive remained employed with the Company), or

(ii) the maximum amount that may be taken into account under a qualified plan pursuant to Section 401(a)(17) of the Code for the calendar year in which Executive's Separation from Service occurs (the Section 401(a)(17) annual compensation limit for 2012 is $250,000).

b. "Separation from Service", with respect to Executive (or another Service Provider), means Executive's (or such Service Provider's) "separation from service," as defined in Treasury Regulation Section 1.409A-1(h), with respect to the Service Recipient.

c. "Service Provider" means Executive or any other "service provider," as defined in Treasury Regulation Section 1.409A-1(f).

d. "Service Recipient," with respect to Executive, means Molina Healthcare, Inc. or the subsidiary of Molina Healthcare, Inc. employing the Executive, whichever is applicable, and all persons considered part of the "service recipient," as defined in Treasury Regulation Section 1.409A-1(g), as determined from time to time. As provided in Treasury Regulation Section 1.409A-1(g), the "Service Recipient" shall mean the person for whom the services are performed and with respect to whom the legally binding right to compensation arises, and all persons with whom such person would be considered a single employer under Section 414(b) or 414(c) of the Code.

e. "Specified Employee" means a Service Provider who, as of the date of the Service Provider's Separation from Service is a "Key Employee" of the Service Recipient any stock of which is publicly traded on an established securities market or otherwise. For purposes of this definition, a Service Provider is a "Key Employee" if the Service Provider meets the requirements of Section 416(i)(1)(A)(i), (ii) or (iii) of the Code (applied in accordance with the Treasury Regulations thereunder and disregarding Section 416(i)(5) of the Code) at any time during the testing year. If a Service Provider is a "Key Employee" (as defined above) as of a Specified Employee Identification Date, the Service Provider shall be treated as "Key Employee" for the entire twelve (12) month period beginning on the Specified Employee Effective Date. The "Specified Employees" shall be determined in accordance with Section 409A(a)(2)(B)(i) of the Code and Treasury Regulation Section 1.409A-1(i).

f. "Specified Employee Effective Date" means the first day of the fourth month following the Specified Employee Identification Date. The Specified Employee Effective Date may be changed by Molina Healthcare, Inc., in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(4).

g. "Specified Employee Identification Date", for purposes of Treasury Regulation Section 1.409A-1(i)(3), shall mean December 31. The "Specified Employee Identification Date" shall apply to all "nonqualified deferred compensation plans" (as defined in Treasury Regulation Section 1.409A-1(a)) of the Service Recipient and all affected Service Providers. The "Specified Employee Identification Date" may be changed by Molina Healthcare, Inc., in its discretion, in accordance with Treasury Regulation Section 1.409A-1(i)(3).

OFFICE BUILDING LEASE

Full Service Gross –Single Tenant Building(s)

LANDLORD: 6th& PINE DEVELOPMENT, LLC,
a California limited liability company

TENANT: MOLINA HEALTHCARE, INC.,
a Delaware corporation

DATE: February 28, 2013

FUNDAMENTAL LEASE PROVISIONS

The following fundamental lease provisions are incorporated into the Lease attached hereto and said provisions shall have the following meanings throughout the Lease.

(a) Landlord: 6th & Pine Development, LLC,
a California limited liability company.

(b) Tenant: Molina Healthcare, Inc.,
a Delaware corporation.

(c) Site and Project: That certain real property having the primary address of 604 Pine Avenue, Long Beach, California, as more particularly described on Exhibit "A-1" attached hereto (the "**Site**"). A site plan of the Buildings, the On-Site Parking and related common areas and amenities (collectively, the "**Project**") is attached hereto as Exhibit "A-2."

(d) Existing Building: The office building located on the Site as of the date hereof and commonly known as the Press-Telegram Building, to be refurbished by Landlord pursuant to the terms of the Work Letter Agreement attached hereto as Exhibit "B" (the "**Work Letter**").

(e) New Building: The office building to be constructed by Landlord on the Site and in the general location of the office building commonly known as the Meeker-Baker Building, pursuant to the terms of the Work Letter; the Existing Building (as refurbished) and the New Building shall sometimes be collectively referred to as the "Buildings" and each, as a "Building."

(f) Premises: The entire Rentable Area of each Building. In addition to the Premises in each Building, Tenant has the exclusive right to use the On-Site Parking Spaces as provided in clause (u) below and Article 30.

(g) Rentable Area of Existing Building: Subject to Section 1.2, approximately 89,702 rentable square feet (" **RSF**"), consisting of (i) approximately 70,110 RSF of office space , and (ii) approximately 19,592 RSF of subterranean storage space (the "**Storage Space**").

(h) Rentable Area of New Building: Subject to Section 1.2 of the Lease, approximately 120,000 RSF of office space.

(i) Rentable Area of Premises: The total Rentable Area of the Existing Building and the New Building.

(j) Scheduled Commencement Date(s): (i) Existing Building: June 1, 2013.

(ii) New Building: November 1, 2014.

(k) Term: (i) Existing Building: Approximately eleven (11) years, six (6) months from the Commencement Date of the Existing Building and ending on the Expiration Date, unless extended pursuant to Exhibit "J" attached hereto or earlier terminated as provided in the Lease.

(ii) New Building: Approximately ten (10) years, one (1) month from the Commencement Date of the New Building and ending on the Expiration Date, unless extended pursuant to Exhibit "J" attached hereto or earlier terminated as provided in the Lease.

(l) Commencement Date(s): See Section 2.3.

(m) Expiration Date: December 31, 2024, unless extended pursuant to Exhibit "J" attached hereto or earlier terminated as provided in the Lease.

(n) Monthly Base Rent: (i) Existing Building. (A) For the period from the Commencement Date of the Existing Building through the date immediately preceding the first (1st) anniversary of the Commencement Date of the Existing Building, $2.70 per RSF for the Existing Building (excluding the Storage Space), and as increased by three point seven five percent (3.75%) per year on the first (1st) and each subsequent anniversary of the Commencement Date of the Existing Building (each such anniversary of the Commencement Date of the Existing Building being referred to herein as an "**Adjustment Date**") thereafter through the end of the stated Term (subject to Exhibit "J" for the Extension Periods), and (B) for the period from the Commencement Date through the date immediately preceding the first Adjustment Date, $1.40 per RSF of the Storage Space, and as increased by three point seven five percent (3.75%) per year on the first (1st) and each subsequent Adjustment Date thereafter through the end of the stated Term (subject to Exhibit "J" for the Extension Periods).

(ii) New Building. From and after the Commencement Date of the New Building through the end of the stated Term (subject to Exhibit "J" for the Extension Periods), the same per RSF rate as is in effect from time to time with respect to the Existing Building (other than the Storage Space), including any cumulative annual escalations therein.

(o) Security Deposit: None.

(p) Construction of Improvements: Landlord shall construct the Project, including the Tenant Improvements in the Existing Building and the New Building in accordance with the Work Letter.

(q) Use: General business, executive, professional, corporate, and administrative office use only, and any other use only. Notwithstanding the foregoing, Landlord agrees that Tenant may use the Premises, in connection with its general business activities, for meeting, training and conference purposes, for the preparation, service and providing of food and beverages for the Tenant Parties (as defined below), for health club and childcare facilities for the Tenant Parties and others (as long as such use is primarily to provide a service or amenity to Tenant's employees, staff and invitees), on-site sale of logo and amenity type merchandise to employees, display, testing and demonstration events, in each case subject to the restrictions set forth in Article 5 and Applicable Laws.

(r) Tenant's Address for Notices: Molina Healthcare, Inc.
200 Oceangate, Suite 100
Long Beach, CA 90802
Attention: General Counsel

With a copies to:

Molina Healthcare, Inc.
200 Oceangate, Suite 100
Long Beach, CA 90802
Attention: Mr. Salvador Gutierrez, AVP, Facilities

and

Molina Healthcare, Inc..
200 Oceangate, Suite 100
Long Beach, CA 90802
Attention: Chairperson of Corporate Governance and Nominating Committee of Board of Directors

(s) Landlord's Address for Notices: 6th & Pine Development, LLC
741 Atlantic Avenue
Long Beach, CA 90813
Attention: 604 Pine Landlord

With a copy to:
6th & Pine Development, LLC
741 Atlantic Avenue
Long Beach, CA 90813
Attention: Property Manager

(t) Landlord's Broker: Cushman & Wakefield of California, Inc.

(u) Parking: As further described in Article 30, a total of up to seven hundred and thirteen (713) parking spaces, to be comprised of (a) (i) for the period commencing on the Commencement Date for the Existing Building and ending on the date immediately preceding the Commencement Date for the New Building, sixty (60) On-Site Parking Spaces (as defined in Section 30.2 below), and (ii) for the period commencing on the Commencement Date for the New Building and continuing through the Expiration Date, two hundred thirteen (213) On-Site Parking Spaces, and (b) for the period commencing on the Commencement Date for the Existing Building and continuing through the Expiration Date, up to five hundred (500) Off-Site Parking Spaces (as defined in Section 30.3 below), in each case as more particularly described in, and to be made available to Tenant in accordance with the terms of, Article 30 hereof. In the event of a discrepancy between this Section “u” and Article 30, the terms of Article 30 shall prevail.

(v) Renewal Rights: See Exhibit “J” attached hereto.

(w) Right of First Offer to Purchase: See Exhibit “I-1” attached hereto.

(x) Option to Purchase: See Exhibit “I-2” attached hereto.

(y) Base Year: Calendar Year 2015

(z) Tenant’s Share: 100%

LEASE AGREEMENT

This LEASE AGREEMENT (this "**Lease**"), dated as of February 27, 2013 (the "**Effective Date**"), is made and entered into by and between 6th& PINE DEVELOPMENT, LLC, a California limited liability company ("**Landlord**"), and MOLINA HEALTHCARE, INC., a Delaware corporation ("**Tenant**"), who agree generally as follows:

GENERAL CONDITIONS

Landlord and Tenant agree that the following are general conditions which govern all of the rights and obligations of Landlord and Tenant and supersede, to the extent appropriate, any contrary provision in this Lease.

A. Consent/Duty to Act Reasonably. Unless the applicable provision of this Lease expressly references "sole" or "absolute" with respect to a consent right or other exercise of discretion (in which case such standard shall apply), (i) any time the consent of Landlord or Tenant is required, such consent shall not be unreasonably withheld, conditioned or delayed, and (ii) whenever this Lease grants Landlord or Tenant the right to take action, exercise discretion, or make allocations or other determinations, Landlord and Tenant shall act reasonably and in good faith and take no action which might result in the frustration of the reasonable expectations of a sophisticated tenant or landlord concerning the benefits to be enjoyed under this Lease.

B. Quality of Construction; Phasing of Construction; and Landlord Warranties.

(a) Quality of Construction. Landlord hereby represents and warrants to Tenant and covenants that the Project, including the Tenant Improvements to be constructed in the Existing Building and New Building, will be constructed in accordance with the terms and conditions of the Work Letter and industry custom and practice for a "first-class" office project (taking into account that the Project involves (i) with respect to Phase I (as defined in the Work Letter) a material restoration and renovation of a historic building and (ii) with respect to Phase II (as defined in the Work Letter), material reconstruction of an existing building, whereby the historic façade will be retained and incorporated into the New Building), in each case free of all asbestos containing materials ("**ACM**") or other Hazardous Materials (as defined in Section 38.12 below) and in full compliance with all Applicable Laws (as defined below), including, but not limited to, the Americans with Disabilities Act of 1990, 42 U.S.C. 12101 et seq. ("**ADA**") and all Environmental Laws (as defined in Section 38.12 below) existing at the later of the time of construction or the execution of this Lease, which are applicable to such work in order to make the Project suitable for business offices. Landlord will be fully responsible for making all alterations and repairs to the Premises and the Project at its cost, and not as an Operating Expense, resulting from or necessitated by the failure by Landlord and/or Landlord's contractor to comply with such Applicable Laws existing at the later of the time of construction or the execution of this Lease, or from Landlord's and/or Landlord's contractor's utilization of any Hazardous Materials in violation of any Environmental Laws existing at the later of the time of construction or the execution of this Lease or which could pose a health risk to occupants of the Project. Landlord's obligation to perform such work in accordance with Applicable Laws existing at the later of the time of construction or the execution of this Lease shall be deemed to continue with respect to such Applicable Laws and any obligation created by such Applicable Laws if the obligation was generally known as of the later of the time of construction or the execution of this Lease (and Landlord's obligation shall exist and continue even though the time for performance under such Applicable Laws was contingent on (A) the passage of time, (B) the expenditure of money, (C) the performance of other work which would trigger such compliance, or (D) the expiration or termination of a variance or a grandfathered/grandmothered right). Accordingly, with respect to any costs that the Tenant incurs in connection with Alterations or in the performance of its maintenance and repair obligations under this Lease, which Tenant would not have incurred if the work performed by Landlord with respect to the Project was constructed in full compliance with the Applicable Laws in existence the later of the time of construction or the execution of this Lease, then Landlord shall be solely responsible for, and not as an Operating Expense, or shall otherwise reimburse Tenant for such costs or increases costs, as applicable, and Tenant shall not be responsible for all or any portion thereof. As used in this Lease, the term "**Applicable Laws**" shall mean all governmental regulations, ordinances, statutes or other laws of all governmental authorities with jurisdiction.

(b) Phasing of Construction. Pursuant to the Work Letter, the Project is divided into two Phases. Phase I consists of Landlord's Construction Work (as defined in the Work Letter) relating to the Existing Building and such other portions of the Project, including sixty (60) On-Site Parking Spaces and related common areas as necessary for Tenant's use and occupancy of the Existing Building, and Phase II consists of the balance of the Project, including the New Building and the remaining one hundred fifty-three (153) On-Site Parking Spaces and related common areas, all as more particularly described and provided for in the Work Letter

(c) Landlord Warranties.

(i) In addition to Landlord's other obligations set forth in this Lease, including, without limitation, the terms and conditions of subjection (a) above, General Condition N and Article 9 of this Lease, notwithstanding anything to the contrary set forth in this Lease or the Work Letter, for a period of one (1) year after the Substantial Completion of each of Phase of the Project (including the Tenant Improvements therein), Landlord shall, at Landlord's sole cost and expense, and not as an Operating Expense, promptly repair or replace, or cause to be repaired or replaced, any portion of such Phase (including the Tenant Improvements therein) which shall be materially defective or shall fail to comply with the Approved Base Building Plans (as defined in the Work Letter) and the Approved TI Plans (as defined in the Work Letter) for such Phase. Such repair or replacement shall be commenced as soon as reasonably possible after Landlord's receipt of written notice from Tenant of the need for such work, but only if such notice is given within such one (1) year period, and shall be diligently pursued to completion. For the purposes of this subsection:

(A) Landlord may satisfy its obligation pursuant to this subsection by causing Landlord's general contractor or any subcontractor, equipment manufacturer or material supplier who has provided a warranty, guaranty or quality instruction (collectively, the "**Construction Warranties**") to perform such repair or replacement.

(B) The provisions of this subsection shall not apply to any damage to any Phase of the Project (including the Tenant Improvements therein) caused by

Tenant or any of Tenant's employees, agents, contractors, licensees, directors, officers, partners, trustees, visitors or invitees (excluding, however, for purposes of the foregoing, any principal of the Landlord) (each, a " **Tenant Party**," and collectively, the "**Tenant Parties**") or any vandal or any casualty (fire, wind, rain, lightning, etc.). Landlord's obligations under this subsection shall be limited to defects in the original construction of and failures of such Phase of the Project to comply with Approved Base Building Plans (as defined in the Work Letter) and the Approved TI Plans (as defined in the Work Letter) for such Phase.

(C) During any period of repair or replacement by Landlord pursuant to this subsection, Base Rent and Additional Rent shall be abated to the extent, if at all, that Tenant's operations in the applicable portion of Premises are substantially interfered with, including totally if applicable, in accordance with General Condition F below. Subject to the next sentence, such abatement shall be Tenant's sole remedy in the event of a repair or replacement by Landlord. Notwithstanding the provisions of the immediately preceding sentence, to the extent that Landlord is able to recover the same from any contractor, insurer or other warranting party, Tenant shall be entitled to any damages incurred by Tenant during any such period of repair or replacement.

(ii) Upon the expiration of the one (1) year period specified in this subsection with respect to each Phase of the Project, Landlord shall assign and deliver to Tenant and cause its general contractor to assign and deliver to Tenant all Construction Warranties with respect to such Phase relating to any portion of the Premises that Tenant is responsible during the Term of this Lease to maintain and repair pursuant to Article 7. Such assignment(s) shall be on a form reasonably acceptable to Tenant. Landlord shall ensure that Tenant is listed as third party beneficiary in all construction contract(s) and subcontract(s) with respect to all such Construction Warranties and that that all such Construction Warranties are fully assignable to Tenant without the consent or approval of such general contractor, subcontractor, equipment manufacturer or material supplier.

C. Covenants and Agreements. The failure of Landlord or Tenant to insist in any instance on the strict keeping, observance or performance of any covenant or agreement contained in this Lease, or the exercise of any election contained in this Lease, shall not be construed as a waiver or relinquishment for the future of such covenant or agreement, but the same shall continue and remain in full force and effect.

D. Non-Disturbance, Attornment and Subordination Agreement. Landlord agrees that, on or before the date that is thirty (30) days following the Effective Date, it will provide, without cost to or charge of, Tenant with a non-disturbance, subordination and attornment agreement ("non-disturbance agreement") in favor of Tenant from East West Bank ("**Existing Mortgagee**") in substantially the form attached hereto as Exhibit "H" (the " **Approved SNDA**"), in consideration of Tenant's execution and delivery of, and as a condition precedent to the effectiveness of, this Lease. Said non-disturbance agreement may be recorded at Tenant's election and expense. In the event that Landlord is unable to deliver an Approved SNDA from Existing Mortgagee on or before such date, Tenant may elect to terminate this Lease by delivering written notice thereof to Landlord, and this Lease will terminate and become null and void. Upon any such termination, neither Landlord nor Tenant shall have any further rights or obligations under this Lease, except for those indemnity provisions and other provisions, which pursuant to General Condition Q below, survive such termination.

Landlord further agrees to provide Tenant with a non-disturbance agreement in favor of Tenant from any other ground lessors, mortgage holders, lien holders or mezzanine debt lien holders (each, a " **Superior Mortgagee**") of Landlord who later come(s) into existence at any time prior to the expiration of the Term, as it may be extended, in a form acceptable to Tenant, in consideration of, and as a condition precedent to, Tenant's agreement to be bound by Section 18.1 below. Said non-disturbance agreement shall be deemed acceptable to Tenant if it is in recordable form and is substantially consistent with the terms of the Approved SNDA, or otherwise shall be acceptable to Tenant in its sole discretion, and may be recorded at Tenant's election and expense.

E. Notice. All references in this Lease to "notice" shall mean written notice given in compliance with Article 32 of this Lease.

F. Abatement of Rent When Tenant Is Prevented From Using Premises. In the event that Tenant is prevented from using, and does not use, the Premises or any portion thereof, for five (5) consecutive business days or ten (10) business days in any twelve (12) month period (the "**Eligibility Period**") as a result of (i) any damage or destruction to the Premises, the On-Site Parking Spaces, the Off-Site Parking Spaces and/or the Project, (ii) any repair, maintenance or alteration performed by Landlord after the applicable Commencement Date, which substantially interferes with Tenant's use of the Premises, the On-Site Parking Spaces, the Off-Site Parking Spaces and/or the Project, (iii) any failure by Landlord to provide Tenant with access to the Premises, the On-Site Parking Spaces, the Off-Site Parking Spaces and/or the Project, (iv) because of breach of any of Landlord's warranties set forth in General Condition B, or (v) the exercise by Tenant of its rights to complete construction of the Project as set forth in General Condition I, then Tenant's Rent shall be abated or reduced, as the case may be, after expiration of the Eligibility Period for such time that Tenant continues to be so prevented from using, and does not use, the Premises or a portion thereof, in the proportion that the RSF of the portion of the Premises that Tenant is prevented from using, and does not use, bears to the total RSF of the Premises. However, in the event that Tenant is prevented from conducting, and does not conduct, its business in any portion of the Premises for a period of time in excess of the Eligibility Period, and the remaining portion of the Premises is not sufficient to allow Tenant to effectively conduct its business therein, and if Tenant does not conduct its business from such remaining portion, then for such time after expiration of the Eligibility Period during which Tenant is so prevented from effectively conducting its business therein, the Rent for the entire Premises shall be abated; provided, however, if Tenant reoccupies and conducts its business from any portion of the Premises during such period, the Rent allocable to such reoccupied portion, based on the proportion that the RSF of such reoccupied portion of the Premises bears to the total RSF of the Premises, shall be payable by Tenant from the date such business operations commence. If Tenant's right to abatement occurs during a free rent period (for these purposes, free rent shall be deemed to include half rent, etc.) which arises after the Commencement Date, Tenant's free rent period shall be extended for the number of days that the abatement period overlapped the free rent period ("**Overlap Period**"). Landlord shall have the right to extend the Expiration Date for a period of time equal to the Overlap Period if Landlord sends a notice to Tenant of such election within ten (10) days following the end of the extended free rent period. If Tenant's right to abatement occurs because of an eminent domain taking and/or because of damage or destruction to the Premises and/or Tenant's property, Tenant's abatement period shall continue until Tenant has been given sufficient time, and sufficient access to the Premises to rebuild such portion it is required to rebuild, to install its property, furniture, fixtures, and equipment to the extent the same shall have been removed and/or damaged as a result of such damage or destruction and/or eminent domain taking and to move in over a weekend. To the extent Tenant has prepaid rent (as it does each month since Rent is due on the first day of each month) and Tenant is subsequently entitled to an abatement, such prepaid, and subsequently abated, Rent should be refunded to, and paid by Landlord to, Tenant within thirty (30) days after the end of the appropriate month.

G. Arbitration. With the exception of the arbitration provisions which shall specifically apply to the determination of (i) the Fair Market Rental Rate, as set forth in Exhibit "J" attached hereto [Options to Extend], and (ii) the Fair Market Value, as set forth in Exhibit "I-2" [Option to Purchase], the provisions of this General Condition G contain the sole and exclusive method, means and procedure to resolve any and all disputes or disagreements, including whether any particular matter constitutes, or with the passage of time would constitute, an event of default ("**Event of Default**"). The parties hereby irrevocably waive any and all rights to the contrary and shall at all times conduct themselves in strict, full, complete and timely accordance with the provisions of this General Condition G. Any and all attempts to circumvent the provisions of this General Condition G shall be absolutely null and void and of no force or effect whatsoever. As to any matter submitted to arbitration to determine whether it would, with the passage of time, constitute an Event of Default, such passage of time shall not commence to run until any such affirmative determination, so long as it is simultaneously determined that the challenge of such matter as a potential Event of Default was made in good faith, except with respect to the payment of money. With respect to the payment of money, such passage of time shall not commence to run only if the party which is obligated to make the payment does in fact make the payment to the other party. Such payment can be made "under protest," which shall occur when such payment is accompanied by a good-faith notice stating why the party has elected to make a payment under protest. Such protest will be deemed waived unless the subject matter identified in the protest is submitted to arbitration as set forth in the following:

(a) Except as otherwise provided above, all disputes and disagreements shall be determined by final and binding arbitration without appeal or review, pursuant to the laws of the State of California including the limitations period applicable, before a single arbitrator (the "**Arbitrator**") at a location determined by the Arbitrator in Los Angeles County, California and administered by JAMS (or its successor) ("**JAMS**"). If JAMS shall not then exist, or refuses to accept submission of such dispute, such arbitration shall be conducted before such other organization as to which the parties to the dispute may agree. If the parties to the dispute are unable to so agree within fifteen (15) days after the dispute arises, the organization shall be selected by the presiding judge of the Los Angeles County Superior Court or his or her designee upon application by any party to the dispute. Judgment upon any award rendered by the Arbitrator may be entered by any state or federal court having jurisdiction thereof. Any Arbitrator appointed or selected pursuant to this General Condition G shall be a retired judge of the Superior Court or Court of Appeal of the State of California or a retired Federal District Court judge.

(b) Any arbitration pursuant to this General Condition G shall be initiated by the parties, or either of them, within ten (10) days after either party sends written notice (the " **Arbitration Notice**") of a demand to arbitrate to the other party and to JAMS. The Arbitration Notice shall contain a description of the subject matter of the arbitration, the dispute with respect thereto, the amount involved, if any, and the remedy or determination sought. Any arbitration pursuant to this General Condition G shall be conducted in accordance with the Comprehensive Arbitration Rules and Procedures of JAMS then in effect (the " **Rules**"), regardless of the amount in dispute, except that, whether or not such Rules so provide:

(i) The Arbitrator shall schedule a pre-hearing conference to resolve procedural matters, arrange for the exchange of information, obtain stipulations and attempt to narrow the issues to be arbitrated. The Arbitrator shall have the discretion to order a pre-hearing exchange of information by the parties, including, without limitation, production of requested documents, exchanges of summaries of testimony of proposed witnesses and examination by deposition of parties and third-party witnesses.

(ii) There shall be no mediation or settlement conferences unless all parties agree thereto in writing.

(iii) Discovery shall be limited to that permitted by the Rules, and the Arbitrator shall have discretion to determine the scope thereof.

(iv) All motions shall be in letter form and hearings thereon shall be by conference telephone calls unless the Arbitrator orders otherwise.

(v) Hearings of motions shall require only twenty (20) days prior written notice.

(vi) All notices in connection with any arbitration may be served in any manner permitted by Article 32 of this Lease.

(vii) Fees and costs paid or payable to JAMS shall be included in "reasonable expenses" for purposes of Section 12.4(b). The arbitrator shall specifically have the power to award to the "prevailing party" such party's reasonable expenses incurred in such proceeding, except as otherwise provided in subsection (c) below. Reasonable expenses shall include any reasonable attorneys' fees. The prevailing party shall be the party whose proposal for the resolution of the dispute is the closer to that adopted by the Arbitrator.

(viii) The selection of the Arbitrator (who must be a retired judge) shall be in accordance with the then existing Rules. In the event that the parties are unable to agree upon an arbitrator within the period of time allowed for them to select an arbitrator, JAMS will provide a list of three available retired judges and each party may strike one. The remaining judge (or if there are two, the one selected by the administrator of the Los Angeles County office of JAMS) will serve as the arbitrator.

(ix) In rendering a decision, the Arbitrator shall determine the rights and obligations of the parties according to the terms of this Lease and the substantive and procedural laws of the State of California. The Arbitrator's decision shall be based on the evidence introduced at the hearing, including any logical and reasonable inferences therefrom. The decision must be based upon, and accompanied by, a written statement of decision explaining the factual and legal basis for the decision as to each of the principal controverted issues.

(x) The Arbitrator may make any determination, and/or grant any relief that is just and equitable, other than an award of exemplary or punitive damages. The Arbitrator's decision shall be conclusive and binding, and it may thereafter be confirmed as a judgment by the Superior Court of the State of California, subject only to challenge on the grounds set forth in California Code of Civil Procedure Section 1286.2, subsections (a), (b), (c), (e) and (f). The validity and enforceability of the Arbitrator's decision is to be determined exclusively by the Courts of the State of California pursuant to the provisions of this Lease.

(c) As soon as practicable after selection of the Arbitrator, JAMS, working with the Arbitrator, shall determine a reasonable estimate of anticipated fees and costs of the arbitration and shall deliver a statement to each party setting forth that party's pro rata share of such fees and costs. Each party shall deposit its pro rata share of such fees and costs with JAMS within ten (10) days after receipt of such statement. If any party fails to make a required deposit hereunder, the other party may make such deposit on behalf of the defaulting party and the amount of such deposit, plus interest thereon at the Interest Rate from date of deposit to date of repayment, shall be awarded against the defaulting party by the Arbitrator in making any final arbitration award without regard to whether the defaulting party is the prevailing party in the arbitration pursuant to this General Condition G.

H. <u>Access to Building and Parking</u>. Tenant shall be granted access to the Buildings, the Premises, the On-Site Parking Spaces and the Project twenty-four (24) hours per day, seven (7) days per week, every day of the year. Tenant shall be granted access to the Off-Site Parking Spaces pursuant to the terms of Article 30 hereof.

I. <u>Right to Repair and Complete Construction</u>. Notwithstanding any provision set forth in this Lease to the contrary, (i) if Tenant provides written notice (or oral notice in the event of an emergency such as damage or destruction to or of any portion of the Buildings and/or anything that could cause material disruption to Tenant's business) to Landlord of an event or circumstance which requires the action of Landlord with respect to repair and/or maintenance, and Landlord fails to commence such action within a reasonable period of time, given the circumstances, or (ii) if Tenant has the right to provide a Termination Notice (as defined in Section 2.6 of this Lease) to Landlord as a result of Landlord's failure to complete construction of the Project as required by General Condition B and the Work Letter, in each case after the receipt of such notice, but in any event not later than seven (7) days after receipt of such notice, then Tenant may, but shall not be required to, proceed to take the required action or to complete construction of the Project upon delivery of an additional three (3) business days' notice to Landlord in the case of a repair and upon delivery of an additional sixty (60) days' notice to Landlord in the case of an intention to complete construction of the Project, specifying that Tenant is taking such required action or intends to complete construction of the Project (provided, however, that in the case of any failure by Landlord to repair and/or maintain the Premises or the Buildings, neither of the notices shall be required in the event of an emergency which threatens life or where there is imminent danger to property or a possibility that a failure to take immediate action could cause a material disruption in Tenant's normal and customary business activities), and if such action was required under the terms of this Lease to be taken by Landlord or was taken by Tenant as a result of occurrence of a Termination Condition (as defined in Section 2.6 of the Lease), and was not taken by Landlord within such ten (10) day period (unless such notice was not required as provided above), then Tenant shall be entitled to prompt reimbursement by Landlord of Tenant's reasonable costs and expenses in taking such action plus interest thereon at the Interest Rate as defined in General Condition O below plus rent abatement to the extent Tenant would have otherwise been entitled to rent abatement under General Condition F. Landlord agrees that Tenant will have access to the Project (including the Building Systems (as defined in General Condition N below) and the Building Structure (as defined in General Condition N below)) to the extent necessary to perform the work contemplated by this provision. Further, Landlord agrees that it shall cooperate with Tenant in connection with Tenant's effort to complete construction of the Project, including providing Tenant's instructions or directions to any applicable contractors and/or assignment to Tenant of Landlord's rights in and to any applicable construction, engineering or design contracts in furtherance thereof. In the event Tenant takes such action, and such work will affect the Building Structure and/or the Building Systems, Tenant shall use only those contractors used or reasonably approved by Landlord for work on such Building Structure or Building Systems, unless such contractors are unwilling or unable to perform (and are able to immediately perform), or timely and competitively perform, such work, in which event Tenant may utilize the services of any other qualified contractor which normally and regularly performs similar work in Comparable Buildings (as defined in Exhibit "J").

J. Right to Terminate Upon Discovery of Hazardous Material/Conditions.

(a) Notwithstanding anything in this Lease, and except as expressly set forth below, in the event that Tenant is notified or becomes aware of the fact that as a result of:

(i) any discovery of Hazardous Materials in, on or around the Project not placed in, on or around the Project by Tenant or any Tenant Party, that may, considering the nature and amount of the substances involved, interfere with Tenant's use of all or a portion of the Premises or which may present a health risk to any occupants of the Premises); or

(ii) the discovery of any other Hazardous Material with respect to the Premises or the Project not caused by Tenant or any Tenant Party, which would make it dangerous or unsafe for Tenant or any Tenant Party to conduct their normal and customary business operations from the Premises or Project (each of the items set forth in provision (a)(i) or (ii) being referred to herein as a "**Trigger Event**"),

Tenant cannot, within six (6) months ("**Non-Use Period**") of the discovery by Tenant of the Trigger Event, be given reasonable use of, and access to, a safe and healthful Premises, then Tenant may thereafter elect at any time to exercise an on-going right to terminate this Lease upon ten (10) days' written notice sent to Landlord at any time following the expiration of the Non-Use Period.

(b) In the event of any Trigger Event occurring during the last year of the Term or, if an applicable renewal option has been exercised, during the last year of any renewal Term, should the Non-Use Period continue for thirty (30) days, Tenant may elect to exercise an on-going right to terminate this Lease upon ten (10) days' written notice sent to Landlord at any time following the expiration of the Non-Use Period.

K. Interest on Past Due Obligations. Except with respect to the late payment of Rent (which shall be governed by the provisions of Section 3.2), whenever one party is obligated pursuant to this Lease to make a payment to the other party, if such payment is not paid when due, then the party who does not make such payment when due shall pay interest at the Interest Rate (as such term is defined in General Condition O) to the party on the unpaid amount from the date such amount was due until the date such amount is paid.

L. When Payment Is Due. Whenever in this Lease a payment is required to be made by one party to the other, but a specific date for payment is not set forth or a specific number of days within which payment is to be made is not set forth, or the words "immediately", "promptly" and/or "on demand", or the equivalent, are used to specify when such payment is due, then such payment shall be due thirty (30) days after the party which is entitled to such payment sends written notice to the other party demanding payment.

M. Landlord Bankruptcy Proceeding. In the event that the obligations of Landlord under this Lease are not performed during the pendency of a bankruptcy or insolvency proceeding involving the Landlord as the debtor, or following the rejection of this Lease in accordance with Section 365 of the United States Bankruptcy Code, then notwithstanding any provision of this Lease to the contrary, and in addition to any and all other remedies permitted by this Lease and/or by Applicable Laws Tenant shall have the right to set off against Rents next due and owing under this Lease (a) any and all damages caused by such non-performance of Landlord's obligations under this Lease by Landlord, debtor-in-possession, or the bankruptcy trustee, and (b) any and all damages caused by the non-performance of Landlord's obligations under this Lease following any rejection of this Lease in accordance with Section 365 of the United States Bankruptcy Code.

N. Building Structure and Building Systems. As used in this Lease, the term "**Building Structure**" shall mean the structural portions of the Building, including the foundation, floor/ceiling slabs, roof, curtain wall, exterior glass and mullions, columns, beams, shafts (including elevator shafts), stairs, parking areas (including the On-Site Parking Spaces), stairwells, escalators, elevator cabs, plazas, pavement, sidewalks, curbs, entrances, landscaping, art work, sculptures, washrooms, mechanical, electrical and telephone closets, and all public areas and other exterior portions of the Building and Project, and the term "**Building Systems**" shall mean the mechanical, electrical, life safety, fire detection, fire alarm, plumbing, sprinkler systems (connected to the core) and HVAC systems (including primary and secondary loops connected to the core) ("**Building Systems**). As further provided in Article 9, and subject to the right of Landlord to receive Additional Rent as provided for in Article 4, Landlord shall at all times during the Term maintain the Building Structure and Building Systems in first class condition and repair and shall operate the Project as a first class office building. Notwithstanding anything in this Lease to the contrary, Tenant shall not be required to make any repair to, modification of, or addition to the Building Structure and/or the Building Systems and/or the Site except and to the extent required because of Tenant's use of all or a portion of the Premises for other than normal and customary business office operations.

O. Interest Rate. The "**Interest Rate**" is defined as the lesser of (i) the rate publicly announced from time to time, by the largest (as measured by deposits) state chartered bank operating in California, as its Prime Rate or its Reference Rate or other similar benchmark, plus two percent (2%), or (ii) the maximum rate permitted by law.

P. Other Temporary Uses. Notwithstanding anything to the contrary in this Lease, Landlord agrees that from time to time, Tenant may use the Premises and Project, at no cost, for filming and taping of entertainment productions, staff and customer parties and other temporary uses provided that Tenant agrees to indemnify Landlord for any damages pursuant to Section 12.2(a).

Q. Survival of Provisions Upon Termination of Lease. This Lease shall survive the expiration of the Term to the extent necessary that any term, covenant or condition of this Lease which requires the performance of obligations or forbearance of an act by either party hereto after the termination of this Lease. Such survival shall be to the extent reasonably necessary to fulfill the intent thereof, or if specified, to the extent of such specification, as same is reasonably necessary to perform the obligations and/or forbearance of an act set forth in such term, covenant or condition. Notwithstanding the foregoing, in the event a specific term, covenant or condition is expressly provided for in such a clear fashion as to indicate that such performance of an obligation or forbearance of an act is no longer required, then the specific shall govern over the General Provisions of this Lease.

R. Financing Contingency. Notwithstanding anything set forth in this Lease to the contrary, the effectiveness of this Lease is contingent upon Tenant's receipt of evidence reasonably acceptable to Tenant that Landlord has obtained a binding commitment, subject to customary qualifications for a transaction of this nature, either from Existing Mortgagee or another commercial lender reasonably acceptable to Tenant in an amount sufficient to complete the construction of the entire Project on or before the date that is no later than sixty (60) days after the Effective Date (the "**Financing Period**"). Landlord shall in good faith apply for and diligently pursue the closing of such financing, including, without limitation, the submittal of all information reasonably requested by Existing Mortgagee or another potential lender(s) reasonably acceptable to Tenant. In the event that Landlord is unable (despite such good faith efforts) to obtain such financing commitment on or before the end of the Financing Period, Tenant may elect to terminate this Lease by delivering thirty (30) days written notice thereof to Landlord during which notice period Landlord shall have the right to obtain the financing commitment in satisfaction of its obligations under this General Condition R, and this Lease will terminate and become null and void. Upon any such termination, neither Landlord nor Tenant shall have any further rights or obligations under this Lease, except for those indemnity provisions and other provisions, which pursuant to General Condition Q above, survive such termination.

S. Impound for Insurance Premiums and Tax Expenses. Landlord and Tenant acknowledge that Landlord is and may be required in the future to impound funds, on a monthly basis, sufficient to pay the annual Insurance Premiums and Tax Expenses (the "**Required Impound Payments**") due with respect to the Project (the "**Impound Obligations**") with Existing Mortgagee, or with another Superior Mortgagee. Landlord agrees that in the event that it must satisfy any Impound Obligations, it shall promptly pay the Required Impound Payments to either Existing Mortgagee or any other Superior Mortgagee, as the case may be, which shall be held by such lender and which shall be disbursed to pay the Insurance Premiums and Tax Expenses prior to delinquency. In the event that Landlord is not required by Existing Mortgagee or any other Superior Mortgagee during the Term of this Lease to satisfy the Impound Obligations with respect to the Required Impound Payments, Landlord agrees that it shall promptly notify Tenant in writing of such fact and open a segregated bank account with a national bank reasonably acceptable to Tenant (and in no event later than five (5) business days after the expiration or termination of the prior existing Impound Obligations) to receive from Landlord the Required Impound Payments. Such Required Impound Payments deposited in to such account shall only be used by Landlord to pay the Insurance Premiums and Tax Expenses prior to delinquency.

SPECIFIC TERMS AND CONDITIONS

Landlord and Tenant specifically agree as follows:

ARTICLE 1 - PREMISES

1.1 Lease of Premises. Landlord leases to Tenant, and Tenant leases from Landlord, the Premises described in provision (f) of the Fundamental Lease Provisions. Notwithstanding the foregoing, Landlord reserves the right to use up to 1,000 RSF located on the 5 th floor of the Existing Building, as shown on the Final Phase I Base Building and Site Plans (as defined in the Work Letter) as the management office for Project (the "**Management Office**"). Landlord's use of the Management Office shall not reduce the RSF of the Existing Building for purposes of determining the Rent due from Tenant hereunder, but otherwise shall be excluded from the "Premises" for all other purposes of this Lease.

1.2 Final Measurement of the Premises. Landlord and Tenant hereby acknowledge and agree that, with respect to each Building, the stated amount of RSF described in clauses (g) and (h) of the Fundamental Lease Provisions is not a representation or warranty of the exact number of RSF therein, but rather is only a reasonable approximation and that, in connection with the Substantial Completion of each Building, Landlord shall cause a third-party architect reasonably acceptable to Tenant to measure the applicable Building in accordance with the standards set forth in ANSI Z65.1 2010 for measuring floor area in office buildings, utilizing the Gross Building Area method for single occupant buildings on pages 10-11, as promulgated by the Building Owners and Managers Association (the "**BOMA Standard**"). In the event that the applicable Commencement Date occurs prior to the Substantial Completion of the applicable Building pursuant to Section 2.3(b) below, Base Rent shall be determined based on the RSF set forth in clause (g) or (h) of the Fundamental Lease Provisions, as applicable, and if the final measurement later produces a RSF number in excess of or lower than the RSF number set forth in clause (g) or (h) of the Fundamental Lease Provisions, as applicable, any payments due to Landlord from Tenant based upon the amount of RSF contained in the applicable Building shall be proportionally, retroactively and prospectively reduced or increased, as appropriate, to reflect the actual RSF number, as properly measured under the BOMA Standard. If a dispute occurs regarding the final accuracy of such measurements, such dispute will be resolved pursuant to binding arbitration pursuant to General Condition G.

1.3 Right of First Offer to Purchase. Tenant's rights and obligations with respect to the Right of First Offer to Purchase are set forth in Exhibit "I-1" attached and incorporated into this Lease by this reference.

1.4 Option to Purchase. Tenant's rights and obligations with respect to its Option to Purchase are set forth in Exhibit "I-2" attached and incorporated into this Lease by this reference.

ARTICLE 2 - TERM

1.5 Effective Date. This Lease will become binding and effective on the Effective Date.

1.6 Term of Lease. The term of this Lease ("**Term**") shall be for the term set forth in provision (k) of the Fundamental Lease Provisions beginning on the Commencement Date, as such term is defined below, and, unless sooner terminated as hereinafter provided, ending on the Expiration Date specified in provision (m) of the Fundamental Lease Provisions or, when appropriate, at the end of the applicable Extension Period to the extent the rights to extend are exercised pursuant to Exhibit "J".

1.7 Delivery of Premises; Commencement Date(s).

(a) The Premises will be delivered and occupied by Tenant in two Phases. Phase I will include delivery of the Existing Building which will be delivered to Tenant when Landlord's Construction Work with respect to Phase I (including the Tenant Improvements therein) is Substantially Complete and the Existing Building is ready for occupancy. Phase II will include delivery of the New Building which be delivered to Tenant when Landlord's Construction Work with respect to Phase II (including the Tenant Improvements therein) is Substantially Complete and the New Building is ready for occupancy.

(b) The "**Commencement Date**" and Tenant's obligation to pay the Rent, as such term is defined below, shall commence with respect to each Building on the earlier of (i) the date Tenant commences business operations from such Building, and (ii) five (5) business days following the date which is after the earlier of the following (the " **Move-In Period**"):

(i) With respect to the Existing Building, the earlier of (A) the date Landlord delivers to Tenant a factually correct written notice stating that Landlord's Construction Work with respect to Phase I is Substantially Complete and confirming the amount of RSF in the Existing Building, as determined in accordance with the BOMA Standard pursuant to Section 1.2 above, and (B) the date Landlord delivers to Tenant a factually correct written notice stating the date that Landlord's Construction Work with respect to Phase I would have been Substantially Complete were it not for any Tenant Delays (as defined in the Work Letter); and

(ii) With respect to the New Building, the earlier of (A) the date Landlord delivers to Tenant a factually correct written notice stating that Landlord's Construction Work with respect to Phase II is Substantially Complete, and confirming the amount of RSF in the New Building, as determined in accordance with the BOMA Standard pursuant to Section 1.2 above, and (B) the date Landlord delivers to Tenant a factually correct written notice stating the date that Landlord's Construction Work with respect to Phase II would have been Substantially Complete were it not for any Tenant Delays.

Tenant understands that it is in Landlord's best economic interests to have Landlord's Construction Work with respect to each Phase Substantially Completed as soon as reasonably possible in order to have the Commencement Date for the applicable Building occur as early as possible, and Tenant understands that to the extent that Landlord's Construction Work with respect to such Phase is not Substantially Completed because of Tenant Delays, the Commencement Date for the applicable Building will nevertheless occur on the date Landlord's Construction Work for such Phase would have completed had Tenant Delays not occurred.

1.8 Early Entry Into Premises. Landlord shall permit Tenant to enter the Premises of each Building no later than thirty (30) days prior to the anticipated Commencement Date for the purpose of installing furniture, special flooring or carpeting, trade fixtures, telephones, computers, photocopy equipment and other business equipment (" **Early Entry Work**"). Tenant's Early Entry Work shall not cause the Landlord to incur any additional costs (i.e. accelerated schedule(s), out of sequence work, expedited material deliveries etc.) to accommodate Tenant's Early Entry Work. Such early entry shall not advance the Commencement Date, nor trigger the commencement of any Move-In Period, provided Tenant does not commence regular business operations from the Premises. In connection with such early entry, Landlord shall not be responsible for any loss caused by Tenant or those entering the Premises on behalf of Tenant to perform such Early Entry Work, including theft, damage or destruction to any work or material installed or stored by Tenant or any contractor or individual involved in the construction of the Tenant Improvements, or for any injury to Tenant or any Tenant Party or to any other person and provided further that Landlord shall have the right to post the appropriate notices of non-responsibility and to require Tenant to provide Landlord with evidence that Tenant has fulfilled its obligation to provide insurance pursuant to Article 12 hereof.

1.9 Notice of Commencement Date. Landlord or Tenant may send the other party notice of the occurrence of the Commencement Date with respect to each Building in the form of the attached Exhibit "C", which notice the receiving party shall acknowledge by executing a copy of the notice and returning it to the sending party. If the receiving party disputes the accuracy of the information contained in the notice, and the parties are unable to mutually agree as to the Commencement Date, either party may submit the dispute to arbitration pursuant to General Condition G.

1.10 Option to Terminate Because of Non-Commencement or Completion. Notwithstanding anything to the contrary set forth in this Lease, Tenant shall have the right, at Tenant's sole option, to elect to terminate this Lease by delivery to Landlord of a notice (the "**Termination Notice**") if (each, a "**Termination Condition**"):

(a) [Intentionally Deleted];

(b) Once Landlord commences physical construction of Landlord's Construction Work with respect to Phase I, Landlord fails to diligently prosecute the same to completion, subject to any Tenant Delays and/or Force Majeure Delays;

(c) Landlord has not delivered the Existing Building to Tenant with all of Landlord's Construction Work for Phase I Substantially Completed by July 1, 2013 (the "**Existing Building Outside Delivery Date**"), which Existing Building Outside Delivery Date will be extended one (1) day for each day Landlord is delayed in constructing Landlord's Construction Work for Phase I because of any Tenant Delays and/or Force Majeure Delays (as defined in the Work Letter), provided that in no event shall the Existing Building Outside Delivery Date be extended as a result of any Force Majeure Delays beyond December 31, 2013;

(d) Landlord fails to commence physical construction (not merely drawings or design work) of Landlord's Construction Work with respect to Phase II on or before October 1, 2013;

(e) Once Landlord commences physical construction of Landlord's Construction Work with respect to Phase II, Landlord fails to diligently prosecute the same to completion, subject to any Tenant Delays and/or Force Majeure Delays; or

(f) Landlord has not delivered the New Building to Tenant with all of Landlord's Construction Work for Phase II Substantially Completed by December 1, 2014 (the "**New Building Outside Delivery Date**"), which New Building Outside Delivery Date will be extended one (1) day for each day Landlord is delayed in constructing Landlord's Construction Work for Phase II because of any Tenant Delays and/or Force Majeure Delays, provided that in no event shall the New Building Outside Delivery Date be extended as a result of any Force Majeure Delays beyond June 30, 2015.

If Tenant is entitled to and delivers to Landlord a Termination Notice, this Lease shall be deemed terminated effective sixty (60) days after Tenant's delivery of such Termination Notice, unless within such sixty (60) day period (i) in the case of clauses (c), (d) or (f) above, Landlord shall have satisfied the applicable Termination Condition which was not satisfied by the applicable date provided for in such clause, or (ii) in the case of clauses (b) or (e), Landlord shall have recommenced to and thereafter continue to diligently prosecute Landlord's Construction Work to completion. Tenant's right to terminate pursuant to this Section 2.6 shall be Tenant's sole remedy in the event a Termination Condition is not satisfied.

1.11 Options to Extend Term. Tenant's rights and obligations with respect to extending the Term are set forth in Exhibit "J" attached hereto.

ARTICLE 3 - RENT

1.12 Payment of Rent. Without prior notice or demand, without set off or deduction whatsoever (except for Tenant's Rent abatement rights as provided in General Condition B, F and/

or I or as otherwise expressly provided in this Lease), Tenant agrees to pay Landlord, as rent (" **Base Rent**") for the Premises, Monthly Base Rent in the amount specified in or determined pursuant to provision (n) of the Fundamental Lease Provisions. Such Monthly Base Rent shall be paid monthly in advance beginning on the applicable Commencement Date on or before the first day of each calendar month thereafter during the entire Term. On the applicable Commencement Date, Tenant shall pay to Landlord the prorated Monthly Base Rent attributable to the month in which the applicable Commencement Date occurs if the applicable Commencement Date occurs on a date other than the first day of a calendar month.

1.13 Late Charge. Landlord and Tenant acknowledge that the late payment by Tenant of Rent or the late payment by Landlord of amounts owed to Tenant under this Lease will cause the party who was entitled to receive such payment (" **Payee**") to incur damages, including administrative costs, loss of use of the overdue funds and other costs, the exact amount of which would be impractical and extremely difficult to fix. Landlord and Tenant agree that if the Payee does not receive a payment within five (5) days following the delivery by Payee of notice to the other party (" **Payor**") that such payment is overdue, Payor shall pay to Payee a late charge equal to five percent (5%) of the delinquent amount, or the sum of One Hundred Dollars ($100.00), whichever is greater, as liquidated damages for the damages which Payee is likely to incur for the thirty (30) day period following the due date of such payment. Further, all portions of a payment not paid within thirty (30) days following its due date and all late charges associated therewith shall bear interest at the Interest Rate (as such term is defined in General Condition O) beginning on the thirty-first (31st) day following the due date of such payment and continuing until such payment, late charges and interest are paid in full to Payee. Acceptance of the late charge by Payee shall not cure or waive a default, nor prevent Payee from exercising, before or after such acceptance, any of the rights and remedies for a default provided by this Lease or at law. Payment of the late charge is not an alternative means of performance of Payor's obligation at the times specified in this Lease. Payor will be liable for the late charge regardless of whether Payor's failure to pay when due constitutes a default under this Lease.

ARTICLE 4 - ADDITIONAL RENT

1.14 General Terms. Commencing with the first (1st) day after the Base Year, in addition to paying the Base Rent specified in Article 3 of this Lease, Tenant shall pay Tenant's Share (as defined below) of the annual Direct Expenses (as defined below) which are in excess of the amount of Direct Expenses over the Allowance (as defined below). "**Allowance**" shall be the total dollar amount of Direct Expenses actually incurred by Landlord during the Base Year for the Buildings. Landlord and Tenant agree that, notwithstanding anything contained in this Lease to the contrary, commencing with the first Expense Year (as defined below) following the Base Year, and for each Expense Year thereafter, the aggregate Controllable Operating Costs, as that term is defined below, shall not increase more than five percent (5%) in any Expense Year over the maximum amount of the aggregate Controllable Operating Costs chargeable for the immediately preceding Expense Year, with no limit on the aggregate Controllable Operating Costs during the Base Year (except as provided in the definition of Operating Costs below) (the " **Annual Cap**"). "**Controllable Operating Costs**" shall mean all Operating Costs except utility costs, costs of services provided under a union contract and costs associated with repairs due to casualty, vandalism or other source outside of Landlord's reasonable control and in no event shall Controllable Operating Costs include Tax Expenses or Insurance Premiums. Such payments by Tenant, together with any and all other amounts payable by Tenant to Landlord pursuant to the terms of this Lease including the parking charges (as set forth in Article 30), are hereinafter collectively referred to as the " **Additional Rent**," and the Base Rent and the Additional Rent are herein collectively referred to as " **Rent**". Without limitation on other obligations of Tenant which survive the expiration of the Lease Term, the obligations of Tenant to pay the Additional Rent, related to the period of time during which the Lease is in effect, provided for in this Article 4 shall survive the expiration of the Lease Term.

1.15 Procedure for Payment of Tenant's Share of Direct Expenses. Commencing with the first (1st) day after the Base Year, Tenant shall pay Tenant's Share of any excess Direct Expenses over the Allowance, and subject at all times to the Annual Cap, as follows:

(a) Landlord may, from time to time by providing at least thirty (30) days advance written notice to Tenant, reasonably estimate in advance the amounts Tenant shall owe on a monthly basis for Direct Expenses over the Allowance for any full or partial Expense Year of the Term. Such estimate shall be subject at all times to the Annual Cap. In such event, Tenant shall pay such estimated amounts, on a monthly basis, on or before the first (1st) day of each calendar month, together with Tenant's payment of Monthly Base Rent.

(b) Within one hundred twenty (120) days after the end of each Expense Year after the Base Year, or as soon thereafter as practicable, Landlord shall provide a statement itemized on a line item by line item basis (the " **Statement**") to Tenant showing: (i) the amount of actual Direct Expenses for such Expense Year and for the preceding Expense Year (including the amount of Controllable Operating Costs for each such Expense Year), (ii) any amount paid on an estimated basis by Tenant toward excess Direct Expenses over the Allowance during such Expense Year and (iii) any revised estimate of Tenant's obligations for excess Direct Expenses over the Allowance, and subject to the Annual Cap, for the current Expense Year.

(c) If the Statement shows that Tenant's estimated payments were less than Tenant's actual obligations for excess Direct Expenses over the Allowance and subject to the Annual Cap for such Expense Year, Tenant shall pay the difference. If the Statement shows an increase in Tenant's estimated payments for the current Expense Year, Tenant shall pay the difference between the new and former estimates, for the period from January 1 of the current Expense Year through the month in which the Statement is sent. Tenant shall make such payments within thirty (30) days after Tenant receives the Statement.

(d) If the Statement shows that Tenant's estimated payments exceeded Tenant's actual obligations for excess Direct Expenses over the Allowance, and subject to the Annual Cap, Tenant shall receive a credit of such difference against payments of Rent next due. If the Term shall have expired and no further Rent shall be due, Tenant shall receive a refund of such difference within thirty (30) days after Landlord sends the Statement. In no event shall any decrease in Direct Expenses for any Expense Year below Direct Expenses for the Base Year entitle Tenant any decrease in Base Rent or any credit against any other sums payable by Tenant under this Lease.

(e) So long as Tenant's obligations hereunder are not materially adversely affected, Landlord reserves the right to change, from time to time, but not more frequently than once in any twelve (12) month period, the manner or timing of the foregoing payments. No delay by Landlord in providing the Statement (or separate statements) shall be deemed a default by Landlord but any delay by Landlord (or any successor to Landlord in the event the Building is conveyed to a new owner during the Term) in billing Tenant for Tenant's Share of any excess Direct Expenses over the Allowance, and subject to the Annual Cap, of more than three (3) years, or two (2) years if this Lease has terminated, from the date Landlord incurred such Direct Expenses shall be deemed a waiver of Landlord's right to require payment of Tenant's obligations on account of any such Direct Expenses.

(f) If Tenant's obligation to pay Tenant's Share of excess Direct Expenses over the Allowance commences other than on January 1, or ends other than on December 31, Tenant's obligation to pay estimated and actual amounts toward excess Direct Expenses over the Allowance, and subject to the Annual Cap, for such first or final calendar years shall be prorated to reflect the portion of such years included within the period for which Tenant is obligated to pay Tenant's Share of such Direct Expenses. Such proration shall be made by multiplying the total estimated or actual (as the case may be) excess Direct Expenses over the Allowance, subject to the Annual Cap, for such calendar years by a fraction, the numerator which shall be the number of days within the period for which Tenant is obligated to pay such amounts during such calendar year, and the denominator of which shall be the total number of days in such year.

1.16 Definitions of Key Terms Relating to Additional Rent. As used in this Article 4, the following terms shall have the meanings hereinafter set forth:

1.16.1 Base Year. "**Base Year**" shall mean the period set forth in Section (y) of the Fundamental Lease Provisions of the Summary.

1.16.2 Direct Expenses. "**Direct Expenses**" shall mean Operating Expenses and Tax Expenses (as defined below).

1.16.3 Expense Year. "**Expense Year**" shall mean each calendar year following the Base Year in which any portion of the Lease Term falls, through and including the calendar year in which the Lease Term expires.

1.16.4 Operating Expenses.

1.16.4.1 Inclusions to Operating Expenses. "**Operating Expenses**" shall mean all reasonable expenses, costs and amounts of every kind and nature which Landlord pays during any Expense Year because of or in connection with the ownership, management, maintenance, repair, replacement, restoration or operation of the Project, or any portion thereof, subject to the terms and provisions of Section 4.3.4.2. Without limiting the generality of the foregoing, Operating Expenses shall specifically include any and all of the following:

(i) the actual cost of supplying all utilities, the cost of operating, repairing, maintaining, and renovating the utility, telephone, mechanical, sanitary, storm drainage, and elevator systems, and the actual and reasonable cost of maintenance and service contracts in connection therewith;

(ii) the actual cost of licenses, certificates, permits and inspections and the actual and reasonable cost of contesting any governmental enactments which may affect Operating Expenses, and the actual costs incurred in connection with a governmentally mandated transportation system management program or similar program;

(iii) all insurance premiums and other charges (including the amount of any deductible payable by Landlord with respect to damage or destruction to all or any portion of the Buildings, but in no event more than the amount of deductibles typically carried by landlords of Comparable Buildings) incurred by Landlord with respect to insuring the Project, including, without limitation, the following to the extent carried by Landlord: (a) fire and extended coverage insurance, windstorm, hail, and explosion; (b) riot attending a strike, civil commotion, aircraft, vehicle and smoke insurance; (c) public liability, bodily injury and property damage insurance; (d) elevator insurance; (e) workers' compensation insurance for employees of the property manager working on-site; (f) boiler and machinery insurance, sprinkler leakage, water damage, property, burglary, fidelity and pilferage insurance on equipment and materials; (g) loss of rent, rent abatement, rent continuation, business interruption insurance, and similar types of insurance (but only to the extent of increases in the cost of such coverage over the cost that would have been incurred for the same coverage in the Base Year); (h) earthquake, flood, tornado, and hurricane insurance to the extent available on a commercially reasonable basis; and (i) such other insurance as is customarily carried by operators of Comparable Buildings or as may be otherwise required by Existing Mortgagee or a future Superior Mortgagee (the "**Insurance Premiums**");

(iv) the reasonable cost of non-capital (as determined pursuant to generally accepted accounting principles) landscaping repair, restoration, and maintenance, and all supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project, or any portion thereof;

(v) the reasonable and actual cost of non-capital (as determined pursuant to generally accepted accounting principles) parking area repair, restoration, and maintenance;

(vi) the reasonable fees and other actual costs, including reasonable management fees of a third party, unrelated property manager (subject to Section 4.3.4.2(a)(xiii), to the extent the same are normally and customarily charged by landlords of Comparable Buildings, consulting fees, legal fees and accounting fees, of all contractors and consultants in connection with the management, operation, maintenance and repair of the Project;

(vii) to the extent Landlord manages the Project, an amount equal to three percent (3%) of the Base Rent payable under this Lease to cover all of Landlord's overhead costs and expenses (including wages, salaries and other compensation and benefits, including taxes levied thereon, payable to any on-site property manager and other staff), other than an on-site engineer as provided in Section 4.3.4.1(ix) below;

(viii) the reasonable and actual payments under any equipment rental agreements incurred connection with the management, operation, maintenance and repair of the Project;

(ix) subject to Section 4.3.4.2(a)(vi) below, wages, salaries and other compensation and benefits, including taxes levied thereon, of an on-site engineer engaged in the operation and maintenance of the Project in amounts not to exceed then-current market wages, salaries and benefits, provided that any such on-site engineer shall only be employed on a full-time basis if determined to be reasonably necessary by Landlord to operate and maintain the Project in accordance with the terms of this Lease;

(x) the reasonable and actual costs of operation, repair and maintenance of all Building Systems and equipment and components thereof of the Project;

(xi) the reasonable and actual cost of janitorial and other services provided by Landlord pursuant to Section 10.1, and maintenance and replacement of curbs and walkways, and repair to roofs and reroofing;

(xii) amortization (including interest at a market interest rate on the unamortized cost) over the useful life, determined in accordance with generally accepted accounting principles, of the cost of acquiring or the reasonable rental expense of personal property used in the maintenance, operation and repair of the Project, or any portion thereof;

(xiii) the reasonable and actual cost of capital improvements or other costs incurred in connection with the Project (A) which are undertaken to affect economies in the operation or maintenance of the Project, or any portion thereof (but only to the extent of the annual cost savings reasonably anticipated by Landlord), (B) that are required to comply with present or anticipated reasonable conservation programs required by any applicable governmental authority, (C) which are replacements of nonstructural items located in the common areas required to keep the common areas in good order or condition, or (D) subject to General Condition B, that are required under any Applicable Laws enacted after the date of this Lease; provided, however, that any capital expenditure shall be amortized (including interest at a market interest rate on the amortized cost) over its useful life reasonably determined in accordance with generally accepted accounting principles; and

(xiv) the actual costs, fees, charges or assessments imposed by, or resulting from any mandate imposed on Landlord by, any federal, state or local government for fire and police protection, trash removal, community services, or other services which do not constitute Tax Expenses.

Notwithstanding the foregoing, only as provided hereinafter in items [i], [ii], and [iii], in the event Landlord incurs costs or expenses associated with or relating to separate items or categories or subcategories of Operating Expenses which were not part of Operating Expenses during the entire Base Year, Operating Expenses for the Base Year shall be deemed increased by the amounts Landlord would have incurred during the Base Year with respect to such costs and expenses had such separate items or categories or subcategories of Operating Expenses been included in Operating Expenses during the entire Base Year. The foregoing shall only apply as follows: [i] in the event and to the extent any portion of the Project is covered by a warranty or service agreement which provides warranty-type protection at any time during the Base Year and is not covered by such warranty or such warranty-type protection under such service agreement in a subsequent Expense Year to the same extent, Operating Expenses for the Base Year shall be deemed increased by the amount Landlord would have incurred during the Base Year with respect to the items or matters covered by the subject warranty or warranty-type protection, had such warranty or such service agreement not been in effect during the Base Year; [ii] any Insurance Premium resulting from any new forms of insurance, shall be deemed to be included in Operating Expenses for the Base Year, except to the extent otherwise governmentally mandated; and [iii] any new category of Operating Expenses for new services provided to the Project and/or the Building after the Base Year, unless such new services are required to comply with Applicable Law enacted after the Lease Commencement Date.

1.16.4.2 Exclusions to Operating Expenses.

(a) Notwithstanding the provisions of Section 4.3.4.1 above, for purposes of this Lease, Operating Expenses shall not, however, include:

(i) costs, including advertising costs, marketing costs, legal fees, professional fees (including architects, engineers and space planners), advertising and promotional expenses, and brokerage fees incurred in connection with the original construction or development, or original or any future leasing of the Project, and costs, including permit, license and inspection costs, incurred with respect to the installation of tenant improvements;

(ii) except as expressly set forth in Sections 4.3.4.1(xii), (xiii), and (xiv) above, depreciation, interest and principal payments on mortgages and other debt costs, if any, penalties and interest, costs of capital (as determined pursuant to generally accepted accounting principles) repairs and alterations, and costs of capital improvements and equipment;

(iii) costs for which Landlord is separately reimbursed by insurance by its carrier or any Tenant's carrier or by anyone else, and electric power costs to the extent Tenant directly contracts with the local public service company for such services;

(iv) any bad debt loss, rent loss, or reserves for bad debts, rent loss; reserves for future improvements, repairs or additions;

(v) costs associated with the operation of the business of the partnership or entity which constitutes Landlord, as the same are distinguished from the costs of operation of the Project (which shall specifically include, but not be limited to, accounting costs associated with the operation of the Project). Costs associated with the operation of the business of the partnership or entity which constitutes Landlord include costs of partnership accounting and legal matters, costs of defending any lawsuits with any mortgagee (except as the actions of the Tenant may be in issue), costs of selling, syndicating, financing, mortgaging or hypothecating any of Landlord's interest in the Project, and costs incurred in connection with any disputes between Landlord and its employees, between Landlord and Project management, or between Landlord and other tenants or occupants, and Landlord's general corporate overhead and general and administrative expenses;

(vi) except as expressly provided in Section 4.3.4.1(ix), the wages and benefits of any employee of Landlord or the wages and benefits of any employee of the third party, unrelated property manager who does not devote substantially all of his or her employed time to the Project unless such wages and benefits are prorated to reflect time spent on operating and managing the Project vis-a-vis time spent on matters unrelated to operating and managing the Project; provided, that in no event shall Operating Expenses for purposes of this Lease include wages and/or benefits attributable to personnel of any third party, unrelated property manager above the level of Project manager;

(vii) amounts paid as ground rental for the Project by Landlord;

(viii) overhead and profit increments paid to the Landlord or to subsidiaries or affiliates of Landlord for services in the Project to the extent the same exceeds the costs of such services rendered by qualified, first-class unaffiliated third parties negotiated on an arm's length basis;

(ix) any compensation paid to clerks, attendants or other persons in commercial concessions operated by Landlord;

(x) rentals and other related expenses incurred in leasing air conditioning systems, elevators or other equipment which if purchased the cost of which would be excluded from Operating Expenses as a capital cost, except equipment not affixed to the Project which is used in providing janitorial or similar services and, further excepting from this exclusion such equipment rented or leased to remedy or ameliorate an emergency condition in the Project;

(xi) all items and services for which Tenant reimburses Landlord;

(xii) costs, other than those incurred in the ordinary maintenance and repair, for sculpture, paintings, fountains or other objects of art displayed in the Building;

(xiii) fees payable by Landlord for management of the Project to a third party, unrelated property manager in excess of three percent (3%) of the Base Rent payable under this Lease;

(xiv) any costs expressly excluded from Operating Expenses elsewhere in this Lease, including, without limitation, costs related to security paid by Tenant;

(xv) rent for any office space occupied by Project management (including the on-site Management Office);

(xvi) costs incurred in connection with upgrading the Building Structure, Building Systems or other components of the Project to comply with any Applicable Laws relating to life, fire and safety which were in existence as of applicable Commencement Date, including penalties or damages incurred due to such non-compliance;

(xvii) tax penalties or interest due on any unpaid taxes or assessments incurred as a result of Landlord's failure to make payments and/or to file any tax or informational returns when due;

(xviii) costs arising from the negligence or willful misconduct of Landlord or the Landlord Parties, or providers of materials or services selected, hired or engaged by Landlord or its agents, including, without limitation, the selection of Building materials;

(xix) costs (A) incurred to comply with laws relating to the removal of Hazardous Material (as defined below) except for immaterial amounts expended in connection with routine maintenance and repairs of the Premises; which was in existence in the Building or on the Project prior to the applicable Commencement Date, and was of such a nature that a federal, State or municipal governmental authority, if it then had knowledge of the presence of such Hazardous Material, in the state, and under the conditions that it then existed in the Building or on the Project, would have then required the removal of such Hazardous Material or other remedial or containment action with respect thereto; and (B) costs incurred to remove, remedy, contain, or treat Hazardous Material, which Hazardous Material is brought into the Building or onto the Project after the date hereof by Landlord or any other tenant of the Project and is of such a nature, at that time, that a federal, State or municipal governmental authority, if it had then had knowledge of the presence of such Hazardous Material, in the state, and under the conditions, that it then exists in the Building or on the Project, would have then required the removal of such Hazardous Material or other remedial or containment action with respect thereto except for immaterial amounts completed in connection with routine maintenance and repairs;

(xx) costs arising from Landlord's charitable or political contributions;

(xxi) costs arising from defects in the Building Structure or Building Systems or improvements installed by Landlord or repair of such defects;

(xxii) costs (including in connection therewith all attorneys' fees and costs of settlement judgments and payments in lieu thereof) arising from claims, disputes or potential disputes in connection with potential or actual claims litigation or arbitrations pertaining to Landlord and/or the Building and/or the Site;

(xxiii) any gifts provided to any entity whatsoever, including, but not limited to, Tenant, other tenants, employees, vendors, contractors, prospective tenants and agents;

(xxiv) the cost of any magazine, newspaper, trade or other subscriptions;

(xxv) any amount paid to Landlord or to subsidiaries or affiliates of Landlord for services in the Project to the extent the same exceeds the cost of such services rendered by qualified, first-class unaffiliated third parties on a competitive basis;

(xxvi) costs arising from Landlord's failure to comply with any Applicable Laws;

(xxvii) the cost of any training or incentive programs, other than for tenant life safety information services;

(xxviii) the cost of any "tenant relations" parties, events or promotion not consented to by an authorized representative of Tenant in writing;

(xxix) costs relating to categories of expenses for the Project parking areas which were not included in Operating Expenses during the Base Year, except to the extent the Base Year is retroactively adjusted to include such categories;

(xxx) any other expenses which, in accordance with generally accepted accounting principles or other comprehensive basis of accounting, consistently applied, would not normally be treated as Operating Expenses by landlords of Comparable Buildings; or

(xxxi) any entertainment expenses and travel expenses of Landlord, its employees, agents, partners and affiliates.

(b) It is understood that Operating Expenses shall be reduced by all cash discounts, trade discounts, quantity discounts, rebates or other amounts received by Landlord or Landlord's managing agent in the purchase of any goods, utilities, or services in connection with the operation of the Building. If capital items and equipment which are customarily purchased by landlords of Comparable Buildings are leased by Landlord, rather than purchased, the decision by Landlord to lease the item in question shall not serve to increase Tenant's Share of Operating Expenses beyond that which would have applied had the item in question been purchased.

1.16.5 Taxes.

1.16.5.1 Payment of Tax Expenses. Landlord shall pay, prior to delinquency, all Tax Expenses (as defined below) for each tax period wholly included prior to or during the period between the Commencement Date and the expiration or earlier termination of the Term. All such payments shall be made directly to the authority charged with the collection thereof prior to the last date on which the same may be paid without interest or penalty, and Landlord shall use commercially reasonable efforts to cause the Premises to be separately assessed and shall deliver copies of the bills for Tax Expenses to Tenant upon receipt. Landlord shall provide to Tenant a copy of a receipted tax bill or other documentary evidence reasonably satisfactory to Tenant, showing the amount of the Tax Expenses due and the payment of same prior to the delinquency date. The obligation of Landlord pursuant to this Section 4.3.5.1 shall extend to any increase in Tax Expenses resulting from a sale, transfer or other transaction with respect to the Premises which causes a reassessment resulting in an increase in Tax Expenses.

1.16.5.2 Right to Contest. Landlord shall have the right, at Landlord's sole risk and cost, except as expressly provided in Section 4.3.5.4, to contest the amount and/or validity of the applicable Tax Expenses by appropriate legal proceedings. The foregoing shall not, however, be deemed or construed to relieve, modify, or extend Landlord's covenant to pay any such Tax Expenses at the time and in the manner provided in this Section, unless such proceedings shall operate to prevent the sale of the Project or any part thereof or any other property of Landlord or the placing of any lien thereon or on any other property of Landlord to satisfy such taxes prior to the final determination of such proceedings. Upon the termination of such proceedings, Landlord shall promptly pay all Tax Expenses, if any, then payable as the result of such proceedings and the interest and penalties in connection therewith, and the charges accruing in such proceedings. Subject to Section 4.3.5.4, to the extent Tenant receives any refund for any Tax Expenses paid by Landlord hereunder, Tenant shall promptly pay and deliver such refund to Landlord

1.16.5.3 Tax Expenses. "**Tax Expenses**" shall mean all federal, state, county, or local governmental or municipal taxes, fees, charges or other impositions of every kind and nature, whether general, special, ordinary or extraordinary (including, without limitation, real estate taxes, general and special assessments, transit taxes, leasehold taxes or taxes based upon the receipt of rent, including gross receipts or sales taxes applicable to the receipt of rent, unless required to be paid by Tenant, personal property taxes imposed upon the fixtures, machinery, equipment, apparatus, systems and equipment, appurtenances, furniture and other personal property used in connection with the Project, or any portion thereof), which shall be paid or accrued during any Expense Year (without regard to any different fiscal year used by such governmental or municipal authority) because of or in connection with the ownership, leasing and operation of the Project, or any portion thereof including the parking areas. Tax Expenses shall include, without limitation:

(i) any tax on the rent, right to rent or other income from the Project, or any portion thereof, or as against the business of leasing the Project, or any portion thereof;

(ii) any assessment, tax, fee, levy or charge in addition to, or in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, it being acknowledged by Tenant and Landlord that Proposition 13 was adopted by the voters of the State of California in the June 1978 election ("**Proposition 13**") and that assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants, and, in further recognition of the decrease in the level and quality of governmental services and amenities as a result of Proposition 13, Tax Expenses shall also include any governmental or private assessments or the Project's contribution towards a governmental or private cost-sharing agreement for the purpose of augmenting or improving the quality of services and amenities normally provided by governmental agencies;

(iii) any assessment, tax, fee, levy, or charge allocable to or measured by the area of the Premises or the Rent payable hereunder, including, without limitation, any business or gross income tax or excise tax with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operating, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof;

(iv) any assessment, tax, fee, levy or charge, upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises; and

(v) all of the real estate taxes and assessments imposed upon or with respect to the Building and Project. To the extent such taxes are not currently known, Landlord shall reasonably estimate the taxes and the Base Year Tax Expenses shall be adjusted accordingly upon receipt of the actual tax adjustment based upon such reassessment.

1.16.5.4 Other Costs and Refunds. Any actual and reasonable costs and expenses (including, without limitation, reasonable attorneys' and consultants' fees) incurred in attempting to protest, reduce or minimize Tax Expenses shall be included in Tax Expenses in the Expense Year such expenses are incurred, but only to the extent of the savings resulting therefrom. Tax refunds shall be credited against Tax Expenses and refunded to Tenant regardless of when received, based on the Expense Year to which the refund is applicable; provided, however, in no event shall the amount to be refunded Tenant for any such Expense Year exceed the total amount paid by Tenant as Additional Rent under this Article 4 for such Expense Year. If Tax Expenses for any period during the Lease Term or any extension thereof are increased after payment thereof for any reason, including, without limitation, error or reassessment by applicable governmental or municipal authorities, Tenant shall pay Landlord upon demand Tenant's Share of any such increased Tax Expenses to the extent the same results in excess Direct Expenses for such Expense Year over the Allowance. Notwithstanding anything to the contrary contained in this Section 4.3.5, there shall be excluded from Tax Expenses (i) all excess profits taxes, franchise taxes, gift taxes, capital stock taxes, inheritance and succession taxes, estate taxes, federal and state income taxes, and other taxes to the extent applicable to Landlord's general or net income (as opposed to rents, receipts or income attributable to operations at the Project), (ii) any items included as Operating Expenses, and (iii) any items paid by Tenant under Section 4.4 of this Lease.

1.16.6 Tenant's Share. "**Tenant's Share**" shall mean the percentage set forth in item (z) of the Fundamental Lease Provisions.

1.17 Taxes and Other Charges for Which Tenant Is Directly Responsible.

1.17.1 Personal Property Taxes. Tenant shall be liable for and shall pay ten (10) days before delinquency, taxes levied against Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises. Tenant shall cause such taxes to be billed separately from the property of Landlord. If any such taxes on Tenant's equipment, furniture, fixtures and any other personal property are levied against Landlord or Landlord's property or if the assessed value of Landlord's property is increased by the inclusion therein of a value placed upon such equipment, furniture, fixtures or any other personal property and if Landlord pays the taxes based upon such increased assessment, which Landlord shall have the right to do regardless of the validity thereof but only under proper protest if requested by Tenant, Tenant shall upon demand repay to Landlord the taxes so levied against Landlord or the proportion of such taxes resulting from such increase in the assessment, as the case may be.

1.17.2 Taxes on Improvements in Premises. If the tenant improvements in the Premises, whether installed and/or paid for by Landlord or Tenant and whether or not affixed to the real property so as to become a part thereof, are assessed for real property tax purposes at a valuation higher than the cost of the Original Improvements installed by Landlord, then the Tax Expenses levied against Landlord or the property by reason of such excess assessed valuation shall be deemed to be taxes levied against personal property of Tenant and shall be governed by the provisions of Section 4.4.1, above.

1.17.3 Other Taxes. Notwithstanding any contrary provision herein, Tenant shall pay prior to delinquency any (i) rent tax or sales tax, service tax, transfer tax or value added tax, or any other applicable tax on the rent or services herein or otherwise respecting this Lease, (ii) taxes assessed upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises or any portion of the Project, including the Project parking, or (iii) taxes assessed upon this transaction or any document to which Tenant is a party creating or transferring an interest or an estate in the Premises.

1.18 Landlord's Books and Records. Within six (6) months after receipt of a Statement by Tenant, if Tenant disputes the amount of Additional Rent set forth in the Statement, an independent certified public accountant (which accountant is a member of a nationally recognized accounting firm and has previous experience in reviewing financial operating records of landlords of office buildings and is retained by Tenant on a non-contingency fee basis) (the "**Tenant Auditor**"), designated and paid for by Tenant, may, after reasonable notice to Landlord and at reasonable times, inspect Landlord's records with respect to the Statement at Landlord's offices, provided that Tenant is not then in default under this Lease and Tenant has paid all amounts required to be paid under the applicable Estimated Statement and Statement, as the case may be. In connection with such inspection, Tenant and Tenant's agents must agree in advance to follow Landlord's reasonable rules and procedures regarding inspections of Landlord's records, and shall execute a commercially reasonable confidentiality agreement regarding such inspection. Tenant's failure to dispute the amount of Additional Rent set forth in any Statement within six (6) months following Tenant's receipt of such Statement shall be deemed to be Tenant's approval of such Statement and Tenant, thereafter, waives the right or ability to dispute the amounts set forth in such Statement. If after such inspection, Tenant still disputes such Additional Rent, a determination as to the proper amount shall be made, at Tenant's expense, by an independent certified public accountant (the "**Accountant**") selected by Landlord and subject to Tenant's reasonable approval; provided that if such certification by the Accountant proves that Direct Expenses were overstated by more than three percent (3%), then the cost of the Accountant and the Tenant Auditor, and the cost of such determination certification, shall be paid by Landlord. Any reimbursement amounts determined to be owing by Landlord to Tenant or by Tenant to Landlord shall be (i) in the case of amounts owing from Tenant to Landlord, paid within thirty (30) days following such determination, and (ii) in the case of amounts owing from Landlord to Tenant, credited against the next payment of Rent due Landlord under the terms of this Lease, or if the Lease Term has expired, paid to Tenant within thirty (30) days following such determination. In no event shall this Section 4.5 be deemed to allow any review of any of Landlord's records by any subtenant of Tenant. Tenant agrees that this Section 4.5 shall be the sole method to be used by Tenant to dispute the amount of any Direct Expenses payable or not payable by Tenant pursuant to the terms of this Lease, and Tenant hereby waives any other rights at law or in equity relating thereto.

ARTICLE 5 - USE

1.19 Permitted Use. The Premises shall be used only for the use specified in provision (q) of the Fundamental Lease Provisions and for no other purpose.

1.20 Restriction on Use. Tenant shall not do or permit to be done in or about the Buildings nor bring, keep or permit to be brought or kept therein, anything which is prohibited by any standard form fire insurance policy or which will in any way increase the existing rate of such insurance (unless Tenant is willing to otherwise pay any such increased cost in connection therewith). Subject to Landlord's obligations set forth in General Condition B above, Tenant shall comply with all Applicable Laws affecting the Premises, and with the requirements of any Board of Fire Underwriters or other similar body now or hereafter instituted, and shall also comply with any order, directive or certificate of occupancy issued pursuant to any Applicable Laws, which affect the condition, use or occupancy of the Premises, including, but not limited to, any requirements of changes to the Building Structure and/or Building Systems related to or affected by Tenant's acts, occupancy or use of the Premises.

ARTICLE 6 - ALTERATIONS AND ADDITIONS

1.21 Tenant's Rights to Make Alterations. Following the date on which Tenant first occupies any portion of the Premises, Tenant, at its sole cost and expense, upon ten (10) days' notice to Landlord, shall have the right to make alterations, additions or improvements (individually and collectively, "**Alterations**") to any occupied portion of the Premises upon receipt of Landlord's consent, which consent will not be unreasonably withheld, conditioned or delayed unless the making or installation of the Alterations (a) adversely affects the Building Structure, (b) adversely affects the Building Systems, (c) affect the exterior appearance of the Building, or (d) do not comply with Applicable Laws (individually and collectively a "**Design Problem**"). Landlord may, in reasonable discretion, as a condition to the installation thereof and if such request is made concurrently with the approval of the plans and specifications therefore, require Tenant to remove and restore any such Alterations at Tenant's sole cost and expense, it being agreed and understood, however, that in no event will Tenant have any obligation to remove any such Alterations unless, in Landlord's reasonable judgment, such Alterations are not customary and typical for general business offices. Notwithstanding anything to the contrary set forth herein, Tenant shall not be required to obtain Landlord's prior consent with respect to any cosmetic work performed within the Premises by Tenant, such as the installation of wall coverings, floor coverings, painting and similar work. All such Alterations shall be made in conformity with the requirements of Section 6.2 below. Once the Alterations have been completed, such Alterations shall thereafter be included in the designation of Tenant Improvements and shall be treated as Tenant Improvements.

1.22 Installation of Alterations. Any Alterations installed by Tenant during the Term shall be done in strict compliance with all of the following:

(a) If Landlord's approval is required, then no such work shall proceed without Landlord's prior approval of (i) Tenant's contractor(s), which consent shall not be unreasonably withheld, conditioned or delayed; and (ii) detailed plans and specifications for such work to the extent required, which approval shall not be unreasonably withheld, conditioned or delayed unless a Design Problem exists (but which approval may be conditioned upon Landlord's right to require Tenant to remove and restore the Alterations upon the termination of this Lease, subject to the provisions of Section 6.1 above).

(b) All such work shall be done in accordance with industry custom and practice for a "first-class" office project and in conformity with a valid building permit and/or all other permits or licenses when and where required, copies of which shall be furnished to Landlord before the work is commenced, and any work not acceptable to any governmental authority or agency having or exercising jurisdiction over such work, or not done in accordance with industry custom and practice for a "first-class" office project, shall be promptly replaced and corrected at Tenant's expense. Landlord's approval or consent to any such work shall not impose any liability upon Landlord. No work shall proceed until and unless Landlord has received at least ten (10) days' notice that such work is to commence including a commercially reasonable description of the work to be performed including drawings and specifications when necessary;

(c) Tenant shall, within thirty (30) days following Landlord's demand therefor, reimburse Landlord for any actual, reasonable and documented out-of-pocket costs incurred by Landlord by reason of Landlord's review of Tenant's plans and specifications, any faulty work done by Tenant or Tenant's contractors, or by reason of inadequate cleanup. In addition, Tenant shall, if requested by Landlord, pay to Landlord a supervision fee equal to three percent (3%) of the hard construction costs of any Alterations for which Landlord's approval is required; provided, however, that no such supervision fee shall be payable to Landlord pursuant to this subsection (c) so long as 6^{th} and Pine Development, LLC or a Related Landlord is the Landlord under this Lease. As used herein, a "**Related Landlord**" shall mean any person that is a member or equity owner (whether directly or indirectly) of 6^{th} and Pine Development, LLC as of the date hereof, or any family member of such person, or any entity in which such person or such person's family member is or hereinafter becomes an equity owner (whether directly or indirectly).

1.23 Tenant Improvements - Treatment at End of Lease. All Alterations and any Tenant Improvements made by or for Tenant, which is permanent in character and permanently attached to the Building Structure, made either by Landlord or Tenant, shall unless Tenant is required pursuant to the terms of this Lease and has removed the same and repaired any damage resulting from such removal, shall become Landlord's property on the last day of the Term, and shall be surrendered to Landlord in good condition, reasonable wear and tear and damage by casualty excepted, upon expiration of the Term or termination of this Lease without compensation to Tenant; provided however, that at the election of Landlord, exercisable by written notice to Tenant (which election must be made at the time Tenant requests Landlord's consent to any Alterations for which Landlord's prior consent is required), Tenant shall, at Tenant's sole expense, prior to the expiration of the Term, remove from the Premises such Alterations to the extent such Alterations are not customary and typical for general business offices, repair all damage to the Premises caused by such removal and restore such improvements to substantially their prior condition; provided, however, that Tenant shall have no obligation to remove any initial Tenant Improvements installed in the Premises. All of Tenant's personal property, including moveable furniture, trade fixtures, and equipment not attached to the Buildings or the Premises, may be removed by Tenant prior to the expiration of the Term. Provided, however, that Tenant shall repair all damage caused by such removal prior to the expiration of the Term, and provided further, that any of Tenant's personal property not so removed shall, at the option of Landlord, upon five (5) business days' notice to Tenant (unless Tenant effectuates the removal within such five (5) business day period) automatically become the property of Landlord upon the expiration or termination of this Lease. Thereafter, Landlord may retain or dispose of in any manner the personal property not so removed, without any liability whatsoever to Tenant.

ARTICLE 7 - TENANT'S REPAIRS

Subject to Landlord's obligations set forth in General Condition B above, from and after the Commencement Date for the Existing Building and the New Building, as the case may be, Tenant shall, at Tenant's own expense, keep the Premises, other than the Building Structure and the Building Systems, in good order, repair and condition at all times during the Lease Term. In addition, Tenant shall, at Tenant's own expense, provided, however, that Tenant shall be entitled to receive reimbursement for such expense to the extent that the cost of any such repair is or is required to be covered by insurance obtained by Landlord as part of Operating Expenses and Article 12, but under the supervision and subject to the prior approval of Landlord, and within any reasonable period of time specified by Landlord, promptly and adequately repair all damage to the Premises and replace or repair all damaged, broken, or worn fixtures and appurtenances, but excluding those items that are the responsibility of Landlord as outlined in Article 9 of this Lease, and excepting damage caused by ordinary wear and tear; provided, however, that, at Landlord's option, if Tenant fails to make such repairs, Landlord may, but need not, make such repairs and replacements, and Tenant shall pay Landlord the cost thereof, including a reasonable and customary percentage of the cost thereof (to be uniformly established for the Buildings and/or the Project) sufficient to reimburse Landlord for all reasonable and actual overhead, general conditions, fees and other costs or expenses arising from Landlord's involvement with such repairs and replacements forthwith upon being billed for same. Landlord may, but shall not be required to, enter the Premises at all reasonable times to make such repairs, alterations, improvements or additions to the Premises or to the Project or to any equipment located in the Project as Landlord shall desire or deem necessary or as Landlord may be required to do by governmental or quasi-governmental authority or court order or decree. Tenant hereby waives any and all rights under and benefits of Sections 1941 and 1942 of the California Civil Code or under any similar law, statute, or ordinance now or hereafter in effect.

ARTICLE 8 - NO LIENS BY TENANT

Tenant shall at all times keep the Premises and the Buildings free from any liens arising out of any work performed or allegedly performed, materials furnished or allegedly furnished or obligations incurred by or for Tenant except any work performed by Landlord pursuant to this Lease or the Work Letter other than any work performed by Landlord that was Tenant's obligation to perform pursuant to the terms of this Lease. Tenant agrees to indemnify and hold Landlord harmless from and against any and all claims for mechanics', materialmen's or other liens in connection with any Alterations, repairs, or any work performed, materials furnished or obligations incurred by Tenant. Landlord reserves the right to enter the Premises for the purpose of posting such notices of non-responsibility as may be permitted by law, or desired by Landlord.

ARTICLE 9 - LANDLORD'S REPAIRS

Landlord shall be responsible for any and all necessary maintenance, repairs and replacements required to be made to the Building Structure and /or the Building Systems, subject to Landlord's right to receive Additional Rent pursuant to Article 4 of this Lease. As also provided General Condition N, Landlord shall, subject to Tenant's repair obligations set forth in Article 7 of this Lease, maintain and operate the Project in a first class manner, keep the Building Structure and the Building Systems in first class condition and repair, in compliance with Applicable Laws, maintain a safe and healthful environment in the Buildings, and operate, maintain, and provide services to the Building in a first class manner comparable to the manner in which sophisticated experienced landlords of other Comparable Buildings, the cost of which shall be included in Operating Expenses, to the extent permitted pursuant to Article 4.

ARTICLE 10 - BUILDING SERVICES

1.24 Standard Tenant Services. Landlord shall provide the following services on all days (unless otherwise stated below) during the Lease Term.

1.24.1 Subject to limitations imposed by all Applicable Laws, Landlord shall provide heating, ventilation and air conditioning ("**HVAC**") when necessary for normal comfort for normal office use in the Premises from 7:00 A.M. to 6:00 P.M. Monday through Friday, and on Saturdays from 9:00 A.M. to 1:00 P.M. (collectively, the "**Building Hours**"), except for the date of observation of New Year's Day, Independence Day, Labor Day, Memorial Day, Thanksgiving Day, Christmas Day and, at Landlord's discretion, other locally or nationally recognized holidays (collectively, the " **Holidays**").

1.24.2 Landlord shall provide adequate electrical wiring and facilities for connection to Tenant's lighting fixtures and incidental use equipment, provided that (i) the connected electrical load of the incidental use equipment does not exceed an average of six (6) watts per usable square foot of the Premises and (ii) the connected electrical load of Tenant's lighting fixtures does not exceed an average of two (2) watts per usable square foot of the Premises, which electrical usage shall be subject to Applicable Laws, including California Code of Regulations, Title 24. Tenant shall bear the cost of replacement of lamps, starters and ballasts for lighting fixtures within the Premises that are not consistent with the Original Improvements, as the same may be updated with lighting fixtures of similar performance in the event that the Original Improvements become obsolete..

1.24.3 Landlord shall provide city water from the regular Building outlets for drinking, lavatory and toilet purposes in the Premises.

1.24.4 Landlord shall provide janitorial services to the Premises and window washing services in a manner consistent with Comparable Buildings.

1.24.5 Landlord shall provide nonexclusive, non-attended automatic passenger elevator service during the Building Hours and shall have one elevator available in each Building at all other times, including on the Holidays.

Tenant shall cooperate fully with Landlord at all times and abide by all regulations and requirements that Landlord may reasonably prescribe for the proper functioning and protection of the HVAC, electrical, mechanical and plumbing systems.

1.25 Overstandard Tenant Use.

1.25.1 Non-Electrical Usage (including After-Hours HVAC). Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, or equipment or lighting other than Building standard lights in the Premises, which may affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of Section 10.1 of this Lease. If Tenant uses water, heat or air conditioning in excess of that required to be supplied by Landlord pursuant to Section 10.1 of this Lease, Tenant shall pay to Landlord, upon billing, the actual cost of such excess consumption, the cost of the installation, operation, and maintenance of equipment which is installed in order to supply such excess consumption, and the cost of the increased wear and tear on existing equipment caused by such excess consumption; and Landlord may install devices to separately meter any increased use and in such event Tenant shall pay the cost of such increased use directly to Landlord, on demand as additional Rent, at the rates charged by the public utility company furnishing the same, including the cost of such additional metering devices. If Tenant desires to use HVAC during non-Building Hours, Tenant shall give Landlord such prior notice, if any, as Landlord shall from time to time reasonably establish as appropriate, of Tenant's desired use in order to supply HVAC, and Landlord shall supply HVAC to the Premises. The cost of after-hours HVAC for the Premises shall be based upon Landlord's actual cost of providing such HVAC services. The cost of HVAC supplied by Landlord during non-Building Hours shall be paid by Tenant as Additional Rent.

1.25.2 Electrical Usage. If in any month Tenant uses electricity (not including any electricity consumed in connection with the operation of the Building's main HVAC system) in excess of the Electricity Usage Standard (as defined below), Landlord may require the Tenant, at its cost, to install, operate and maintain a submeter and/or equipment which is required to be installed to supply such excess capacity and/or consumption to Tenant. Tenant shall pay to Landlord, upon billing, Landlord's cost of electricity consumption in excess of the Electricity Usage Standard, on demand as additional Rent. For purposes hereof, the "**Electricity Usage Standard**" shall be an average of six (6) watts per rentable square foot of the Premises of actual consumption, on a monthly Building Hours basis (such Electricity Usage Standard does not include electrical usage for HVAC serving the Premises). Tenant's use of electricity shall not exceed the capacity of the feeders to the

Project or the risers or wiring installation (which capacity is eight (8) watts per rentable square foot) and Tenant shall promptly discontinue any such excess use promptly following receipt of notice of the same from Landlord.

1.26 Interruption of Use. Notwithstanding anything to the contrary contained herein, except as provided in General Condition B, F and/or I or as otherwise expressly provided in this Lease, Tenant agrees that Landlord shall not be liable for damages, by abatement of Rent or otherwise, for failure to furnish or delay in furnishing any service (including telephone and telecommunication services), or for any diminution in the quality or quantity thereof, when such failure or delay or diminution is occasioned, in whole or in part, by breakage, repairs, replacements, or improvements, by any strike, lockout or other labor trouble, by inability to secure electricity, gas, water, or other fuel at the Building or Project after reasonable effort to do so, by any riot or other dangerous condition, emergency, accident or casualty whatsoever, by act or default of Tenant or any Tenant Party, or by any other cause beyond Landlord's reasonable control; and such failures or delays or diminution shall never be deemed to constitute an eviction or disturbance of Tenant's use and possession of the Premises or relieve Tenant from paying Rent or performing any of its obligations under this Lease.

ARTICLE 11 - ASSIGNMENT AND SUBLETTING

1.27 Right to Assign, Sublease and Encumber. Except at otherwise expressly provided in this Article 11, Tenant may not voluntarily assign or encumber its interest in this Lease or in the Premises, or sublease all or any part of the Premises, or allow any other person or entity (other than the Tenant Parties)) to occupy or use all or any part of the Premises, without first obtaining Landlord's consent (which consent shall not be unreasonably withheld, conditioned or delayed). Landlord shall have no right to recapture all or any portion of the Premises in the event of an assignment, encumbrance or sublease. No consent to an assignment, encumbrance, or sublease shall constitute a further waiver of the provisions of this Article 11. Notwithstanding anything to the contrary contained in this Lease, Tenant shall not be deemed to have waived any of its rights under California Civil Code Section 1995.310.

1.28 Procedure for Assignment and Sublease. Tenant shall advise Landlord by notice of (a) Tenant's intent to assign, encumber, or sublease this Lease, (b) the name of, and information with respect to the business operations of, the proposed assignee or sublessee, (c) the proposed effective date of such assignment, sublease or other transfer, (d) a description of the portion of the Premises to be assigned, sublet or otherwise transferred, (e) the material terms of the proposed assignment, sublease or other transfer, including the relevant documentation with respect thereto and, in the case of a sublease, the consideration therefor, and (f) financial statements for the proposed assignee or sublessee, including, if available, audited financial statements (the "**Transfer Notice**"). Landlord shall approve or disapprove of the proposed assignment, sublease or other transfer within thirty (30) days (the "**Review Period**") after Landlord's receipt of the Transfer Notice. Landlord shall be deemed to have consented to such proposed assignment or sublease if Landlord fails to approve or disapprove of the proposed assignment, sublease or other transfer prior to the expiration of the Review Period. Landlord may reasonably withhold its consent to an assignment or sublease in the event (i) the proposed assignee or sublessee is a governmental entity, (ii) the proposed assignee or sublessee will have an occupancy density with respect to the space to be assigned or sublet that is greater than Tenant's highest occupancy density during its period of occupany, (iii) the proposed use is other than the Permitted Use, (iv) such assignment, sublease or other transfer would increase the cost of Landlord's obligations under this Lease, or (v) in the case of an assignment or other transfer (but not a sublease), the financial strength of the proposed assignee or transferee is not reasonably acceptable to Landlord; provided, however, that such financial strength of such proposed assignee or transferee shall be deemed acceptable to Landlord if such assignee's or transferee's net worth or shareholder's equity is equal for or greater than $250 million as determined in accordance with generally acceptable accounting principles and demonstrated by financial statements of such assignee or transferee reasonably acceptable to Landlord (herein, a "**Significant Assignee**").

1.29 Conditions Regarding Consent to Subleases. In the event that Landlord shall consent or be deemed to have consented to an assignment or sublease under the provisions of this Article 11, Tenant shall remain directly, primarily and fully responsible and liable for all payments owed by Tenant under this Lease and for compliance with all obligations under the terms, provisions and covenants of this Lease; provided, however, that if such assignment is to a Significant Assignee, then Tenant shall be released from all of its obligations first arising our accruing under this Lease from and after the effective date of such assignment, and upon request, Landlord shall execute and deliver to Tenant a release instrument in form and substance reasonably acceptable to Tenant confirming the same. With respect to any sublease other than pursuant to Section 11.4 below (and excluding specifically an assignment), Tenant shall pay Landlord, as additional Base Rent, fifty percent (50%) of any Profits (as defined below) actually received by Tenant pursuant to such approved sublease. Whenever Landlord is entitled to share in any excess income resulting from an assignment or sublease of the Premises, the following shall constitute the definition of "**Profits**": the gross revenue received from the sublessee during the sublease term, with respect to the space covered by the sublease or the assignment ("**Subleased Space**") less: (a) the gross revenue paid to Landlord by Tenant during the period of the sublease term with respect to the Transferred Space; (b) any improvement allowance or other economic concession (planning allowance, moving expenses, etc.), paid by Tenant to the sublessee; (c) brokers' commissions; (d) attorneys' fees; (e) lease takeover payments; (f) costs of advertising the space for sublease; and (g) any other costs actually paid in subletting the Transferred Space or in negotiating or effectuating the assignment or sublease; provided, however, under no circumstance shall Landlord be paid any Profits until Tenant has recovered all the items set forth in subparts (a) through (g) for such Transferred Space, it being understood that if in any year the gross revenues, less the deductions set forth in subparts (a) through (g) above (the "**Net Revenues**"), are less than any and all costs actually paid in subletting the affected space (collectively "**Transaction Costs**"), the amount of the excess Transaction Costs shall be carried over to the next year and then deducted from Net Revenues with the procedure repeated until a Profit is achieved. It is acknowledged and agreed that, in connection with any sublease, Tenant shall be solely responsible for any bifurcation and/or demising costs associated with creating a multi tenant lobby, multi tenant corridor, or separate suite on any particular floor within the Buildings, but such costs shall costs shall be deemed Transaction Costs for purposes of the foregoing.

1.30 Affiliated Companies/Restructuring of Business Organization. Occupancy of all or part of the Premises by any parent, subsidiary, or affiliated companies of Tenant or of Tenant's parent or of Tenant's subsidiary shall not be deemed an assignment or subletting provided that such parent, subsidiary or affiliated companies were not formed as a subterfuge to avoid the obligation of this Article 11. Furthermore, without limiting the generality of the foregoing, Tenant may assign this Lease at any time, or sublease all or part of the Premises, without receipt of Landlord's consent (and without triggering Landlord's right to share in Profits pursuant to Section 11.3 above), to any entity which acquires all or part of Tenant, or which is acquired in whole or in part by Tenant, or which is controlled directly or indirectly by Tenant, or which entity controls, directly or indirectly, Tenant (herein, an "**Affiliate**"), or which owns or is owned by the Affiliate, so long as such transaction was not entered into as a subterfuge to avoid the obligations and restrictions of this Lease.

1.31 Landlord's Right to Assign. Subject to the provisions of Exhibit "I-1" [Right of First Offer to Purchase], Landlord shall have the right to sell, encumber, convey, transfer, and/or assign any of its rights and obligations under this Lease.

1.32 Occupancy By Others. Tenant may allow any person or entity which is a client or customer of Tenant or which is providing service to Tenant or one of Tenant's clients to occupy certain portions of the Premises without such occupancy being deemed an assignment or subleasing as long as no new demising walls are constructed to accomplish such occupancy as long as such relationship was not created as a subterfuge to avoid the obligations set forth in this Article 11 and so long as such occupancy is for not more than five percent (5%) of the Premises.

ARTICLE 12 - LIMITATION ON LANDLORD'S LIABILITY; INDEMNIFICATION; INSURANCE

1.33 Limitation on Landlord's Liability and Release. Except as otherwise expressly provided in this Lease to the contrary, Landlord shall not be liable to Tenant for, and Tenant hereby releases and waives all claims and rights of recovery against Landlord and the other Landlord Parties (as defined below) from, any and all Claims (as defined below) sustained by Tenant, the Tenant Parties, any damage to Tenant's property, or any loss to Tenant's business, loss of Tenant's profits or other financial loss of Tenant resulting from or attributable to the condition of, the management of, the repair or maintenance of, the protection of, the supply of services or utilities to, the damage in or destruction of the Premises, the Buildings or the Project; provided, however, that the foregoing release and wavier shall not extend to, and Tenant is not hereby waiving or releasing Landlord from or against, any Claims arising out of or in connection with injuries to persons or property resulting from any Claims as to which Landlord is expressly obligated to defend, indemnify and hold Tenant and the Tenant Parties harmless as provided below in Section 12.2(b) below or elsewhere in this Lease.

1.34 Indemnification.

(a) Tenant shall at its expense defend, indemnify, and hold Landlord and Landlord's agents, contractors, licensees, employees, directors, officers, partners, trustees and invitees (each, a "Landlord Party," and collectively " **Landlord Parties**") harmless from and against any and all loss, cost, liability, damage or expense, including, but not limited to, penalties, fines, attorneys' fees or costs (collectively "**Claims**"), arising out of or in connection with (i) injuries to persons or property in, on or about the Project (but excluding the Management Office) or injuries to persons or property caused by the use of the Off-Site Parking Spaces by Tenant or any Tenant Party or from activities conducted by Tenant or any Tenant Party and with Tenant's knowledge and consent, express or implied, in the parking lots and/or structures where such Off-Site Parking Spaces are located or (ii) the presence in, on or about the Project of Hazardous Materials to the extent such Hazardous Materials were placed in, on or about Project by Tenant or any Tenant Party. Notwithstanding any provisions of Articles 12 and 13 to the contrary, Tenant shall not be required to indemnify and hold Landlord harmless from any Claims resulting from injuries to any person or property resulting from (i) the negligent acts or omissions or willful misconduct of any Landlord Party in connection with Landlord's activities in, on or about the Project or the Off-Site Parking Spaces, and Landlord hereby so indemnifies and holds Tenant and the Tenant Parties harmless from any such Claims or (ii) any other Claims as to which Landlord is expressly obligated to defend, indemnify and hold Tenant and the Tenant Parties harmless as provided below in Section 12.2(b) below or elsewhere in this Lease. This indemnity shall survive the expiration or termination of this Lease.

(b) Landlord shall at its expense defend, indemnify, and hold Tenant and the Tenant Parties harmless from Claims arising from (i) any noncompliance of Project, or any portion thereof, with any Applicable Laws as of the applicable Commencement Date, (ii) the presence in, on or about the Project of Hazardous Materials, except to the extent such Hazardous Materials were placed in, on or about Project by Tenant or any Tenant Party, (iii) the negligent acts or omissions or willful misconduct of Landlord or any Landlord Party in connection with Landlord's activities in, on or about the Project or the Off-Site Parking Spaces, or (iv) Landlord's breach of this Lease. This indemnity shall survive the expiration or termination of this Lease.

(c) Tenant's agreement to indemnify and hold Landlord harmless pursuant to Section 12.2(a) and the exclusion from Tenant's indemnity and Landlord's agreement to indemnify and hold Tenant harmless pursuant to Section 12.2(b) are not intended to and shall not relieve any insurance carrier of its obligations under policies required to be carried by Landlord or Tenant, respectively, pursuant to this Lease to the extent that such policies cover the results of such acts, omissions or willful misconduct. If Landlord or Tenant has been or at any time hereafter is granted the right to self insure or if either party breaches this Lease by its failure to carry required insurance, such failure shall automatically be deemed to be a covenant and agreement by Landlord or Tenant, respectively, to self-insure to the full extent of such required coverage, with full waiver of subrogation. All of the provisions set forth herein are subject to the provisions of Section 12.5.

1.35 Insurance.

1.35.1 Tenant's Compliance With Landlord's Fire and Casualty Insurance. Tenant shall, at Tenant's expense, comply with all insurance company requirements pertaining to the use of the Premises, provided that Tenant has received not less than ten (10) business days' notice thereof. If Tenant's conduct or use of the Premises causes any increase in the premium for such insurance policies which are paid by Landlord as an Operating Expense, then Tenant shall reimburse Landlord for any such increase.

1.35.2 Tenant's Insurance. Tenant shall maintain the following coverages in the following amounts.

(a) Commercial General Liability Insurance covering the insured against claims of bodily injury, personal injury and property damage (including loss of use thereof) arising out of Tenant's operations, and contractual liabilities (covering the performance by Tenant of its indemnity agreements) including a Broad Form endorsement covering the insuring provisions of this Lease, for limits of liability not less than:

Bodily Injury and Property Damage Liability	$3,000,000 each occurrence $3,000,000 annual aggregate
Personal Injury Liability	$3,000,000 each occurrence $3,000,000 annual aggregate 0% Insured's participation

(b) Physical Damage Insurance covering (i) all office furniture, business and trade fixtures, office equipment, free-standing cabinet work, movable partitions, merchandise and all other items of Tenant's property on the Premises installed by, for, or at the expense of Tenant, (ii) the tenant improvements which exist in the Premises as of the applicable Commencement Date (excluding the Building Structure and Building Systems) (the "**Original Tenant Improvements**"), and (iii) all other Alterations to the Premises made by Tenant. Such insurance shall be written on an "all risks" of physical loss or damage basis, for the full replacement cost value (subject to reasonable deductible amounts) new without deduction for depreciation of the covered items and in amounts that meet any co-insurance clauses of the policies of insurance and shall include coverage for damage or other loss caused by fire or other peril including, but not limited to, vandalism and malicious mischief, theft, water damage of any type, including sprinkler leakage, bursting or stoppage of pipes, and explosion, and providing business interruption coverage for a period of one year.

(c) Worker's Compensation and Employer's Liability or other similar insurance required by all applicable state and local statutes and regulations.

1.35.3 Additional Insurance Obligations of Tenant. Tenant shall carry and maintain during the entire Lease Term, at Tenant's sole cost and expense, increased amounts of the insurance required to be carried by Tenant pursuant to Section 12.3 above and such other reasonable types of insurance coverage and in such reasonable amounts covering the Premises and Tenant's operations therein, in each case as may be reasonably requested by Landlord, but in no event in excess of the amounts and types of insurance then being required of tenants in Comparable Buildings occupying comparable space and engaged in a similar use as Tenant.

1.35.4 Blanket Insurance/Self Insurance of Tenant. Notwithstanding the foregoing, all of the insurance requirements set forth in this Section 12.3 on the part of Tenant to be observed shall be deemed satisfied if the Premises are covered by a blanket insurance policy providing the coverage set forth herein insuring all or most of Tenant's facilities in California or if Tenant sends a letter to Landlord, signed by an authorized officer of Tenant, stating that Tenant has elected to act as a self insurer whereupon Tenant shall have the same obligations and rights, and Landlord shall have the same rights and obligations, as if Tenant was an insurance company furnishing the policies and coverages required under this Lease.

1.35.5 Evidence of Coverage by Tenant. A duplicate original policy, or a certificate of the policy shall be deposited with Landlord at the Commencement Date, and on renewal of the policy a certificate of insurance listing the insurance coverages required hereunder and naming Landlord and any other parties designated by Landlord with an insurable interest as insured, additional insured and/or loss payee, as applicable, shall be deposited with Landlord not less than ten (10) days before expiration of the term of the policy.

1.35.6 Landlord's Insurance.

(a) During all times that Landlord is performing any construction or other work under this Lease or Work Letter, Landlord shall, at its sole cost and expense, and not as an Operating Expense, (i) obtain and, maintain builder's risk insurance covering both the hard and soft costs associated with the construction/performance of construction or other work, in a face amount of not less than the full insurable value of all improvement work (including the Buildings) and materials supplied in connection therewith, with appropriate provisions made to include coverage of materials stored off the Site in an amount not less than the full insurable value of such materials stored off the Site from time to time, naming Landlord as the insured and Tenant as an additional insured to the extent of Tenant's interest therein, (ii) cause the architects, contractors and subcontractors to carry errors and omissions insurance in an amount at least equal to One Million Dollars ($1,000,000) which can be applied to the construction/performance of the applicable work, covering the entire period of design and construction/performance of the applicable work, including the completion of punch list items (which coverage shall be maintained for at least three (3) years after the completion of the applicable work) and (iii) cause its contractors and subcontractors to carry commercially reasonable amounts of auto insurance.

(b) Commencing on the Commencement Date for the Existing Building with respect to the Existing Building, and commencing on the Commencement Date for the New Building with respect to the New Building, and in each case continuing through the expiration or earlier termination of this Lease, Landlord shall obtain and maintain fire and hazard "all risk" insurance covering one hundred percent (100%) of the full replacement cost valuation of the applicable Building and Project (including the Building Structure and Building Systems), subject to commercially reasonable deductibles, in the event of fire, lightning, windstorm, vandalism, malicious mischief and all other risks normally covered by "all risk" policies carried by landlords of Comparable Buildings naming Landlord as the insured and Landlord or any lessors and mortgagees as loss payee. The proceeds from any such policy shall be used by Landlord for the repair and/or replacement of the Project unless this Lease is terminated, in which case Landlord may retain such proceeds, except as otherwise provided in Section 13.6 below. Landlord shall promptly deliver to Tenant evidence of such insurance upon request by Tenant from time to time.

1.35.7 Insurance Criteria. All the insurance required to be maintained by Tenant and Landlord under this Lease shall:

(a) Be issued by insurance companies authorized to do business in the state of California, with a rating of at least A-VII as rated in the most recent edition of Best's Insurance Reports;

(b) Be issued as a primary policy;

(c) Contain an endorsement requiring ten (10) days' written notice from the insurance company to both parties and to Landlord's lender (whose names shall have been furnished to Tenant) before cancellation or any material change in the coverage, scope, or amount of any policy; and

(d) With respect to property loss or damage, a waiver of subrogation must be obtained, as required by Section 12.5.

1.36 Abatement of Rent/Limitations on Liability and Damages.

(d) Abatement of Rent. Except as provided in General Condition B, F and/or I or as otherwise expressly provided in this Lease, Tenant shall not otherwise be entitled to Rent abatement and shall not otherwise have, and hereby releases Landlord from, any Claims resulting from Tenant's inability to utilize all or any part of the Premises.

(e) Limitation of Liability and Damages/Attorney Fees. Landlord agrees that in the event of a default by Tenant under this Lease, Landlord will not have a right to collect from Tenant a greater amount of damages on account of Rent than Landlord would have been able to collect in the event that Tenant did not default under this Lease. Landlord further agrees that it will use commercially reasonable efforts to mitigate its damages in connection with any default by Tenant. Nothing herein shall be construed to prevent Tenant or Landlord, if it is the prevailing party in connection with any litigation, dispute, or controversy between Landlord and Tenant, from collecting, and each agrees that under such circumstances the other shall have a right to collect and shall be awarded, (a) its reasonable attorneys' fees, costs, and expenses incurred in connection with any such litigation, dispute, or controversy and (b) interest, at the Interest Rate, on any amounts not paid when due. Landlord's liability to Tenant is limited to its equity interest in the Buildings as more specifically provided in Section 15.2 of this Lease.

1.37 Allocation of Insured Risks/Subrogation. Landlord and Tenant release each other from any claims and demands of whatever nature for damage, loss or injury to the Premises and/or the Buildings, or to the other's property in, on or about the Premises and the Buildings, that are caused by or result from risks or perils insured against under any property insurance policies required by this Lease to be carried by Landlord and/or Tenant. Landlord and Tenant shall cause each insurance policy obtained by them or either of them to provide that the insurance company waives all right of recovery by way of subrogation against either Landlord or Tenant in connection with any damage covered by any such policy or policies. Neither Landlord nor Tenant shall be liable to the other for any damage caused by fire or any of the risks insured against under any insurance policy required by this Lease. If an insurance policy cannot be obtained with a waiver of subrogation, or is obtainable only by the payment of an additional premium charge above that charged by insurance companies issuing policies without waiver of subrogation, the party undertaking to obtain the insurance shall notify the other party of this fact. The other party shall have a period of ten (10) days after receiving the notice either to place the insurance with a company that is reasonably satisfactory to the other party and that will carry the insurance with a waiver of subrogation at no additional cost, or to agree to pay the additional premium if such a policy is obtainable at additional cost. If the insurance cannot be obtained or the party in whose favor a waiver of subrogation is desired refuses to pay the additional premium charged, the other party is relieved of the obligation to obtain a waiver of subrogation with respect to the particular insurance involved.

ARTICLE 13 - DAMAGE OR DESTRUCTION

1.38 Loss Covered By Insurance. In the event of any damage to the Building, Premises, or Project, Tenant shall assign to Landlord (or to any party designated by Landlord) all insurance proceeds payable to Tenant under Tenant's insurance required under this Lease with respect to the Original Tenant Improvements and any Alternations made by Tenant (it being understood and agreed that any insurance proceeds payable to Tenant in such event for any loss or damage suffered by Tenant with respect to Tenant's equipment, furniture, fixtures and any other personal property located in or about the Premises shall not be assigned to Landlord). If, at any time prior to the expiration or termination of this Lease, the Premises or either Building is wholly or partially damaged or destroyed by a casualty, the loss to Landlord from which is or should be (except for any applicable deductible for which Tenant shall be solely responsible) fully covered by insurance maintained by Tenant for Landlord's benefit (or required to be maintained by Tenant pursuant to Article 12)), which casualty renders the Premises totally or partially inaccessible or unusable by Tenant in the ordinary conduct of Tenant's business, then:

(a) Repairs Which Can Be Completed Within Nine (9) Months. Within twenty (20) days of notice to Landlord of such damage or destruction, Landlord shall provide Tenant with notice of its determination of whether the damage or destruction can be repaired within nine (9) months of such damage or destruction without the payment of overtime or other premiums. If all repairs to such Premises or Building can, in Landlord's reasonable judgment, be completed within nine (9) months following the date of such damage or destruction without the payment of overtime or other premiums, Landlord shall, at Landlord's expense, repair the same and this Lease shall remain in full force and effect and a reduction of the Rent shall be allowed Tenant as provided in General Condition F; provided, however, that if any such repair is not commenced by Landlord within ninety (90) days after the occurrence of such damage or destruction or is not or cannot practicably be substantially completed by Landlord within nine (9) months after the occurrence of such damage or destruction, then in either such event Tenant may, at its option, upon written notice to Landlord delivered within thirty (30) days of determining that Landlord has not commenced repair within the ninety (90) day period or that the damage or destruction is not or cannot practicably be substantially completed by Landlord within the nine (9) month period, elect to terminate this Lease as of the date of the occurrence of such damage or destruction.

(b) Repairs Which Cannot Be Completed Within Nine (9) Months. If all such repairs to the Building and Premises cannot, in Landlord's reasonable judgment, be completed within nine (9) months following the date of notice to Landlord of such damage or destruction without the payment of overtime or other premiums, Landlord shall notify Tenant of such determination within twenty (20) days of notice to Landlord of such damage or destruction and either Landlord or Tenant may, at its option, upon written notice to the other party given within sixty (60) days after the occurrence of such damage or destruction, elect to terminate this Lease as of the date of the occurrence of such damage or destruction. In the event that neither Landlord nor

Tenant elect to terminate this Lease in accordance with the foregoing provisions, then Landlord shall, at Landlord's expense, repair such damage or destruction, and in such event, this Lease shall continue in full force and effect but the Rent shall be reduced as provided in General Condition F; provided, however, that if any such repair is not commenced by Landlord within ninety (90) days after the occurrence of such damage or destruction or is not or cannot practicably be substantially completed by Landlord within nine (9) months after the occurrence of such damage or destruction, then in either such event Tenant may, at its option, upon written notice to Landlord delivered within thirty (30) days of determining that Landlord has not commenced repair within the ninety (90) day period or that the damage or destruction is not or cannot practicably be substantially completed by Landlord within the nine (9) month period, elect to terminate this Lease as of the date of the occurrence of such damage or destruction.

1.39 Loss Not Covered By Insurance. If, at any time prior to the expiration or termination of this Lease, the Premises or either Building is totally or partially damaged or destroyed from a casualty, the loss to Landlord from which is not fully covered by insurance maintained by Landlord or maintained by Tenant for Landlord's benefit (or required to be maintained by Tenant pursuant to Article 12), which damage renders the Premises inaccessible or unusable to Tenant in the ordinary course of its business, Landlord may, at its option, upon written notice to Tenant within sixty (60) days after notice to Landlord of the occurrence of such damage or destruction, elect to repair or restore such damage or destruction, or Landlord may elect to terminate this Lease so long as (a) the uninsured portion of the damage or destruction is equal to or greater than the replacement cost of the Building, and (b) Landlord makes a decisions not to commence such repairs within two (2) years of the occurrence of such damage and destruction. If Landlord elects to repair or restore such damage or destruction, this Lease shall continue in full force and effect but a reduction of the Rent shall be allowed Tenant as provided in General Condition F. If Landlord does not elect by notice to Tenant to repair such damage this Lease shall terminate. Notwithstanding the foregoing, if all repairs to the Premises or the Building cannot, in Landlord's reasonable judgment, be completed within six (6) months following the date of such damage or destruction without the payment of overtime or other expenses, then either Landlord or Tenant may at its option, upon written notice to the other party given within sixty (60) days after the occurrence of such damage or destruction, elect to terminate this lease as of the date of the occurrence of such damage or destruction.

1.40 Destruction During Final Year. Notwithstanding anything to the contrary contained in Sections 13.1 and 13.2, if the Premises or either Building is wholly or partially damaged or destroyed within the final twelve (12) months of the Term, or, if an applicable renewal option has been exercised, during the last year of any renewal Term, so that Tenant shall be prevented from using the Premises for thirty (30) consecutive days due to such damage or destruction, then either Landlord or Tenant may, at its option, by notice to the other party within sixty (60) days after the occurrence of such damage or destruction, elect to terminate this Lease.

1.41 Destruction of Tenant's Personal Property or Property of Tenant Parties. In the event of any damage to or destruction of the Premises or either Building, under no circumstances shall Landlord be required to repair any injury, or damage to, or make any repairs to or replacements of, Tenant's personal property. Landlord shall have no responsibility for any contents placed or kept in or on the Premises or the Building by Tenant or any Tenant Party.

1.42 Exclusive Remedy. This Article 13 and General Condition F shall be Tenant's sole and exclusive remedy in the event of damage or destruction to the Premises or either Building, and Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases Tenant's rights under California Civil Code Sections 1932(2) and 1933(4). No damages, compensation or claim shall be payable by Landlord for any inconvenience, any interruption or cessation of Tenant's business, or any annoyance, arising from any damage to or destruction of all or any portion of the Premises or either Building.

1.43 Option to Purchase. In the event that Landlord elects to terminate this Lease pursuant to the provisions of this Article 13, Tenant shall have the right to exercise the Purchase Option set forth on Exhibit "I-2" within thirty (30) days following such termination by Landlord, and upon Tenant's purchase of all or any portion of the Project, Tenant shall be entitled to all insurance proceeds related thereto. This provision (and the terms of the Purchase Option) shall survive the termination of this Lease pursuant to this Article 13.

ARTICLE 14 - EMINENT DOMAIN

1.44 Permanent Taking - When Lease Can Be Terminated. If the whole of the Premises, or so much of the Premises as to render the balance unusable by Tenant, shall be taken under the power of eminent domain, this Lease shall automatically terminate as of the date of final judgment in such condemnation, or as of the date possession is taken by the condemning authority, whichever is earlier. A sale by Landlord under threat of condemnation shall constitute a "taking" for the purpose of this Article 14. Except as provided below, no award for any partial or entire taking shall be apportioned and Tenant assigns to Landlord any award which may be made in such taking or condemnation, together with all rights of Tenant to such award, excluding any award or compensation for the value of all or any part of the leasehold estate ("**Bonus Value**"); provided that nothing contained in this Article 14 shall be deemed to give Landlord any interest in or to require Tenant to assign to Landlord any award, and Tenant shall be able to retain any award, made to Tenant for (a) the taking of Tenant's personal property, (b) interruption of or damage to Tenant's business, (c) the Bonus Value, or (d) Tenant's unamortized cost of the Tenant Improvements (or applicable portion thereof) to the extent paid for by Tenant. "Bonus Value" of the leasehold estate shall be equal to the difference between the rental rate payable under this Lease and the rate established by the condemning authority as an award for compensation purposes, together with any amount Tenant is able to obtain from the condemning authority attributable to Tenant's relocation expenses.

1.45 Permanent Taking - When Lease Cannot Be Terminated. In the event of a partial taking which does not result in a termination of this Lease under Section 14.1, Rent shall be reduced as set forth in General Condition F, and Landlord shall restore the Premises or the applicable Building(s) to the extent of available condemnation proceeds.

1.46 Temporary Taking. No temporary taking of the Premises or any part of the Premises and/or of Tenant's rights to the Premises or under this Lease shall terminate this Lease or give Tenant any right to any abatement of any payments owed to Landlord pursuant to this Lease; any award made to Tenant by reason of such temporary taking shall belong entirely to Tenant. If a taking of the Premises is for less than one (1) year, such taking shall be deemed a Temporary Taking.

1.47 Exclusive Remedy. This Article 14 and General Condition F shall be Tenant's sole and exclusive remedy in the event of a taking or condemnation. Tenant hereby waives the benefit of California Code of Civil Procedure Section 1265.130.

1.48 Release Upon Termination. Upon termination of this Lease pursuant to this Article 14, Tenant and Landlord hereby agree to release each other from any and all obligations and liabilities with respect to this Lease except such obligations and liabilities which arise or accrue prior to such termination.

ARTICLE 15 - DEFAULTS

1.49 Default by Tenant. Each of the following shall be an "**Event of Default**" by Tenant and a material breach of this Lease:

(a) Tenant shall fail to make any payment owed by Tenant under this Lease, as and when due, and where such failure is not cured within five (5) business days following receipt of written notice by Tenant from Landlord. Any such notice shall be in lieu of, and not in addition to, any notice required under Section 1161 of the California Code of Civil Procedure;

(b) Tenant shall fail to observe, keep or perform any of the material terms, covenants, agreements or conditions under this Lease that Tenant is obligated to observe or perform, other than that described in subparagraph (a) above, for a period of thirty (30) days after notice to Tenant of said failure; provided however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default under this Lease if Tenant shall commence the cure of such default so specified within said thirty (30) day period and diligently prosecutes the same to completion. Such thirty (30) day notice shall be in lieu of, and not in addition to, any notice required under Section 1161 of the California Code of Civil Procedure. Tenant shall have, and under no circumstances shall Tenant be deemed to have waived, the rights set forth in Sections 1174 and 1179 of the California Civil Code of Procedure.

1.50 Default by Landlord. Each of the following shall be a default by Landlord and a material breach of this Lease:

(a) Landlord shall fail to make any payment owed by Landlord under this Lease, as and when due, and where such failure is not cured within five (5) business days following receipt of written notice by Landlord from Tenant; and

(b) Landlord shall be in default in the performance of any obligation required to be performed by Landlord under this Lease, other than that described in subparagraph (a) above, if Landlord has failed to perform such obligation within thirty (30) days after the receipt of notice from Tenant specifying in detail Landlord's failure to perform; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, Landlord shall not be deemed in default if it shall commence such performance within thirty (30) days and thereafter diligently pursues the same to completion. Tenant shall have no rights as a result of any default by Landlord until Tenant gives thirty (30) days' notice to any person who has a recorded interest pertaining to the Buildings, specifying the nature of the default. Such person shall then have the right to cure such default, and Landlord shall not be deemed in default if such person cures such default within thirty (30) days after receipt of notice of the default, or within such longer period of time as may reasonably be necessary to cure the default. Notwithstanding anything to the contrary in this Lease, Landlord's liability to Tenant for damages resulting from Landlord's breach of any provision or provisions of this Lease shall not exceed the value of Landlord's equity interest in the Buildings and its right to insurance proceeds.

ARTICLE 16 - LANDLORD'S REMEDIES AND RIGHTS

1.51 Termination of Lease. In the event of any default by Tenant, Landlord shall have the right, in addition to all other rights available to Landlord under this Lease now or later permitted by law or equity, to terminate this Lease by providing Tenant with a notice of termination. Upon termination, Landlord may recover as damages the Rent that Landlord would have received had Tenant not defaulted, plus attorneys' fees, court costs, additional brokerage costs, additional design and construction costs, and any other costs reasonably incurred by Landlord to mitigate damages. Landlord agrees to use reasonable efforts to mitigate damages. Landlord's damages include (to the extent not duplicative of the foregoing) the worth, at the time of any award, of the amount by which the unpaid Rent for the balance of the Term after the time of the award exceeds the amount of the rental loss that the Tenant proves could be reasonably avoided. The worth at the time of award shall be determined by discounting to present value such amount at one percent (1%) more than the discount rate of the Federal Reserve Bank in San Francisco in effect at the time of the award. Other damages to which Landlord is entitled shall earn interest at the Interest Rate; provided, however, in no event shall Tenant be responsible to Landlord for consequential damages.

1.52 Continuation of Lease. In accordance with California Civil Code Section 1951.4 (or any successor statute), Tenant acknowledges that in the event Tenant has breached this Lease and abandoned the Premises, this Lease shall continue in effect for so long as Landlord does not terminate Tenant's right to possession (subject to Tenant's right to sublease and/or assign), and Landlord may enforce all its rights and remedies under this Lease, including the right to recover Rent as it becomes due under this Lease. Acts of maintenance or preservation or efforts to relet the Premises or the appointment of a receiver upon initiative of Landlord to protect Landlord's interest under this Lease shall not constitute a termination of Tenant's right to possession. In addition to its other rights under this Lease, Landlord has the remedy described in California Civil Code Section 1951.4 (Landlord may continue this Lease in effect after Tenant's breach and abandonment and recover Rent (as defined in Section 4.1) as it becomes due, if Tenant has the right to sublet or assign, subject only to reasonable limitations).

1.53 Right of Entry. In the event of any default by Tenant, Landlord shall also have the right, with or without terminating this Lease, to enter the Premises and remove all persons and personal property from the Premises, such property being removed and stored in a public warehouse or elsewhere at Tenant's sole cost and expense. No removal by Landlord of any persons or property in the Premises shall constitute an election to terminate this Lease. Such an election to terminate may only be made by Landlord in writing, or decreed by a court of competent jurisdiction. Landlord's right of entry shall include the right to remodel the Premises and re-let the Premises. All costs incurred in such entry and re-letting shall be paid by Tenant. Rents collected by Landlord from any other tenant which occupies the Premises shall be offset against the amounts owed to Landlord by Tenant. Tenant shall be responsible for any amounts not recovered by Landlord from any other tenant. Any payments made by Tenant shall be credited to the amounts owed by Tenant in the sole order and discretion of Landlord, irrespective of any designation or request by Tenant. No entry by Landlord shall prevent Landlord from later terminating this Lease by written notice.

1.54 Right to Perform. If an Event of Default occurs, Landlord may perform such covenant or condition at its option, after notice to Tenant. All costs incurred by Landlord in so performing shall immediately be reimbursed to Landlord by Tenant, together with interest at the Interest Rate computed from the date incurred by Landlord. Any performance by Landlord of Tenant's obligations shall not waive or cure such default.

1.55 Remedies Not Exclusive. The rights and remedies of Landlord and Tenant set forth herein are not exclusive, and Landlord and Tenant may exercise any other right or remedy available to it under this Lease, at law or in equity except as otherwise expressly set forth herein. Except as expressly provided in this Lease, including Articles 13 and 14 and General Conditions B, F and I, Tenant hereby waives and relinquishes any right which Tenant may have to terminate this Lease or withhold any payment owed by Tenant under this Lease, on account of any damage, condemnation, destruction or state of disrepair of the Premises (including, without limiting the generality of the foregoing, those rights under California Civil Code Sections 1941, 1941.1 and 1942).

1.56 Waiver of Redemption by Tenant. Tenant hereby waives, for itself and all persons claiming by and under Tenant, all rights and privileges which it might have under any present or future law to redeem the Premises or to continue this Lease after being dispossessed or ejected from the Premises. The rights and remedies of Landlord set forth in this Lease are not exclusive, and Landlord may exercise any other right or remedy available to it under this Lease, at law or in equity.

ARTICLE 17 - ATTORNEYS' FEES

If either Landlord or Tenant commences or engages in, or threatens to commence or engage in, any action or litigation or arbitration against the other party arising out of or in connection with this Lease, the Project, including but not limited to, any action for recovery of any payment owed by either party under this Lease, or to recover possession of the Premises, or for damages for breach of this Lease, the prevailing party shall be entitled to have and recover from the losing party reasonable attorneys' fees and other costs incurred in connection with the action and in preparation for said action. This provision shall survive the termination of this Lease.

ARTICLE 18 - SUBORDINATION, ATTORNMENT AND NON-DISTURBANCE

1.57 Obligations of Tenant. Subject to General Condition D, this Lease and the rights granted to Tenant by this Lease shall be subject and subordinate to (a) all present and future ground or underlying leases affecting all or any part of the Buildings and all amendments, renewals, modifications, supplements and extensions of the leases, and (b) all present and future deeds of trust or mortgages affecting or encumbering all or any part of the Buildings and/or any ground or underlying leasehold estate; provided however, that if Landlord elects at any time to have Tenant's interest in this Lease be or become superior, senior or prior to any such instrument, then upon receipt by Tenant of written notice of such election, Tenant shall immediately execute all necessary and reasonable subordination instruments or other documents confirming the subordination of such mortgage, deed of trust, ground or underlying lease to this Lease.

1.58 Landlord's Right to Assign. Landlord's interest in this Lease may be assigned to any mortgagee or trust deed beneficiary as additional security. Nothing in this Lease shall empower Tenant to do any act without Landlord's prior consent, which consent may be withheld in Landlord's sole discretion, which can, shall or may encumber the title of the owner of all or any part of the Buildings.

1.59 Attornment by Tenant. Subject to General Condition D, in the event of the cancellation or termination of any or all ground or underlying leases affecting all or any part of the Buildings in accordance with its terms or by the surrender thereof, whether voluntary, involuntary or by operation of law, or by summary proceedings, or in the event of any foreclosure of any or all mortgages or deeds of trust encumbering the Buildings by trustee's sale, voluntary agreement, deed in lieu of foreclosure, or by the commencement of any judicial action seeking foreclosure, Tenant, at the request of the then landlord under this Lease, shall attorn to and recognize (a) the ground or underlying lessor, under the ground or underlying lease being terminated or canceled, and (b) the beneficiary or purchaser at the foreclosure sale, as Tenant's landlord under this Lease, and Tenant agrees to execute and deliver at any time upon request of such ground or underlying lessor, beneficiary, purchaser, or their successors, any instrument to further evidence such attornment. Tenant hereby waives its right, if any, to elect to terminate this Lease or to surrender possession of the Premises in the event of any such ground or underlying lease cancellation or termination or mortgage or deed of trust foreclosure.

1.60 Non-Disturbance. Notwithstanding any of the provisions of this Article 18 to the contrary, Tenant shall be allowed to occupy the Premises, subject to the conditions of this Lease, and this Lease shall remain in effect, until an Event of Default occurs, the end of the Term or until Tenant's rights are modified because of an Eminent Domain proceeding pursuant to Article 14, or because of the occurrence of damage and destruction pursuant to Article 13.

ARTICLE 19 - [INTENTIONALLY DELETED]

ARTICLE 20 - HOLDING OVER

1.61 Surrender of Possession. Tenant shall surrender possession of the Premises immediately upon the expiration of the Term or earlier termination of this Lease. If Tenant shall continue to occupy or possess the Premises after such expiration or termination without the consent of Landlord, then unless Landlord and Tenant have otherwise agreed in writing, Tenant shall be a tenant from month-to-month. All the terms, provisions and conditions of this Lease shall apply to this month-to-month tenancy except those terms, provisions and conditions pertaining to the Term, and except that the monthly Base Rent shall be immediately adjusted upward upon the expiration or termination of this Lease to equal (a) for the first two (2) months of holdover, one hundred twenty-five percent (125%) of the monthly Base Rent for the Premises in effect under this Lease during the month which includes the day immediately prior to the date of the expiration or termination of this Lease, and (b) thereafter, one hundred fifty percent (150%) of such monthly Base Rent. This month-to-month tenancy may be terminated by Landlord or Tenant upon thirty (30) days' prior notice to the non-terminating party. In the event that Tenant fails to surrender the Premises upon such termination or expiration, then Tenant shall indemnify and hold Landlord harmless against all loss or liability resulting from or arising out of Tenant's failure to surrender the Premises, including, but not limited to, any amounts required to be paid to any tenant or prospective tenant who was to have occupied the Premises after said termination or expiration and any related attorneys' fees and brokerage commissions.

ARTICLE 21 - INSPECTIONS AND ACCESS

1.62 Entry by Landlord. Landlord and the Landlord Parties shall have access to the Project and the right to enter the Premises, at all reasonable times for the purpose of (i) inspecting the Premises, (ii) making any alterations, additions, improvements or repairs to the Project which Landlord is required or permitted to perform under this Lease, or (iii) to submit the Premises to prospective purchasers, prospective tenants, encumbrance holders. Landlord shall give not less than twenty-four (24) hours' notice to Tenant of Landlord's intent to enter the Premises, except, however, in an emergency situation, in which case no prior notice shall be required. If Tenant shall not be personally present to open and permit an entry into the Premises at any time when such entry by Landlord is necessary or permitted under this Lease, Landlord may enter by means of a master key without liability to Tenant except for any failure to exercise due care for Tenant's personal property, and without affecting this Lease. Absent an emergency, Landlord shall conduct and schedule all entries and its activities within the Premises to the extent practicable in a manner which will minimize any interruption or interference with Tenant's business operations within the Premises; provided, however, the foregoing shall not obligate Landlord to incur overtime or after normal business hours labor costs in the making of repairs.

1.63 Secured Areas. Notwithstanding anything to the contrary set forth above, Tenant may designate certain areas of the Premises as "**Secured Areas**" should Tenant require such areas for the purpose of securing certain valuable property or confidential information. Landlord may not enter such Secured Areas except in the case of emergency or in the event of a Landlord inspection, in which case Landlord shall provide Tenant with two (2) days' prior written notice of the specific date and time of such Landlord inspection.

ARTICLE 22 - NAME OF BUILDING

The Buildings shall be called any reasonable name from time to time designated by Tenant or its assignee.

ARTICLE 23 - SURRENDER OF LEASE

The voluntary or other surrender of this Lease by Tenant, or a mutual cancellation of this Lease, shall not work a merger, and shall, at the option of Landlord terminate all or any existing subleases or subtenancies, or may, at the option of Landlord, operate as an assignment to it of Tenant's interest in any or all such subleases or subtenancies.

ARTICLE 24 - WAIVER

The waiver by Landlord or Tenant of any term, covenant, agreement or condition contained in this Lease shall not be deemed to be a waiver of any subsequent breach of the same or of any other term, covenant, agreement, condition or provision of this Lease, nor shall any custom or practice which may develop between the parties in the administration of this Lease be construed to waive or lessen the right of Landlord or Tenant to insist upon the performance by the other in strict accordance with all of the terms, covenants, agreements, conditions, and provisions of this Lease. The subsequent acceptance by Landlord of any payment owed by Tenant to Landlord under this Lease, or the payment of Rent by Tenant, shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant, agreement, condition or provision of this Lease, other than the failure of Tenant to make the specific payment so accepted by Landlord, regardless of Landlord's or Tenant's knowledge of such preceding breach at the time of the making or acceptance of such payment.

ARTICLE 25 - SALE BY LANDLORD

Subject to the provisions of Exhibit "I-1" [Right of First Offer to Purchase] attached hereto, in the event Landlord shall sell, assign, convey or transfer all or a part of its interest in the Buildings or any part of the Buildings, Tenant agrees to attorn to such transferee, assignee or new owner, and upon consummation of such sale, conveyance or transfer, Landlord shall automatically be freed and relieved from all liability and obligations accruing or to be performed from and after the date of such sale, transfer, or conveyance. In the event of such sale, assignment, transfer or conveyance, Landlord shall transfer to such transferee, assignee or new owner of the Buildings the balance of the Deposit, if any, remaining after lawful deductions and in accordance with California Civil Code Section 1950.7, after notice to Tenant, and Landlord shall thereupon be relieved of all liability with respect to the Deposit.

ARTICLE 26 - NO LIGHT AND AIR EASEMENT

Any diminution or shutting off of light or air by any structure which may be erected on lands adjacent to or in the vicinity of the Buildings shall not affect this Lease, abate any payment owed by Tenant under this Lease or otherwise impose any liability on Landlord.

ARTICLE 27 - FORCE MAJEURE

Except as otherwise expressly provided in this Lease, any prevention, delay or stoppage caused by fire, earthquake, explosion, flood, hurricane, the elements, or any other similar cause beyond the reasonable control of the party from whom performance is required, or any of their contractors; acts of God or the public enemy; actions, restrictions, limitations or interference of governmental authorities or agents; war, invasion, insurrection, rebellion; riots; strikes or lockouts, or inability to obtain necessary materials, goods, equipment, services, utilities or labor shall excuse the performance of such party for a period equal to the duration of such prevention, delay or stoppage; provided, however, in no event shall financial incapability excuse the performance of either party.

ARTICLE 28 - ESTOPPEL CERTIFICATES

Each party shall, at any time and from time to time upon request of the other party, within ten (10) business days following notice of such request from the requesting party, execute, acknowledge and deliver to the requesting party a certificate (the " **Estoppel Certificate**") in writing in the form of the attached Exhibit "F" or in such other commercially reasonable form as Landlord or Tenant or any of their respective lenders, prospective purchasers, lienholders, assignees or subtenants may deem appropriate; provided, however, if the Estoppel Certificate requests information different than that being requested in the form of the attached Exhibit "F". For purposes of this Article 28, an Estoppel Certificate shall not be deemed to be commercially reasonable if it amends or modifies any of the provisions of this Lease and any provision added by an Estoppel Certificate and not clearly "labeled" an Amendment shall be null and void. If the certifying party fails to deliver the Estoppel Certificate within such ten (10) business day period, as the case may be, the requesting party shall so notify the certifying party and, if the certifying party does not deliver the Estoppel Certificate within three (3) business days thereafter, the certifying party's failure to do so shall automatically be deemed to establish conclusively that this Lease is in full force and effect and has not been modified except as may be represented by the requesting party, but shall not be deemed to have cured any default under this Lease by the party failing to provide the Estoppel Certificate.

ARTICLE 29 - RIGHT TO PERFORMANCE

All covenants and agreements to be performed by Landlord or Tenant under this Lease shall be performed by such party at such party's sole cost and expense, except where a specific provision of this Lease provides to the contrary.

ARTICLE 30 - PARKING

1.64 Tenant Parking. Landlord agrees to provide or otherwise make available to Tenant, at all times during the Term, the parking spaces described in this Article 30 for use by Tenant and the Tenant Parties, on the terms and conditions set forth in this Article 30.

1.65 On-Site Parking Spaces. Pursuant to the Work Letter, Landlord shall construct and deliver to Tenant parking spaces located on the Site (the "**On-Site Parking Spaces**") as follows: (i) as part of Landlord's Construction Work with respect to Phase I, sixty (60) On-Site Parking spaces, comprised of (i) twenty-two (22) single parking spaces and (ii) thirty-eight (38) tandem parking spaces (collectively, the "**Phase I On-Site Parking Spaces**"), and (b) as part of Landlord's Construction Work with respect to Phase II, an additional one hundred fifty-three (153) On-Site Parking Spaces, comprised of (i) sixty-seven (67) single parking spaces, and (ii) eighty-six (86) tandem parking spaces (collectively, the "**Phase II On-Site Parking Spaces**"), for total of two hundred thirteen (213) On-Site Parking Spaces, comprised of eighty-nine (89) single parking spaces and one hundred twenty-four (124) tandem parking spaces. Tenant and the Tenant Parties shall have the exclusive use of the applicable On-Site Parking Spaces at all times during the Term, at a charge of $600.00 per On-Site Parking Space per year, which charge shall increase by 3% on a cumulative and compounding basis on each anniversary of the Commencement Date for the Existing Building. Notwithstanding anything contained in this Lease to the contrary, Landlord shall be responsible, at its sole cost and expense, and not as an Operating Expense, for providing any parking attendant(s) that may be required in connection with Tenant's use of the On-Site Parking Spaces.

The costs of maintenance and repair of the On-Site Parking Spaces shall be included as an Operating Expense to the extent provided in Article 4 above, and the On-Site Parking Spaces shall be deemed part of the Project.

1.66 Off-Site Parking Spaces.

(a) Commencing on the Commencement Date for the Existing Building and continuing through the Expiration Date, Landlord shall make available to Tenant, in accordance with the provisions of this Section 30.3, up to five hundred (500) off-site parking spaces (the "**Off-Site Parking Spaces**") for use by Tenant and the Tenant Parties on weekdays from the hours of 7:00 a.m. through 6:00 p.m. (the "**Off-Site Parking Hours**"). Prior to the Commencement Date for the Existing Building, Tenant shall notify Landlord in writing of the number of Off-Site Parking Spaces that Tenant will require on such Commencement Date, and concurrently with Landlord's delivery of the Existing Building, Landlord shall deliver or make available to Tenant such number of parking passes (up to the total amount of Off-Site Parking Spaces) as Tenant shall request. Thereafter, Tenant shall deliver written notice to Landlord from time to time of its need to increase or decrease the number of Off-Site Parking Spaces used by Tenant, as applicable, upon not less than thirty (30) days' notice to Landlord (provided that in no event shall Tenant be entitled to use more than the amount of the Off-Site Parking Spaces that Landlord has agreed to make available to Tenant and the Tenant Parties as provided in this Section 30.3(a)).

(b) Landlord shall be solely responsible to obtain from one or more third parties the right to use and make available for use by Tenant all Off-Site Parking Spaces which Landlord is obligated to provide to Tenant under this Lease. Landlord further covenants and agrees that all such Off-Site Parking Spaces required to be made available by Landlord for use by Tenant pursuant to this Section 30.3 shall, at all times during the Term, be located in parking lots and/or structures that are located no more than two (2) miles from the Project (the "**Permitted Distance**").

(c) Commencing on the applicable Commencement Date, and on January 1 of each year thereafter, Tenant shall pay to Landlord an annual fee for each Off-Site Parking Space provided to Tenant pursuant to this Section 30.3 equal to (i) if any such Off-Site Parking Space is provided by Landlord to Tenant under the terms of the Off-Site Parking Agreement (as defined below), the amount payable by Landlord for such Off-Site Parking Space under the terms of the Off-Site Parking Agreement, but subject to a cap of three percent (3%) on annual increases each January 1 during the Term, regardless of any actual increase in the cost thereof payable by Landlord under the Off-Site Parking Agreement for any such Off-Site Parking Space (with respect to each Off-Site Parking Space, the "**City-Provided Tenant Parking Fee**"), and (ii) if any such Off-Site Parking Space is provided by Landlord to Tenant under any other arrangement, whether on property owned by Landlord, any Affiliate of Landlord or any other third party, the lesser of (A) the actual amount payable by or incurred by Landlord to provide such Off-Site Parking Space or (B) the City-Provided Tenant Parking Fee for each such Off-Site Parking Space. The amount payable by Tenant to Landlord for each Off-Site Parking Space provided to Tenant pursuant to this Section 30.3 and determined in accordance with the foregoing provisions of this Section 30.3(c) shall be referred to herein as the "Off-Site Parking Fee." The Off-Site Parking Fee shall be prorated for any Off-Site

Parking Space that is used by Tenant for any period less than a full calendar year, and to the extent applicable Tenant shall be entitled to a rebate of any annual Off-Site Parking Fees paid in advance.

(d) From and after the Commencement Date for the Existing Building, Landlord shall be responsible for providing and operating (or causing the operation of), at Landlord's sole cost and expense, and not as an Operating Expense, such number of parking shuttles in connection with Tenant's use of the Off-Site Parking Spaces as reasonably determined by Tenant to be necessary for the efficient operation of Tenant's business at the Premises (the "**Parking Shuttles**"). Landlord and Tenant shall cooperate in good faith throughout the Term to determine the schedule for such parking shuttles from time to time during the Term; provided, that at all times during the Term, the Parking Shuttles shall run at least one hour before and one hour after the Off-Site Parking Hours.

(e) Tenant acknowledges that: (i) Landlord has entered into that certain Parking License Agreement dated as of May 25, 2012 (the "**Off-Site Parking Agreement**") with the City of Long Beach (the "**City**"), a copy of which is attached hereto as Exhibit "K", and (ii) to the extent possible, Landlord intends to fulfill obligations under this Section 30.3 with parking spaces available to Landlord under the Off-Site Parking Agreement. Notwithstanding the foregoing, Landlord acknowledges and agrees that (i) the rights granted to Landlord under the Off-Site Parking Agreement may not be sufficient to enable Landlord to fulfill its obligations to Tenant with respect to the Off-Site Parking Spaces pursuant to this Section 30.3, (ii) such rights of Tenant under this Section 30.3 are independent of Landlord's rights under the Off-Site Parking Agreement, and Landlord's inability to fulfill its obligations under this Section 30.3 with parking spaces available to Landlord under the Off-Site Parking Agreement shall in no way limit such obligations set forth herein, and (iii) without limiting any obligations of Landlord under this Section 30.3 or any of Tenant's other rights and remedies under this Lease, if Landlord fails to make the Off-Site Parking Spaces available to Tenant in accordance with the terms of this Section 30.3 above (notwithstanding the terms of the Off-Site Parking Agreement), Tenant shall have the right to independently obtain off-site parking and shall be entitled to prompt reimbursement by Landlord of Tenant's reasonable costs and expenses in connection with obtaining such parking spaces (up to the total number of Off-Site Parking Spaces required to be provided by Landlord hereunder) in excess of the City-Provided Tenant Parking Fee for each such off-site parking space. Additionally, in the event that Landlord fails to perform any of its duties or obligations under the Off-Site Parking Agreement (including, without limitation, the payment of the license fee thereunder), and Tenant has cured such default (which Tenant shall have the right, but not the obligation to do), then Tenant shall be entitled to prompt reimbursement by Landlord of Tenant's reasonable costs and expenses in connection with curing such default.

(f) During the Term, Landlord shall use its best efforts to obtain the City's agreement to modify the Off-Site Parking Agreement so that Landlord at all times is able to fulfill its obligations to Tenant with respect to the Off-Site Parking Spaces pursuant to the terms thereof, including the City's agreement that (1) all parking under the Off-Site Parking Agreement shall be located within the Permitted Distance (including with respect to any relocation rights of the City), (2) Landlord's rights under the Off-Site Parking Agreement shall be transferrable to future owners of the Project, and (3) an ability to extend the term of the Off-Site Parking Agreement for the Extension Periods (as defined in Exhibit "J" attached hereto) no later than six (6) months prior to the commencement of the applicable Extension Period, at commercially reasonable parking rates; provided, that Landlord's failure to obtain such agreements from the City shall not constitute a default or breach of this Lease so long as Landlord used its best efforts to do so.

(g) Landlord will use commercially reasonable efforts to obtain from the City, within thirty (30) days following the Effective Date, an Estoppel and Agreement Regarding Off-Site Parking Agreement substantially in the form attached hereto as Exhibit "L" (or such other form as may be reasonably acceptable to the City, Landlord, Tenant and the Existing Mortgagee or any other Superior Mortgagee); provided, that Landlord's failure to obtain such agreement from the City shall not constitute a default or breach of this Lease so long as Landlord used commercially reasonable efforts to do so.

ARTICLE 31 - SECURITY SERVICES

Tenant shall be permitted to install its own security system in the Premises and Buildings, including in the stairwells in the core of the Buildings. Tenant shall also have the right install and maintain such additional security equipment, personnel, procedures and systems during the Term, provided that such will not adversely affect the Building Structure and/or Building Systems.

Tenant acknowledges that: (a) Landlord has no obligation to provide any security personnel or measures for the Project, Premises or any portion of the Premises, with the exception of smoke detection, fire alarm and fire safety systems, which Landlord shall initially provide and thereafter maintain as part of the Building Systems; (b) Landlord has made no representation regarding the safety or security of the Premises or any portion thereof; (c) Tenant will be solely responsible for providing any security it deems necessary to protect itself, the Premises, any personal property located on the Premises, and the Tenant Parties in, on, or about the Premises; (d) Landlord is not a guarantor of the security or safety of Tenant, any Tenant Party or their property; and (e) that such security and safety matters are the responsibility of Tenant and the local law enforcement authorities. If Landlord elects, at Landlord's sole and exclusive discretion and at its sole cost and expense, to provide any security personnel or measures (other than what Landlord is obligated to provide and maintain as provided in clause (a) above) to the Premises at any time: (i) Landlord will not be obligated to continue providing such security personnel or measures for any time period and may discontinue the same without notice and liability to Tenant; (ii) Landlord will not be obligated to provide such security personnel or measures with any particular standard of care; and (iii) Tenant acknowledges that any security or safety measures employed by Landlord are for the protection of Landlord's own interests. Tenant assumes all responsibility for the security and safety of Tenant, the Tenant Parties and any personal property owned by the foregoing.

ARTICLE 32 - NOTICES

All notices, requests, consents, approvals, payments in connection with this Lease, or communications that either party desires or is required or permitted to give or make to the other party under this Lease shall only be deemed to have been given, made and delivered, when made or given in writing and personally served, or deposited in the United States mail, certified or registered mail, postage prepaid, or sent by reputable overnight courier (e.g. Federal Express) and addressed to the parties as follows: If to Tenant, at the address(es) as specified for Tenant in provision (r) of the Fundamental Lease Provisions, or to such other place as Tenant may from time to time designate in a notice to Landlord given in the manner set forth in this Article 32; if to Landlord, at the address(es) specified for Landlord in provision (s) of the Fundamental Lease Provisions or to such other places as Landlord may from time to time designate in a notice to Tenant given in the manner set forth in this Article 32.

ARTICLE 33 - SIGNAGE AND BUILDING IDENTITY

Tenant at Tenant's sole cost and expense, shall have the exclusive right to install signage, including Tenant's corporate name and logo, on and in the Buildings, including (a) exterior signage, (b) on or adjacent to the entrance doors to Tenant's Premises, and (c) any directory board located in the main entrance to each of the Buildings.

Landlord shall, using commercially reasonable efforts at no cost to Landlord, cooperate with Tenant in obtaining the proper governmental approvals and permits for the requested signage. Tenant shall be responsible maintaining Tenant's signage during the Term and for the removal of its signs, and the cost of repairing any resulting damage to the Buildings and/or Premises, upon the termination or assignment of this Lease.

ARTICLE 34 - INTENTIONALLY DELETED

ARTICLE 35 - ROOF RIGHTS

During the Term (as it may be extended), Tenant shall have the right to install and maintain, on the roof of the Buildings, satellite dishes, television antennas, related receiving equipment, related cable connections and any and all other related equipment (collectively, "**Satellite Dish**") required in connection with Tenant's communications and data transmission network. Tenant shall have the right to use "risers" in the Buildings (and to install additional risers if necessary) as long as there is no adverse effect on the Building Structure or Building Systems. In addition to the foregoing, Tenant shall, at its option exercisable by a thirty (30) days' notice to Landlord, have the right to use space on the roof of the Buildings for installation of any additional HVAC equipment required by Tenant and any and all related equipment to accommodate any such additional HVAC requirements (collectively, "**Supplemental HVAC Unit(s)**"), provided that such will not adversely affect the Building Structure and/or Building Systems. The exact location of any such Satellite Dish or Supplemental HVAC Unit(s) shall be mutually acceptable to Landlord and Tenant and Tenant shall have secured the approval of all governmental authorities and all permits required by governmental authorities having jurisdiction over such approvals and permits for the Satellite Dish and the Supplemental HVAC Unit(s), and shall provide copies of such approvals and permits to Landlord, prior to commencing any work with respect to such Satellite Dish and the Supplemental HVAC Unit(s). Tenant shall pay for any and all costs and expenses in connection with the installation, maintenance, use and removal of the Satellite Dish and the Supplemental HVAC Unit(s), but in no event shall Tenant be obligated to pay Landlord any rental for that portion of the roof of the Buildings on which the Satellite Dish and the HVAC Unit shall be located. Furthermore, Tenant shall, at its sole and absolute discretion when it deems it as necessary or appropriate to do so, repair and maintain the Satellite Dish and Supplemental HVAC Unit(s). Upon the expiration of the Term, Tenant shall, if requested by Landlord, remove the Satellite Dish and Supplemental HVAC Unit(s)and repair any damage to the roof resulting therefrom.

ARTICLE 36 - SECURITY DEPOSIT

Tenant in recognition of its financial standing and reputation, shall not be obligated to provide a security deposit.

ARTICLE 37 - TENANT'S FINANCIAL STATEMENTS

In the event that Landlord intends to finance the Building(s), Landlord shall deliver written notice of such intention to Tenant, which notice shall include a list of potential lenders (the " **Potential Lenders**") with respect to such financing, and Tenant shall, within ten (10) business days following Tenant's receipt of such notice, deliver to Landlord consolidated annual financial statements (audited) for the most recent two (2) years. Unless publically disclosed by Tenant, all such financial statements delivered by Tenant to Landlord and/or its Potential Lenders shall be kept strictly confidential.

ARTICLE 38 - MISCELLANEOUS

1.67 Authorization to Sign Lease. If Tenant or Landlord is a corporation, each individual executing this Lease on behalf of such party represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of such party. If such party is a partnership or trust, each individual executing this Lease on behalf of such party represents and warrants that he/she is duly authorized to execute and deliver this Lease on behalf of such party in accordance with the terms of such entity's partnership agreement or trust agreement, respectively.

1.68 Entire Agreement. It is understood and acknowledged that there are no oral agreements between the parties hereto affecting this Lease and this Lease supersedes and cancels any and all previous negotiations, arrangements, brochures, agreements and understandings, if any, between the parties hereto or displayed by Landlord to Tenant with respect to the subject matter thereof, and none thereof shall be used to interpret or construe this Lease. This Lease, and the exhibits and schedules attached hereto, contain all of the terms, covenants, conditions, warranties and agreements of the parties relating in any manner to the rental, use and occupancy of the Premises and shall be considered to be the only agreements between the parties hereto and their representatives and agents. None of the terms, covenants, conditions or provisions of this Lease can be modified, deleted or added to except in writing signed by the parties hereto. All negotiations and oral agreements acceptable to both parties have been merged into and are included herein. There are no other representations or warranties between the parties, and all reliance with respect to representations is based totally upon the representations and agreements contained in this Lease.

1.69 Separability and Survivability. The illegality, invalidity or unenforceability of any term, condition, or provision of this Lease shall in no way impair or invalidate any other term, provision or condition of this Lease, and all such other terms, provisions and conditions shall remain in full force and effect. In the event that Landlord or Tenant lawfully terminate this Lease, the provisions of this Lease shall otherwise remain in effect to the extent necessary to allow Landlord and Tenant to enforce rights and obligations accruing prior to the termination of this Lease and attributable to the period of time prior to the termination of this Lease.

1.70 Gender and Headings; Governing Law. The words "**Landlord**" and "**Tenant**" as used herein shall include the plural as well as the singular and, when appropriate, shall refer to action taken by or on behalf of Landlord or Tenant by their respective employees, agents, or authorized representatives. Words in masculine gender include the feminine and neuter. If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several. The section and article headings of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof. Subject to the provisions of Articles 11 and 25, and except as otherwise provided to the contrary in this Lease, the terms, conditions and agreements of this Lease shall apply to and bind the heirs, successors, legal representatives and permitted assigns of the parties hereto. This Lease shall be governed by and construed pursuant to the laws of the State of California.

1.71 Exhibits. Exhibits "A-1," "A-2," "B," "C," "D," "E," "F," "G," "H," "I-1," "I-2," "J," "K" and "L" attached to this Lease, are hereby incorporated by this reference and made a part of this Lease.

1.72 Transportation System Management Program. Tenant hereby covenants and agrees, at its sole cost and expense, to participate in and cooperate with the requirements of any and all transportation system management programs adopted for the Buildings and/or the area in which the Buildings are located by any governmental entity having jurisdiction.

1.73 Quiet Enjoyment. Landlord covenants and agrees that Tenant shall peaceably and quietly hold, occupy and enjoy the Premises during the Term without hindrance or molestation from Landlord subject to the terms and provisions of this Lease.

1.74 Recordation. Landlord and Tenant agree that in no event and under no circumstances shall this Lease be recorded by Tenant; provided, however, that concurrently with the Effective Date, Landlord and Tenant shall execute and acknowledge and promptly thereafter cause to be recorded in Office of the County Recorder, Los Angeles County, California, the Memorandum of Lease (With Certain Purchase Rights) in the form attached hereto as Exhibit "E" (the " **Memo of Lease**"). Tenant shall pay all costs and expenses of recording the Memo of Lease (including any documentary transfer taxes payable in connection therewith). Unless Tenant shall purchase the Project pursuant to Right of First Offer to Purchase set forth on Exhibit "I-1" or the Purchase Option set forth on Exhibit "I-2", upon the expiration or earlier termination of the Term, Tenant shall fully cooperate with Landlord in removing and shall execute such documents and instruments as are necessary to fully remove from title to the Project any encumbrance thereto created by the Memo of Lease, and shall indemnify, defend and hold harmless Landlord from and against any Claims suffered by Landlord as a result of Tenant's failure or refusal to cooperate in the removal thereof. The Memo of Lease is intended to make as a matter of record with respect to the Project the existence of this Lease and Tenant's purchase rights contained herein.

1.75 Cumulative Remedies. No remedy or election provided, allowed or given by any provision of this Lease shall be deemed exclusive unless so indicated, but shall, whenever possible, be cumulative with all other remedies in law or equity.

1.76 Brokers. Other than the broker(s) set forth in provision (t) of the Fundamental Lease Provisions (" **Broker**") each party represents and warrants that it has not dealt with any other real estate broker or agent in connection with this Lease. Each party shall indemnify the other and hold it harmless from any cost, expense, or liability (including costs of suit and reasonable attorneys' fees) for any compensation, commission or fees claimed by any other real estate broker or agent, other than Broker, in connection with this Lease or its negotiation by reason of any act or statement of the indemnifying party. Landlord agrees that it will pay the Broker a brokerage commission pursuant to the terms of a separate agreement between Landlord and the Broker and to the extent such commission is not paid when due, Tenant shall have the right, but not the obligation, to pay such commission to the Broker, and deduct the amount of same from the Rents next due and owing under this Lease, together with interest at the Interest Rate (computed from the date such commission was due until the date of the offset).

1.77 Hazardous Materials.

1.77.1 Generally. Tenant and Landlord shall each comply with all Environmental Laws (as defined below) relating to industrial hygiene and environmental conditions on, under or about the Buildings and Project including, but not limited to, soil and ground water conditions in accordance with the terms of this Lease. Without limiting the generality of the foregoing, Tenant and Landlord shall not transport, use, store, maintain, generate, manufacture, handle, dispose, release or discharge any Hazardous Material (as defined in Section 38.12 below) upon or about the Buildings, nor permit their respective Tenant Parties or Landlord Parties to engage in such activities upon or about the Buildings. However, the foregoing provisions shall not prohibit the transportation to and from, and the use, storage, maintenance and handling within, the Premises of substances customarily used in connection with normal office use provided: (a) such substances shall be used and maintained only in such quantities as are reasonably necessary for the permitted use of the Premises set forth in provision (q) of the Fundamental Lease Provisions, strictly in accordance with Applicable Laws and the manufacturers' instructions therefor, (b) such substances shall not be disposed of, released or discharged on the Buildings, and shall be transported to and from the Premises in compliance with all Environmental Laws, (c) if any Environmental Laws requires that any such substances be disposed of separately from ordinary trash, Tenant shall make arrangements at Tenant's expense for such disposal directly with a qualified and licensed disposal company at a lawful disposal site, and shall ensure that disposal occurs frequently enough to prevent unnecessary storage of such substances in the Premises, and (d) any remaining such substances shall be completely, properly and lawfully removed from the Buildings upon expiration or earlier termination of this Lease.

1.77.2 Notice of Release and Investigation. If, during the Lease Term (including any extensions), either Landlord or Tenant becomes aware of (i) any actual or threatened release of any Hazardous Material on, under, or about the Premises, Building or Project, or (ii) any inquiry, investigation, proceeding, or claim by any government agency or other person regarding the presence of Hazardous Material on, under, or about the Premises, Building or Project, such party shall give written notice to the other of the release or investigation within five (5) days after learning of it and shall simultaneously furnish to the other party copies of any claims, notices of violation, reports, or other writings received by the party providing notice that concern such release or investigation.

1.77.3 Remediation Obligations; Tenant's Rights to Abatement on Cleanup by Landlord.

(a) If the presence of any Hazardous Material brought onto the Premises, Building or Project by either Landlord or Tenant or by their respective Landlord Parties or Tenant Parties results in contamination of the Premises, Building or Project, that party shall promptly take all necessary actions, at the party's sole expense (and with respect to Landlord, not as an Operating Expense), to return the Premises, Building or Project to the condition that existed before the introduction of such Hazardous Material. If Tenant is the responsible party, Tenant shall first obtain Landlord's approval of the proposed remedial action which it is obligated to undertake pursuant to the immediately preceding sentence, which shall not be unreasonably withheld, conditioned or delayed. This provision does not limit any indemnification obligations of the parties set forth in Article 12 or Tenant's rights under General Condition J.

(b) Without limiting Tenant's rights and remedies under General Condition J, if Landlord undertakes any cleanup, detoxification, or similar action, whether or not required by any government or quasi-government agency, as a result of the presence, release, or disposal in or about the Building or Project of any Hazardous Material, and that action requires that Tenant be denied access to the Premises or Tenant is otherwise unable to conduct its business on the Premises for a period of greater than twenty-four (24) hours, Base Rent and Additional Rent shall be abated for the period that Tenant is unable to conduct its business at the Premises. Subject to Section 12.2(a), the costs of any Hazardous Material testing, cleanup or remediation undertaken by Landlord during the Lease Term shall be borne by Landlord, shall not be included as an Operating Expense and shall not be the obligation of Tenant.

1.78 Definitions of "Hazardous Material" and "Environmental Laws". As used herein, the term "**Hazardous Material**" shall mean any hazardous or toxic substance, material, or waste that is or becomes regulated by the United States, the State of California, or any local government authority having jurisdiction over the Building or Project. Hazardous Material includes:

(a) Any "hazardous substance," as that term is defined in the Comprehensive Environmental Response, Compensation, and Liability Act of 1980 (CERCLA) (42 United States Code Sections 9601-9675);

(b) "Hazardous waste," as that term is defined in the Resource Conservation and Recovery Act of 1976 (RCRA) (42 United States Code Sections 6901-6992k);

(c) Any pollutant, contaminant, or hazardous, dangerous, or toxic chemical, material, or substance, within the meaning of any other applicable federal, state, or local law, regulation, ordinance, or requirement (including consent decrees and administrative orders imposing liability or standards of conduct concerning any hazardous, dangerous, or toxic waste, substance, or material, now or hereafter in effect);

(d) Petroleum products;

(e) Radioactive material, including any source, special nuclear, or byproduct material as defined in 42 United States Code Sections 2011-2297g-4;

(f) Asbestos in any form or condition; and

(g) Polychlorinated biphenyls (PCBS) and substances or compounds containing PCBS.

As used in this Lease, "**Environmental Laws**" means all Applicable Laws in effect during the Lease Term that relate to public health and safety and protection of the environment, including those Applicable Laws identified above in this Section 38.12.

[signatures on following page]

IN WITNESS WHEREOF, the parties have executed this Lease as of the date first set forth above, acknowledged that each party has carefully read each and every provision of this Lease, that each party has freely entered into this Lease of its own free will and volition, and that the terms, conditions and provisions of this Lease are commercially reasonable as of the day and year first above written.

"LANDLORD"

6th& PINE DEVELOPMENT, LLC,
a California limited liability company

By: __
Name: __
Its: __

"TENANT"

MOLINA HEALTHCARE, INC.
a Delaware corporation

By: __
Name: __
Its: __

EXHIBIT "A-1"

LEGAL DESCRIPTION OF SITE

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA. AND IS DESCRIBED AS FOLLOWS:

PARCEL 1:

THE WEST 37112 FEET OF LOTS 1 AND 3, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 19 PAGE 91 ET SEQ., OF MISCELLANEOUS RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE WEST LYING BETWEEN THE PROLONGATION OF THE NORTHERLY LINE OF LOT 1 AND THE SOUTHERLY LINE OF LOT 3 BY 8 FEET, AS VACATEI IN RESOLUTION NO. C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

EXCEPT THEREFROM ALL OIL GAS, MINERALS AND HYDROCARBON SUBSTANCES LYING BELOW A DEPTH OF 200 FEET FROM THE SURFACE OF SAID LAND, BUT WITHOUT THE RIGHT OF ENTRY UPON ANY PORTION OF THE SURFACE OF SAID LAND FOR THE PURPOSE OF EXPLORING FOR, BORING, EXTRACTING. DRILLING. MINING. PROSPECTING FOR, REMOVING OR MARKETING SAID SUBSTANCES, AS RESERVED TO THE GRANTOR THEREIN IN DEED EXECUTED BY TITLE INSURANCE AND TRUST COMPANY. TRUSTEE UNDER AGREEMENT AND DECLARATION OF TRUST EXECUTED HEREOF CREATING THOSE CERTAIN TRUSTS KNOWN AS ALBERT C. SELLERY TRUST AND THE ELEANOR D. SELLERY TRUST, RECORDED JULY 15, 1969 AS INSTRUMENT NO. 420, OF OFFICIAL RECORDS.

APN: 7273-025-013

PARCEL 2:

LOTS 5 AND 7, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGE 91 ET SEQ., OF MISCELLANEOUS RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE WEST LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY LINE OF LOT 5 AND THE SOUTHERLY LINE OF LOT 7, BY8 FEET, AS VACATEDIN RESOLUTION NO., C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

APN: 7273-025-015

PARCEL 3:

THE SOUTH 5 FEET OF LOT 6 AND ALL OF LOT 8, IN BLOCK 41 OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO

96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THE PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE EAST LYING BETWEEN THE PROLONGATION OF THE NORTHERLY LINE OF THE SOUTHERLY 5 FEET OF LOT 6 AND THE PROLONGATION OF THE SOUTHERLY LINE OF LOT 7, BY 8 FEET, AS VACATED IN RESOLUTION NO. C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

APN: 7273-025-016

PARCEL 4:

LOTS 10, 12 AND 14, IN BLOCK 41 OF THE TOWNSITE OF LONG BEACH, OF THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGE 91 OF MISCELLANEOUS RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE EAST LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY LINE OF LOT 10 ANDTHE SOUTHERLY LINE OF LOT 14, BY 8 FEET, AS VACATED IN RESOLUTION NO. C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1.988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

EXCEPT THEREFROM ALL OIL GAS, MINERALS AND OTHER HYDROCARBON SUBSTANCES BELOW A DEPTH OF 200 FEET FROM THE SURFACE THEREOF, WITHOUT RIGHT OF SURFACE ENTRY, AS RESERVED BY EDWARD R. LOVELL TRUSTEE IN DEED RECORDED DECEMBER 1, 1971 AS INSTRUMENT NO. 155, OF OFFICIAL RECORDS.

APN: 7273-025-019 (PORTION)

PARCEL 5:

LOTS 17 TO 21 INCLUSIVE IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING SAID LAND ON THE NORTH LYING BETWEEN THE PROLONGATIONS OF THE WESTERLY LINE OF LOT 17 AND THE EASTERLY LINE OF LOT 21 BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED APRIL 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947, OF OFFICIAL RECORDS.

APN: 7273-025-020 (PORTION)

PARCEL 6:

LOTS 9, 11 AND 13, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID AND ON THE WEST LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY LINE OF LOT 9 AND THE SOUTHERLY LINE OF LOT 13 BY 8 FEET, AS VACATED IN RESOLUTION NO. C-24596, OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

APN: 7273-025-017, 018 (PORTION)

PARCEL 7:

LOTS 24 TO 28 INCLUSIVE IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH. AS PER MAP RECORDED IN BOOK 19 PAGES 91 ET SEQ. OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING SAID LAND ON THE NORTH LYING BETWEEN THE PROLONGATIONS OF THE WESTERLY LINE OF LOT 24 AND THE EASTERLY LINE OF LOT 28 BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED April 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947, OF OFFICIAL RECORDS.

EXCEPT ALL OIL GAS AND OTHER HYDROCARBONS, IN AND UNDER THAT PORTION OF SAID LAND LOCATED MORE THAN 100 FEET BELOW THE SURFACE THEREOF BUT WITH NO RIGHT OF USE OF THE SURFACE OF SAID LANDS OR ANY PORTION THEREOF WITHIN 100 FEET OF THE SURFACE, AS RESERVED BY COVENANT PRESBYTERIAN CHURCH OF LONG BEACH, CALIFORNIA, IN DEED RECORDED MAY 19,1965 AS INSTRUMENT NO. 999, OF OFFICIAL RECORDS.

APN: 7273-025-021 (PORTION)

PARCEL 8:

LOTS 15, 16, 22 AND 23, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGE 91 ET SEQ. OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING LOTS 15 AND 16 ON THE SOUTH LYING BETWEEN THE PROLONGATIONS OF THE EASTERLY AND WESTERLY LINES OF SAID LOTS 15 AND 16, BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED APRIL 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947 AND ALSO TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING LOT 15 ON THE WEST AND ADJOINING LOT 16 ON THE EAST, LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY AND SOUTHERLY LINES OF SAID LOTS 15 AND 16, BY 8 FEET, RESPECTIVELY, AS VACATED IN RESOLUTION NO. C-24596, OF THE CITY OF LONG BEACH RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

ALSO TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING LOTS 22 AND 23 OF THE NORTH, LYING BETWEEN THE PROLONGATIONS OF THE EASTERLY AND WESTERLY LINES OF SAID LOTS 22 AND 23, BY 5 FEET, AS VACATEDIN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED APRIL 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947 AND ALSO TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING LOT 22 ON THE EAST AND ADJOINING LOT 23 ON THE WEST, LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY AND SOUTHERLYLINES OF SAID LOTS 22 AND 23, BY 8 FEET, RESPECTIVELY,AS VACATEDIN RESOLUTION NO. C-24596, OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

EXCEPT THEREFROM ALL OIL GAS, AND OTHER HYDROCARBONS, IN AND UNDER THAT PORTION OF SAID LAND LOCATED MORE THAN 100 FEET BELOW THE SURFACE THEREOF, BUT WITH NO RIGHT OF USE OF THE SURFACE OF SAID LANDS OR ANY PORTION THEREOF WITHIN 100 FEET OF THE SURFACE, RESERVED IN DEED RECORDED MAY 19, 1965 AS INSTRUMENT NO. 999, OF OFFICIAL RECORDS.

APN: 7273-025-018 (PORTION), 7273-025-019 (PORTION), 7273-025-020 (PORTION), 7273-025-021 (PORTION)

PARCEL 9:

THE EAST 112.5 FEET OF LOTS 1 AND 3, BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY. .

EXCEPT THEREFROM ALL OIL, GAS AND OTHER MINERAL RIGHTS IN AND UNDER SAID PROPERTY TOGETHER WITH THE EXCLUSIVE RIGHT TO USE SUCH PORTION OF SAID PROPERTY LYING MORE THAN 500 FEET BELOW THE SURFACE THEREOF FOR THE EXTRACTION OF OIL GAS AND MINERALS FROM SAID PROPERTY OR PROPERTY IN THE VICINITY THEREOF; HOWEVER, WITH NO RIGHTS OF SURFACE ENTRY WHATSOEVER. AS RESERVED TO THE GRANTOR THEREIN IN DEED EXECUTED BY SOCONY MOBIL OIL COMPANY, INC., A NEW YORK CORPORATION, SUCCESSOR BY MERGER TO GENERAL PETROLEUM CORPORATION, FORMERLY KNOWN AS GENERAL PETROLEUM CORPORATION OF CALIFORNIA, RECORDED MARCH 2, 1966.

APN: 7273-025-001

PARCEL 10:

LOTS 2 AND 4 AND THE NORTH 20 FEET OF THE LOT 6 IN BLOCK 41 OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 19, PAGE(S) 91 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF TRIBUNE COURT VACATEDBY THE CITY OF LONG BEACH, RESOLUTION NO. 24596, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, LYING NORTHERLY OF THE EASTERLY PROLONGATION OF THE SOUTHERLY LINE FEET THE SOUTHERLY 20 FEET OF LOT 6, LYING SOUTHERLY OF THE SOUTHERLY LINE OF 7TH STREET, 80 FEET WIDE, LYING EASTERLY OF THE EASTERLY LINE OF LOTS 2, 4 AND 6 LYING WESTERLY OF THE EASTERLY LINE OF THE WEST 8 FEET OF SAID TRIBUNE COURT.

A NON-EXCLUSIVE EASEMENT FOR INGRESS AND EGRESS OVER THE SOUTH 5 FEET OF LOT 6, AND ALL OF LOT 5, AND LOTS 7 THROUGH 28, INCLUSIVE, IN BLOCK 41 OF LONG BEACH, CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 OF PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS OF THE COUNTY RECORDER OF SAID COUNTY, AS GRANTED BY DOCUMENT RECORDED NOVEMBER 7, 1988, AS INSTRUMENT NO. 88-1791681, OFFICIAL RECORDS.

EXCEPT THEREFROM ALL MINERALS, GAS, OIL, PETROLEUM, NAPHTHA AND OTHER HYDROCARBON SUBSTANCES LOCATED IN AND UNDER SAID LAND BELOW A DEPTH OF 200 FEET FROM THE SURFACE THEREOF, WITHOUT RIGHT OF SURFACE ENTRY. AS RESERVED IN DEED RECORDED APRIL 16, 1993 AS INSTRUMENT NO. 93-716425 OFFICIAL RECORDS.

APN: 7273-025-014 (PORTION)

EXHIBIT “A-2”

SITE PLAN OF SITE

[See attached.]

EXHIBIT "B"

WORK LETTER AGREEMENT

[See attached.]

EXHIBIT “C”

NOTICE OF LEASE TERM DATES

Date: ___

To:

Re:Lease dated ______, 2012 between 6th& Pine Development, LLC, a California limited liability company, Landlord, Molina Healthcare, Inc., a Delaware corporation, Tenant, concerning 604 Pine Avenue, Long Beach, California.

Ladies/Gentlemen:

In accordance with the subject Lease, we wish to advise and/or confirm as follows:

1. That the Tenant has possession of the [Existing Building][New Building] and acknowledges that under the provisions of the subject Lease, the Commencement Date with respect to the [Existing Building][New Building] occurred on _______________.

2. That in accordance with the subject Lease, rental commenced to accrue with respect to the [Existing Building][New Building] on the Commencement Date set forth in Section 1, based on ______________ RSF (as determined pursuant to Section 1.2 of the Lease).

3. If the Commencement Date set forth in Section 1 is other than the first day of the month, the first billing will contain a pro rata adjustment. Each billing thereafter shall be for the full amount of the monthly installment as provided for in said Lease.

4. Rent is due and payable in advance on the first day of each and every month during the term of said Lease. Your rent checks should be made payable to _______________ at _______________________________________.

6TH& PINE DEVELOPMENT, LLC,
a California limited liability company

By: ___________
Name: _________

Its: ___________

AGREED AND ACCEPTED:

MOLINA HEALTHCARE, INC.,
a Delaware corporation

By: ___________

Name: _________

Its: ___________

EXHIBIT “D”

RESERVED

EXHIBIT "E"

MEMO OF LEASE

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

David C. Meckler
LATHAM & WATKINS LLP
650 Town Center Drive
Costa Mesa, California 92626-1925

SPACE ABOVE THIS LINE FOR RECORDER'S USE ONLY

MEMORANDUM OF LEASE AND, RIGHT OF FIRST OFFER TO PURCHASE

THIS MEMORANDUM OF LEASE AND RIGHT OF FIRST OFFER TO PURCHASE (this " Memorandum") is effective as of [__________], 2013, by and between 6th & PINE DEVELOPMENT, LLC, a California limited liability company ("Landlord"), and MOLINA HEALTHCARE, INC., a Delaware corporation ("Tenant").

1. Lease. Landlord and Tenant have entered into that certain unrecorded Office Building Lease – Full Service Gross – Single Tenant Building(s) dated [___________], 2013 (as amended to date and as the same may hereafter be amended, modified or supplemented from time to time in accordance with the terms thereof, collectively, the " Lease"), pursuant to which Landlord has leased and does hereby lease to Tenant, and Tenant has leased and does hereby lease from Landlord, the premises more particularly described in the Lease and consisting of certain real property more particularly described on Exhibit "A" attached hereto (the "Premises"). Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Lease.

2. Term of Lease. The fixed term of the Lease is scheduled to commence on [June 1, 2013] **[To be confirmed**], and expires on December 31, 2024, unless earlier terminated pursuant to the provisions of the Lease. Tenant has the option, subject to the terms of the Lease, to extend the term of the Lease by two (2) sequential renewal terms of five (5) years each.

3. Rights to Purchase the Premises. Tenant has a right of first offer to purchase the Premises (together with all appurtenant rights with respect thereto) for the first five (5) years of the term, and an option to purchase the Premises (together with all appurtenant rights with respect thereto) thereafter, in each case upon and subject to the terms and conditions set forth in the Lease (collectively, the "Purchase Rights").

4. Miscellaneous. The purpose of this Memorandum is solely to give notice of the existence of the Lease, all the terms of which are incorporated herein by this reference, and the Purchase Rights contained therein. This Memorandum shall not modify or amend any of the provisions of the Lease, including the terms and conditions of any Purchase Rights contained therein.

To the extent that any provision of this Memorandum conflicts with any provision of the Lease, the provisions of the Lease shall control. This Memorandum may be executed in counterparts, each of which shall be an original, but all of which, together, shall constitute one and the same instrument. This Memorandum shall automatically terminate upon the expiration or earlier termination of the Lease.

[Signature Page Follows on Next Page]

IN WITNESS WHEREOF, the parties hereto have executed this Memorandum as of the date and year first above written.

“LESSOR”

6th& PINE DEVELOPMENT, LLC,
a California limited liability company

By: _
Name:_
Title:_

“LESSEE”

MOLINA HEALTHCARE, INC.,
a Delaware corporation

By: _
Name:_
Title:________

State of California)
County of Los Angeles)

On ______________________________ before me, _______________________________ (here insert name and title of the officer), personally appeared ___________________________, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature ________________________________ (Seal)

State of California)
County of Los Angeles)

On ______________________________ before me, _______________________________ (here insert name and title of the officer), personally appeared ___________________________, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.

I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature ________________________________ (Seal)

EXHIBIT “A” TO EXHIBIT “E”
LEGAL DESCRIPTION

(To Be Attached)

EXHIBIT "F"

ESTOPPEL CERTIFICATE

TO: ____

FROM: ____

RE: ____

[Tenant] [Landlord] hereby certifies based on the actual knowledge of [Tenant] [Landlord] without any duty to inquire, the information set forth below with respect to the Lease as of the date of this certificate.

1. The Lease is unmodified and in full force and effect [or "The Lease, as modified by the above-referenced amendment(s), is in full force and effect" except as noted herein].

2. Tenant is current in its obligation to pay rent and additional rent (in respect of tax and operating expense escalations) under the Lease, the most recent payments being made on the following dates, in the following amounts:

	Date	Amount
Rent:	____________, 20__	$________________
Additional Rent:	____________, 20__	$________________

3. To the actual knowledge of [Tenant] [Landlord] without any duty to inquire, [except as set forth below,] neither Landlord nor Tenant is not in default under the Lease.

Date: ____________, 20__

___________________________________,

a ________________________________

By: ______________________________

Title: ___________________________

EXHIBIT ”G”

RESERVED

EXHIBIT “H”

FORM OF APPROVED SNDA

[See attached.]

EXHIBIT "I-1"

RIGHT OF FIRST OFFER TO PURCHASE

1. ROFO. Provided no Event of Default by Tenant has occurred and is continuing hereunder, if at any time during the period from the Effective Date through the day prior to the fifth (5th) anniversary of the Effective Date (the "**5th Anniversary of the Effective Date**"), Landlord desires to sell the Project (which for all purposes under this Exhibit "I-1" shall include all of Landlord's right, title and interest in and to the Off-Site Parking Spaces under the Off-Site Parking Agreement to the extent that such rights are transferable, it being acknowledged that if consent is required to transfer the same, each party shall cooperate in good faith to seek such consent), or any portion thereof, Landlord shall in writing notify Tenant (a "**Sale Notice**") of Landlord's intent to sell the Project or portion thereof identified in the Sale Notice. The Sale Notice shall be given prior to any offer or counteroffer (or acceptance of an offer or counteroffer) by Landlord to sell the Project (or any portion thereof) to a third party.

2. Tenant's Notice of Intent to Purchase. Upon receipt of a Sale Notice by Tenant, Tenant shall have fifteen (15) days to notify Landlord in writing of Tenant's intent to purchase the Project or the portion thereof specified in Landlord's Sale Notice. If Tenant timely notifies Landlord of its intent to purchase the Project or portion thereof specified in Landlord's Sale Notice, the parties shall proceed pursuant to Paragraph 3 below. If Tenant does not so timely notify Landlord, or notifies Landlord that it does not intend to purchase the Project or portion thereof specified in Landlord's Sale Notice (the "**Sale Portion**"), Landlord may proceed pursuant to Paragraph 4 below.

3. Exclusive Negotiations. If Tenant timely and properly notifies Tenant of its intent to purchase the Project or Sale Portion, Tenant and Landlord shall, fifteen (15) days after Tenant's notice, enter into exclusive negotiations to attempt to reach a mutually satisfactory agreement as to price and terms of the sale. Such negotiation process shall include at least one good faith written offer by Tenant (the "**Tenant Offer**") of the price at which Tenant proposes to purchase the Project or Sale Portion. If agreement as to price is reached during such fifteen (15) day exclusive negotiation period, the parties shall have an additional fifteen (15) day period to negotiate in good faith for and to enter into and deliver a mutually acceptable and commercially reasonable purchase and sale agreement and open a purchase and sale escrow.

4. Third Party Sale by Landlord. If (a) Tenant fails to timely give the notice provided for in Paragraph 2 above (or notifies Landlord that Tenant does not intend to purchase the Project or Sale Portion), or (b) Tenant and Landlord fail to reach an agreement as to price within the forty-five (45) day exclusive negotiation period pursuant to Paragraph 3 above or (c) Tenant and Landlord reach an agreement as to price during the exclusive negotiation period but fail to execute and deliver a purchase agreement within the thirty (30) day period pursuant to Paragraph 3 (after negotiating in good faith therefor), then, in any such event, Landlord shall be free to sell the Project or Sale Portion to any third party buyer, but only at a price greater than the purchase price contained in the last Tenant Offer by Tenant pursuant to Paragraph 3 above (the "**Tenant Price**").

5. Second Sale Notice. Notwithstanding the provisions of Paragraph 4 above, if Tenant shall have provided to Landlord at least one Tenant Offer during the exclusive negotiation period and either (a) Landlord has not executed a definitive purchase agreement with a third party buyer to sell the Project or Sale Portion within 180 days after the expiration of the forty-five (45) day period in Paragraph 3 above (with no agreement as to price) or 180 days after the expiration of the thirty (30) day period in Paragraph 3 above (with no execution of a purchase and sale agreement, after negotiating in good faith therefor), as applicable, or (ii) Landlord proposes to sell the Project or Sale Portion at a price equal to or less than the Tenant Price, then, in either such event, Landlord shall provide to Tenant a Sale Notice pursuant to Paragraph 2 above and Tenant shall have the same right specified in Paragraph 2 to notify Landlord of its intent to purchase, except that, in the event clause (ii) of this Paragraph 5 is applicable, (1) Tenant shall have ten (10) days from receipt of Landlord's second Sale Notice to give the notice therein described, and (2) for purposes of Paragraph 3 above, the agreed upon price shall be the Tenant Price and the parties shall have thirty (30) days after Tenant notifies Landlord of its intent to purchase to negotiate in good faith for and enter into and deliver a mutually acceptable and commercially reasonable purchase and sale agreement and open a purchase and sale escrow. If Tenant shall not have provided to Landlord at least one Tenant Offer during the exclusive negotiation period, then the provisions of this Paragraph 5 shall not apply, there shall be no second Sale Notice and Landlord shall be free to sell the Project or Sale Portion to any third party at any price and upon any terms agreed upon by Landlord and such third party.

6. Closing under ROFO. If (a) Tenant timely and properly notifies Landlord of its intent to purchase pursuant to Paragraph 2 above, Tenant and Landlord reach agreement upon a sale price and execute and deliver a purchase and sale agreement pursuant to Paragraph 3 above or (b) clause (ii) of Paragraph 5 above applies and Tenant timely notifies Landlord of Tenant's intent to purchase in response to Landlord's second Sale Notice, which purchase shall be at the Tenant Price, and Landlord and Tenant execute a purchase and sale agreement pursuant to subclause (2) of clause (ii) of Paragraph 5 above, then Tenant and Landlord shall proceed to close the sale of the Project or Sale Portion. Such sale shall be for cash at close of a purchase and sale escrow at the price agreed upon pursuant to Section 3 above or the Tenant Price, as applicable. In addition, in connection with such sale:

(a) A purchase and sale escrow (the "**Escrow**") shall be opened with a mutually acceptable title/escrow company in Los Angeles or Orange County, California (the "**Escrow Agent**") within five (5) business days after the execution and delivery of a purchase and sale agreement;

(b) Tenant shall have an agreed thirty (30) day period to conduct a due diligence review of the Project, which shall be limited solely to a review of title, environmental, entitlement and structural matters. Provided Tenant does not terminate the Escrow within the due diligence period, Escrow shall close within ten (10) days following the expiration of the due diligence period;

(c) The purchase price to be paid shall be paid by delivery of immediately available funds at close of the Escrow;

(d) The Project shall be sold to Tenant "AS IS" and with no representations and warranties by Landlord, except as set forth in the purchase and sale agreement. Landlord shall, however, assign to Tenant all design and construction warranties and rights obtained by Landlord and all other ongoing rights of Landlord under the design, development and construction documents with respect to the Project;

(e) Landlord will pay the premium for a standard owner's CLTA or ALTA title policy with respect to the Project in the amount of the purchase price therefor and the cost of any endorsements required to cure title defects. Tenant shall be responsible for all additional premiums and costs for an ALTA extended coverage policy of title insurance (i.e., the premium difference between a CLTA or ALTA standard policy and an ALTA extended coverage policy), plus the cost of any endorsements required by Tenant (other than those required to cure title defects). Landlord shall convey title to the Project to Tenant free and clear of any and all mortgages, deeds of trust or other monetary liens created or suffered by, through or under Landlord, other than any such deeds of trust or other monetary liens that Tenant has agreed in its sole discretion to assume or take title subject to and for which an appropriate reduction in the purchase price has been made at the closing of the Escrow; and

(f) Rent shall be prorated at close of Escrow. Landlord shall pay the documentary transfer tax with respect to the grant deed, the recording fee for the deed and one-half of escrow agent's fees and costs. Tenant shall pay the recording fees for the mutual cancellation of any recorded memorandum of this Lease, all recording fees for any mortgage or deed of trust placed on the Project by Tenant and one-half of escrow agent's fees and costs. All other costs and fees in connection with the Escrow shall be paid in accordance with customary escrow practice in Los Angeles County, California.

7. ROFO Not Personal. The rights granted to Tenant in this Exhibit "I-1" are not personal to Tenant and shall be for the benefit of, and the rights granted herein may be exercised by, any assignee of Tenant's interest in this Lease permitted under the terms hereof; provided, however, that the rights granted to Tenant in this Exhibit "I-1" are not assignable separate and apart from Tenant's interest in this Lease.

8. Terms. All terms used in this Exhibit "I-1" unless otherwise defined in this Exhibit shall have the same meaning as the terms defined elsewhere in this Lease.

EXHIBIT "I-2"

PURCHASE OPTION

1. Option. Provided no Event of Default by Tenant has occurred and is continuing hereunder at the time of the exercise of the option set forth herein, Tenant may elect to purchase the entire Project (which for all purposes under this Exhibit "I-2" shall include all of Landlord's right, title and interest in and to the Off-Site Parking Spaces under the Off-Site Parking Agreement to the extent that such rights are transferable, it being acknowledged that if consent is required to transfer the same, each party shall cooperate in good faith to seek such consent) at any time from and after 5 th Anniversary of the Effective Date (as defined in Exhibit "I-1") and continuing for the balance of the Term (the "**Purchase Option**"), by delivering to Landlord before the end of the Term a written notice (the "**Purchase Option Notice**") of such election. The Purchase Option shall be exercisable only as to the entire Project, and shall not be exercisable as to less than the entire Project.

2. Option Not Personal. The Purchase Option set forth in this Exhibit "I-2" is not personal to Tenant and may be exercised by any assignee of Tenant's interest in this Lease permitted under the terms hereof; provided, however, that, the Purchase Option is not assignable separate and apart from Tenant's interest this Lease.

3. Purchase Price. The purchase price shall be one hundred percent (100%) of the Fair Market Value (as hereinafter defined) (the "**Option Price**").

4. Fair Market Value. For the purposes of this Exhibit "I-2" the term "**Fair Market Value**" shall mean the gross sales price that the Project would bring in a competitive and open market as of the date the Purchase Option Notice was delivered to Landlord under all conditions requisite to a fair sale with a buyer and seller each acting prudently and knowledgeably. The determination of "Fair Market Value" shall assume that: (a) the Project is sold for its highest and best use as of the date the Purchase Option Notice was delivered to Landlord; (b) the sales price is not affected by undue stimulus; (c) buyer and seller are equally motivated; (d) both buyer and seller are well informed or well advised and are acting in what it considers to be in its own best interest; (e) a reasonable time is allowed for the exposure on the open market; (f) payment of the purchase price of Project is made in cash by Buyer on the closing date; and (g) taking into account specifically the parking rights for the benefit of the Project.

Landlord shall determine the Fair Market Value by using its good faith judgment. Landlord shall provide written notice of such amount within thirty (30) days after Tenant delivers the Purchase Option Notice. Tenant shall have thirty (30) days ("**Tenant's FMV Review Period**") after receipt of Landlord's notice of Fair Market Value within which to accept such Fair Market Value in writing. In the event Tenant fails to accept the Fair Market Value proposed by Landlord, Landlord and Tenant shall attempt to agree upon such Fair Market Value, using good faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Tenant's FMV Review Period ("**Outside FMV Agreement Date**"), then each party shall place in a separate sealed envelope their final proposal as to Fair Market Value and such determination shall be submitted to arbitration in accordance with subsections (a) through (e) below. Failure of Tenant to so elect in writing within

Tenant's FMV Review Period shall conclusively be deemed its disapproval of the Fair Market Value determined by Landlord.

In the event that Landlord fails to timely generate the initial written notice of Landlord's opinion of the Fair Market Value which triggers the negotiation period of this Paragraph 4, then Tenant may commence such negotiations by providing the initial notice, in which event Landlord shall have fifteen (15) days ("**Landlord's FMV Review Period**") after receipt of Tenant's notice of the Fair Market Value within which to accept such Fair Market Value. In the event Landlord fails to accept in writing such Fair Market Value proposed by Tenant, then such proposal shall be deemed rejected, and Landlord and Tenant shall attempt in good faith to agree upon such Fair Market Value, using good faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Landlord's FMV Review Period (which shall be, in such event, the "Outside FMV Agreement Date" in lieu of the above definition of such date), then each party shall place in a separate sealed envelope their final proposal as to Fair Market Value and such determination shall be submitted to arbitration in accordance with subsections (a) through (e) below.

(a) Landlord and Tenant shall meet with each other within five (5) business days of the Outside FMV Agreement Date and exchange the sealed envelopes and then open such envelopes in each other's presence. If Landlord and Tenant do not mutually agree upon the Fair Market Value within three (3) business days of the exchange and opening of envelopes, then, within ten (10) business days of the exchange and opening of envelopes Landlord and Tenant shall agree upon and jointly appoint a single arbitrator who shall (i) by profession be a commercial real estate appraiser, (ii) be a Member of the Appraisal Institute (or any successor organization thereto) and (iii) have been active over the five (5) year period ending on the date of such appointment in the appraisal of Comparable Buildings (as defined in Exhibit "J"). Neither Landlord nor Tenant shall consult with such arbitrator directly or indirectly as to his or her opinion as to Fair Market Value prior to the appointment. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted Fair Market Value for the Project is the closer to the actual Fair Market Value as determined by the arbitrator, taking into account the definition of Fair Market Value as set forth in and the other requirements of this Paragraph. Such arbitrator may hold such hearings and require such briefs as the arbitrator, in his or her sole discretion, determines is necessary. In addition, Landlord or Tenant may submit to the arbitrator with a copy to the other party within five (5) business days after the appointment of the arbitrator any market data and additional information that such party deems relevant to the determination of Fair Market Value (" **FMV Data**") and the other party may submit a reply in writing within five (5) business days after receipt of such FMV Data.

(b) The arbitrator shall, within thirty (30) days of his or her appointment, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Value, and shall notify Landlord and Tenant of such determination.

(c) The decision of the arbitrator shall be binding upon Landlord and Tenant, except as provided in Paragraph 5 below.

(d) If Landlord and Tenant fail to agree upon and appoint an arbitrator, then the appointment of the arbitrator shall be made by the Presiding Judge of the Superior Court of Los Angeles, California, or, if he or she refuses to act, by any judge having jurisdiction over the parties.

(e) The cost of arbitration shall be paid by Landlord and Tenant equally.

5. Rescission by Tenant following Fair Market Value Determination. In the event that Tenant objects to the Fair Market Value as determined by the arbitration provision specified in Paragraph 4 above, Tenant may elect to rescind its Purchase Option Notice at any time within ten (10) business days following the establishment of the Fair Market Value as determined by such arbitration. In the event Tenant elects to rescind such notice, (i) Tenant shall reimburse Landlord for its reasonable attorneys' fees and reasonable costs associated with such arbitration and shall have no obligation to purchase the Project and (ii) the Purchase Option provided for in this Exhibit "I-2" shall lapse and terminate and thereafter not be exercisable by Tenant or any assignee of Tenant's interest under this Lease.

6. Closing under Purchase Option. Unless Tenant exercises its rescission right pursuant to Paragraph 5 above, promptly after the Fair Market Value is determined pursuant to this Exhibit "I-2" (whether by agreement of the parties or by arbitration), negotiate in good faith for and enter into and deliver a mutually acceptable and commercially reasonable purchase and sale agreement and open a purchase and sale escrow for the purchase and sale of the Project. Such sale shall be for cash at close of a purchase and sale escrow at the Option Price. In addition, in connection with such sale:

(a) An Escrow (as defined in Exhibit "I-2" shall be opened with a mutually acceptable title/escrow company in Los Angeles or Orange County, California (the "**Escrow Agent**") within ten (10) business days after the execution and delivery of a purchase and sale agreement;

(b) Tenant shall have an agreed thirty (30) day period to conduct a due diligence review of the Project, which shall be limited solely to a review of title, environmental, entitlement, structural and parking matters. Provided Tenant does not terminate the Escrow within the due diligence period, Escrow shall close within ten (10) days following the expiration of the due diligence period;

(c) The Option Price to be paid shall be paid by delivery of immediately available funds at close of the Escrow;

(d) The Project shall be sold to Tenant "AS IS" and with no representations and warranties by Landlord, except as set forth in the purchase and sale agreement. Landlord shall, however, assign to Tenant all design and construction warranties and rights obtained by Landlord and all other ongoing rights of Landlord under the design, development and construction documents with respect to the Project;

(e) Landlord will pay the premium for a standard owner's CLTA or ALTA title policy with respect to the Project in the amount of the purchase price therefor and the cost of any endorsements required to cure title defects. Tenant shall be responsible for all additional premiums and costs for an ALTA extended coverage policy of title insurance (i.e., the premium difference between a CLTA or ALTA standard policy and an ALTA extended coverage policy), plus the cost of any endorsements required by Tenant (other than those required to cure title defects). Landlord shall convey title to the Project to Tenant free and clear of any and all mortgages, deeds of trust or other monetary liens created or suffered by, through or under Landlord, other than any such deeds of trust or other monetary liens that Tenant has agreed in its sole discretion to assume or take title subject to and for which an appropriate reduction in the Option Price has been made at the closing of the Escrow; and

(f) Rent shall be prorated at close of Escrow. Landlord shall pay the documentary transfer tax with respect to the grant deed, the recording fee for the deed and one-half of escrow agent's fees and costs. Tenant shall pay the recording fees for the mutual cancellation of any recorded memorandum of this Lease, all recording fees for any mortgage or deed of trust placed on the Project by Tenant and one-half of escrow agent's fees and costs. All other costs and fees in connection with the Escrow shall be paid in accordance with customary escrow practice in Los Angeles County, California

7. Terms. All terms used in this Exhibit "I-2" unless otherwise defined in this Exhibit shall have the same meaning as the terms defined elsewhere in this Lease.

EXHIBIT “J”

OPTIONS TO EXTEND

1. Options. Provided no Event of Default by Tenant has occurred and is continuing at the time of the exercise of the options set forth herein, Tenant may elect to extend the Term (“**Extension Options**”) for all of the Premises for two (2) additional periods of five (5) years each (collectively, the “**Extension Periods**”; individually, the “**First Extension Period**” and the “**Second Extension Period**”), by delivering to Landlord not later than twelve (12) months nor earlier than eighteen (18) months before the end of the initial Term or the First Extension Period, as applicable, a written notice (the “**Option Notice**”) of such election. The First Extension Period shall commence on the day immediately following the last day of the Term and the Second Extension Period shall commence on the day immediately following the last day of the First Extension Period, and shall be subject to all the terms and conditions of this Lease except that the Base Rent for the applicable Extension Period shall be determined in accordance with Paragraph 3 below.

2. Options Not Personal. The Extension Options set forth herein are not personal to Tenant and may be exercised by any assignee of Tenant’s interest in this Lease permitted under the terms hereof; provided, however, that, Extension Options are not assignable separate and apart from Tenant’s interest this Lease.

3. Base During Extension Periods. The Base Rent for each Extension Period shall be one hundred percent (100%) of the Fair Market Rental Rate (as hereinafter defined) as of the commencement of the applicable Extension Period and the Base Year shall be the first (1st) calendar year of such Extension Period.

4. Fair Market Rental Rate. For the purposes of this Exhibit “J” the term “**Fair Market Rental Rate**” shall mean the annual effective rent per rental square foot, plus annual percentage increases therein, that landlords of Comparable Buildings (as defined below) have accepted in current transactions (i.e., if available, those transactions where the essential economic terms and conditions were agreed upon six to twelve (6 to 12) months prior to Tenant’s exercise of the applicable Extension Period or such other then most recent transactions as are available for comparison) between non-affiliated parties from new, non-expansion (unless the expansion is pursuant to a comparable definition of Fair Market Rental Rate), non-renewal (unless the renewal is pursuant to a comparable definition of Fair Market Rental Rate), and non-equity tenants of comparable credit-worthiness, for Comparable Buildings with comparable space (size), for a comparable use and for a comparable period of time (“**Comparable Transactions**”). “**Comparable Buildings**” shall be buildings of comparable size (including floor height), quality, vintage and construction in Downtown Long Beach. In any determination of Comparable Transactions, appropriate consideration shall be given to the annual rental rates per rentable square foot, the standard of measurement by which the rentable square footage is measured, the ratio of rentable square feet to usable square feet, the type of escalation clause (e.g., whether increases in additional rent are determined on a net or gross basis, and if gross, whether such increases are determined according to a base year or a base dollar amount expense stop), the extent of Tenant’s liability under this Lease, parking rights (and costs therefor) and obligations, signage rights, abatement provisions reflecting free rent and/or no rent during the period of construction or subsequent to the commencement date as to the space in question, length

of the lease term, size and location of premises being leased, building standard work letter and/or tenant improvement allowances, if any, the condition of the base building and the Landlord's responsibility with respect thereto, the value, if any, of the existing tenant improvements (with such value being judged with respect to the utility of such existing tenant improvements to the general business office user and not this particular Tenant) and other generally applicable conditions of tenancy for such Comparable Transactions. The intent is that Tenant will obtain the same rent and other economic benefits that Landlord would otherwise give in Comparable Transactions and that Landlord will make, and receive the same economic payments and concessions that Landlord would otherwise make, and receive in Comparable Transactions.

Landlord shall determine the Fair Market Rental Rate by using its good faith judgment. Landlord shall provide written notice of such amount within thirty (30) days after Tenant delivers an Option Notice Tenant shall have thirty (30) days ("**Tenant's Review Period**") after receipt of Landlord's notice of the new rental within which to accept such rental in writing. In the event Tenant fails to accept the new rental proposed by Landlord, Landlord and Tenant shall attempt to agree upon such Fair Market Rental Rate, using their good faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Tenant's Review Period ("**Outside Agreement Date**"), then each party shall place in a separate sealed envelope their final proposal as to Fair Market Rental Rate and such determination shall be submitted to arbitration in accordance with subsections (a) through (e) below. Failure of Tenant to so elect in writing within Tenant's Review Period shall conclusively be deemed its disapproval of the Fair Market Rental Rate determined by Landlord.

In the event that Landlord fails to timely generate the initial written notice of Landlord's opinion of the Fair Market Rental Rate which triggers the negotiation period of this Paragraph 4, then Tenant may commence such negotiations by providing the initial notice, in which event Landlord shall have fifteen (15) days ("**Landlord's Review Period**") after receipt of Tenant's notice of the new rental within which to accept such rental. In the event Landlord fails to accept in writing such rental proposed by Tenant, then such proposal shall be deemed rejected, and Landlord and Tenant shall attempt in good faith to agree upon such Fair Market Rental Rate, using their good faith efforts. If Landlord and Tenant fail to reach agreement within fifteen (15) days following Landlord's Review Period (which shall be, in such event, the "**Outside Agreement Date**" in lieu of the above definition of such date), then each party shall place in a separate sealed envelope their final proposal as to Fair Market Rental Rate and such determination shall be submitted to arbitration in accordance with subsections (a) through (e) below.

(a) Landlord and Tenant shall meet with each other within five (5) business days of the Outside Agreement Date and exchange the sealed envelopes and then open such envelopes in each other's presence. If Landlord and Tenant do not mutually agree upon the Fair Market Rental Rate within one (1) business day of the exchange and opening of envelopes, then, within ten (10) business days of the exchange and opening of envelopes Landlord and Tenant shall agree upon and jointly appoint a single arbitrator who shall by profession be a real estate broker who shall have been active over the five (5) year period ending on the date of such appointment in the leasing of Comparable Buildings. Neither Landlord nor Tenant shall consult with such arbitrator directly or indirectly as to his or her opinion as to Fair Market Rental Rate prior to the appointment. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's submitted Fair Market Rental Rate for the Premises is the closer to the actual Fair Market Rental Rate for the Premises as determined by the arbitrator, taking into account the definition of Fair Market Rental Rate set forth in and the other requirements of this Paragraph 4. Such arbitrator may hold such hearings and require such briefs as the arbitrator, in his or her sole discretion, determines is necessary. In addition, Landlord or Tenant may submit to the arbitrator with a copy to the other party within five (5) business days after the appointment of the arbitrator any market data and additional information that such party deems relevant to the determination of Fair Market Rental Rate (" **FMRR Data**") and the other party may submit a reply in writing within five (5) business days after receipt of such FMRR Data.

(b) The arbitrator shall, within thirty (30) days of his or her appointment, reach a decision as to whether the parties shall use Landlord's or Tenant's submitted Fair Market Rental Rate, and shall notify Landlord and Tenant of such determination.

(c) The decision of the arbitrator shall be binding upon Landlord and Tenant, except as provided in Paragraph 5 below.

(d) If Landlord and Tenant fail to agree upon and appoint an arbitrator, then the appointment of the arbitrator shall be made by the Presiding Judge of the Superior Court, or, if he or she refuses to act, by any judge having jurisdiction over the parties.

(e) The cost of arbitration shall be paid by Landlord and Tenant equally.

5. Rescission by Tenant for Insufficient Parking. In the event that Landlord has not reached a mutual agreement with the City to extend the term of the Off-Site Parking Agreement for the applicable extension period no later than six (6) months prior to the commencement of such extension period (in each case, the " **Parking Extension Deadline**"), Tenant may elect to rescind its Option Notice at any time within thirty (30) days following the applicable Parking Extension Deadline. In the event Tenant elects to rescind such notice, this Lease shall expire on the then-current expiration date (unless earlier terminated pursuant to the terms of this Lease), and Landlord and Tenant shall have no further obligations hereunder, except for those obligations that expressly survive the expiration or earlier termination of this Lease.

6. Documentation. Unless Tenant exercises its rescission right pursuant to Paragraph 5 above, promptly after the Base Rent for the applicable Extension Period is determined pursuant to this Exhibit "J", Landlord and Tenant shall execute an amendment to the Lease stating the new Base Rent in effect for such Extension Term.

7. Terms. All terms used in this Exhibit "J" unless otherwise defined in this Exhibit shall have the same meaning as the terms defined elsewhere in this Lease.

EXHIBIT "K"

OFF-SITE PARKING AGREEMENT

[See attached.]

EXHIBIT ”L”

ESTOPPEL AND AGREEMENT REGARDING OFF-SITE PARKING AGREEMENT

[See attached.]

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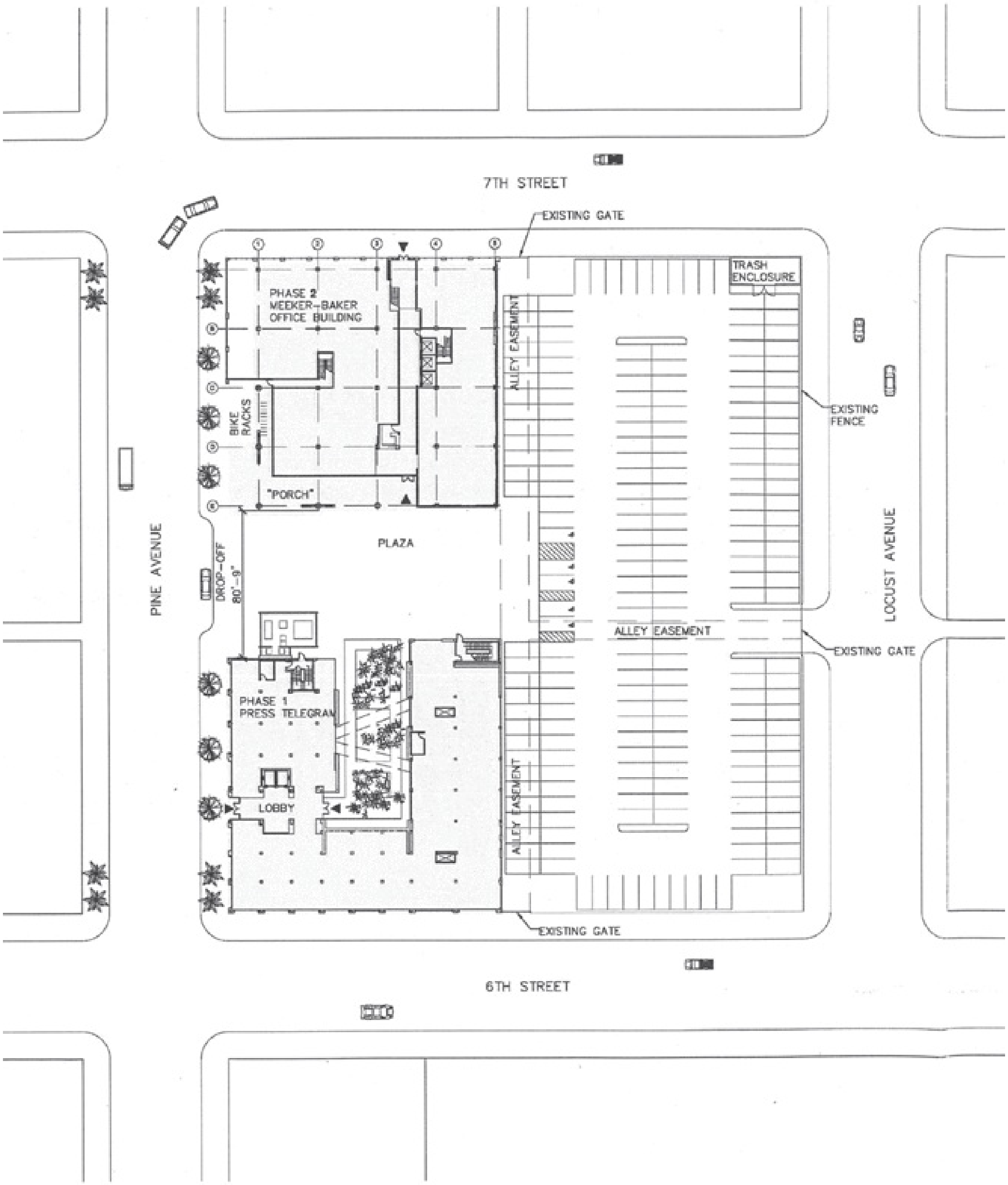
7TH STREET
EXISTING GATE
TRASH ENCLOSURE
PHASE 2 MEEKER-BAKER OFFICE BUILDING
ALLEY EASEMENT
BIKE RACKS
"PORCH"
EXISTING FENCE
PLAZA
PINE AVENUE
DROP-OFF 80'-9"
LOCUST AVENUE
ALLEY EASEMENT
EXISTING GATE
PHASE 1 PRESS TELEGRAM
LOBBY
ALLEY EASEMENT
EXISTING GATE
6TH STREET

EXHIBIT "B"

WORK LETTER AGREEMENT

This Work Letter Agreement (the "Work Letter") is made and entered into as of

February 28, 2013, by and between 6th & Pine Development, LLC, a California limited liability company (" Landlord"), and Molina Healthcare, Inc., a Delaware corporation (" Tenant"), and is attached to and made a part of that certain Lease dated as of the date hereof (the "Lease"), by and between Landlord and Tenant for the Project located at 604 Pine Avenue, Long Beach, California. All capitalized terms used but not otherwise defined herein shall have the meanings given them in the Lease.

1. General Requirements.

1.1. Authorized Representatives.

1.1.1. Tenant designates Sal Gutierrez ("Tenant's Authorized Representative") as the person authorized to initial all plans, drawings, changes orders and approvals pursuant to this Work Letter. Landlord shall not be obligated to respond to or act upon any such item until such item has been initialed by Tenant's Authorized Representative. Tenant may change Tenant's Authorized Representative upon five (5) days' prior written notice to Landlord.

1.1.2. Landlord designates Michelle Molina ("Landlord's Authorized Representative") as the person authorized to initial all plans, drawings, changes orders and approvals pursuant to this Work Letter. Tenant shall not be obligated to respond to or act upon any such item until such item has been initialed by Landlord's Authorized Representative. Landlord may change Landlord's Authorized Representative upon five (5) days' prior written notice to Tenant.

1.2. Landlord's Construction Work. Landlord and Tenant acknowledge and agree that the Project will be constructed and delivered by Landlord in two phases (referred to herein as " Phase I" and "Phase II", respectively), each on a "turnkey" basis, subject to the terms and conditions of this Work Letter. Phase I will include the Phase I Base Building and Site Work and the Phase I Tenant Improvements (each as defined below, and collectively, the "Phase I Work"), and Phase II will include the Phase II Base Building and Site Work and the Phase II Tenant Improvements (each as defined below, and collectively, the "Phase II Work"). The Phase I Base Building and Site Work and the Phase II Base Building and Site Work are collectively referred to herein as " Landlord's Base Building and Site Work", the Phase I Tenant Improvements and the Phase II Tenant Improvements are collectively referred to herein as the "Tenant Improvements", and the Phase I Work and the Phase II Work are collectively referred to as "Landlord's Construction Work". Landlord's anticipated schedules for the design, governmental approvals (i.e., building department, historical commissions, planning, etc.), development, construction and performance of Landlord's Construction Work are attached hereto as **Schedule 1** to this Work Letter (the "Landlord's Construction Work Schedule"). The Landlord's Construction Work Schedule shall be subject to adjustment as mutually agreed upon in writing by the parties, or as provided in this Work Letter.

Additionally, Tenant acknowledges that Landlord's Construction Schedule with respect to the Phase II Work is conceptual and preliminary in nature, and remains subject to further revision by Landlord until such time as Landlord has received all approvals that are required from applicable governmental agencies in connection with the Phase II Work. Notwithstanding the foregoing, nothing in this Section 1.2 shall limit Tenant's rights and remedies pursuant to Section 2.6 of the Lease.

1.3. Architects and Consultants. The architect, engineering consultants, design team, general contractor and subcontractors responsible for the design, construction and performance of Landlord's Construction Work shall be selected by Landlord and approved by Tenant, which approval Tenant shall not unreasonably withhold, condition or delay. Tenant hereby approves of Nadel Architects and GMA Architects as the architects for Landlord's Base Building and Site Work (collectively, the "Base Building Architect"), GMA Architects as the architect for the Tenant Improvements (the "TI Architect"), ARCO National Construction Company as Landlord's general contractor for Landlord's Base Building and Site Work (the "Base Building Contractor"), and ARCO National Construction Company as Landlord's general contractor for the Tenant Improvements (the "TI Contractor", and together with the Base Building Architect, the TI Architect and the Base Building Contractor, the "Approved Consultants"). Tenant acknowledges that Landlord will use the Approved Consultants for the Phase I Work, but that Landlord may elect to replace one or more of such Approved Consultants with respect to the Phase II Work, subject to Tenant's right to reasonably approve such replacement pursuant to this Section 1.3.

1.4. Logical Evolutions. For purposes of this Work Letter, the term "Logical Evolution" or "Logical Evolutions" shall mean refinement and amplification of the applicable plans which is consistent with and a direct outgrowth of the scope of such plans and which flow naturally and foreseeably from said plans and are in accordance with custom and practice in the related fields of the architectural and engineering design professions and the construction industry in Southern California, in each case with respect to the construction of a "First-class" office project (taking into account that the Project involves (i) with respect to Phase I, a material restoration and renovation of a historic building and (ii) with respect to Phase II, material reconstruction of an existing building, whereby the historic façade will be retained and incorporated into the New Building), Applicable Laws, and plan check and permit conditions.

2. Landlord's Base Building and Site Work.

2.1. Phase I Base Building and Site Work. Landlord shall, at Landlord's sole cost and expense (but subject to Section 2.5 below), cause Base Building Contractor (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed), to commence and thereafter diligently prosecute to completion the refurbishment and/or construction of the shell and core of the Existing Building and such other portions of the Project, including the Phase I On-Site Parking Spaces and related common areas, as are necessary for Tenant's use and occupancy of the Existing Building (collectively, the "Phase I Base Building and Site Work"), in accordance with the final plans described in the Drawing Log attached hereto as **Schedule 2** (the "Final Phase I Base Building and Site Plans"), Landlord's Construction Work Schedule with respect thereto, and subject only to those changes approved in accordance with Section 2.5 below. The Phase I Base Building and Site Work shall be performed in accordance with industry custom and practice for a "first-class" office project (taking into account that the Phase I Base Building and Site Work involves a material restoration and renovation of a historic building), and in compliance with all Applicable Laws. The commencement and completion of the Phase I Base Building and Site Work shall be subject to delays resulting from acts of God; acts of terrorism; adverse weather conditions; war; invasion; insurrection; acts of a public enemy; terrorism; riot; mob violence; civil commotion; sabotage; labor disputes; general shortage of labor, materials, facilities, equipment or supplies on the open market; delay in transportation; delays caused by new, or changes to existing, laws, rules, regulations or orders of any governmental authority; moratorium or other governmental action; inability to obtain permits or approvals, including, without limitation, city and public utility approvals beyond the time periods that generally prevail for obtaining such permits and approvals; the acts or inaction of any contractor and/or subcontractors, if any; or any other cause beyond the reasonable control of Landlord, financial ability and failure to order long lead time items sufficiently in advance excepted, whether similar or dissimilar to the foregoing (collectively, " Force Majeure").

2.2. Phase II Base Building and Site Work. Landlord shall, at Landlord's sole cost and expense (but subject to Section 2.5 below), cause Base Building Contractor (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed), to commence and thereafter diligently prosecute to completion the refurbishment and/or construction of the shell and core of the New Building and the remaining balance of the Project, including the Phase II On-Site Parking Spaces and related common areas (collectively, the " Phase II Base Building and Site Work"), in accordance with the Final Phase II Base Building and Site Plans (as defined below) , Landlord's Construction Work Schedule with respect thereto, and subject only to changes approved in accordance with Section 2.5 below. The Phase II Base Building and Site Work shall be performed in accordance with industry custom and standard for a "first-class" office project (taking into account that the Phase II Base Building and Site Work involves the material reconstruction of an existing building, whereby the historic façade will be retained and incorporated into the New Building), and in compliance with all Applicable Laws. The commencement and completion of the Phase II Base Building and Site Work shall be subject to delays resulting from acts of Force Majeure.

2.3. Phase II Design Plans. Landlord shall cause the Base Building Architect (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed), with Tenant's cooperation, to prepare and submit to Tenant for approval, design plans for the Phase II Base Building and Site Work (the " Phase II Design Plans"). The Phase II Design Plans shall contain sufficient information and detail to accurately describe the proposed design of the Phase II Base Building and Site Work to Tenant and such other information as Tenant may reasonably request. Tenant shall be solely responsible for ensuring that the Phase II Design Plans satisfy Tenant's business requirements. Tenant shall notify Landlord in writing within ten (10) business days after receipt of the Phase II Design Plans whether Tenant approves or reasonably disapproves of the Phase II Design Plans and the manner, if any, in which the Phase II Design Plans are reasonable objectionable. If Tenant reasonably objects to the Phase II Design Plans, then Landlord shall cause the Base Building Architect (with Tenant's cooperation) to revise the Phase II Design Plans to address Tenant's reasonable objections thereto. Landlord shall then resubmit the revised Phase II Design Plans to Tenant for approval within seven

(7) business days after Landlord received Tenant's comments to the Phase II TI Space Plans. Tenant's approval of or reasonable objection to revised Phase II Design Plans and Landlord's correction of the same shall be in accordance with this Section 2.3, until Tenant has approved the Phase II Design Plans in writing. The iteration of the Phase II Design Plans that is approved by Tenant without objection shall be referred to herein as the "Approved Phase II Design Plans."

2.4. Final Phase II Base Building and Site Plans. Landlord shall cause the Base Building Architect (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed) to prepare working drawings for the Phase II Base Building and Site Work (the "Phase II Working Drawings") that are consistent with and are Logical Evolutions of (i) the Approved Phase II Design Plans and (ii) to the extent applicable, the Final Phase I Base Building and Site Plans. As soon as Phase II Working Drawings have been prepared, Landlord shall deliver the same to Tenant for Tenant's approval, which approval may be reasonably withheld only if: (i) the Phase II Working Drawings are not consistent with or Logical Evolutions of the Approved Phase II Design Plans and, to the extent applicable, the Final Phase I Base Building and Site Plans, (ii) Tenant requests changes to the Phase II Working Drawings in accordance with Section 2.5(a)(i) (other than Base Building Permitted Changes), or (iii) Tenant objects to any Landlord-requested Base Building Change (other than Base Building Permitted Changes) to the Phase II Working Drawings. Such Phase II Working Drawings shall be approved or disapproved by Tenant within ten (10) business days after delivery to Tenant. If Tenant fails to respond within such ten (10)-business day period, then Landlord shall provide Tenant with a second written notice stating that "Tenant's failure to respond within three (3) days after Landlord's second notice shall be deemed Tenant's approval to such Phase II Working Drawings," and if Tenant does not respond within such three (3) day period, then Tenant shall be deemed to have approved the Phase II Working Drawings. If the Phase II Working Drawings are disapproved by Tenant, Tenant shall notify Landlord in writing of its objections to such Phase II Working Drawings and, if applicable, shall submit any requested Base Building Changes through a Base Building Tenant Change Order Request (as defined below), then the parties shall confer and negotiate in good faith to reach agreement on the Phase II Working Drawings. Promptly after the Phase II Working Drawings are approved by Landlord and Tenant (thereafter, the "Final Phase II Base Building and Site Plans"), two (2) copies of such Final Phase II Base Building and Site Plans shall be initialed and dated by Landlord and Tenant as soon as approved by Landlord and Tenant and Landlord shall promptly submit such Final Phase II Base Building and Site Plans to all appropriate governmental agencies for approval.

2.5. Changes to Landlord's Base Building and Site Work. Any changes to the Final Phase I Base Building and Site Plans, the Phase II Working Drawings or the Final Phase II Base Building and Site Plans (each, a "Base Building Change") requested by Landlord or Tenant shall be requested and instituted in accordance with the provisions of this Section 2.5 and, except for Base Building Permitted Changes, shall be subject to the written approval of the other party in accordance with this Work Letter.

(a) Base Building Changes Requested by Tenant.

(i) Base Building Tenant Change Order Request. Tenant may request Base Building Changes to the Final Phase I Base Building and Site Plans, the Phase II Working Drawings or the Final Phase II Base Building and Site Plans by notifying Landlord thereof in writing (a "Base Building Tenant Change Order Request"), which Base Building Tenant Change Order Request shall detail the nature and extent of any requested Base Building Changes, including, without limitation, (a) the Base Building Change, and (b) any modification of the Final Phase I Base Building and Site Plans, the Phase II Working Drawings or the Final Phase II Base Building and Site Plans, as applicable. If the nature of a Base Building Change requires revisions to the Final Phase I Base Building and Site Plans, the Phase II Working Drawings or the Final Phase II Base Building and Site Plans, as applicable, or would cause a delay in the Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in Landlord's Construction Work Schedule), then Tenant shall be solely responsible for the cost and expense of such revisions. In the event Landlord approves or is deemed to have approved of any such Base Building Change resulting from a Base Building Tenant Change Order Request in accordance with Section 2.5(a)(ii) below, Landlord shall: (1) notify Tenant if it reasonably believes such Base Building Change could cause a delay in the Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in Landlord's Construction Work Schedule); and (2) provide Landlord's reasonable estimate of any additional costs and expenses associated with such Base Building Change. Tenant shall deposit with Landlord the additional cost and expense payable by Landlord, as reasonably estimated by Landlord, to complete the Base Building Tenant Change Order Request (the "Base Building Deposit") within thirty (30) days following Tenant's receipt of Landlord's written estimate. In the event that such Base Building Deposit is not sufficient to cover the actual cost of such approved Base Building Change, Tenant shall reimburse Landlord the difference between the actual cost of such Base Building Change and the Base Building Deposit within thirty (30) days following Tenant's receipt of an invoice therefor, which invoice shall include reasonable back-up documentation with respect to the amount of such difference. In the event that such Base Building Deposit exceeds the actual cost of such approved Base Building Change, Landlord shall return such excess amount to Tenant within thirty (30) days following the completion of such approved Base Building Change. Base Building Tenant Change Order Requests shall be signed by Tenant's Authorized Representative.

(ii) Landlord's Approval of Base Building Changes. Landlord shall have five (5) business days after receipt of a Base Building Tenant Change Order Request to notify Tenant in writing of Landlord's approval or rejection of the Tenant-requested Base Building Change, which approval shall not be unreasonably withheld or conditioned so long as such Base Building Change requested by Tenant could not reasonably be expected, as reasonably determined by Landlord, to cause a Design Problem or a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule). If Landlord fails to respond within such five (5)-business day period, then Tenant shall provide Landlord with a second written notice stating that "Landlord's failure to respond within three (3) days after Tenant's second notice shall be deemed Landlord's approval to such Base Building Tenant Change Order Request," and if Landlord does not respond within such three (3) day period, then Landlord shall be deemed to have approved such Base Building Tenant Change

Order Request, and Tenant shall be permitted to cause Landlord to alter the Phase I Base Building and Site Work or the Phase II Base Building and Site Work, as contemplated by such Base Building Tenant Change Order Request.

(b) Changes Requested by Landlord.

(i) Base Building Landlord Change Order Request. Landlord may request Base Building Changes to the Final Phase I Base Building and Site Plans, the Phase II Working Drawings or the Final Phase II Base Building and Site Plans by notifying Tenant thereof in writing (a "Base Building Landlord Change Order Request"), which Base Building Landlord Change Order Request shall detail the nature and extent of any requested Base Building Changes, including, without limitation, (a) the Base Building Change, and (b) any modification of the Final Phase I Base Building and Site Plans, the Phase II Working Drawings or the Final Phase II Base Building and Site Plans, as applicable, and any delay in the Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule), necessitated by the Base Building Change. In the event Tenant approves or is deemed to have approved of any such Base Building Change resulting from a Base Building Landlord Change Order Request in accordance with Section 2.5(b)(ii) below, Landlord shall be solely responsible for any and all any additional costs and expenses associated with such Base Building Change. Base Building Landlord Change Order Requests shall be signed by Landlord's Authorized Representative.

(ii) Tenant's Approval of Base Building Change. Tenant shall have five (5) business days after receipt of a Base Building Landlord Change Order Request to notify Landlord in writing of Tenant's approval or rejection of the Landlord-requested Base Building Change, which approval shall not be unreasonably withheld or conditioned so long as such Base Building Change requested by Landlord could not reasonably be expected, as reasonably determined by Tenant, to interfere with Tenant's ability to operate its business in the Premises or cause a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule). If Tenant fails to respond within such five (5)-business day period, then Landlord shall provide Tenant with a second written notice stating that "Tenant's failure to respond within three (3) days after Landlord's second notice shall be deemed Tenant's approval to such Base Building Landlord Change Order Request," and if Tenant does not respond within such three (3) day period, then Tenant shall be deemed to have approved such Base Building Landlord Change Order Request, and Landlord shall be permitted to alter the Phase I Base Building and Site Work or the Phase II Base Building and Site Work, as contemplated by such Base Building Landlord Change Order Request.

(c) Base Building Permitted Changes. Notwithstanding anything to the contrary contained in this Work Letter, neither Landlord nor Tenant shall disapprove a Base Building Permitted Change requested by the other. For purposes of this Work Letter, a "Base Building Permitted Change" shall mean: (i) minor field changes; (ii) changes required by governmental authority; (iii) with respect to the Phase II Working Drawings only, any change required to make such drawings consistent with or Logical Evolutions of the approved Phase II Design Plans; (iv) with respect to the Final Phase I Base Building and Site Plans and the Final Phase II Base Building and Site Plans, any changes that would constitute Logical Evolutions thereof; and (v) any other changes that: (1) do not materially and adversely affect the Building Structure and Building Systems to be constructed as part of the Phase I Base Building and Site Work or the Phase II Base Building and Site Work, as applicable, (2) do not materially change the size, cost, configuration, or overall appearance of the Project or Landlord's ability to construct the Phase I Base Building and Site Work or the Phase II Base Building and Site Work, as applicable, (3) do not materially change the size, cost, configuration, or overall appearance of Phase I Tenant Improvements or the Phase II Tenant Improvements, as applicable, or Tenant's ability to operate its business in the Project, and (4) will not cause a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (and in each case as set forth in the Landlord's Construction Work Schedule). Additionally, notwithstanding to anything the contrary contained in this Work Letter, Landlord shall not be required to provide Tenant with notice or obtain Tenant's approval of any Base Building Change that satisfies the requirements set forth in (1) through (4) of subsection (v) of this paragraph.

(d) The Final Phase I Base Building and Site Plans, as modified by any Base Building Changes thereto that are approved in accordance with this Section 2.5 above, including any Base Building Permitted Changes thereto (collectively, the "Approved Phase I Base Building and Site Plans"), and the Final Phase II Base Building and Site Plans, as modified by any Base Building Changes thereto that are approved in accordance with this Section 2.5 above, including any Base Building Permitted Changes thereto (collectively, the "Approved Phase II Base Building and Site Plans"), are collectively referred to herein as the "Approved Base Building and Site Plans" and shall become part of the Lease as though set forth in full.

3. Tenant Improvements.

3.1. Phase I Tenant Improvements. Landlord shall, at Landlord's sole cost and expense (subject to Section 3.6 below), cause TI Contractor (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed) to commence and thereafter diligently prosecute to completion the construction of the tenant improvements to the Existing Building (the "Phase I Tenant Improvements") in accordance with the Final Phase I TI Plans (defined below), Landlord's Construction Work Schedule with respect thereto, and subject only to those changes approved in accordance with Section 3.6 below. The Phase I Tenant Improvements shall be performed in accordance with industry custom and practice for a "first-class" office project (taking into account that the Phase I Work involves a material restoration and renovation of a historic building), and in compliance with all Applicable Laws. The commencement and completion of the Phase I Tenant Improvements shall be subject to delays resulting from acts of Force Majeure.

3.2. Final Phase I TI Plans. Landlord shall cause the TI Architect (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed) to prepare working drawings for the Phase I Tenant Improvements (the "Phase I TI Working Drawings") that: (a) are consistent with and are Logical Evolutions of those certain space plans dated April 9, 2012 (and last revised on December 10, 2012) and prepared by the TI Architect, which are attached hereto as **Schedule 3** and are hereby approved by Tenant (the "Approved Phase I TI Space Plans"), (b) incorporate TI Permitted Changes, and

(c) incorporate any other Landlord-requested (and Tenant approved) TI Changes. As soon as Phase I TI Working Drawings are completed, Landlord shall deliver the same to Tenant for Tenant's approval, which approval may be reasonably withheld only if: (i) the Phase I TI Working Drawings are not consistent with or Logical Evolutions of the Approved Phase I TI Space Plans, (ii) Tenant intends to request changes to the Phase I TI Working Drawings in accordance with Section 3.6(a)(i) (other than TI Permitted Changes), or (iii) Tenant objects to any Landlord-requested TI Change (other than TI Permitted Changes) to the Phase I TI Working Drawings. Such Phase I TI Working Drawings shall be approved or disapproved by Tenant within ten (10) business days after delivery to Tenant. If Tenant fails to notify Landlord of disapproval within such ten (10)-business day period, then Tenant shall be deemed to have approved such Phase I TI Working Drawings. If the Phase I TI Working Drawings are disapproved by Tenant, Tenant shall notify Landlord in writing of its objections to such Phase I TI Working Drawings and, if applicable, shall submit any requested TI Changes through a TI Tenant Change Order Request (as defined below), then the parties shall confer and negotiate in good faith to reach agreement on the Phase I TI Working Drawings (thereafter, the "Final Phase I TI Plans"). Promptly after the Final Phase I TI Plans are approved by Landlord and Tenant, two (2) copies of such Final Phase I TI Plans shall be initialed and dated by Landlord and Tenant as soon as approved by Landlord and Tenant and Landlord shall promptly submit such Final Phase I TI Plans to all appropriate governmental agencies for approval.

3.3. Phase II Tenant Improvements. Landlord shall, at Landlord's sole cost and expense (subject to Section 3.6 below), cause TI Contractor (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed) to commence and thereafter diligently prosecute to completion the construction of the tenant improvements to the New Building (the "Phase II Tenant Improvements") in accordance with the Final Phase II TI Plans (as defined below), Landlord's Construction Work Schedule with respect thereto, and subject only to those changes approved in accordance with Section 3.6 below. The Phase II Tenant Improvements shall be performed in accordance with industry custom and practice for a "first-class" office project (taking into account that the Phase I Work involves a material restoration and renovation of a historic building), and in compliance with all Applicable Laws. The commencement and completion of the Tenant Improvements shall be subject to delays resulting from acts of Force Majeure.

3.4. Phase II TI Space Plans. Landlord shall cause the TI Architect (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed), with Tenant's cooperation, to prepare and submit to Tenant for approval, space plans for the Phase II Tenant Improvements that are substantially consistent with the general standard and scope of the Final Phase I TI Plans (the "Phase II TI Space Plans"). The Phase II TI Space Plans shall contain sufficient information and detail to accurately describe the proposed design to Tenant and such other information as Tenant may reasonably request. Tenant shall be solely responsible for ensuring that the Phase II TI Space Plans satisfy Tenant's business requirements. Tenant shall notify Landlord in writing within ten (10) business days after receipt of the Phase II TI Space Plans whether Tenant approves or reasonably disapproves of the Phase II TI Space Plans and the manner, if any, in which the Phase II TI Space Plans are reasonable objectionable. If Tenant reasonably objects to the Phase II TI Space Plans, then Landlord shall cause the TI Architect (with Tenant's cooperation) to revise the Phase II TI Space Plans to address

Tenant's reasonable objections thereto. Landlord shall then resubmit the revised Phase II TI Space Plans to Tenant for approval within seven (7) business days after Landlord received Tenant's comments to the Phase II TI Space Plans. Tenant's approval of or reasonable objection to revised Phase II TI Space Plans and Landlord's correction of the same shall be in accordance with this Section 3.4, until Tenant has approved the Phase II TI Space Plans in writing. Tenant shall not unreasonably withhold its approval of any iteration of the Phase II TI Space Plans so long as such iteration is substantially consistent with the standard and scope of the Final Phase I TI Plans . The iteration of the Phase II TI Space Plans that is approved by Tenant without objection shall be referred to herein as the " Approved Phase II TI Space Plans."

3.5. Final Phase II TI Plans. Landlord shall cause the TI Architect (or such replacement thereof as Landlord may make from time to time with Tenant's approval, which approval shall not be unreasonably withheld or delayed) to prepare working drawings for the Phase II Tenant Improvements (the "Phase II TI Working Drawings") that: (a) are consistent with and are Logical Evolutions of the Approved Phase II TI Space Plans, (b) incorporate TI Permitted Changes, and (c) incorporate any other Landlord-requested (and Tenant approved) TI Changes. As soon as Phase II TI Working Drawings are completed, Landlord shall deliver the same to Tenant for Tenant's approval, which approval may be reasonably withheld only if: (i) the Phase II TI Working Drawings are not consistent with or Logical Evolutions of the Approved Phase II TI Space Plans, (ii) Tenant intends to request changes to the Phase II TI Working Drawings in accordance with Section 3.6(a)(i) (other than TI Permitted Changes), or (iii) Tenant objects to any Landlord-requested TI Change (other than TI Permitted Changes) to the Phase II TI Working Drawings. Such Phase II TI Working Drawings shall be approved or disapproved by Tenant within ten (10) business days after delivery to Tenant. If Tenant fails to notify Landlord of disapproval within such ten (10)-business day period, then Tenant shall be deemed to have approved such Phase II TI Working Drawings. If the Phase II TI Working Drawings are disapproved by Tenant, Tenant shall notify Landlord in writing of its objections to such Phase II TI Working Drawings and, if applicable, shall submit any requested TI Changes through a TI Tenant Change Order Request (as defined below), then the parties shall confer and negotiate in good faith to reach agreement on the Phase II TI Working Drawings (thereafter, the " Final Phase II TI Plans"). Promptly after the Final Phase II TI Plans are approved by Landlord and Tenant, two (2) copies of such Final Phase II TI Plans shall be initialed and dated by Landlord and Tenant as soon as approved by Landlord and Tenant and Landlord shall promptly submit such Final Phase II TI Plans to all appropriate governmental agencies for approval.

3.6. Changes to Tenant Improvements. Any changes to the Final Phase I TI Plans, the Phase II TI Working Drawings or the Final Phase II TI Plans (each, a "TI Change") requested by Landlord or Tenant shall be requested and instituted in accordance with the provisions of this Section 3.6 and, except for TI Permitted Changes, shall be subject to the written approval of the other party in accordance with this Work Letter.

(a) TI Changes Requested by Tenant.

(i) TI Tenant Change Order Request. Tenant may request TI Changes to the Final Phase I TI Plans, the Phase II TI Working Drawings or the Final Phase II TI Plans by notifying Landlord thereof in writing (a " TI Tenant Change Order Request"), which TI

Tenant Change Order Request shall detail the nature and extent of any requested TI Changes, including, without limitation, (a) the TI Change, and (b) any modification of the Final Phase I TI Plans, the Phase II TI Working Drawings or the Final Phase II TI Plans, as applicable. If the nature of a TI Change requires revisions to the Final Phase I TI Plans, the Phase II TI Working Drawings or the Final Phase II TI Plans, as applicable, or would cause a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule), then Tenant shall be solely responsible for the cost and expense of such revisions (except to the extent that such TI Change is required as the result of a Landlord-requested Base Building Change that has been approved by Tenant pursuant to Section 2.5(b)(ii) above, in which case such cost and expense shall be part of Landlord's Turnkey Costs (as defined below)). In the event Landlord approves or is deemed to have approved of any such TI Change resulting from a TI Tenant Change Order Request in accordance with Section 3.6(a)(ii) below, Landlord shall: (1) notify Tenant if it reasonably believes such TI Change could cause a delay in Substantial Completion of the Phase I Work or the Phase II Work (in each case as set forth in the Landlord's Construction Work Schedule); and (2) provide Landlord's reasonable estimate of any additional costs and expenses associated with such TI Change. Tenant shall deposit with Landlord the additional cost and expense payable by Landlord, as reasonably estimated by Landlord, to complete the TI Tenant Change Order Request (the "TI Deposit") within thirty (30) days following Tenant receipt of Landlord's written estimate. In the event such TI Deposit is not sufficient to cover the actual cost of such approved TI Change, Tenant shall reimburse Landlord the difference between the actual cost of such TI Change and the TI Deposit within thirty (30) days following Tenant's receipt of an invoice therefor, which invoice shall include reasonable back-up documentation with respect to the amount of such difference. In the event such TI Deposit exceeds the actual cost of such approved Base Building Change, Landlord shall return such excess amount to Tenant within thirty (30) days following the completion of such approved TI Change. TI Tenant Change Order Requests shall be signed by Tenant's Authorized Representative.

(ii) Landlord's Approval of TI Changes. Landlord shall have five (5) business days after receipt of a TI Tenant Change Order Request to notify Tenant in writing of Landlord's approval or rejection of the Tenant-requested TI Change, which approval shall not be unreasonably withheld or conditioned so long as such TI Change requested by Tenant could not reasonably be expected, as reasonably determined by Landlord, to cause a Design Problem or cause a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule). If Landlord fails to respond within such five (5)-business day period, then Landlord shall be deemed to have approved such TI Tenant Change Order Request, and Tenant shall be permitted to cause Landlord to alter the Phase I Tenant Improvements or the Phase II Tenant Improvements, as contemplated by such TI Tenant Change Order Request.

(b) TI Changes Requested by Landlord.

(i) TI Landlord Change Order Request. Landlord may request TI Changes to the Final Phase I TI Plans, the Phase II TI Working Drawings or the Final Phase II TI Plans by notifying Tenant thereof in writing (a "TI Landlord Change Order Request"), which TI Landlord Change Order Request shall detail the nature and extent of any requested TI Changes, including, without limitation, (a) the TI Change, and (b) any modification of the Final Phase I TI Plans, the Phase II TI Working Drawings or the Final Phase II TI Plans, as applicable, and any delay in the Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule), necessitated by the TI Change. In the event Tenant approves or is deemed to have approved of any such TI Change resulting from a TI Landlord Change Order Request in accordance with Section 3.6(b)(ii) below, Landlord shall be solely responsible for any and all any additional costs and expenses associated with such TI Change as part of the Turnkey Costs. TI Landlord Change Order Requests shall be signed by Tenant's Authorized Representative.

(ii) Tenant's Approval of TI Change. Tenant shall have five (5) business days after receipt of a TI Landlord Change Order Request to notify Landlord in writing of Tenant's approval or rejection of the Landlord-requested TI Change, which approval shall not be unreasonably withheld or conditioned so long as such TI Change requested by Landlord could not reasonably be expected, as reasonably determined by Tenant, to interfere with Tenant's ability to operate its business in the Premises or cause a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule). If Tenant fails to respond within such five (5)-business day period, then Tenant shall be deemed to have approved such TI Landlord Change Order Request, and Landlord shall be permitted to alter the Phase I Tenant Improvements or the Phase II Tenant Improvements, as contemplated by such TI Landlord Change Order Request.

(c) TI Permitted Changes. Notwithstanding anything to the contrary contained in this Work Letter, neither Landlord nor Tenant shall disapprove a TI Permitted Change requested by the other. For purposes of this Work Letter, a "TI Permitted Change" shall mean: (i) minor field changes; (ii) changes required by governmental authority; (iii) with respect to the Phase II TI Working Drawings only, any change required to make such plans consistent with or Logical Evolutions of the Approved Phase II TI Space Plans; (iv) with respect to the Final Phase I TI Plans and the Final Phase II TI Plans, any changes that would constitute Logical Evolutions thereof; and (v) any other changes that: (1) do not materially and adversely affect the Building Structure and Building Systems to be constructed as part of the Phase I Tenant Improvements or Phase II Tenant Improvements, as applicable, (2) do not materially change the size, cost, configuration, or overall appearance of the Phase I Tenant Improvements or the Phase II Tenant Improvements, as applicable, or Tenant's ability to operate its business in the Project, and (3) will not cause a delay in Substantial Completion of the Phase I Work or the Phase II Work, as applicable (in each case as set forth in the Landlord's Construction Work Schedule). Additionally, notwithstanding anything the contrary contained in this Work Letter, Landlord shall not be required to provide Tenant with notice or obtain Tenant's approval of any TI Change that satisfies the requirements set forth in (1) through (3) of subsection (v) of this paragraph.

(d) The Final Phase I TI Plans, as modified by any TI Changes thereto that are approved in accordance with this Section 3.6 above, including any TI Permitted Changes thereto (collectively, the "Approved Phase I TI Plans"), and the Final Phase II TI Plans, as modified by any TI Changes thereto that are approved in accordance with this Section 3.6 above, including any TI

Permitted Changes thereto (collectively, the "Approved Phase II TI Plans"), are collectively referred to herein as the "Approved TI Plans" and shall become part of the Lease as though set forth in full.

3.7. Turnkey Costs. Subject to Section 3.6 above, Landlord shall be responsible for the costs and expenses of constructing the Tenant Improvements (as further described herein, the "Turnkey Costs"). The "Turnkey Costs" shall include the costs of (i) construction, (ii) space planning, architect, engineering and other related services, (iii) costs and expenses for labor, materials, building system equipment and fixtures, (iv) building permits and other taxes, fees, charges and levies by governmental and quasi-governmental agencies for permits or for inspections of the Tenant Improvements, and (v) any costs and expenses of Landlord pursuant to Section 3.6 above. Notwithstanding the foregoing, in no event shall Turnkey Costs include the costs of (w) any security, low voltage cable, telephone cable/switch handsets, relocation, technology, audio visual equipment or signage; (x) any furniture, personal property or other non-building system equipment, (y) resulting from any default by Tenant of its obligations under the Lease, or (z) costs that are recoverable or reasonably recoverable by Tenant from a third party (e.g., insurers, warrantors or tortfeasors).

3.8. Completion of Phase I Work. The Phase I Work shall be deemed "Substantially Complete" or there shall be "Substantial Completion" thereof if (i) Landlord has completed, in compliance with all Applicable Laws, (a) all of the Phase I Base Building and Site Work identified on and substantially in accordance with the Approved Phase I Base Building and Site Plans, and (b) all of the Phase I Tenant Improvements identified on and substantially in accordance with the Approved Phase I TI Plans, subject only to such incomplete or defective work as will not materially or adversely impact Tenant's continuous and uninterrupted use of Phase I (including the Existing Building and the Phase I On-Site Parking Spaces) for its permitted use pursuant to the Lease following the Substantial Completion of the Phase I Work (collectively, the "Phase I Punchlist Items"), and minor deviations that do not alter the type, scope and quality of the Phase I Tenant Improvements depicted on the Approved Phase I TI Plans, (ii) Tenant is provided with continuous and uninterrupted use of the Existing Building and the Phase I On-Site Parking Spaces for its permitted use pursuant to the Lease, except to the extent reasonably necessary for TI Contractor to complete any Phase I Punchlist Items, and (iii) Landlord has obtained a certificate of occupancy or temporary certificate of occupancy (or its equivalent) allowing Tenant to legally occupy the Existing Building. Landlord shall cause the TI Contractor to complete with reasonable promptness the Phase I Punchlist Items and repair with reasonable promptness all defects in the construction of the Phase I Work as to which Tenant notifies Landlord in writing (which notice Tenant shall give within ten (10) business days following the Commencement Date for the Existing Building). Notwithstanding the foregoing, Landlord shall cause all Phase I Punchlist Items that reasonably can be completed within forty-five (45) days after Substantial Completion of the Phase I Work to be completed within such forty-five (45)-day period (subject to availability of materials). Except for such Phase I Punchlist Items and except for latent defects and non-compliance of Phase I Work with Applicable Laws, Tenant shall, subject to the terms hereof, be deemed to have accepted the Phase I Work in the condition delivered to it "As Is," provided, however, that the Phase I Work shall be subject to the Landlord warranties set forth in General Condition B of the Lease.

3.9. Completion of Phase II Work. The Phase II Work shall be deemed "Substantially Complete" or there shall be "Substantial Completion" thereof if (i) Landlord has completed, in compliance with all Applicable Laws, (a) all of the Phase II Base Building and Site Work identified on and substantially in accordance with the Approved Phase II Base Building and Site Plans, and (b) all of the Phase II Tenant Improvements identified on and substantially in accordance with the Approved Phase II TI Plans, subject only to such incomplete or defective work as will not materially or adversely impact Tenant's continuous and uninterrupted use of Phase II (including the New Building and the Phase II On-Site Parking Spaces) for its permitted use pursuant to the Lease following the Substantial Completion of the Phase II Work (collectively, the "Phase II Punchlist Items"), and minor deviations that do not alter the type, scope and quality of the Phase II Tenant Improvements depicted on the Approved Phase II TI Plans, (ii) Tenant is provided with continuous and uninterrupted use of the New Building and the Phase II On-Site Parking Spaces for its permitted use pursuant to the Lease, except to the extent reasonably necessary for TI Contractor to complete any Phase II Punchlist Items, and (iii) Landlord has obtained a certificate of occupancy or temporary certificate of occupancy (or its equivalent) allowing Tenant to legally occupy the New Building. Landlord shall cause the TI Contractor to complete with reasonable promptness the Phase II Punchlist Items and repair with reasonable promptness all defects in the construction of the Phase II Work as to which Tenant notifies Landlord in writing (which notice Tenant shall give within ten (10) business days following the Commencement Date for the New Building). Notwithstanding the foregoing, Landlord shall cause all Phase II Punchlist Items that reasonably can be completed within forty-five (45) days after Substantial Completion of the Phase II Work to be completed within such forty-five (45)-day period (subject to availability of materials) . Except for such Phase II Punchlist Items and except for latent defects and non-compliance of Phase II Work with Applicable Laws, Tenant shall, subject to the terms hereof, be deemed to have accepted the Phase II Work in the condition delivered to it "As Is," provided, however, that the Phase II Work shall be subject to the Landlord warranties set forth in General Condition B of the Lease.

4. Tenant Delay. Landlord shall endeavor (but shall not be obligated) to tender possession of each Phase of the Project on or before the applicable Scheduled Commencement Date. If the Phase I Work or the Phase II Work, as applicable, as required pursuant to the terms of this Work Letter, is not Substantially Complete on or before the applicable Scheduled Commencement Date for any reason whatsoever, then, except as provided in the Lease, the Lease shall not be void or voidable, Landlord shall not be liable to Tenant for any loss or damage resulting therefrom and the applicable Commencement Date shall not occur until Substantial Completion of the Phase I Work or the Phase II Work, as applicable, occurs; provided, however, if the satisfaction of the requirements for Substantial Completion of the Phase I Work or the Phase II Work, as applicable, have been actually delayed by any Tenant Delay (as defined below), then, subject to the terms hereof, Substantial Completion of the Phase I Work or the Phase II Work, as applicable, shall be deemed to occur when (as reasonably determined and substantiated by Landlord) Substantial Completion of the Phase I Work or the Phase II Work, as applicable, would have occurred if such Tenant Delay had not occurred. "Tenant Delay" shall mean: (1) delays or failure of Tenant to deliver items in accordance with this Work Letter; (2) Tenant's failure to timely fulfill its obligations as set forth in this Work Letter within the time periods set forth therein; (3) delays caused by Base Building Tenant Change Order Requests or TI Tenant Change Order Requests; (4) unavailability of materials, components or finishes for the Tenant Improvements that have an unusually long lead-time for delivery (unless

Landlord, the TI Contractor or any subcontractors or suppliers fail to timely order such items); (5) a willful or negligent act or omission of Tenant or Tenant's consultants, vendors, contractors, subcontractors, or agents that interferes with the progress of the work; or (6) any other event or circumstance expressly described as a Tenant Delay in this Work Letter. Landlord shall not assess any day towards a Tenant Delay for delays caused by Landlord, any architect, engineering consultant, design team, general contractor, subcontractor or vendor selected by Landlord or any third parties or due to Force Majeure. Notwithstanding anything above to the contrary, (i) no delay shall be considered a Tenant Delay unless Landlord provides Tenant written notice of such Tenant Delay within ten (10) days of the date that Landlord becomes aware of the occurrence of a Tenant Delay, and Tenant fails to cure such delay within three (3) days; provided that no such notice and cure period shall be required if such delay is with respect to interference with the Landlord's construction activities and Landlord has previously notified Tenant of similar Tenant Delays, and (ii) no delay shall be considered a Tenant Delay in the event Substantial Completion of the Phase I Work or the Phase II Work, as applicable, occurs on or before the applicable Scheduled Commencement Date. Landlord and its contractors shall take commercially reasonable actions, remedial or otherwise, to complete the Phase I Work and the Phase II Work by the applicable Scheduled Commencement Dates notwithstanding any Tenant Delay. All additional cost and expense payable by Landlord, if any, to complete the Phase I Work or the Phase II Work due to Tenant Delay ("Tenant Delay Costs"), shall be paid by Tenant within thirty (30) days following Tenant's receipt of an invoice therefor, which invoice shall include reasonable back-up documentation with respect to such Tenant Delay Costs.

5. Requests for Consent. Except as otherwise provided in this Work Letter, each of Landlord and Tenant shall respond to all requests for consents, approvals or directions made by the other pursuant to this Work Letter within five (5) business days following such party's receipt of such request from the other. If a party fails to respond within such five (5)-business day period, then the non-responding party shall be deemed to have approved such item.

6. Completion of Landlord's Construction Work. Without limiting any other provision of this Work Letter, Landlord shall complete Landlord's Construction Work described in this Work Letter in all respects in accordance with the provisions of the Lease and this Work Letter. Landlord's Construction Work shall be deemed completed at such time as Landlord shall furnish to Tenant evidence that (a) all Landlord's Construction Work has been completed (which shall be evidenced by the Base Building Architect's and the TI Architect's respective certificates of completion certifying that all work performed in, on or about the Project is in accordance with the Approved Base Building and Site Plans and the Approved TI Plans) and paid for in full (or for which final lien waivers have otherwise been obtained), and (b) all certifications and approvals with respect to Landlord's Construction Work that may be required from any governmental authority and any board of fire underwriters or similar body for the use and occupancy of the Premises have been obtained.

7. Miscellaneous.

7.1. Headings, Etc. Where applicable in this Work Letter, the singular includes the plural and the masculine or neuter includes the masculine, feminine and neuter. The Section headings of this Work Letter are not a part of this Work Letter and shall have no effect upon the construction or interpretation of any part hereof.

7.2. Time of the Essence. Time is of the essence with respect to the performance of every provision of this Work Letter in which time of performance is a factor.

7.3. Covenants. Each provision of this Work Letter performable by Landlord or Tenant shall be deemed both a covenant and a condition.

7.4. Consent. Whenever consent or approval of either party is required, that party shall not unreasonably withhold, condition or delay such consent or approval, except as may be expressly set forth to the contrary. Whenever the written consent or approval of either party is required, such consent or approval may be provided in the form of electronic mail from Landlord's Authorized Representative or Tenant's Authorized Representative, as applicable.

7.5. Entire Agreement. The terms of this Work Letter are intended by the parties as a final expression of their agreement with respect to the terms as are included herein, and may not be contradicted by evidence of any prior or contemporaneous agreement, other than the Lease. To the extent there is any conflict between the terms of this Work Letter and the terms of the Lease, with respect to the design, construction or performance of Landlord's Construction Work, the terms and provisions of this Work Letter shall control.

7.6. Invalid Provisions. Any provision of this Work Letter that shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and all other provisions of this Work Letter shall remain in full force and effect and shall be interpreted as if the invalid, void or illegal provision did not exist.

7.7. Construction. The language in all parts of this Work Letter shall be in all cases construed as a whole according to its fair meaning and not strictly for or against either Landlord or Tenant.

7.8. Assigns. Each of the covenants, conditions and agreements herein contained shall inure to the benefit of and shall apply to and be binding upon the parties hereto and their respective heirs; legatees; devisees; executors; administrators; and permitted successors, assigns, sublessees. Nothing in this Section 7.8 shall in any way alter the provisions of the Lease restricting assignment or subletting.

7.9. Authority. That individual or those individuals signing this Work Letter guarantee, warrant and represent that said individual or individuals have the power, authority and legal capacity to sign this Work Letter on behalf of and to bind all entities, corporations, partnerships, limited liability companies, joint venturers or other organizations and entities on whose behalf said individual or individuals have signed.

7.10. Counterparts. This Work Letter may be executed in one or more counterparts, each of which, when taken together, shall constitute one and the same document.

7.11. Notice of Completion. Within thirty (30) days after completion of construction of Landlord's Construction Work, Landlord shall cause a Notice of Completion to be recorded in the office of the Recorder of the County in which the Project is located and shall furnish a copy thereof to Tenant upon such recordation.

7.12. No Fee to Landlord. Except as otherwise provided in the Lease, Landlord shall receive no fee for supervision, profit, over overhead in connection with the Landlord's Construction Work. In no event shall this Section 7.12 limit the fees that are payable to the architect, engineering consultants, design team, general contractor, subcontractors and any third-party construction manager .

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IN WITNESS WHEREOF, Landlord and Tenant have executed this Work Letter to be effective on the date first above written.

LANDLORD:

6th & PINE, LLC,
a California limited liability company

By: __
Name: __
Title: __

TENANT:

MOLINA HEALTHCARE, INC.,
a Delaware corporation

By: __
Name: __
Title: __

SCHEDULE 1

Landlord’s Construction Work Schedule

[see attached]

SCHEDULE 2

Drawing Log for Final Phase I Base Building and Site Plans

[see attached]

SCHEDULE 3

Approved Phase I TI Space Plans

[see attached]

MILLWORKS

PRESS TELEGRAM REDEVELOPMENT
LONG BEACH, CA
CONSTRUCTION SCHEDULE
JANUARY 30, 2013 PROGRESS UPDATE
ARCO No. N-410

ARCO National Construction Company, Inc.

ID	Task Name	Duration	Start	Finish
1	**Press Telegram Redevelopment**	**223 days**	**Mon 7/23/12**	**Wed 5/29/13**
2	**Preconstruction/Design/Permitting**	**121 days**	**Mon 7/23/12**	**Mon 1/7/13**
3	Plan Approvals - Core/Shell	1 day	Mon 7/23/12	Mon 7/23/12
4	Submit TI Plans for Permit Approval	20 days	Tue 7/24/12	Mon 8/20/12
5	Coordinate MEP/FP TI Designs	60 days	Tue 7/24/12	Mon 10/15/12
6	Submittals/Material Procurement/Equipment Lead Times	120 days	Tue 7/24/12	Mon 1/7/13
7	Receive TI Building Permit	17 days	Tue 8/21/12	Wed 9/12/12
8	Receive MEP/FP TI Permits	72 days	Tue 8/21/12	Wed 11/28/12
9	**Core/Shell Construction Activities**	**205 days**	**Tue 7/24/12**	**Tue 4/30/13**
10	Demolition	60 days	Tue 7/24/12	Mon 10/15/12
11	Footings and Foundations - Basement	25 days	Tue 8/7/12	Mon 9/10/12
12	Interior Abatement - Lead/Asbestos	15 days	Mon 9/17/12	Fri 10/5/12
13	Formwork for Shear walls/Drag Beams - B - 2nd	15 days	Tue 9/11/12	Mon 10/1/12
14	Drilling for Shear Wall and Drag Beam Dowels - B - 2nd	15 days	Tue 8/28/12	Mon 9/17/12
15	Install Rebar for Shear Walls/Drag Beams - B - 2nd	8 days	Tue 10/2/12	Thu 10/11/12
16	Install Shotcrete for Shear Walls/Drag Beams - B - 2nd	10 days	Fri 10/12/12	Thu 10/25/12
17	Formwork for Shear walls/Drag Beams - 3rd - Roof	10 days	Tue 10/2/12	Mon 10/15/12
18	Drilling for Shear Wall and Drag Beam Dowels - 3rd - Roof	15 days	Tue 9/18/12	Mon 10/8/12
19	Install rebar for Shear Walls/Drag Beams - 3rd - Roof	8 days	Tue 10/16/12	Thu 10/25/12
20	Install Shotcrete for Shear Walls/Drag Beams - 3rd - Roof	10 days	Mon 10/29/12	Fri 11/9/12
21	Waterproof Courtyard	3 days	Wed 11/28/12	Fri 11/30/12
22	Backfill Courtyard	10 days	Mon 12/3/12	Fri 12/14/12
23	Finish Shotcrete Shear Walls - full height	18 days	Wed 12/5/12	Fri 12/28/12
24	Floor Infills - 1st - Roof	15 days	Tue 10/16/12	Mon 11/5/12
25	Elevator Steel Beams/Columns -Erection	18 days	Tue 10/16/12	Thu 11/8/12
26	4th Floor Structural Steel Erection	21 days	Fri 11/9/12	Fri 12/7/12
27	Stair 2 Erection	25 days	Mon 11/19/12	Fri 12/21/12
28	Roof Screen Steel Erection	15 days	Mon 11/19/12	Fri 12/7/12
29	Stair 1 Steel Erection	4 days	Wed 12/19/12	Mon 12/24/12
30	Stair from 4th Floor to 5th Floor Erection	3 days	Mon 1/28/13	Wed 1/30/13
31	Bridge Steel Erection	5 days	Thu 1/31/13	Wed 2/6/13
32	Entry Canopy/Misc Steel Erection	10 days	Thu 2/7/13	Wed 2/20/13
33	Erect Exterior Scaffolding	10 days	Mon 9/17/12	Fri 9/28/12
34	Exterior Elevation Sandblast Brick and Clean	15 days	Mon 10/1/12	Fri 10/19/12
35	Plaster Panel Framing between windows - South/West	22 days	Mon 10/22/12	Tue 11/20/12
36	Window Sub Frame/Blocking - South and West Elevations	23 days	Mon 10/22/12	Wed 11/21/12
37	Window Installation - South and West Elevations	38 days	Wed 11/7/12	Fri 12/28/12
38	Plaster Infills - South and West Elevations	24 days	Tue 11/27/12	Fri 12/28/12
39	Paint/Seal/Caulk South and West Elevations	32 days	Fri 12/21/12	Mon 2/4/13
40	Remove Scaffold - South and West Elevation	5 days	Mon 2/4/13	Fri 2/8/13
41	Sidewalk Replacement - 6th Street	20 days	Mon 2/11/13	Fri 3/8/13
42	Frame Exterior Walls - Courtyard/4th Floor East/5th Floor	30 days	Mon 12/3/12	Fri 1/11/13
43	Window Sub Frame/Blocking - East/North/Courtyard	26 days	Mon 12/10/12	Mon 1/14/13
44	Window Installation - East/North/Courtyard	45 days	Mon 12/17/12	Fri 2/15/13
45	Plaster East Elevation	13 days	Mon 1/21/13	Wed 2/6/13
46	Plaster North Elevation and Courtyard	15 days	Wed 2/6/13	Tue 2/26/13
47	Install RTU/HVAC equipment Curbs/Duct Shafts	25 days	Mon 11/5/12	Fri 12/7/12
48	Set Roof Top Units	1 day	Mon 12/10/12	Mon 12/10/12
49	Install Roofing Insulation and Membrane/Sheet metal Coping Caps	30 days	Wed 12/19/12	Tue 1/29/13
50	Install Sheet Metal Panels - Courtyard/4th/5th Floors	20 days	Thu 2/21/13	Wed 3/20/13
51	Frame Interior Shaft Walls/Elevator Walls and Core/Electrical Walls	25 days	Thu 11/15/12	Wed 12/19/12
52	Frame Interior Perimeter Walls	32 days	Thu 11/15/12	Fri 12/28/12
53	Install Elevators	50 days	Wed 12/26/12	Tue 3/26/13

Project: Press Telegram Redevelopment
Date: Wed 1/30/13

Task | Milestone | Summary | External Tasks | Critical | Progress

MILLWORKS

PRESS TELEGRAM REDEVELOPMENT

LONG BEACH, CA

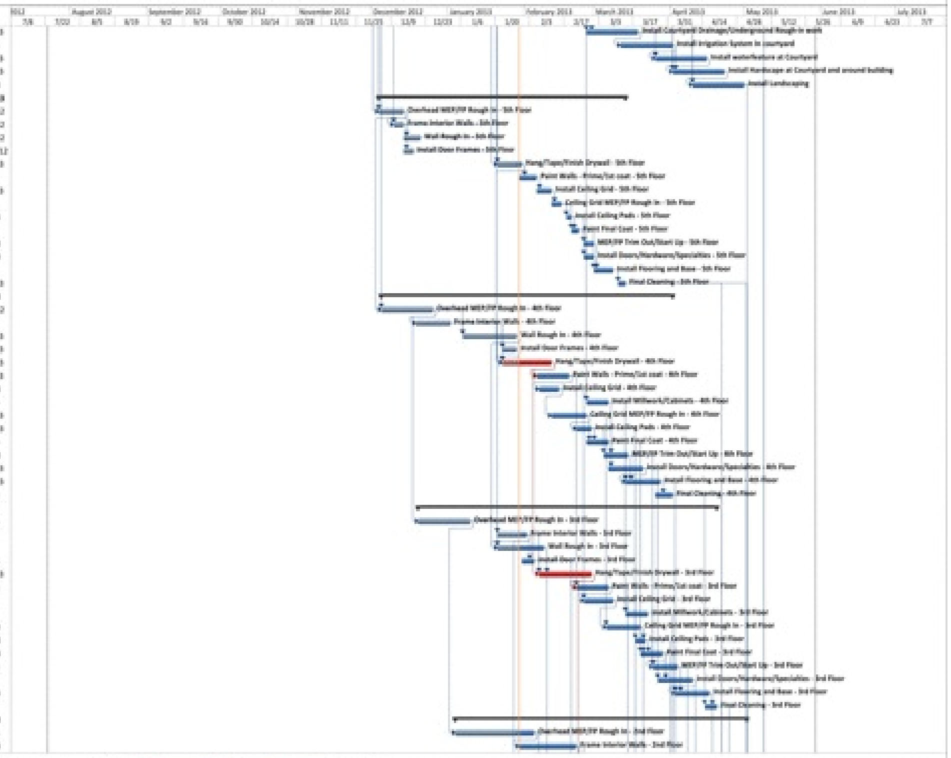
CONSTRUCTION SCHEDULE

JANUARY 30, 2013 PROGRESS UPDATE

ARCO No. N-410

ARCO National Construction Company, Inc.

ID	Task Name	Duration	Start	Finish
54	Install Courtyard Drainage/Underground Rough-in work	15 days	Tue 2/26/13	Mon 3/18/13
55	Install Irrigation System in courtyard	15 days	Tue 3/12/13	Mon 4/1/13
56	Install waterfeature at Courtyard	15 days	Tue 3/26/13	Mon 4/15/13
57	Install Hardscape at Courtyard and around building	15 days	Tue 4/2/13	Mon 4/22/13
58	Install Landscaping	15 days	Wed 4/10/13	Tue 4/30/13
59	**Interior Fit-Out - 5th Floor**	**72 days**	**Tue 12/4/12**	**Wed 3/13/13**
60	Overhead MEP/FP Rough In - 5th Floor	8 days	Tue 12/4/12	Thu 12/13/12
61	Frame Interior Walls - 5th Floor	4 days	Mon 12/10/12	Thu 12/13/12
62	Wall Rough In - 5th Floor	5 days	Fri 12/14/12	Thu 12/20/12
63	Install Door Frames - 5th Floor	2 days	Fri 12/14/12	Mon 12/17/12
64	Hang/Tape/Finish Drywall - 5th Floor	8 days	Mon 1/21/13	Wed 1/30/13
65	Paint Walls - Prime/1st coat - 5th Floor	5 days	Wed 1/30/13	Tue 2/5/13
66	Install Ceiling Grid - 5th Floor	4 days	Wed 2/6/13	Mon 2/11/13
67	Ceiling Grid MEP/FP Rough In - 5th Floor	4 days	Tue 2/12/13	Fri 2/15/13
68	Install Ceiling Pads - 5th Floor	2 days	Mon 2/18/13	Tue 2/19/13
69	Paint Final Coat - 5th Floor	3 days	Wed 2/20/13	Fri 2/22/13
70	MEP/FP Trim-Out/Start Up - 5th Floor	4 days	Mon 2/25/13	Thu 2/28/13
71	Install Doors/Hardware/Specialties - 5th Floor	4 days	Mon 2/25/13	Thu 2/28/13
72	Install Flooring and Base - 5th Floor	6 days	Fri 3/1/13	Fri 3/8/13
73	Final Cleaning - 5th Floor	3 days	Mon 3/11/13	Wed 3/13/13
74	**Interior Fit-Out - 4th Floor**	**84 days**	**Wed 12/5/12**	**Mon 4/1/13**
75	Overhead MEP/FP Rough In - 4th Floor	15 days	Wed 12/5/12	Tue 12/25/12
76	Frame Interior Walls - 4th Floor	10 days	Wed 12/19/12	Tue 1/1/13
77	Wall Rough In - 4th Floor	16 days	Mon 1/7/13	Mon 1/28/13
78	Install Door Frames - 4th Floor	4 days	Wed 1/23/13	Mon 1/28/13
79	Hang/Tape/Finish Drywall - 4th Floor	14 days	Wed 1/23/13	Mon 2/11/13
80	Paint Walls - Prime/1st coat - 4th Floor	9 days	Wed 2/6/13	Mon 2/18/13
81	Install Ceiling Grid - 4th Floor	6 days	Thu 2/7/13	Thu 2/14/13
82	Install Millwork/Cabinets - 4th Floor	7 days	Tue 2/26/13	Wed 3/6/13
83	Ceiling Grid MEP/FP Rough In - 4th Floor	10 days	Tue 2/12/13	Mon 2/25/13
84	Install Ceiling Pads - 4th Floor	4 days	Fri 2/22/13	Wed 2/27/13
85	Paint Final Coat - 4th Floor	7 days	Tue 2/26/13	Wed 3/6/13
86	MEP/FP Trim-Out/Start Up - 4th Floor	8 days	Tue 3/5/13	Thu 3/14/13
87	Install Doors/Hardware/Specialties - 4th Floor	10 days	Thu 3/7/13	Wed 3/20/13
88	Install Flooring and Base - 4th Floor	10 days	Thu 3/14/13	Wed 3/27/13
89	Final Cleaning - 4th Floor	5 days	Tue 3/26/13	Mon 4/1/13
90	**Interior Fit-Out - 3rd Floor**	**87 days**	**Thu 12/20/12**	**Fri 4/19/13**
91	Overhead MEP/FP Rough In - 3rd Floor	15 days	Thu 12/20/12	Wed 1/9/13
92	Frame Interior Walls - 3rd Floor	10 days	Mon 1/21/13	Fri 2/1/13
93	Wall Rough In - 3rd Floor	15 days	Mon 1/21/13	Fri 2/8/13
94	Install Door Frames - 3rd Floor	3 days	Thu 1/31/13	Mon 2/4/13
95	Hang/Tape/Finish Drywall - 3rd Floor	15 days	Thu 2/7/13	Wed 2/27/13
96	Paint Walls - Prime/1st coat - 3rd Floor	9 days	Fri 2/22/13	Wed 3/6/13
97	Install Ceiling Grid - 3rd Floor	10 days	Mon 2/25/13	Fri 3/8/13
98	Install Millwork/Cabinets - 3rd Floor	7 days	Thu 3/14/13	Fri 3/22/13
99	Ceiling Grid MEP/FP Rough In - 3rd Floor	10 days	Wed 3/6/13	Tue 3/19/13
100	Install Ceiling Pads - 3rd Floor	4 days	Mon 3/18/13	Thu 3/21/13
101	Paint Final Coat - 3rd Floor	7 days	Wed 3/20/13	Thu 3/28/13
102	MEP/FP Trim-Out/Start Up - 3rd Floor	8 days	Mon 3/25/13	Wed 4/3/13
103	Install Doors/Hardware/Specialties - 3rd Floor	10 days	Wed 3/27/13	Tue 4/9/13
104	Install Flooring and Base - 3rd Floor	10 days	Wed 4/3/13	Tue 4/16/13
105	Final Cleaning - 3rd Floor	5 days	Mon 4/15/13	Fri 4/19/13
106	**Interior Fit-Out - 2nd Floor**	**84 days**	**Fri 1/4/13**	**Wed 5/1/13**
107	Overhead MEP/FP Rough In - 2nd Floor	22 days	Fri 1/4/13	Mon 2/4/13
108	Frame Interior Walls - 2nd Floor	17 days	Wed 1/30/13	Thu 2/21/13



Project: Press Telegram Redevelopment
Date: Wed 1/30/13

Task | Milestone | Summary | External Tasks | Critical | Progress

MILLWORKS

PRESS TELEGRAM REDEVELOPMENT

LONG BEACH, CA

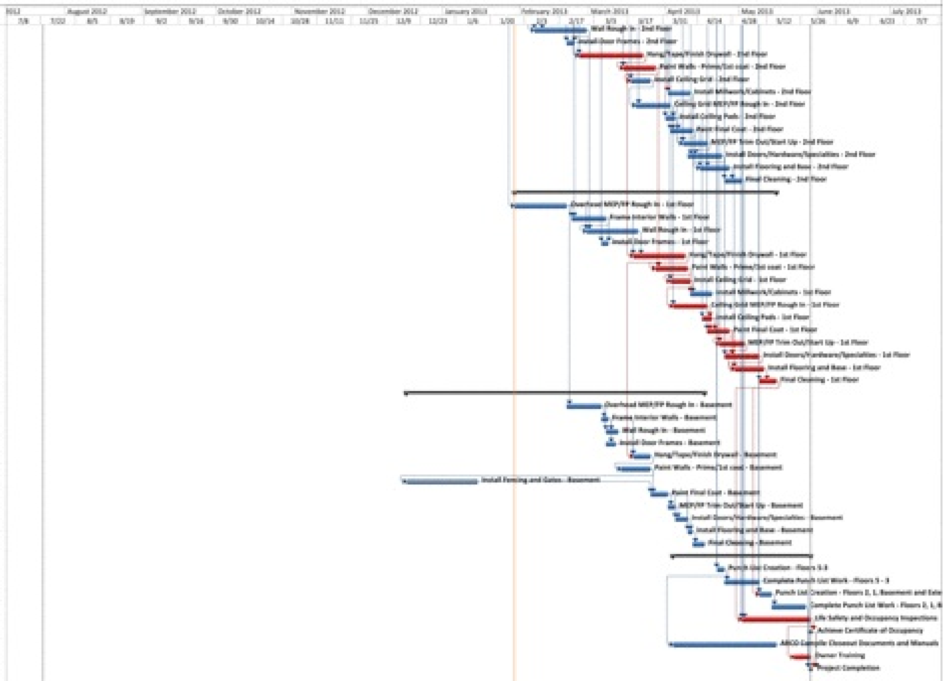
CONSTRUCTION SCHEDULE

JANUARY 30, 2013 PROGRESS UPDATE

ARCO No. N-410

ARCO National Construction Company, Inc.

ID	Task Name	Duration	Start	Finish
109	Wall Rough In - 2nd Floor	15 days	Thu 2/7/13	Wed 2/27/13
110	Install Door Frames - 2nd Floor	3 days	Wed 2/20/13	Fri 2/22/13
111	Hang/Tape/Finish Drywall - 2nd Floor	20 days	Mon 2/25/13	Fri 3/22/13
112	Paint Walls - Prime/1st coat - 2nd Floor	9 days	Fri 3/15/13	Wed 3/27/13
113	Install Ceiling Grid - 2nd Floor	6 days	Mon 3/18/13	Mon 3/25/13
114	Install Millwork/Cabinets - 2nd Floor	7 days	Tue 4/2/13	Wed 4/10/13
115	Ceiling Grid MEP/FP Rough In - 2nd Floor	10 days	Wed 3/20/13	Tue 4/2/13
116	Install Ceiling Pads - 2nd Floor	4 days	Mon 4/1/13	Thu 4/4/13
117	Paint Final Coat - 2nd Floor	7 days	Wed 4/3/13	Thu 4/11/13
118	MEP/FP Trim Out/Start Up - 2nd Floor	8 days	Mon 4/8/13	Wed 4/17/13
119	Install Doors/Hardware/Specialties - 2nd Floor	10 days	Wed 4/10/13	Tue 4/23/13
120	Install Flooring and Base - 2nd Floor	10 days	Mon 4/15/13	Fri 4/26/13
121	Final Cleaning - 2nd Floor	5 days	Thu 4/25/13	Wed 5/1/13
122	**Interior Fit-Out - 1st Floor**	**76 days**	**Wed 1/30/13**	**Wed 5/15/13**
123	Overhead MEP/FP Rough In - 1st Floor	15 days	Wed 1/30/13	Tue 2/19/13
124	Frame Interior Walls - 1st Floor	10 days	Fri 2/22/13	Thu 3/7/13
125	Wall Rough In - 1st Floor	15 days	Thu 2/28/13	Wed 3/20/13
126	Install Door Frames - 1st Floor	3 days	Wed 3/6/13	Fri 3/8/13
127	Hang/Tape/Finish Drywall - 1st Floor	15 days	Tue 3/19/13	Mon 4/8/13
128	Paint Walls - Prime/1st coat - 1st Floor	9 days	Thu 3/28/13	Tue 4/9/13
129	Install Ceiling Grid - 1st Floor	6 days	Wed 4/3/13	Wed 4/10/13
130	Install Millwork/Cabinets - 1st Floor	7 days	Thu 4/11/13	Fri 4/19/13
131	Ceiling Grid MEP/FP Rough In - 1st Floor	10 days	Thu 4/4/13	Wed 4/17/13
132	Install Ceiling Pads - 1st Floor	4 days	Tue 4/16/13	Fri 4/19/13
133	Paint Final Coat - 1st Floor	7 days	Thu 4/18/13	Fri 4/26/13
134	MEP/FP Trim Out/Start Up - 1st Floor	8 days	Tue 4/23/13	Thu 5/2/13
135	Install Doors/Hardware/Specialties - 1st Floor	10 days	Thu 4/25/13	Wed 5/8/13
136	Install Flooring and Base - 1st Floor	10 days	Mon 4/29/13	Fri 5/10/13
137	Final Cleaning - 1st Floor	5 days	Thu 5/9/13	Wed 5/15/13
138	**Interior Fit-Out - Basement**	**87 days**	**Mon 12/17/12**	**Tue 4/16/13**
139	Overhead MEP/FP Rough In - Basement	10 days	Wed 2/20/13	Tue 3/5/13
140	Frame Interior Walls - Basement	3 days	Wed 3/6/13	Fri 3/8/13
141	Wall Rough In - Basement	3 days	Fri 3/8/13	Tue 3/12/13
142	Install Door Frames - Basement	2 days	Fri 3/8/13	Mon 3/11/13
143	Hang/Tape/Finish Drywall - Basement	5 days	Tue 3/19/13	Mon 3/25/13
144	Paint Walls - Prime/1st coat - Basement	8 days	Thu 3/14/13	Mon 3/25/13
145	Install Fencing and Gates - Basement	21 days	Mon 12/17/12	Mon 1/14/13
146	Paint Final Coat - Basement	5 days	Tue 3/26/13	Mon 4/1/13
147	MEP/FP Trim Out/Start Up - Basement	3 days	Tue 4/2/13	Thu 4/4/13
148	Install Doors/Hardware/Specialties - Basement	3 days	Fri 4/5/13	Tue 4/9/13
149	Install Flooring and Base - Basement	2 days	Wed 4/10/13	Thu 4/11/13
150	Final Cleaning - Basement	3 days	Fri 4/12/13	Tue 4/16/13
151	**Testing and Inspections**	**40 days**	**Thu 4/4/13**	**Wed 5/29/13**
152	Punch List Creation - Floors 5-3	3 days	Mon 4/22/13	Wed 4/24/13
153	Complete Punch List Work - Floors 5 - 3	10 days	Thu 4/25/13	Wed 5/8/13
154	Punch List Creation - Floors 2, 1, Basement and Exterior	3 days	Thu 5/9/13	Mon 5/13/13
155	Complete Punch List Work - Floors 2, 1, Basement and Exterior	10 days	Tue 5/14/13	Mon 5/27/13
156	Life Safety and Occupancy Inspections	20 days	Thu 5/2/13	Wed 5/29/13
157	Achieve Certificate of Occupancy	0 days	Wed 5/29/13	Wed 5/29/13
158	ARCO Compile Closeout Documents and Manuals	30 days	Thu 4/4/13	Wed 5/15/13
159	Owner Training	5 days	Thu 5/23/13	Wed 5/29/13
160	Project Completion	0 days	Wed 5/29/13	Wed 5/29/13
161				



Project: Press Telegram Redevelopment
Date: Wed 1/30/13

Task | Milestone | Summary | External Tasks | Critical | Progress

MILLWORKS

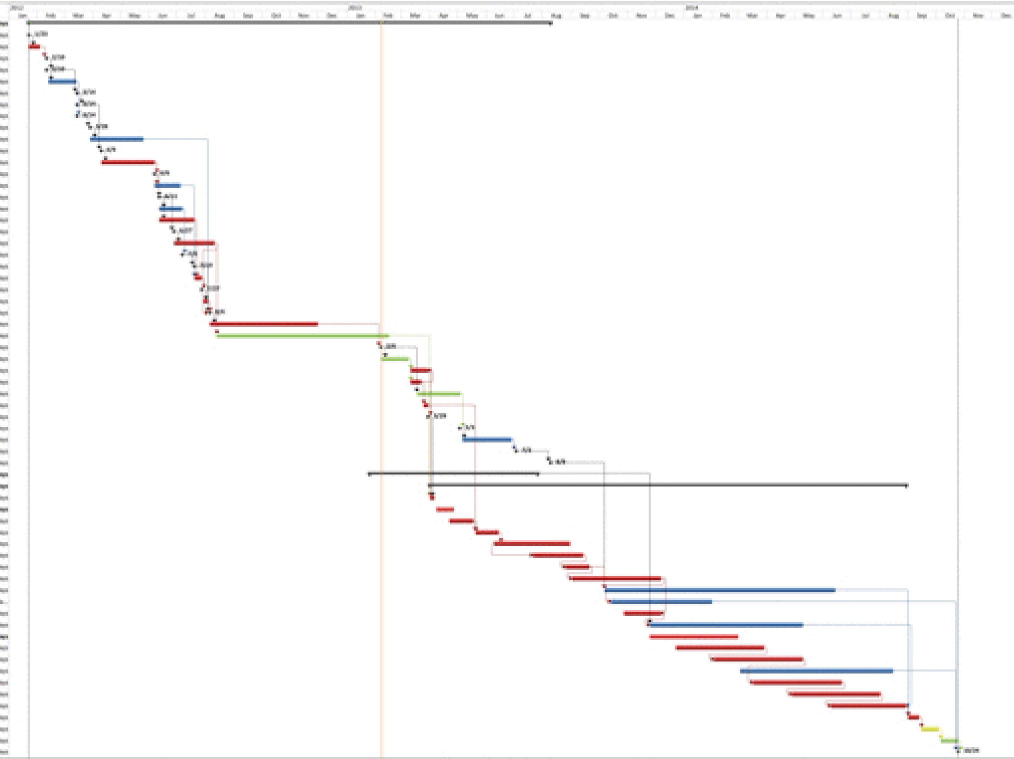
Meeker Baker Development

Long Beach, CA

ARCO Job No. N404

ARCO National Construction Company, Inc.

ID	Task Name	Duration	Start	Finish	Total Slack
1	**Design & Permitting**	**405 days**	**Mon 1/23/12**	**Fri 8/9/13**	**0 days**
2	Release to begin schematic design	0 days	Mon 1/23/12	Mon 1/23/12	0 days
3	Develop schematic design	10 days	Mon 1/23/12	Fri 2/3/12	0 days
4	Present schematic design to Owners	0 days	Fri 2/10/12	Fri 2/10/12	0 days
5	Approve schematic design for pricing	0 days	Fri 2/10/12	Fri 2/10/12	0 days
6	Price schematic design	22 days	Mon 2/13/12	Tue 3/13/12	50 days
7	City Planning Staff Work Session	0 days	Wed 3/14/12	Wed 3/14/12	0 days
8	City Planning Dept advises regarding approval process	0 days	Wed 3/14/12	Wed 3/14/12	0 days
9	Present construction budget to Owners	0 days	Wed 3/14/12	Wed 3/14/12	50 days
10	Issue Design Build Construction Contract	0 days	Wed 3/28/12	Wed 3/28/12	50 days
11	Negotiate/ Execute DB Construction Contract	42 days	Thu 3/29/12	Fri 5/25/12	50 days
12	CHC & Planning Dept work session	0 days	Mon 4/9/12	Mon 4/9/12	0 days
13	Revise schematic design to incorporate comments	42 days	Tue 4/10/12	Wed 6/6/12	0 days
14	Submit schematic design R1 to for CHC review	0 days	Wed 6/6/12	Wed 6/6/12	0 days
15	Price schematic design revisions	20 days	Thu 6/7/12	Wed 7/4/12	11 days
16	CHC meeting to approve project	0 days	Mon 6/11/12	Mon 6/11/12	0 days
17	Revise schematic design to address CHC conditions	19 days	Tue 6/12/12	Fri 7/6/12	11 days
18	Price schematic design revisions	28 days	Tue 6/12/12	Thu 7/19/12	0 days
19	Approve SD/ proceed with DD	0 days	Wed 6/27/12	Wed 6/27/12	0 days
20	Complete Design Development	32 days	Thu 6/28/12	Fri 8/10/12	0 days
21	Submit schematic design R2 for City Planning review	0 days	Fri 7/6/12	Fri 7/6/12	11 days
22	Planning Commission Meeting to approve project	0 days	Thu 7/19/12	Thu 7/19/12	11 days
23	Review/ approve construction price revisions	6 days	Fri 7/20/12	Fri 7/27/12	0 days
24	Issue CO for schematic design changes	0 days	Fri 7/27/12	Fri 7/27/12	0 days
25	Review/ approve CO for schematic design changes	5 days	Mon 7/30/12	Fri 8/3/12	0 days
26	Begin CD's	0 days	Mon 8/6/12	Mon 8/6/12	0 days
27	Complete Core & Shell Permit Drawings	85 days	Mon 8/6/12	Fri 11/30/12	0 days
28	Procure Financing	135 days	Mon 8/13/12	Fri 2/15/13	90 days
29	Submit Core & Shell plans for Building Permit	0 days	Wed 2/6/13	Wed 2/6/13	0 days
30	Building Department review & comment	22 days	Thu 2/7/13	Fri 3/8/13	0 days
31	Complete Core & Shell CD's	15 days	Mon 3/11/13	Fri 3/29/13	0 days
32	Address Building Department comments/ resubmit	10 days	Mon 3/11/13	Fri 3/22/13	0 days
33	Interiors Schematic Design	35 days	Mon 3/18/13	Fri 5/3/13	55 days
34	Building Department review & approval	5 days	Mon 3/25/13	Fri 3/29/13	0 days
35	Issue Core & Shell Building Permits	0 days	Fri 3/29/13	Fri 3/29/13	0 days
36	Approve Interiors Schematic Layout	0 days	Fri 5/3/13	Fri 5/3/13	55 days
37	Complete Interiors Permit Drawings	40 days	Mon 5/6/13	Fri 6/28/13	55 days
38	Submit Interiors Plans for permit review	0 days	Wed 7/3/13	Wed 7/3/13	55 days
39	Issue Interiors Building Permits	0 days	Fri 8/9/13	Fri 8/9/13	55 days
40	**Materials Procurement**	**130 days**	**Fri 1/25/13**	**Fri 7/26/13**	**4 days**
41	**Construction**	**370 days**	**Mon 4/1/13**	**Fri 8/29/14**	**0 days**
46	Mobilize Site	5 days	Mon 4/1/13	Fri 4/5/13	0 days
47	**Sidewalk protection/ MB temp support**	**15 days**	**Mon 4/8/13**	**Fri 4/26/13**	**0 days**
97	Demolition	20 days	Mon 4/22/13	Fri 5/17/13	0 days
98	Foundations	20 days	Mon 5/20/13	Fri 6/14/13	0 days
99	Structural Steel	60 days	Mon 6/10/13	Fri 8/30/13	0 days
100	Floor Slabs	40 days	Mon 7/22/13	Fri 9/13/13	0 days
101	Fireproofing	20 days	Mon 8/26/13	Fri 9/20/13	0 days
102	Exterior Framing & Finishes	70 days	Mon 9/2/13	Fri 12/6/13	0 days
103	MEP's	180 days	Mon 10/7/13	Fri 6/13/14	55 days
104	Plaza Finishes & Landscaping	80 days	Mon 10/14/13	Fri 1/31/14	190 da...
105	Roofing	30 days	Mon 10/28/13	Fri 12/6/13	0 days
106	Elevators	120 days	Mon 11/25/13	Fri 5/9/14	80 days
107	**Interior Buildout - 6th Floor**	**70 days**	**Mon 11/25/13**	**Fri 2/28/14**	**0 days**
121	Interior Buildout - 5th Floor	70 days	Mon 12/23/13	Fri 3/28/14	0 days
122	Interior Buildout - 4th Floor	70 days	Mon 2/3/14	Fri 5/9/14	0 days
123	Furniture Installation	120 days	Mon 3/3/14	Fri 8/15/14	50 days
124	Interior Buildout - 3rd Floor	70 days	Mon 3/17/14	Fri 6/20/14	0 days
125	Interior Buildout - 2nd Floor	70 days	Mon 4/28/14	Fri 8/1/14	0 days
126	Interior Buildout - 1st Floor	60 days	Mon 6/9/14	Fri 8/29/14	0 days
127	Final Inspections/ Occupancy Permit	10 days	Mon 9/1/14	Fri 9/12/14	0 days
128	Weather Days	15 days	Mon 9/15/14	Fri 10/3/14	0 days
129	Move In	15 days	Mon 10/6/14	Fri 10/24/14	0 days
130	Project Complete	0 days	Fri 10/24/14	Fri 10/24/14	0 days



Project: 2013030X Meeker Baker
Date: 02/08/13

Task | Split | Milestone | Summary | Project Summary | External Tasks | External Milestone | Inactive Task | Inactive Milestone | Inactive Summary | Manual Task | Duration-only | Manual Summary Rollup | Manual Summary | Start-only | Finish-only | Deadline | Critical | Critical Split | Progress

ARCO
NATIONAL CONSTRUCTION

EXHIBIT F - DRAWING LOG

Millworks – Press Telegram
89,702 SF Office Retrofit
ARCO Job N-410
CA License # 807644
Updated 2/6/13

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer
	Civils				
C0.01	Title Sheet	2/17/12	--	--	Kpff Consulting Engineers
C1.00	Site Plan	2/17/12	--	--	Kpff Consulting Engineers
C1.10	Erosion Control Plan	2/17/12	--	--	Kpff Consulting Engineers
C1.30	Grading & Drainage Plan	2/17/12	--	--	Kpff Consulting Engineers
C5.00	Civil Details	2/17/12	--	--	Kpff Consulting Engineers
	Landscaping				
L-1.0	Paving Details & Legend	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-1.1	Concrete Paver Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-1.2	Water Feature Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-1.3	Bench Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-2.0	Irrigation Notes	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-2.1	Landscape Irrigation Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-2.2	Landscape Irrigation Specifications & Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-2.3	Portable Planting Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-3.0	Planting Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
L-3.1	Tree Planting Details	8/21/12	4	12/10/12	Landscape Architecture Laboratory
	Architectural				
A1.0	Site Plan	8/21/12	6	2/6/13	GMA Architects, Inc.
A1.1	Architectural Site Details	8/21/12	6	2/6/13	GMA Architects, Inc.
A1.2	Architectural Site Details	8/21/12	5	1/22/13	GMA Architects, Inc.
A2.0	Basement Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A2.1	First Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A2.2	Second Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A2.3	Third Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A2.4	Fourth Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer
A2.4A	Fourth Floor Mezzanine Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A2.5	Fifth Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A2.6	Overall Roof Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
A5.1	Exterior Elevations	8/21/12	6	2/6/13	GMA Architects, Inc.
A5.2	Exterior Elevations	8/21/12	6	2/6/13	GMA Architects, Inc.
A5.3	Exterior Elevations	8/21/12	3	12/10/12	GMA Architects, Inc.
A5.4	Window Types	8/21/12	3	12/10/12	GMA Architects, Inc.
A5.5	Window Types	8/21/12	3	12/10/12	GMA Architects, Inc.
A5.6	Window Types	8/21/12	3	12/10/12	GMA Architects, Inc.
A5.7	Window Types	8/21/12	3	12/10/12	GMA Architects, Inc.
A6.1	Exterior Wall Sections	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.1	Section Details	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.2	Section Details	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.3	Section Details	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.4	Section Details	8/21/12	3	12/10/12	GMA Architects, Inc.

ARCO
NATIONAL CONSTRUCTION

Exhibit

F – Drawing Log 2 ARCO Job No. N-4

		Issue	Rev	Rev	

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer
A7.5	Roof Enlarged Details	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.6	Architectural Details	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.7	Architectural Details	8/21/12	3	12/10/12	GMA Architects, Inc.
A7.8	Canopy Details	8/21/12	6	2/6/13	GMA Architects, Inc.
A7.9	Metal Panel Detail	8/21/12	3	12/10/12	GMA Architects, Inc.
A8.1	Enlarged Stair Plans	8/21/12	3	12/10/12	GMA Architects, Inc.
A8.2	Stair Sections	8/21/12	3	12/10/12	GMA Architects, Inc.
A8.3	Stair Sections	8/21/12	3	12/10/12	GMA Architects, Inc.
A8.4	Elevator Sections	8/21/12	3	12/10/12	GMA Architects, Inc.
A8.5	Enlarged Elevation Plans	8/21/12	3	12/10/12	GMA Architects, Inc.
A9.1	UL References	8/21/12	3	12/10/12	GMA Architects, Inc.
A9.2	UL References	8/21/12	3	12/10/12	GMA Architects, Inc.
	Tenant Improvement Architectural				
TT1.0	Title Sheet	8/21/12	3	12/10/12	GMA Architects, Inc.
TT2.1	City General Notes	8/21/12	3	12/10/12	GMA Architects, Inc.
TT2.2	Accessibility Notes	8/21/12	3	12/10/12	GMA Architects, Inc.
TT3.1	Long Beach CalGreen Checklist	8/21/12	3	12/10/12	GMA Architects, Inc.
TT3.2	Long Beach CalGreen Checklist	8/21/12	3	12/10/12	GMA Architects, Inc.
TLS1.0	Basement Life Safety Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TLS1.1	1st Floor Life Safety Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TLS1.2	2nd Floor Life Safety Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TLS1.3	3rd Floor Life Safety Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TLS1.4	4th Floor Life Safety Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TLS1.5	5th Floor Life Safety Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA2.0	Basement Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.

Exhibit

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

TA2.1	1st Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA2.2	2nd Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA2.3	3rd Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA2.4	4th Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA2.4B	1st Floor Ramp Details	8/21/12	3	12/10/12	GMA Architects, Inc.
TA2.5	5th Floor Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA3.1	1st Floor Reflected Ceiling Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA3.2	2nd Floor Reflected Ceiling Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA3.3	3rd Floor Reflected Ceiling Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA3.4	4th Floor Reflected Ceiling Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA3.4A	4th Floor Ceiling Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA3.5	5th Floor Reflected Ceiling Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.1	Details	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.2	Partition Types	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.3	Partition Types	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.3A	Partition Types – Shell	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.4	Doors and Details – Shell	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.5	Interior Door Schedule	8/21/12	3	12/10/12	GMA Architects, Inc.
TA4.6	Doors – Interior	8/21/12	3	12/10/12	GMA Architects, Inc.
TA5.1	Door Schedule	8/21/12	3	12/10/12	GMA Architects, Inc.
TA5.2	Door Details	8/21/12	3	12/10/12	GMA Architects, Inc.
TA 6.1	Restrooms	8/21/12	3	12/10/12	GMA Architects, Inc.
TA6.2	Restrooms	8/21/12	3	12/10/12	GMA Architects, Inc.
TA6.3	Restrooms	8/21/12	3	12/10/12	GMA Architects, Inc.
TA7.1	Millwork	8/21/12	3	12/10/12	GMA Architects, Inc.

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

TA7.2	Millwork	8/21/12	3	12/10/12	GMA Architects, Inc.
TA7.3	Millwork	8/21/12	3	12/10/12	GMA Architects, Inc.
TA7.4	Lobby Elevation	8/21/12	3	12/10/12	GMA Architects, Inc.
TA8.0	Finish Schedule	8/21/12	3	12/10/12	GMA Architects, Inc.
TA8.1	1st Floor Finish Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA8.2	2nd Floor Finish Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA8.3	3rd Floor Finish Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA8.4	4th Floor Finish Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
TA8.5	5th Floor Finish Plan	8/21/12	3	12/10/12	GMA Architects, Inc.
SK-1	TA2.1 Revision	10/17/12	--	--	GMA Architects, Inc.
SK-2	TA3.1 Revision	10/17/12	--	--	GMA Architects, Inc.
SK-3	A7.9 Revision	10/17/12	--	--	GMA Architects, Inc.
SK-4	TA4.5 Revision	10/19/12	--	--	GMA Architects, Inc.
SK-5	TA2.2 Revision	10/25/12	--	--	GMA Architects, Inc.
SK-6	TA2.3 Revision	10/25/12	--	--	GMA Architects, Inc.
SK-7	TA2.4 Revision	10/25/12	--	--	GMA Architects, Inc.
SK-8	TA3.2 Revision	10/25/12	--	--	GMA Architects, Inc.
SK-9	TA3.3 Revision	10/25/12	--	--	GMA Architects, Inc.
SK-10	TA2.4 Revision	10/25/12	--	--	GMA Architects, Inc.
SK-11	A2.4 Revision	11/12/12	--	--	GMA Architects, Inc.
SK-12	A5.2 Revision	11/12/12	--	--	GMA Architects, Inc.
SK-13	A2.4 Revision	11/12/12	--	--	GMA Architects, Inc.
	Structural				
S0.01	General Notes	8/21/12	5	12/10/12	Englekirk Structural Engineers
S0.02	General Notes	8/21/12	5	12/10/12	Englekirk Structural Engineers
S0.03	General Notes	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.01	Typical Concrete Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.02	Typical Concrete Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.03	Typical Concrete Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.11	Typical Shearwall Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.12	Typical Shearwall Details	8/21/12	5	12/10/12	Englekirk Structural Engineers

Exhibit

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

S1.13	Typical Shearwall Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.21	Typical Steel Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.22	Typical Steel Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.23	Typical Steel Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.31	Typical Metal Stud Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.32	Typical Metal Stud Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.33	Typical Metal Stud Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S1.41	Typical Stair Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S2.00	Basement/Foundation Plan	8/21/12	5	12/10/12	Englekirk Structural Engineers
S2.01	First Floor Framing Plan	8/21/12	6	12/21/12	Englekirk Structural Engineers
S2.02	Second Floor Framing Plan	8/21/12	5	12/10/12	Englekirk Structural Engineers
S2.03	Third Floor Framing Plan	8/21/12	5	12/10/12	Englekirk Structural Engineers
S2.04	Fourth Floor Framing Plan	8/21/12	5	12/10/12	Englekirk Structural Engineers
S2.05	Fifth Floor/Roof Framing Plan	8/21/12	5	12/10/12	Englekirk Structural Engineers
S2.06	Roof Framing Plan	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.01	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.02	Section and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.03	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.11	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.12	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.13	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.14	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S3.15	Sections and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S4.01	Bridge Elevation and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S4.02	Bridge Elevation and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers

Exhibit

F – Drawing Log 6 ARCO Job No. N-4

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

S4.03	Bridge Elevation and Details	8/21/12	5	12/10/12	Englekirk Structural Engineers
S5.01	Electrical / Trash Enclosure Elevations	8/21/12	8	1/31/13	Englekirk Structural Engineers
SK4	Sketch	10/30/12	--	--	Englekirk Structural Engineers
SSK 18	Sign Anchorage	12/18/12	--	--	Englekirk Structural Engineers
	Mechanical				
M-0.1	Cover Sheet	8/21/12	4	12/10/12	Icon Mechanical
M-1.0	Mechanical Basement Plan	8/21/12	5	1/11/13	Icon Mechanical
M-1.1	Mechanical First Floor Plan	8/21/12	5	1/11/13	Icon Mechanical
M-1.2	Mechanical Second Floor Plan	8/21/12	5	1/11/13	Icon Mechanical
M-1.3	Mechanical Third Floor Plan	8/21/12	5	1/11/13	Icon Mechanical
M-1.4	Mechanical Fourth Floor Plan	8/21/12	5	1/11/13	Icon Mechanical
M-1.5	Mechanical Fifth Floor & Roof Plan	8/21/12	5	1/11/13	Icon Mechanical
M-2.1	Mechanical First Floor Piping Plan	8/21/12	5	1/11/13	Icon Mechanical
M-2.2	Mechanical Second Floor Piping Plan	8/21/12	5	1/11/13	Icon Mechanical
M-2.3	Mechanical Third Floor Piping Plan	8/21/12	5	1/11/13	Icon Mechanical
M-2.4	Mechanical Fourth Floor Piping Plan	8/21/12	5	1/11/13	Icon Mechanical
M-2.5	Mechanical Fifth Floor & Roof Piping Plan	8/21/12	5	1/11/13	Icon Mechanical
M-4.1	Mechanical Details	8/21/12	4	12/10/12	Icon Mechanical
M-4.2	Mechanical Details	8/21/12	4	12/10/12	Icon Mechanical
M-6.1	Mechanical Schedules	8/21/12	4	12/10/12	Icon Mechanical
M-6.2	Mechanical Schedules	8/21/12	4	12/10/12	Icon Mechanical
	Electrical				
TE0.0	Title Sheet	8/21/12	6	1/16/13	InPwr, Inc.
TE0.1	Symbols, Notes, and Abbreviations	8/21/12	6	1/16/13	InPwr, Inc.
TE0.2	Title 24	8/21/12	6	1/16/13	InPwr, Inc.
TE0.3	Title 24	8/21/12	6	1/16/13	InPwr, Inc.
TE0.4	Title 24	8/21/12	6	1/16/13	InPwr, Inc.
TE0.5	Title 24	8/21/12	6	1/16/13	InPwr, Inc.
TE1.0	Site Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE2.0	Basement Floor Distribution Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE2.1	First Floor Distribution Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE2.2	Second Floor Distribution Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE2.3	Third Floor Distribution Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE2.4	Fourth Floor Distribution Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE2.5	Fifth Floor Distribution Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE3.0	Basement Floor Lighting Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE3.1	First Floor Lighting Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE3.2	Second Floor Lighting Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE3.3	Third Floor Lighting Plan	8/21/12	6	1/16/13	InPwr, Inc.

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

TE3.4	Fourth Floor Lighting Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE3.5	Fifth Floor Lighting Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE3.6	Basement Floor Lighting Plan – Less than 50V	8/21/12	6	1/16/13	InPwr, Inc.
TE3.7	First Floor Lighting Plan – Less than 50V	8/21/12	6	1/16/13	InPwr, Inc.
TE3.8	Second Floor Lighting Plan – Less than 50V	8/21/12	6	1/16/13	InPwr, Inc.
TE3.9	Third Floor Lighting Plan – Less than 50V	8/21/12	6	1/16/13	InPwr, Inc.
TE3.10	Fourth Floor Lighting Plan – Less than 50V	8/21/12	6	1/16/13	InPwr, Inc.
TE3.11	Fifth Floor Lighting Plan – Less than 50V	8/21/12	6	1/16/13	InPwr, Inc.
TE4.0	Basement Floor Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE4.1	First Floor Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE4.2	Second Floor Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE4.3	Third Floor Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE4.4	Fourth Floor Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE4.5	Fifth Floor Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE5.0	Basement Floor HVAC Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE5.1	First Floor HVAC Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE5.2	Second Floor HVAC Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE5.3	Third Floor HVAC Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE5.4	Fourth Floor HVAC Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE5.5	Fifth Floor HVAC Power Plan	8/21/12	6	1/16/13	InPwr, Inc.
TE6.0	Enlarged Plans	8/21/12	6	1/16/13	InPwr, Inc.
TE6.1	Enlarged Plans	8/21/12	6	1/16/13	InPwr, Inc.
TE6.2	Elevation Plans	8/21/12	6	1/16/13	InPwr, Inc.
TE6.3	Enlarged Plans	8/21/12	6	1/16/13	InPwr, Inc.
TE7.0	Details	8/21/12	6	1/16/13	InPwr, Inc.
TE7.1	Details	8/21/12	6	1/16/13	InPwr, Inc.
TE7.2	Details	8/21/12	6	1/16/13	InPwr, Inc.
TE8.0	One Line Diagram	8/21/12	6	1/16/13	InPwr, Inc.
TE9.0	Schedules	8/21/12	6	1/16/13	InPwr, Inc.
TE9.1	Panel Schedules	8/21/12	6	1/16/13	InPwr, Inc.
TE9.2	Panel Schedules	8/21/12	6	1/16/13	InPwr, Inc.
TE9.3	Schedules	8/21/12	6	1/16/13	InPwr, Inc.
	Plumbing				
P0.1	Plumbing Legend, Schedules &Gen. Notes	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P2.0	Plumbing Basement Base Plan	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P2.1	Plumbing First Floor Plan	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P2.2	Plumbing Second Floor Plan	7/26/12	5	12/10/12	Andersen Commercial Plumbing

Exhibit

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

P2.3	Plumbing Third Floor Plan	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P2.4	Plumbing Fourth Floor Plan	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P2.5	Plumbing 5th Floor/4th Roof Plans	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P3.1	Plumbing Fifth Floor Roof Plan	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P4.1	Riser Diagrams	7/26/12	5	12/10/12	Andersen Commercial Plumbing
P4.2	Riser Diagrams	7/26/12	5	12/10/12	Andersen Commercial Plumbing
	Tenant Improvement Plumbing				
TP0.1	Plumbing Legend, Schedules &Gen. Notes	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP2.0	Plumbing Basement Floor Plan	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP2.1	Plumbing First Floor Plan	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP2.2	Plumbing Second Floor Plan	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP2.3	Plumbing Third Floor Plan	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP2.4	Plumbing Fourth Floor Plan	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP3.1	Plumbing Fifth Floor Roof Plan	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP4.1	Plumbing Partial Floor Plans	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP4.2	Plumbing Partial Floor Plans	5/21/12	5	12/10/12	Andersen Commercial Plumbing
TP5.1	Plumbing Riser Diagrams	5/21/12	5	12/10/12	Andersen Commercial Plumbing
	Fire Protection				
FP-1	Notes & Details	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-2	Site Plan / UG Details	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-3	Stand Pipe Details	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-4	Sections & Details	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-5	EQB Calcs & Details	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-6	Basement Piping Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-7	1st Floor Piping Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-8	2nd Floor Piping Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

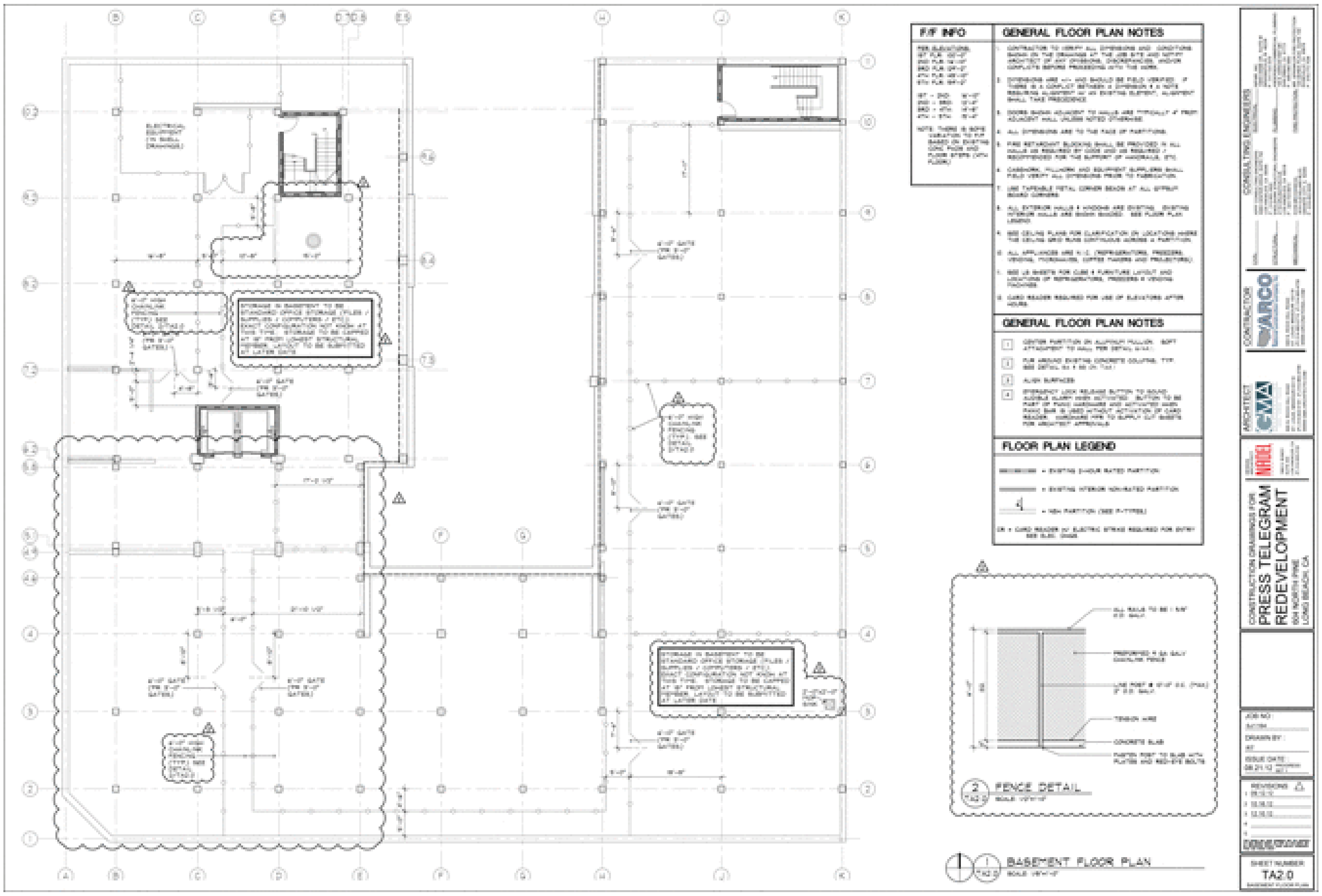
FP-9	3rd Floor Piping Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-10	4th Floor Piping Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-11	5th Floor Piping Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-12	Hydraulic Placards	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-13	1st Floor Reflective Ceiling Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-14	2nd Floor Reflective Ceiling Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-15	3rd Floor Reflective Ceiling Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-16	4th Floor Reflective Ceiling Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
FP-17	5th Floor Reflective Ceiling Plan	4/25/12	4	12/10/12	Mr. Sprinkler Fire Protection
	Fire Alarm				
FA 3 of 10	Cover Sheet	12/20/12	--	--	Siemens
FA 2 of 10	Standby Battery & Voltage Drop Calculations	12/20/12	--	--	Siemens
FA 3 of 10	Basement Floor Plan with Fire Alarm Equipment	12/20/12	--	--	Siemens
FA 4 of 10	First Floor Plan with Fire Alarm Equipment	12/20/12	--	--	Siemens
FA 5 of 10	Second Floor Plan with Fire Alarm Equipment	12/20/12	--	--	Siemens
FA 6 of 10	Third Floor Plan with Fire Alarm Equipment	12/20/12	--	--	Siemens
FA 7 of 10	Fourth Floor Plan with Fire Alarm Equipment	12/20/12	--	--	Siemens
FA 8 of 10	Fifth Floor Plan with Fire Alarm Equipment	12/20/12	--	--	Siemens
FA 9 of 10	Fire Alarm System Riser Diagram	12/20/12	--	--	Siemens
FA 9 of 10	Point to Point Wiring Diagram	12/20/12	--	--	Siemens
	Control Drawings				
Cover	Cover Page	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-1	Network Diagram Floors 5, 4 & 3	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-2	Network Diagram Floors 2, 1 & Basement	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-3	VAV Box Wiring Diagram & I/O Points	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-4	FTU W/ Hot Water Reheat Wiring Diagram & I/O Points	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-5	VAV Box Wiring Diagram w/VEF & I/O Points	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-6	Not Used	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-7	Central Plant Schematic Drawing	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-8	Central Plant Wiring Diagram	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.

Exhibit

F – Drawing Log 10 ARCO Job No. N-4

Dwg No.	Description	Issue Date	Rev. No.	Rev. Date	Architect/Engineer

TCC-9	Central Plant I/O Points List	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-10	Central Plant I/O Points List Notes	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-11	Central Plant Control Panel TCP-1	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-12	AHU-1/CU-1 Schematic Drawing	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-13	AHU-1/CU-1 Wiring Diagram	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-14	AHU-1/CU-1 BAC 5802 I/O Points List & Notes	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-15	TCP-2 Control Panel	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-16	Valve Schedule	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.
TCC-17	FTU & VAV Unit Schedule	9/19/12	1.4	1/11/13	Taycon-TMI, Inc.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CONTRACTOR
ARCO
ARCHITECT
CMA
CONSTRUCTION DRAWINGS FOR
PRESS TELEGRAM
REDEVELOPMENT
604 NORTH PINE
LONG BEACH, CA
SHEET NUMBER
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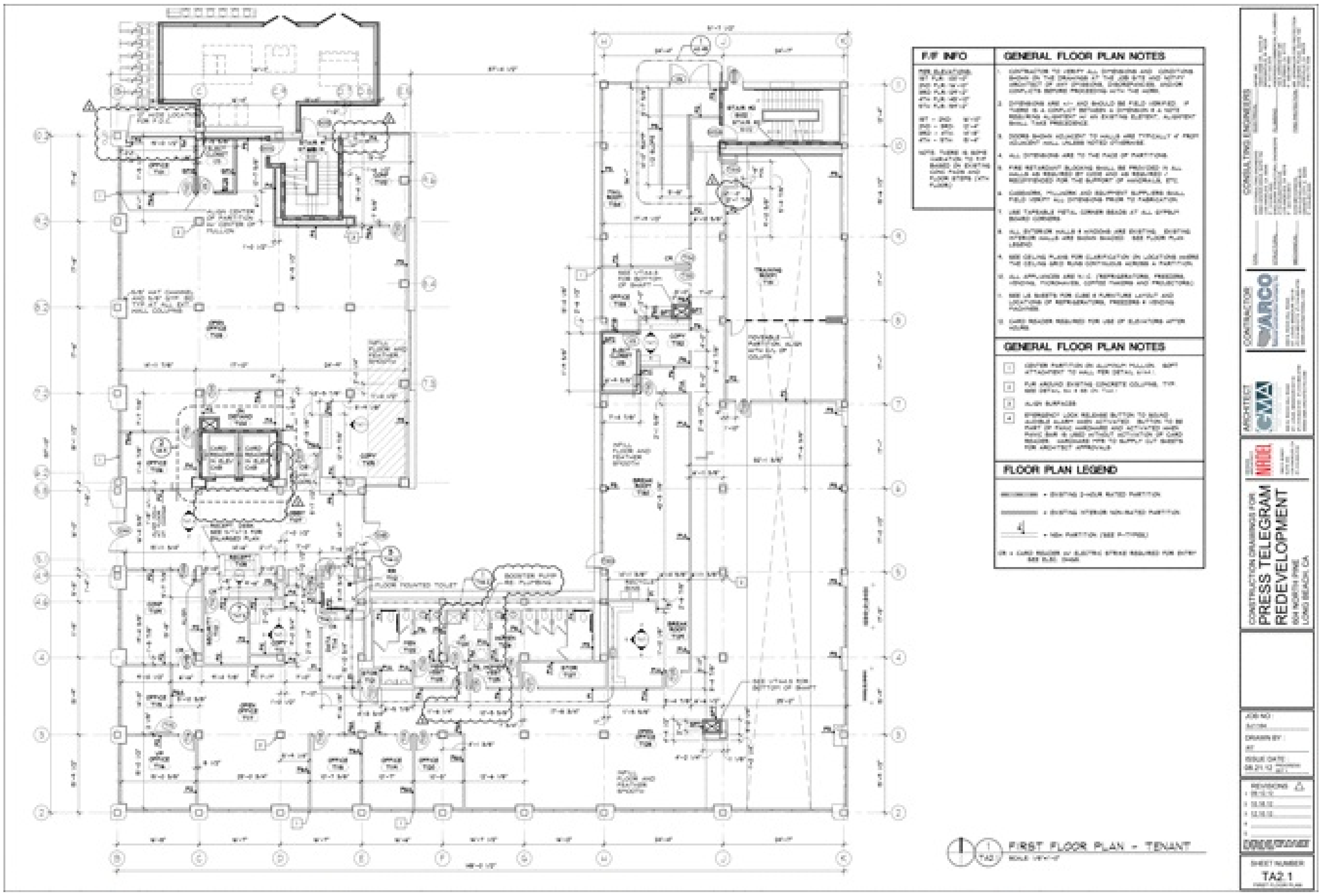

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CONTRACTOR
ARCO
ARCHITECT
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PRESS TELEGRAM
REDEVELOPMENT
LONG BEACH, CA
JOB NO.:
DRAWN BY:
ISSUE DATE:
REVISIONS
SHEET NUMBER
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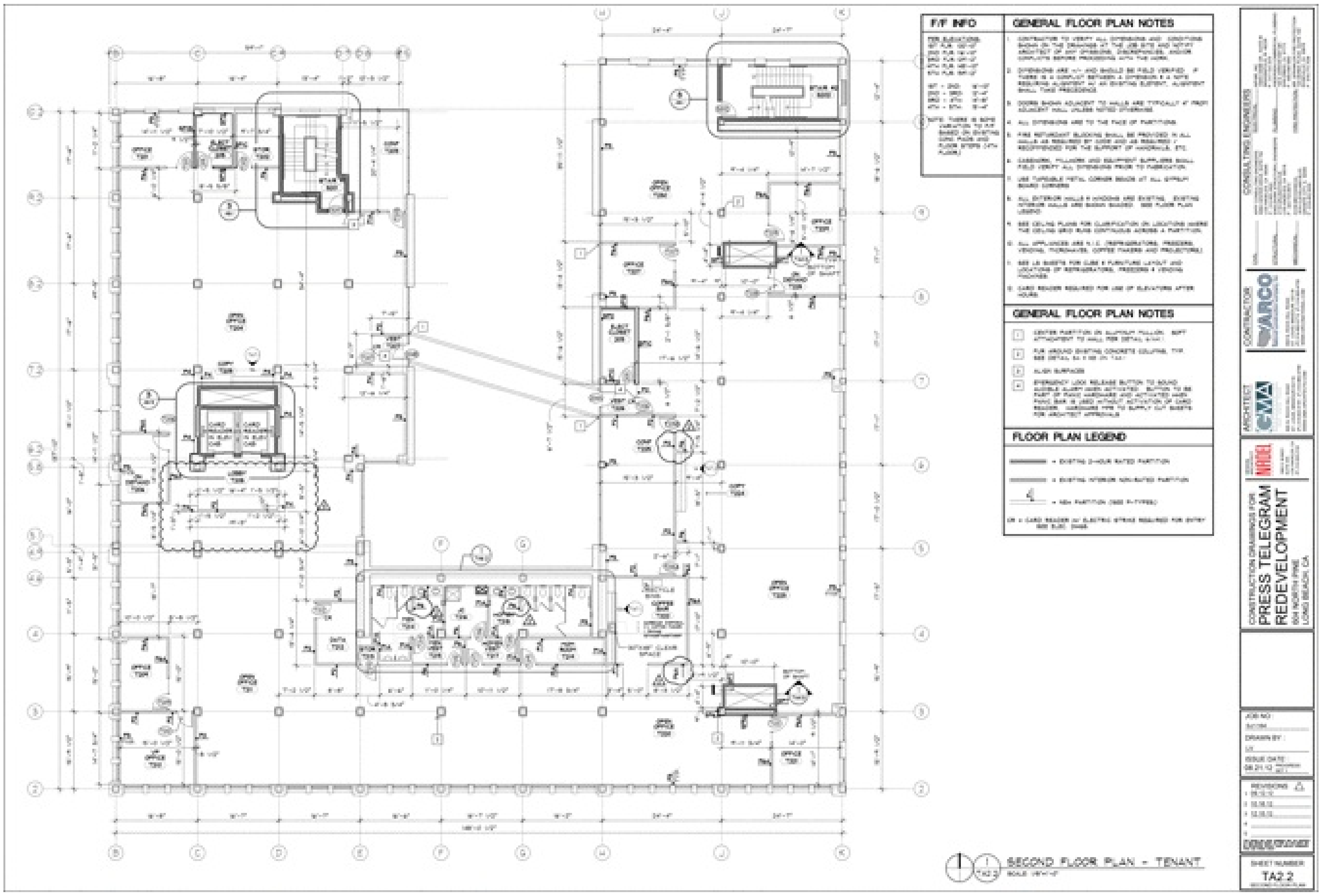
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CONTRACTOR
ARCO
ARCHITECT
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JOB NO.:
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ISSUE DATE:
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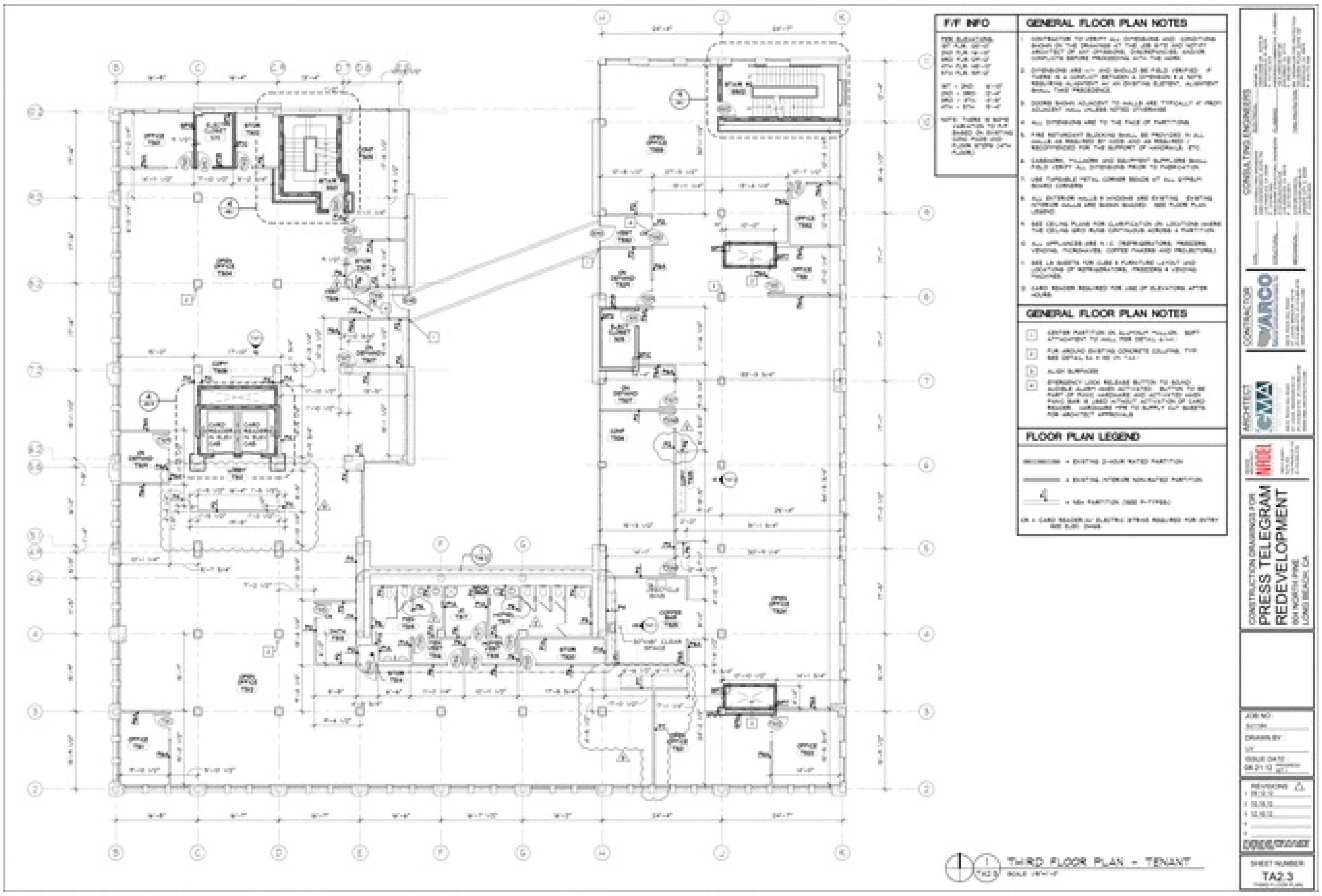
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CONTRACTOR
ARCO
CONSULTING ENGINEERS
CONSTRUCTION DRAWINGS FOR
PRESS TELEGRAM
REDEVELOPMENT
LONG BEACH, CA
JOB NO.
DRAWN BY
ISSUE DATE
REVISIONS
SHEET NUMBER
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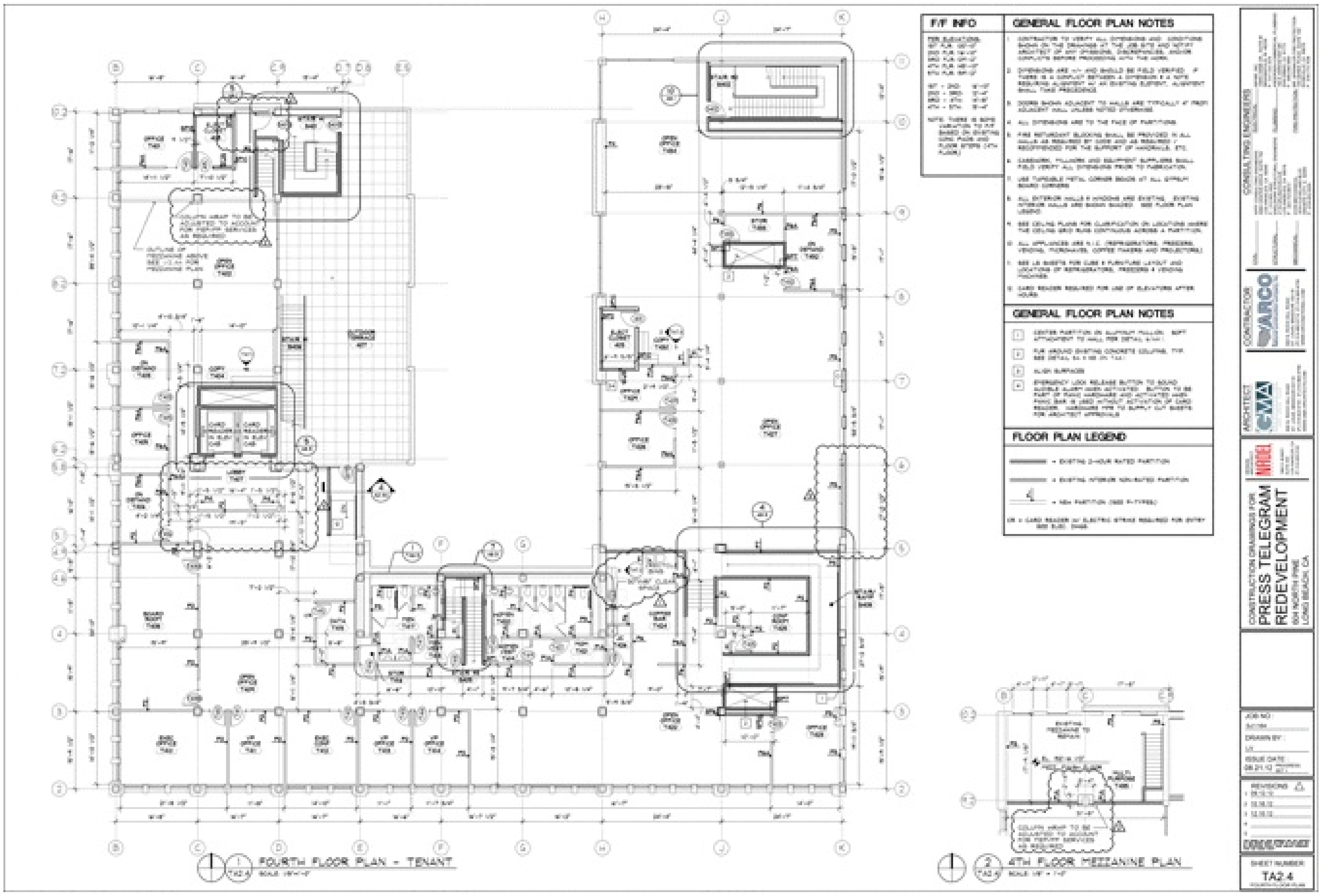

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4TH FLOOR MEZZANINE PLAN
CONSULTING ENGINEERS
ARCHITECT
CONTRACTOR
ARCO
CONSTRUCTION DRAWINGS FOR
PRESS TELEGRAM
REDEVELOPMENT
604 NORTH PINE
LONG BEACH, CA
JOB NO.:
DRAWN BY:
ISSUE DATE:
REVISIONS
SHEET NUMBER
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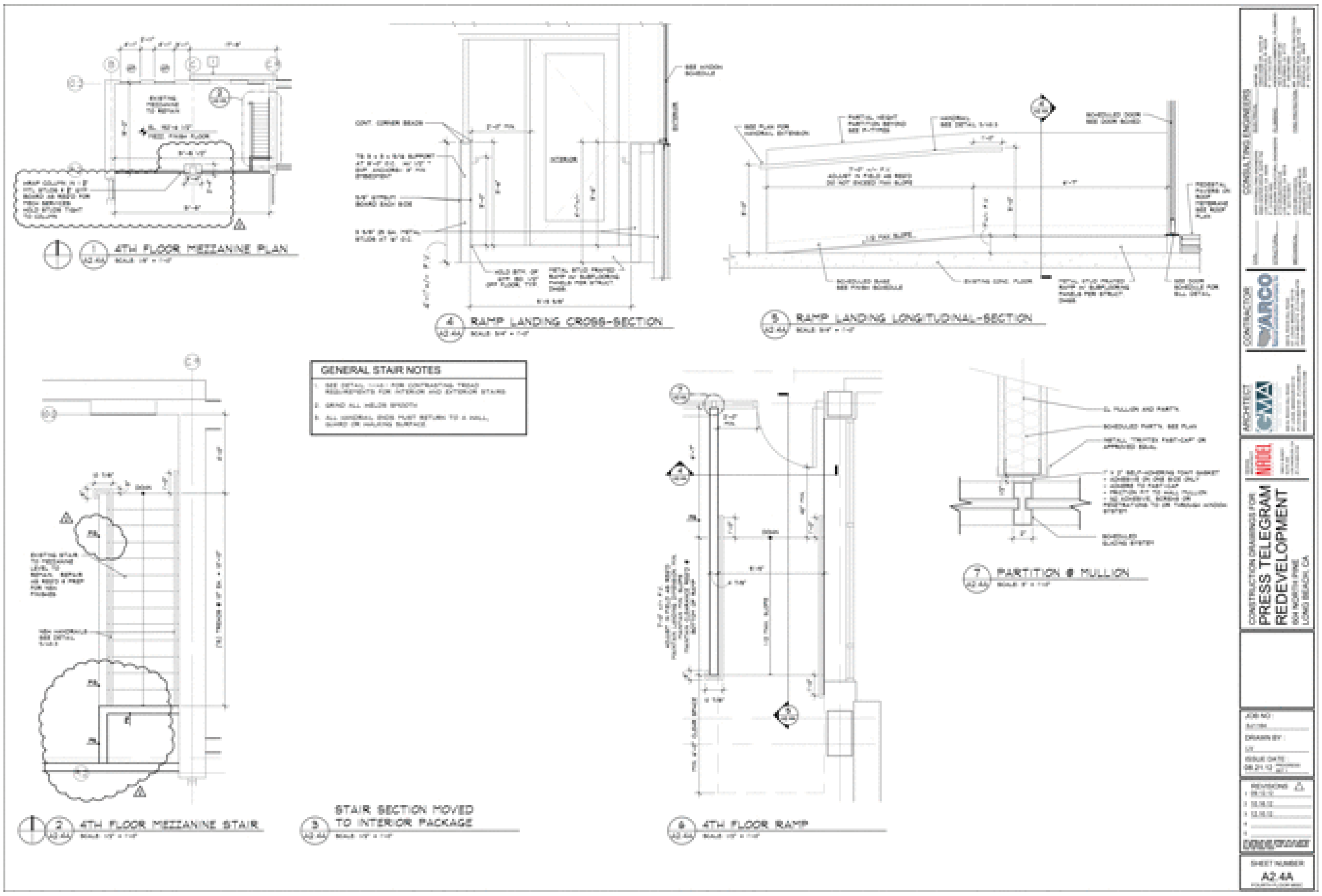

4TH FLOOR MEZZANINE PLAN
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RAMP LANDING LONGITUDINAL-SECTION
GENERAL STAIR NOTES
4TH FLOOR MEZZANINE STAIR
STAIR SECTION MOVED TO INTERIOR PACKAGE
4TH FLOOR RAMP
PARTITION @ MULLION
CONSULTING ENGINEERS
CONTRACTOR
ARCHITECT
CONSTRUCTION DRAWINGS FOR
PRESS TELEGRAM
REDEVELOPMENT
LONG BEACH, CA
JOB NO.:
DRAWN BY:
ISSUE DATE:
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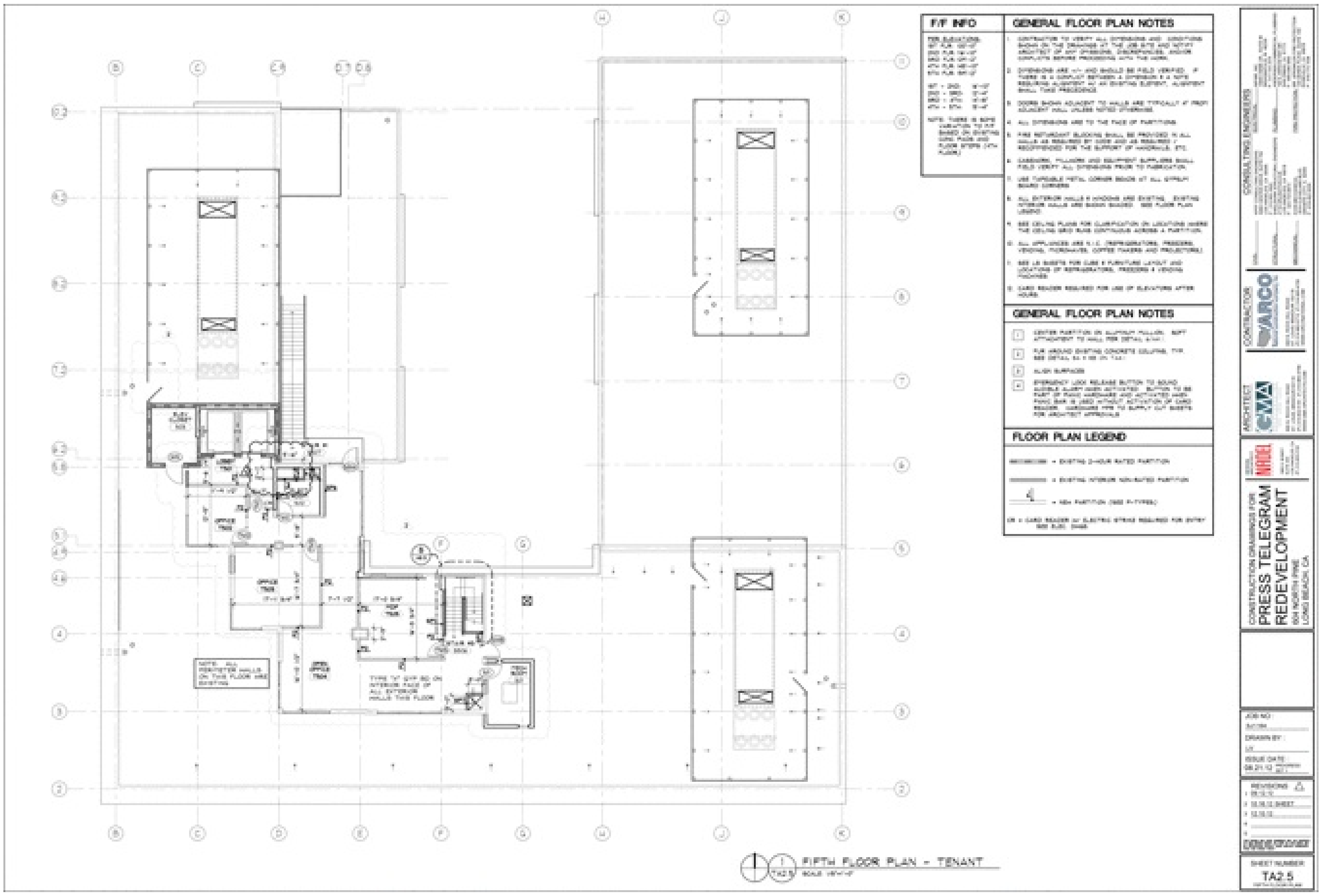
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ARCHITECT
CONTRACTOR
ARCO
CONSTRUCTION DRAWINGS FOR
PRESS TELEGRAM
REDEVELOPMENT
604 NORTH PINE
LONG BEACH, CA
JOB NO.:
DRAWN BY:
ISSUE DATE:
REVISIONS
SHEET NUMBER
TA2.5

RECORDING REQUESTED BY &)
WHEN RECORDED RETURN TO:)
)
East West Bank)
9300 Flair Drive, 6th Floor)
El Monte, CA 91731)
Attn: Loan Servicing)
)

(Space Above This Line For Recorder's Use)

SUBORDINATION AGREEMENT AND
AGREEMENT OF NON-DISTURBANCE AND ATTORNMENT
(EWB Form – Rev. 2-2007)

This Subordination Agreement and Agreement of Non-Disturbance and Attornment ("Agreement") is made and entered into as of this ___ day of __________, 2013, among (i) East West Bank ("Lender"), (ii) Molina Healthcare, Inc. ("Tenant") and (iii) 6th & Pine Development, LLC ("Owner"), with reference to the following:

RECITALS

A. Lender has made a loan in the amount of approximately $1,530,000 and is proposing to make additional loans (collectively, the "Loans") to Owner, which are secured or are to be secured by, among other things, (i) certain deeds of trust recorded or to be recorded against all or a portion of the real property legally described in Exhibit A attached hereto and the improvements thereon (collectively, the "Real Property"), consisting of (a) an existing Deed of Trust in the amount of $1,530,000 in connection with Owner's development of Phase II (as such term is defined in the Lease described below) (which, upon the recordation of the Construction Deed of Trust for Phase II described in (c) below, is expected to be paid in full and reconveyed), (b) a Construction Deed of Trust, which is expected to be recorded in the amount of approximately $15,795,000 in connection with Owner's development of Phase I (as such term is defined in the Lease described below), and (c) a Construction Deed of Trust, which is expected to be recorded in the amount of approximately $25,350,000 in connection with Owner's development of Phase II (each, a "Deed of Trust" and collectively, the "Deeds of Trust"), and (ii) a collateral assignment (the "Collateral Assignment") of Owner's rights under that certain Parking License Agreement dated as of May 25, 2012 (together with all amendments thereto, the "Parking Agreement"), between the City of Long Beach, as "Licensor," and Owner, as "Licensee". The Real Property, together with Owner's rights under the Parking Agreement, shall be referred to herein, collectively, as the "Property".

B. Tenant has leased the Real Property and been granted certain off-site parking rights which Owner intends to satisfy, to the extent possible, with parking spaces provided to it under the Parking Agreement (collectively, the "Premises), pursuant to that certain Office Building Lease – Full Service Gross – Single Tenant Building(s) dated as of February 28, 2013 (together with all amendments thereto being referred to as the "Lease"), by and between Owner and Tenant.

C. Lender and Tenant desire to enter into this Agreement under which Tenant subordinates the Lease and its interest in the Property and agrees to attorn to Lender and under which Lender agrees to not disturb Tenant's possession of or right to use the Premises all to the extent set forth herein, and so long as Tenant is not in default under the Lease.

NOW THEREFORE, with reference to the foregoing recitals and for good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties to this Agreement agree as follows:

1. Subordination. Subject to the terms and conditions of this Agreement, the Lease, and the rights of Tenant in, to and under the Lease and the Premises, are hereby subjected and subordinated to the lien of each Deed of Trust, it being understood and agreed that the foregoing subordination shall apply to any and all increases, renewals, modifications, extensions, substitutions, replacements and/or consolidations of each Deed of Trust, provided that any and all such increases, renewals, modifications, extensions, substitutions, replacements and/or consolidations shall nevertheless be subject to the terms of this Agreement.

2. Tenant Not to Be Disturbed; Rights Preserved. So long as Tenant is not in default in the payment of rent or of any of the terms, covenants or conditions of the Lease on Tenant's part to be performed (beyond any period given Tenant in the Lease to cure such default) and Tenant attorns to Lender as provided herein, (a) neither Tenant's possession or use or right to possession or use of the Premises, nor any other right or privilege granted or inuring to the benefit of Tenant under the Lease, shall be diminished, disturbed or interfered with by Lender, and (b) Lender will not join Tenant as a party defendant in any action or proceeding foreclosing any one or more of the Deeds of Trust unless such joinder is necessary to foreclose such Deed(s) of Trust and then only for such purpose and not for the purpose of terminating the Lease. Lender acknowledges that Tenant has a right of first offer to purchase the Premises, as set forth in Exhibit "I-1" of the Lease, and an option to purchase the Premises, as set forth in Exhibit "I-2" of the Lease (collectively, the "Tenant Purchase Rights"). Lender acknowledges and agrees that the Tenant Purchase Rights will expressly survive (and may be exercised by Tenant pursuant to the respective terms thereof following) any transfer of the Premises to any third-party purchaser that occurs as the result of a foreclosure or other proceeding brought to enforce any one or more of the Deeds of Trust, or any such transfer of the Premises by deed in lieu of foreclosure; provided, however, that Tenant's Purchase Rights shall not be exercisable (i) in any transfer that occurs as the result of a foreclosure, deed in lieu of foreclosure or other such proceeding or (ii) during such time as Lender is the owner of the Premises (provided that Tenant's Purchase Rights shall be exercisable pursuant to their respective terms against any other Successor Landlord, as defined in Section 3 below).

3. Tenant to Attorn To Lender. Subject to Section 2 above, if Lender shall become the owner of the Premises or the Premises shall be sold by reason of foreclosure or other proceedings brought to enforce any one or more of the Deeds of Trust or the Premises shall be transferred by deed in lieu of foreclosure, the Lease shall continue in full force and effect as a direct Lease between the then owner of the Premises (a "Successor Landlord"), who shall succeed to the rights and duties of the landlord under the Lease. Subject to Section 2 above, Tenant shall attorn to such Successor Landlord as its landlord under the Lease, said attornment to be effective and self-operative without the execution of any further instruments. Tenant hereby waives the provisions of any statute or rule of law, now or hereafter in effect, which may give or purport to give Tenant any right or election to terminate or otherwise adversely affect the Lease and the obligations of Tenant thereunder as a result of any such foreclosure or deed-in-lieu of foreclosure.

4. Notice of Default; Rent Payments to Lender. In the event that Lender notifies Tenant of a default under any one or more of the Deeds of Trust and requests Tenant to pay its rent and all other sums due under the Lease to Lender, Tenant shall pay such sums directly to Lender, or as Lender may otherwise request, without any further consent of Owner. Owner hereby irrevocably authorizes and directs Tenant to make such payments to Lender despite the receipt of any contrary instructions from Owner or any other party, except a court of competent jurisdiction. Payment of rent and any other sums due under the Lease by Tenant in accordance with the provisions of this Section shall constitute performance by Tenant under the Lease as to all amounts paid.

5. Limitations.

(a) The following terms shall have the following meanings for purposes of this Section 5:

(i) Construction-Related Obligation. A "Construction-Related Obligation" means any obligation of Owner under the Lease to make, pay for, or reimburse Tenant for any alterations, demolition, or other improvements at the Premises, including the construction of any on-site parking spaces. "Construction-Related Obligations" shall not include: (a) reconstruction or repair following fire, casualty or condemnation; or (b) ordinary maintenance and repairs.

(ii) Former Landlord. A “Former Landlord” means Owner and any other party that was landlord under the Lease at any time before the occurrence of any attornment under this Agreement.

(iii) Offset Right. An "Offset Right" means any right or alleged right of Tenant to any offset, defense (other than one arising from actual payment and performance, which payment and performance would bind a Successor Landlord pursuant to this Agreement), claim, counterclaim, reduction, deduction, or abatement against Tenant's payment of Rent or performance of Tenant's other obligations under the Lease, arising (whether under the Lease or other applicable law) from Owner's breach or default under the Lease, other than in connection with Construction-Related Obligations.

(iv) Rent. The "Rent" means any fixed rent, base rent or additional rent under the Lease.

(b) A Successor Landlord shall not be liable for or bound by (i) any Offsite Right that Tenant may have against any Former Landlord relating to any event or occurrence before the date of attornment, including any claim for damages of any kind whatsoever as the result of any breach by Former Landlord that occurred before the date of attornment (provided, that subject to subsection (iii) of this paragraph below, the foregoing shall not limit either (A) Tenant’s right to exercise any Offset Right against Successor Landlord otherwise available to Tenant because of events occurring after the date of attornment, or (B) Successor Landlord’s obligation to correct any conditions that existed as of the date of attornment and violate Successor Landlord’s obligations as landlord under the Lease), (ii) any security deposit or payment of rent (for more than one month in advance of the date due under the Lease) made by Tenant to any Former Landlord, except to the extent actually received by Successor Landlord, (iii) any Construction-Related Obligations (provided, that the foregoing shall not limit (y) any Successor Landlord’s maintenance and repair obligations under the Lease, including, without limitation, under General Condition N or Article 9 thereof, or (z) Tenant’s rights with respect to warranty claims under General Condition B of the Lease with respect to any Successor Landlord other than Lender, against whom such rights of Tenant shall not be enforceable), or (iv) any obligation to expend funds which are capital in nature, except for items of ordinary maintenance and repair for the Premises. Notwithstanding the foregoing, or any provision to the contrary set forth in this Agreement, subject to Section 6 below, nothing in this Agreement is intended to limit Tenant’s right to terminate the Lease in the event that Owner or any Successor Landlord fails to satisfy the obligations of the landlord under the Lease, including, without limitation, the failure to satisfy the conditions set forth in General Condition R or Section 2.6 of the Lease.

(c) Notwithstanding any term of the Lease, upon foreclosure of any one or more of the Deeds of Trust, or acceptance of a deed in lieu thereof or other similar transfer, any environmental/hazardous materials indemnity and/or reimbursement provisions under the Lease shall not be applicable to, or enforceable against any Successor Landlord with respect to any period prior to such Successor Landlord’s ownership and thereafter only to the extent caused by such Successor Landlord. If Lender becomes the owner of all or a portion of the Property or the Property (or a portion thereof) is sold to a third party by reason of foreclosure or other proceedings brought to enforce any one or more of the Deeds of Trust or the Property (or a portion thereof) is conveyed by deed-in-lieu of foreclosure, Tenant agrees that, notwithstanding anything to the contrary contained in the Lease, after such foreclosure sale or conveyance by deed-in-lieu of foreclosure, neither Lender nor any such third party shall have any personal liability to Tenant under the Lease and Tenant shall look solely to the owner’s interest in the Property (or portion thereof) for satisfaction of any of its remedies for collection of a judgment or other judicial process requiring payment of money. Further, in the event Lender transfers its interest in the Lease to a third party, Lender shall be automatically freed and released, from and after the date of such transfer or conveyance, of all liability for the performance of any covenants and agreements which accrue after the date of such transfer of Lender's interest.

6. Modification; Notice and Cure Rights. The Lease shall not be amended, modified or supplemented, nor will the Lease be terminated (except as set forth in the Lease after a default or other trigger event and after the notice and cure rights set forth below) or any party having liability under the Lease be released by the other, without the prior written consent of Lender. Tenant shall not terminate or seek to terminate the Lease until Tenant has given written notice, by personal service, overnight courier or registered or certified mail, return receipt requested, of said act or omission to Lender, which notice shall be addressed to East West Bank, 9300 Flair Drive, 6th Floor, El Monte, CA 91731; and until a period of time equal to the greater of: (a) the time allowed landlord under the Lease or (b) thirty days following such notice has elapsed, during which period Lender has the right, but not the obligation, to remedy such act, omission or other matter. If possession by Lender of the Property is necessary to effect such remedy and would be commercially reasonable, then the period of time for remedying such act or omission shall include a reasonable period of time for Lender to gain possession of the Premises, whether by foreclosure or otherwise (but in no event to exceed ninety (90) days).

7. Tenant Representations and Warranties. Tenant hereby represents and warrants that (a) the Lease is solely and exclusively for the Premises described in the Lease and located on the Property identified in Exhibit "A" attached to this Agreement and the off-site parking areas described in the Lease, (b) the Lease is not a "master lease" for any other premises and/or property leased by Tenant from Owner, (c) any default under the Lease, and the exercise of Owner's rights and remedies in connection with such default, shall only impact and/or effect Tenant's obligations with respect to the Premises and/or the Property, and (d) any default by Tenant under any other lease with Owner or any other landlord, and the exercise of any such landlord's rights and remedies in connection with such default, shall not affect Tenant's obligations under the Lease.

8. Miscellaneous. This Agreement and each and every covenant, agreement and other provision hereof shall be binding upon and shall inure to the benefit of the parties hereto and their representatives, successors and assigns. This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors in interest. The term "Lender" as used throughout this Agreement includes any successor or assign of Lender and any holder(s) of any interest in the indebtedness secured by the Deeds of Trust. This Agreement and the rights and duties of the parties hereunder shall be governed for all purposes by the law of the State of California and the law of the United States applicable to transactions within such state. This Agreement may be executed in multiple counterparts, and by the different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be one and the same instrument with the same signature as if all parties to this Agreement had signed the same signature page.

8. Attorneys' Fees. If any lawsuit, judicial reference or arbitration is commenced which arises out of or relates to this Agreement, the prevailing party shall be entitled to recover from each other party such sums as the court, referee or arbitrator may adjudge to be reasonable attorneys' fees, in addition to costs and expenses otherwise allowed by law.

[signatures follow]

IN WITNESS WHEREOF, the parties hereto have each caused this Agreement to be executed as of the date first above written.

Owner:

6th & PINE DEVELOPMENT, LLC

BY: ________________________
Name: _________
Title: ________________________

Tenant:

MOLINA HEALTHCARE, INC.

BY: ________________________
Name: __________
Title: ________________________

Lender:

EAST WEST BANK

BY: ________________________
Name: __________
Title: ________________________

EXHIBIT A
LEGAL DESCRIPTION

THE LAND REFERRED TO HEREIN BELOW IS SITUATED IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA. AND IS DESCRIBED AS FOLLOWS:

PARCEL 1:

THE WEST 37112 FEET OF LOTS 1 AND 3, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 19 PAGE 91 ET SEQ., OF MISCELLANEOUS RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE WEST LYING BETWEEN THE PROLONGATION OF THE NORTHERLY LINE OF LOT 1 AND THE SOUTHERLY LINE OF LOT 3 BY 8 FEET, AS VACATED IN RESOLUTION NO. C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

EXCEPT THEREFROM ALL OIL GAS, MINERALS AND HYDROCARBON SUBSTANCES LYING BELOW A DEPTH OF 200 FEET FROM THE SURFACE OF SAID LAND, BUT WITHOUT THE RIGHT OF ENTRY UPON ANY PORTION OF THE SURFACE OF SAID LAND FOR THE PURPOSE OF EXPLORING FOR, BORING, EXTRACTING. DRILLING. MINING. PROSPECTING FOR, REMOVING OR MARKETING SAID SUBSTANCES, AS RESERVED TO THE GRANTOR THEREIN IN DEED EXECUTED BY TITLE INSURANCE AND TRUST COMPANY. TRUSTEE UNDER AGREEMENT AND DECLARATION OF TRUST EXECUTED HEREOF CREATING THOSE CERTAIN TRUSTS KNOWN AS ALBERT C. SELLERY TRUST AND THE ELEANOR D. SELLERY TRUST, RECORDED JULY 15, 1969 AS INSTRUMENT NO. 420, OF OFFICIAL RECORDS.

APN: 7273-025-013

PARCEL 2:

LOTS 5 AND 7, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGE 91 ET SEQ., OF MISCELLANEOUS RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE WEST LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY LINE OF LOT 5 AND THE SOUTHERLY LINE OF LOT 7, BY 8 FEET, AS VACATEDIN RESOLUTION NO., C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

APN: 7273-025-015

PARCEL 3:

THE SOUTH 5 FEET OF LOT 6 AND ALL OF LOT 8, IN BLOCK 41 OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THE PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE EAST LYING BETWEEN THE PROLONGATION OF THE NORTHERLY LINE OF THE SOUTHERLY 5 FEET OF LOT 6 AND THE PROLONGATION OF THE SOUTHERLY LINE OF LOT 7, BY 8 FEET, AS VACATED IN

RESOLUTION NO. C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

APN: 7273-025-016

PARCEL 4:

LOTS 10, 12 AND 14, IN BLOCK 41 OF THE TOWNSITE OF LONG BEACH, OF THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGE 91 OF MISCELLANEOUS RECORDS OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID LAND ON THE EAST LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY LINE OF LOT 10 AND THE SOUTHERLY LINE OF LOT 14, BY 8 FEET, AS VACATED IN RESOLUTION NO. C-24596 OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1.988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

EXCEPT THEREFROM ALL OIL GAS, MINERALS AND OTHER HYDROCARBON SUBSTANCES BELOW A DEPTH OF 200 FEET FROM THE SURFACE THEREOF, WITHOUT RIGHT OF SURFACE ENTRY, AS RESERVED BY EDWARD R. LOVELL, TRUSTEE IN DEED RECORDED DECEMBER 1, 1971 AS INSTRUMENT NO. 155, OF OFFICIAL RECORDS.

APN: 7273-025-019 (PORTION)

PARCEL 5:

LOTS 17 TO 21 INCLUSIVE IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING SAID LAND ON THE NORTH LYING BETWEEN THE PROLONGATIONS OF THE WESTERLY LINE OF LOT 17 AND THE EASTERLY LINE OF LOT 21 BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED APRIL 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947, OF OFFICIAL RECORDS.

APN: 7273-025-020 (PORTION)

PARCEL 6:

LOTS 9, 11 AND 13, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING SAID AND ON THE WEST LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY LINE OF LOT 9 AND THE SOUTHERLY LINE OF LOT 13 BY 8 FEET, AS VACATED IN RESOLUTION NO. C-24596, OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

APN: 7273-025-017, 018 (PORTION)

PARCEL 7:

LOTS 24 TO 28 INCLUSIVE IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH. AS PER MAP RECORDED IN BOOK 19 PAGES 91 ET SEQ. OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING SAID LAND ON THE NORTH LYING BETWEEN THE PROLONGATIONS OF THE WESTERLY LINE OF LOT 24 AND THE EASTERLY LINE OF LOT 28 BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED April 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947, OF OFFICIAL RECORDS.

EXCEPT ALL OIL GAS AND OTHER HYDROCARBONS, IN AND UNDER THAT PORTION OF SAID LAND LOCATED MORE THAN 100 FEET BELOW THE SURFACE THEREOF BUT WITH NO RIGHT OF USE OF THE SURFACE OF SAID LANDS OR ANY PORTION THEREOF WITHIN 100 FEET OF THE SURFACE, AS RESERVED BY COVENANT PRESBYTERIAN CHURCH OF LONG BEACH, CALIFORNIA, IN DEED RECORDED MAY 19,1965 AS INSTRUMENT NO. 999, OF OFFICIAL RECORDS.

APN: 7273-025-021 (PORTION)

PARCEL 8:

LOTS 15, 16, 22 AND 23, IN BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 PAGE 91 ET SEQ. OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING LOTS 15 AND 16 ON THE SOUTH LYING BETWEEN THE PROLONGATIONS OF THE EASTERLY AND WESTERLY LINES OF SAID LOTS 15 AND 16, BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED APRIL 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947 AND ALSO TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING LOT 15 ON THE WEST AND ADJOINING LOT 16 ON THE EAST, LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY AND SOUTHERLY LINES OF SAID LOTS 15 AND 16, BY 8 FEET, RESPECTIVELY, AS VACATED IN RESOLUTION NO. C-24596, OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

ALSO TOGETHER WITH THAT PORTION OF THE ALLEY 10 FEET WIDE ADJOINING LOTS 22 AND 23 OF THE NORTH, LYING BETWEEN THE PROLONGATIONS OF THE EASTERLY AND WESTERLY LINES OF SAID LOTS 22 AND 23, BY 5 FEET, AS VACATED IN RESOLUTION NO. C-21081, OF THE CITY OF LONG BEACH, RECORDED APRIL 10, 1972 AS INSTRUMENT NO. 2966 AND RECORDED MAY 9, 1972 AS INSTRUMENT NO. 3947 AND ALSO TOGETHER WITH THAT PORTION OF THE ALLEY 16 FEET WIDE ADJOINING LOT 22 ON THE EAST AND ADJOINING LOT 23 ON THE WEST, LYING BETWEEN THE PROLONGATIONS OF THE NORTHERLY AND SOUTHERLY LINES OF SAID LOTS 22 AND 23, BY 8 FEET, RESPECTIVELY,AS VACATED IN RESOLUTION NO. C-24596, OF THE CITY OF LONG BEACH, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, OF OFFICIAL RECORDS.

EXCEPT THEREFROM ALL OIL GAS, AND OTHER HYDROCARBONS, IN AND UNDER THAT PORTION OF SAID LAND LOCATED MORE THAN 100 FEET BELOW THE SURFACE THEREOF, BUT WITH NO RIGHT OF USE OF THE SURFACE OF SAID LANDS OR ANY PORTION THEREOF WITHIN 100 FEET OF THE SURFACE, RESERVED IN DEED RECORDED MAY 19, 1965 AS INSTRUMENT NO. 999, OF OFFICIAL RECORDS.

APN: 7273-025-018 (PORTION), 7273-025-019 (PORTION), 7273-025-020 (PORTION), 7273-025-021 (PORTION)

PARCEL 9:

THE EAST 112.5 FEET OF LOTS 1 AND 3, BLOCK 41, OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 19 PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY. .

EXCEPT THEREFROM ALL OIL, GAS AND OTHER MINERAL RIGHTS IN AND UNDER SAID PROPERTY TOGETHER WITH THE EXCLUSIVE RIGHT TO USE SUCH PORTION OF SAID PROPERTY LYING MORE THAN 500 FEET BELOW THE SURFACE THEREOF FOR THE EXTRACTION OF OIL GAS AND MINERALS FROM SAID PROPERTY OR PROPERTY IN THE VICINITY THEREOF; HOWEVER, WITH NO RIGHTS OF SURFACE ENTRY WHATSOEVER. AS RESERVED TO THE GRANTOR THEREIN IN DEED EXECUTED BY SOCONY MOBIL OIL COMPANY, INC., A NEW YORK CORPORATION, SUCCESSOR BY MERGER TO GENERAL PETROLEUM CORPORATION, FORMERLY KNOWN AS GENERAL PETROLEUM CORPORATION OF CALIFORNIA, RECORDED MARCH 2, 1966.

APN: 7273-025-001

<u>PARCEL 10</u>:

LOTS 2 AND 4 AND THE NORTH 20 FEET OF THE LOT 6 IN BLOCK 41 OF THE TOWNSITE OF LONG BEACH, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGELES, STATE OF CALIFORNIA, AS PER MAP RECORDED IN BOOK 19, PAGE(S) 91 OF MISCELLANEOUS RECORDS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

TOGETHER WITH THAT PORTION OF TRIBUNE COURT VACATED BY THE CITY OF LONG BEACH, RESOLUTION NO. 24596, RECORDED NOVEMBER 14, 1988 AS INSTRUMENT NO. 88-1824834, LYING NORTHERLY OF THE EASTERLY PROLONGATION OF THE SOUTHERLY LINE FEET THE SOUTHERLY 20 FEET OF LOT 6, LYING SOUTHERLY OF THE SOUTHERLY LINE OF 7TH STREET, 80 FEET WIDE, LYING EASTERLY OF THE EASTERLY LINE OF LOTS 2, 4 AND 6 LYING WESTERLY OF THE EASTERLY LINE OF THE WEST 8 FEET OF SAID TRIBUNE COURT.

A NON-EXCLUSIVE EASEMENT FOR INGRESS AND EGRESS OVER THE SOUTH 5 FEET OF LOT 6, AND ALL OF LOT 5, AND LOTS 7 THROUGH 28, INCLUSIVE, IN BLOCK 41 OF LONG BEACH, CITY OF LONG BEACH, AS PER MAP RECORDED IN BOOK 19 OF PAGES 91 TO 96 INCLUSIVE OF MISCELLANEOUS RECORDS OF THE COUNTY RECORDER OF SAID COUNTY, AS GRANTED BY DOCUMENT RECORDED NOVEMBER 7, 1988, AS INSTRUMENT NO. 88-1791681, OFFICIAL RECORDS.

EXCEPT THEREFROM ALL MINERALS, GAS, OIL, PETROLEUM, NAPHTHA AND OTHER HYDROCARBON SUBSTANCES LOCATED IN AND UNDER SAID LAND BELOW A DEPTH OF 200 FEET FROM THE SURFACE THEREOF, WITHOUT RIGHT OF SURFACE ENTRY. AS RESERVED IN DEED RECORDED APRIL 16, 1993 AS INSTRUMENT NO. 93-716425 OFFICIAL RECORDS.

APN: 7273-025-014 (PORTION)

CERTIFICATE OF ACKNOWLEDGEMENT

State of ____________________

County of ____________________

On ____________ before me, ____ , a notary public, personally appeared
____

____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.
I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing is true and correct.

WITNESS my hand and official seal.

________________________ (Seal)
Signature
Notary Public

CERTIFICATE OF ACKNOWLEDGEMENT

State of ____________________

County of ____________________

On ____________ before me, ____ , a notary public, personally appeared
____
____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.
I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing is true and correct.

WITNESS my hand and official seal.

_______________________ (Seal)
Signature
Notary Public

CERTIFICATE OF ACKNOWLEDGEMENT

State of ____________________

County of ____________________

On ____________ before me, ____ , a notary public, personally appeared ____
____, who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) is/are subscribed to the within instrument and acknowledged to me that he/she/they executed the same in his/her/their authorized capacity(ies), and that by his/her/their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.
I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing is true and correct.

WITNESS my hand and official seal.

_______________________ (Seal)
Signature
Notary Public

PARKING LICENSE AGREEMENT

THIS PARKING LICENSE AGREEMENT ("Agreement") is entered into this 25th day of May, 2012, by the CITY OF LONG BEACH, a California municipal corporation ("Licensor"), pursuant to a minute order adopted by its City Council on May 1, 2012, and 6TH & PINE DEVELOPMENT, LLC, a California limited liability company ("Licensee").

For and in consideration of the faithful performance of the terms and conditions hereinafter set forth, the parties agree as follows:

1. PARKING SPACES AND PREMISES. City hereby grants Licensee the use of not more than five hundred (500) parking spaces on all weekdays during the Term from the hours of 7:00am through 6:00pm ("Parking Spaces") for purposes of providing parking to its tenant at the development at the corner of 6th Street and Pine Avenue, Long Beach, California, and commonly known as the "Press-Telegram Building" (the "Development"). The Parking Spaces may be located on more than one City-owned parking lot or structure, located anywhere within the City limits, as designated by City (collectively, the "Premises"). City, upon sixty (60) days advance written notice to Licensee and at its sole and absolute discretion, may relocate all or a portion of the Parking Spaces to alternate Premises located anywhere within the City limits. City shall issue to Licensee annual parking permits authorizing use of the Parking Spaces ("Permits") in accordance with its standard procedures. City shall issue only as many Permits as Licensee requests

in writing, which such total requested number of Permits may increase or decrease from month-to-month and costs associated with such Permits shall be pro-rated accordingly. This Agreement is meant to meet the parking demands of Licensee's tenant at the Development only, and in no way shall the parking rights granted to Licensee under this Agreement be interpreted to satisfy or displace any code-required parking in connection with new construction at the Development as required by the Long Beach Municipal Code or other applicable regulations.

2. TERM. The term of this Agreement shall commence on January 1, 2013 (the "Commencement Date"), and shall terminate at midnight on December 31, 2024, unless sooner terminated as provided herein (the "Term"). City and Licensee may mutually agree to renew this Agreement for two (2) additional five (5)-year terms. All provisions of this Agreement applicable to the original term shall apply with equal force to the extended term.

3. PARKING PERMIT FEES. Subject to the provisions of Section 4, Licensee shall pay an annual fee equal to Six Hundred Dollars ($600) per Permit issued by City ("Parking Fee").

4. ADJUSTMENT TO PARKING FEES. The Parking Fee to be paid to City by Licensee for each Permit shall be adjusted annually effective on the adjustment date of January 1st, by the 12 Months Percent Change in the Consumer Price Index for All Urban Consumers, All Items, Base Period 1982-84=100, for the Los Angeles-Riverside-Orange County, CA Area, published by the United States Department of Labor, Bureau of Labor Statistics. The December Index immediately prior to the adjustment date shall be the "Current Index," and the December Index

for the year previous shall be the "Beginning Index". If the Current Index is greater than the Beginning Index, the then-current rent or adjusted Parking Fee shall increase by the same percentage rounded to the nearest tenth as did the Current Index increase over the Beginning Index, so that the Parking Fee shall increase each year by the same percentage as did the Consumer Price Index. In no event shall any Parking Fee adjustment result in a Parking Fee less than that paid during the preceding period.

5. USE OF PREMISES. The Premises shall be used during Licensee's periods of exclusive occupancy for parking by employees of Licensee's tenant at the Development and for no other purpose. Licensee shall not occupy, use, or grant permission to anyone to occupy or use the Premises for any unlawful purpose. Licensee shall conduct its business and activities and control its agents, employees, invitees, licensees, volunteers, and visitors in such a manner that will not create any nuisance, unreasonable annoyance or waste. On weekends and weekday overnights between the hours of 6:00pm through 7:00am the Premises shall be available to the public. Nothing contained in this Section 5 shall require Licensee to supervise, control, or be responsible for activities upon or use of the Premises by the public. Prior to issuing a parking citation to any vehicle displaying a valid Permit issued pursuant to this Agreement, City shall grant such vehicle a 30-minute grace period.

6. CONDITION OF PREMISES. City shall deliver the Premises to Licensee paved, striped, and free of debris on the Commencement Date. Any replacement Premises designated by City pursuant to Section 1 shall also be

delivered to Licensee, paved, striped and free of debris. Except as otherwise described above, City delivers the Premises to Licensee "AS IS" and with all faults.

7. MAINTENANCE OF PREMISES. City shall provide for the ordinary care and maintenance of the Premises; provided, however, that Licensee shall be responsible for all costs associated with damage caused by Licensee's use of the Premises beyond reasonable wear and tear.

8. INDEMNIFICATION. Licensee shall defend, indemnify, and hold harmless City, its officers and employees ("City Indemnified Parties") from and against all causes of actions, damage, proceedings, claims, demands, loss, liens, costs and expenses alleging injury to or death of persons, or damage to property, or any other claim of damage brought, made, filed against, imposed on or sustained by the City Indemnified Parties, or any of them, and arising from or attributable to or caused, directly or indirectly (collectively or individually, a "claim"):

(i) by the use of the Premises or any equipment or materials located thereon, or from activities conducted thereon by Licensee, its employees, invitees, agents, or by any person or persons acting on behalf of Licensee and with Licensee's knowledge and consent, express or implied during periods of Licensee's exclusive use; or

City shall defend, indemnify, and hold harmless Licensee, its officers and employees ("Licensee Indemnified Parties") from and against all causes of actions, damage, proceedings, claims, demands, loss, liens, costs and expenses alleging injury to or death of persons, or damage to property, or any other claim of damage brought, made, filed against, imposed on or sustained by the Licensee Indemnified Parties, or any of them, and arising from or attributable to or caused, directly or indirectly (collectively or individually, a “claim”) by the use of the Premises by the public, or the employees, agents or invitees of City or by any person or persons acting on behalf of City.

9. INSURANCE. Upon execution of this Agreement and in partial performance of Licensee’s obligations hereunder, Licensee shall procure and maintain, at its cost, during the Term and any extensions or renewals thereof, from an insurer admitted in California or having a minimum rating of or equivalent to A:VIII in Best’s Insurance Guide:

(i) Comprehensive General Liability insurance with a combined single limit of at least $1,000,000 for each occurrence or Two Million Dollars ($2,000,000) general aggregate. City, its officials, employees and agents shall be covered as additional insureds with respect to liability arising from activities performed by or on behalf of Licensee. Said insurance shall be primary insurance with respect to City and shall contain a cross-liability endorsement. (ii) “All Risk” property insurance in an amount sufficient to cover the full replacement value of Licensee’s personal property, improvements and equipment on the Premises.

(iii) Upon the execution of this Agreement, Licensee shall deliver to City certificates of insurance with original endorsements evidencing the coverage required by this Agreement. The certificates and endorsements shall be signed by a person authorized by the insurer to bind coverage on its behalf. City reserves the right to require complete certified copies of all policies at any time.

(iv) Said insurance shall contain an endorsement requiring thirty (30) days' prior written notice from insurers to City before cancellation or change of coverage.

(v) Said insurances may provide for such deductibles or self-insured retention as may be acceptable to the City Manager or his designee. In the event such insurance does provide for deductibles or self-insured retention, Licensee agrees that it will fully protect City, its officials, and employees in the same manner as these interests would have been protected had the policy or policies not contained a deductible or retention provisions. With respect to damage to property, City and Licensee hereby waive all rights of subrogation, one against the other, but only to the extent that collectible commercial insurance is available for said damage.

(vi) Not more frequently than every two (2) years, if, in the opinion of City, or of an insurance broker retained by City, the amount of the foregoing insurance coverages is not adequate, Licensee shall increase the insurance coverage as required by City.

(vii) The procuring of said insurance shall not be construed as a limitation on Licensee's liability or as full performance on Licensee's part of the indemnification and hold harmless provisions of this Agreement; and Licensee understands and agrees that, notwithstanding any insurance, Licensee's obligation to defend, indemnify and hold City, its officials and employees harmless hereunder is for the full and total amount of any damage, injuries, loss, expense, costs or liabilities in any manner connected with or attributed to the acts or omissions of Licensee, its officers, agents, employees, patrons or visitors, or the operations conducted by Licensee, or the Licensee's use, misuse or neglect of the Premises.

(viii) Any modification or waiver of the insurance requirements herein shall only be made with the written approval of the City's Risk Manager or designee.

10. CITY'S NON-LIABILITY. Except as expressly provided for in this Agreement, City shall not be liable for any damage to Licensee or Licensee's property or any of Licensee's employees, agents, invitees, licensees, volunteers or visitors, and Licensee, as a material part of the consideration of this Agreement, hereby waives all claims and demands against City for any such damage, to the extent allowed by law, except to the extent that such damage is caused by City's negligence. Licensee assumes all risk of theft, misappropriation, damage, injury, claims or losses of its personal property kept, stored, held, placed or otherwise left on the Premises, except as expressly provided for in this Agreement. Licensee shall not be responsible for theft, misappropriation, damage, injury, claims or losses of personal property belonging to members of the public.

11. ASSIGNMENT AND SUBLETTING. Licensee may not assign or sub-license the Premises without the express written consent of the City, which may be withheld at City's sole discretion. Notwithstanding the preceding sentence,

Licensee may assign this Agreement to a purchaser of the Development. No assumption or sub-licensing of this Agreement will be effective without the express written assumption by such assignee of the obligations of Licensee under this Agreement, nor shall such sub-licensing or assignment alter the primary liability of Licensee for the payment of Parking Fees or for the performance of any other obligations to be performed by Licensee.

12. TAXES. Licensee shall pay all assessments or real estate taxes or possessory interest taxes, if any, levied against the Premises due to Licensee's periods of exclusive use; provided that Licensee shall only be responsible for its pro-rata share of taxes levied against the Premises.

13. INSPECTION AND ENTRY. City shall have the right, at all reasonable times, to enter the Premises to inspect them to determine if Licensee is complying with the terms, covenants and conditions of this Agreement, to comply with any law, order, or requirement of any governmental authority, and to serve or post any notice.

14. DEFAULT. The occurrence of any one or more of the following acts shall constitute a default by Licensee, if said failure is not cured within thrity (30) days after City gives notice to Licensee of said failure:

(i) Failure to use the Premises as described in Section 5;

(ii) Failure to pay Parking Fees;

(iii) Failure to maintain the insurance required herein;

(iv) Failure to execute a Lease with Molina Health Care Group respecting the Development with a term of at least ten (10) years;

(iv) Failure to comply with any applicable law, rule, ordinance, or regulation; or

(v) Any failure to perform any other term, covenant, or condition of this Agreement not specifically identified in this Section or in elsewhere in this Agreement. If the default cannot reasonably be cured in thirty (30) days, then Licensee shall not be in default if Licensee begins to cure within said period and diligently proceeds to cure to completion; provided that in no event shall such cure period extend beyond ninety (90) days.

15. NOTICE. Any notice or request given under this Agreement shall be in writing and personally delivered or deposited in the U.S. Postal Service, postage prepaid, first class, addressed as follows:

To City: City of Long Beach
333 West Ocean Boulevard, 13th Floor
Long Beach, CA 90802
Attn: City Manager

To Licensee: 6th & Pine Development, LLC
741 Atlantic Avenue
Long Beach, CA 90813
Attn: Michelle Molina

Notice shall be effective on the date of personal delivery or deposit in the mail, whichever first occurs. Notice of change of address or the person to whom notice shall be directed shall be given in the manner prescribed herein.

16. NO WAIVER. The failure or delay of either party to insist on strict enforcement of any term, covenant, or condition herein shall not be deemed a waiver of any right or remedy either party may have and shall not be deemed a waiver of any subsequent or other breach of any term, covenant, or condition. Any waiver or permission of any kind by either party shall be in writing and signed to be effective.

17. SURRENDER OF PREMISES. On the expiration or sooner termination of this Agreement, Licensee shall deliver to City possession of the Premises. Licensee shall remove its equipment, supplies and other items so as to leave the Premises in a condition which does not damage the Premises and the improvements thereto in any way.

18. CITY'S RIGHT TO RE-ENTER ON TERMINATION OR EXPIRATION. Licensee shall peaceably deliver possession of the Premises to City on the date of expiration or sooner termination of this Agreement. On giving notice of termination to Licensee, City shall have the right to re-enter and take possession of the Premises on the date such termination becomes effective without further notice of any kind and without instituting summary or regular legal proceedings.

19. RELOCATION WAIVER. Licensee expressly waives any rights to relocation benefits or other compensation pursuant to the California Relocation Act or applicable laws governing eminent domain.

20. PERMANENT PARKING. City and Licensee agree to work together in good faith to identify property suitable to provide for permanent parking for the Development, whether publicly-owned or privately-owned, it being the intent of the parties that such permanent parking would replace the Parking Spaces provided pursuant to this Agreement.

21. MISCELLANEOUS.

A. Each party shall bear its own costs and expenses in connection with the preparation of this Agreement. In the event any action is brought with respect to theenforcement of this Agreement, the prevailing party shall be entitled to recover its costs and expenses from the other party, including, but not limited to, attorney's fees and court costs.

B. This Agreement shall be binding on and inure to the benefit of the parties and their successors, heirs, personal representatives, and all of the parties shall be jointly and severally liable hereunder.

C. This Agreement constitutes the entire understanding between the parties and supersedes all prior negotiations, agreements and understandings, oral or written, with respect to the subject matter hereof.

D. This Agreement may not be amended except in a writing duly executed by both parties.

E. This Agreement shall be governed by and construed under the laws of the State of California, and no choice of laws or principles thereof shall apply.

F. The captions and numbers herein and the grouping of the provisions of this Agreement into separate sections and paragraphs are for the purpose of convenience only and shall not be considered a part hereof, and shall have no effect on the interpretation of this Agreement.

G. If any term, covenant, or condition of this Agreement is found to be invalid, ineffective, void, or unenforceable for any reason by a court of competent jurisdiction, the remaining terms, covenants and conditions shall remain in full force and effect.

H. Time is of the essence in this Agreement and all of its provisions.

I. This Agreement shall not be recorded.

J. The relationship of the parties hereto is that of City and Licensee, and the parties agree that nothing contained in this Agreement shall be deemed or construed as creating a partnership, joint venture, principal-agent relationship, association, or employer-employee relationship between them or between City and any third party.

K. This Agreement is created as a joint effort between the parties and fully negotiated as to its terms covenants and conditions. This Agreement shall not be construed against either party as the drafter.

L. Each provision of this Agreement shall be deemed both a covenant and a condition.

M. This Agreement is created for the benefit of the parties only and is not intended to benefit any third person or entity.

N. Where consent or approval is required from either Licensee or City by the provisions of this Agreement, the giving of consent or approval shall not be unreasonably withheld or delayed by the party from whom consent or approval is required.

O. All exhibits to this Agreement are hereby incorporated herein by reference.

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IN WITNESS WHEREOF, the parties have caused this document to be duly executed as of the date first stated above.

CITY OF LONG BEACH, a California municipal corporation

Dated: __ By: __
Name: __
Title: __
CITY

6TH & PINE DEVELOPMENT, LLC, a California limited liability company

Dated: __ By: __
Name: __
Title: __

LICENSEE

The foregoing Agreement is hereby approved as to form this _______day of ____________________, 2012.

ROBERT E. SHANNON, City Attorney

By ________________________

Deputy City Attorney

RFA;abcl
#07-03978

ESTOPPEL AND AGREEMENT REGARDING PARKING AGREEMENT

This **ESTOPPEL AND AGREEMENT REGADING PARKING AGREEMENT** (this "**Agreement**") dated __________, 2013, is made among **6TH & PINE DEVELOPMENT, LLC**, a California limited liability company, whose address is 741 Atlantic Avenue, Long Beach, California 90813 ("**Licensee**"), the **CITY OF LONG BEACH**, a California municipal corporation, whose address is 333 West Ocean Boulevard, 13th Floor, Long Beach, California 90802 (the "**City**"), and **MOLINA HEALTHCARE, INC.**, a Delaware corporation, whose address is 200 Oceangate, Suite 100, Long Beach, California 90802, Attention: General Counsel ("**Tenant**").

WHEREAS, Tenant and Licensee have entered into an Office Building Lease–Full Service Gross–Single Tenant Building(s), dated as of February 28, 2013 (the "**Lease**"), a Memorandum of which is to be recorded in the Official Records of Los Angeles County, California covering, among other property, the land (the "**Land**") described in **Exhibit "A"** which is attached hereto and incorporated herein by reference, and the improvements ("**Improvements**") thereon (or to be built thereon) (such Land and Improvements being herein together called the "**Property**");

WHEREAS, Licensee is the licensee under a Parking License Agreement by and between the City and Licensee entered into as of May 25, 2012 (as the same may from time to time be renewed, extended, amended or supplemented, the " **Parking Agreement**"), covering the use of up to five hundred (500) parking spaces located at one or more City-owned parking lots or structures, located within the City of Long Beach, California (herein referred to as the " **Parking Premises**"); and

WHEREAS, the term the "City" as used herein means the present licensor under the Parking Agreement, or, if the licensor's interest is transferred or assigned in any manner, the successor(s) or assign(s) occupying the position of licensor under the Parking Agreement at the time in question.

NOW THEREFORE, in consideration of the mutual agreements herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties agree as follows:

1. Estoppel Certificate. The City and Licensee agree to execute and deliver from time to time, upon the reasonable request of the other party or of Tenant, a certificate regarding the status of the Parking Agreement, consisting of statements, if true (or if not, specifying why not), (a) that the Parking Agreement is in full force and effect, (b) the date through which payments have been paid, (c) the nature of any amendments or modifications of the Parking Agreement, (d) to the best of the City's and Licensee's knowledge, respectively, no default exists under the Parking Agreement, (e) to the best of the City's and Licensee's knowledge, respectively, no setoffs, recoupments, estoppels, claims or counterclaims exist against the City, and (f) such other matters as may be reasonably requested.

2. Acknowledgement and Agreement by the City. The City acknowledges and agrees as follows:

(a) From and after the date hereof, in the event of a default by the Licensee under the Parking Agreement, the City shall give Tenant notice of such default concurrently at the time of delivery of notice of such default to the Licensee, and shall afford Tenant an opportunity to cure such default prior to termination of the Parking Agreement by the City, all pursuant to Section 14 of the Parking Agreement; provided, however, that Tenant shall have no duty or obligation to cure or remedy any breach or default. Notwithstanding the terms of the Parking Agreement, the City hereby grants Tenant, in addition to the period given to Licensee for remedying defaults, an additional thirty (30) days to remedy, or cause to be remedied, any such default. It is specifically agreed that the City shall not, as to Tenant, require cure of any such default which is personal to Licensee, and therefore not susceptible to cure by Tenant. In the event that such default shall be cured, either by Tenant or by Licensee, the City agrees that Tenant's use of the Parking Premises pursuant to the Parking Agreement shall not be disturbed and that the Parking Agreement shall not be subject to termination as a result of the occurrence of such default, which is cured either by Tenant or Licensee. The City shall accept performance by Tenant of any term, covenant, condition or agreement to be performed by Licensee under the Parking Agreement with the same force and effect as though performed by Licensee. No Licensee default under the Parking Agreement shall exist or shall be deemed to exist as long as Tenant, in good faith, shall have commenced to cure such default within the above referenced time period and shall be prosecuting the same to completion with reasonable diligence, subject to force majeure; provided that in no event shall such cure period exceed ninety (90) days.

(b) In the event of the termination of the Parking Agreement by reason of any default thereunder by Licensee, upon Tenant's written request, given within thirty (30) days after any such termination, the City, within fifteen (15) days after receipt of such request, shall execute and deliver to Tenant a new lease of the Parking Premises for the remainder of the term of the Parking Agreement upon all of the terms, covenants and conditions of the Parking Agreement. Tenant shall not become liable under the Parking Agreement unless and until Tenant becomes, and then only with respect to periods in which the Tenant succeeds to the interests of Licensee under the Parking Agreement.

(c) The City shall send a copy of any notice or statement under the Parking Agreement to Tenant at the same time such notice or statement is sent to Licensee if such notice or statement has a material impact on the economic terms, operating covenants or duration of the Parking Agreement. The City represents and warrants to Tenant that a true and complete copy of the Parking Agreement has been delivered by the City to Tenant.

3. Acknowledgment and Agreement by Licensee. Licensee, as licensee under the Parking Agreement, acknowledges and agrees for itself and its heirs, representatives, successors and assigns, that: (a) this Agreement does not constitute a waiver by Tenant of any of its rights under the Lease, or in any way release Licensee from its obligations to comply with the terms, provisions, conditions, covenants, agreements and clauses of the Lease; and (b) the provisions of the Lease remain in full force and effect and must be complied with by Licensee. Licensee shall send a copy of any notice or statement under the Parking Agreement to Tenant at the same time such notice or statement is sent the City if such notice or statement has a material impact on the economic terms, operating covenants or duration of the Parking Agreement.

4. Parking Agreement Status. The City and Licensee certify to Tenant that neither the City nor Licensee has knowledge of any default on the part of the other under the Parking Agreement, that the Parking Agreement is bona fide and contains all of the agreements of the parties thereto with respect to the letting of the Parking Premises, that the Parking Agreement has not been modified or amended and that all of the agreements and provisions therein contained are in full force and effect.

5. Notices. All notices, request, consents, demands and other communications required or which any party desires to give hereunder shall be in writing and shall be deemed sufficiently given or furnished if delivered by personal delivery, by expedited delivery service with proof of delivery, or by registered or certified United States mail, postage prepaid, at the addresses specified at the beginning of this Agreement (unless changed by similar notice in writing given by the particular party whose address is to be changed). Any such notice or communication shall be deemed to have been given either at the time of personal delivery or, in the case of delivery service or mail, as of the date of first attempted delivery at the address and in the manner provided herein. Notwithstanding the foregoing, no notice of change of address shall be effective except upon receipt. This Paragraph 5 shall not be construed in any way to affect or impair any waiver of notice or demand provided in this Agreement or in the Parking Agreement or to require giving notice or demand to or upon any persons in any situation or for any person.

6. Miscellaneous.

(a) Nothing contained in this Agreement shall be construed to derogate from or in any way impair, or affect the estate and rights created pursuant to the Lease.

(b) This Agreement shall inure to the benefit of the parties hereto, their respective successors and permitted assigns, and any subsequent owner of the Property, and its heirs, personal representatives, successors and assigns; provided, however, that in such event, the Parking Agreement shall remain in full force and effect, and thereupon all such obligations and liabilities shall be the responsibility of the party to whom Licensee's interest is assigned or transferred; and provided further that the interest of Licensee under this Agreement may not be assigned or transferred without the prior written consent of Tenant and the City.

(c) THIS AGREEMENT AND ITS VALIDITY, ENFORCEMENT AND INTERPRETATION SHALL BE GOVERNED BY THE LAWS OF THE STATE OF CALIFORNIA, WITHOUT REGARD TO CONFLICT OF LAW PRINCIPLES THAT WOULD RESULT IN THE APPLICATION OF ANY LAW OTHER THAN THE LAW OF THE STATE OF CALIFORNIA.

(d) The words "herein", "hereof", "hereunder" and other similar compounds of the word "here" as used in this Agreement refer to this entire Agreement and not to any particular section or provision.

(e) This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto or their respective successors in interest.

(f) If any provision of the Agreement, shall be held to be invalid, illegal, or unenforceable in any respect, such invalidity, illegality or unenforceability shall not apply to or affect any other provision hereof, but this Agreement shall be construed as if such invalidity, illegibility, or unenforceability did not exist.

(g) Each individual executing this Agreement on behalf of the parties hereto represents and warrants that s/he is duly authorized to execute and deliver this Agreement on behalf of such entity, and that this Agreement is binding upon such party, in accordance with the terms of this Agreement.

(h) This Agreement may be executed in any number of counterparts and all of such counterparts shall together constitute one and the same instrument.

[Signatures appear on the following page]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and sealed as of the date first above written.

LICENSEE:

6TH & PINE DEVELOPMENT, LLC,
a California limited partnership

By: ______________________
Name: ______________________
Title: ______________________

CITY:

CITY OF LONG BEACH , a California municipal corporation

By: __________________________
Name:________________________
Title:_________________________

Approved as to Form:

By: _________________________________
Title: Deputy City Attorney

Attest:

By: __________________________________
Title: City Clerk

TENANT:

MOLINA HEALTHCARE, INC.,
a Delaware corporation

By: ______________________
Name: ______________________
Title: ______________________

EXHIBIT 12.1

LIST OF SUBSIDIARIES

\+ Wholly owned subsidiary of Molina Healthcare of New Mexico, Inc.

Molina Healthcare, Inc.

Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31,				
	2012	2011	2010	2009	2008
	(Dollars in Thousands)				
Earnings:					
Income before income taxes	$ 19,065	$ 64,654	$ 89,492	$ 38,157	$ 94,324
Add fixed charges:					
Interest expense, including amortization of debt discount and expense	16,769	15,519	15,509	13,777	13,231
Estimated interest portion of rental expense	2,865	2,542	4,522	5,181	4,370
Total fixed charges	19,634	18,061	20,031	18,958	17,601
Total earnings available for fixed charges	$ 38,699	$ 82,715	$ 109,523	$ 57,115	$ 111,925
Fixed charges from above:	$ 19,634	$ 18,061	$ 20,031	$ 18,958	$ 17,601
Ratio of Earnings to Fixed Charges	2.0	4.6	5.5	3.0	6.4
Total rent expense	$ 20,462	$ 23,110	$ 25,124	$ 20,723	$ 17,481
Interest factor	14%	11%	18%	25%	25%
Interest component of rental expense	$ 2,865	$ 2,542	$ 4,522	$ 5,181	$ 4,370

EXHIBIT 21.1

LIST OF SUBSIDIARIES

Name	Jurisdiction of Incorporation
Alliance for Community Health L.L.C	Missouri
American Family Care, Inc.	California
Molina Center LLC	Delaware
Molina Healthcare Data Center, Inc.	New Mexico
Molina Healthcare of California	California
Molina Healthcare of California Partner Plan, Inc.	California
Molina Healthcare of Florida, Inc.	Florida
Molina Healthcare of Illinois, Inc.	Illinois
Molina Healthcare of Michigan, Inc.	Michigan
Molina Healthcare of New Mexico, Inc.	New Mexico
Molina Healthcare of Ohio, Inc.	Ohio
Molina Healthcare of Texas, Inc.	Texas
Molina Healthcare of Texas Insurance Company*	Texas
Molina Healthcare of Utah, Inc.	Utah
Molina Healthcare of Virginia, Inc.	Virginia
Molina Healthcare of Washington, Inc.	Washington
Molina Healthcare of Wisconsin, Inc.	Wisconsin
Molina Information Systems, LLC, dba Molina Medicaid Solutions	California

* Wholly owned subsidiary of Molina Healthcare of Texas, Inc.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statements No. 333-108317, No. 333-138552, No. 333-153246, No. 333-170571, and No. 333-174912 on Form S-8 pertaining to the Molina Healthcare, Inc. 2000 Omnibus Stock and Incentive Plan; 2002 Equity Incentive Plan; 2002 Employee Stock Purchase Plan; 2011 Equity Incentive Plan and 2011 Employee Stock Purchase Plan; and Registration Statement No. 333-181804 on Form S-3, of our reports dated February 28, 2013, with respect to the consolidated financial statements of Molina Healthcare, Inc., and the effectiveness of internal control over financial reporting of Molina Healthcare, Inc., included in this Annual Report (Form 10-K) for the year ended December 31, 2012.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 28, 2013

EXHIBIT 31.1

SECTION 302 CERTIFICATION

I, Joseph M. Molina, M.D., certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2012, of Molina Healthcare, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period for which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Joseph M. Molina

Joseph M. Molina
Chief Executive Officer and President

February 28, 2013

EXHIBIT 31.2

SECTION 302 CERTIFICATION

I, John C. Molina, certify that:

1. I have reviewed this annual report on Form 10-K for the fiscal year ended December 31, 2012, of Molina Healthcare, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period for which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John C. Molina

John C. Molina, J.D.
Chief Financial Officer and Treasurer

February 28, 2013

EXHIBIT 32.1

CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report of Molina Healthcare, Inc. (the "Company") on Form 10-K for the period ending December 31, 2012, as filed with the Securities and Exchange Commission (the "Report"), I, J. Mario Molina, M.D., Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Joseph M. Molina

Joseph M. Molina, M.D.
Chief Executive Officer and President

February 28, 2013

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by Section 906 has been provided to Molina Healthcare, Inc. and will be retained by Molina Healthcare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

**CERTIFICATE PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the annual report of Molina Healthcare, Inc. (the “Company”) on Form 10-K for the period ending December 31, 2012, as filed with the Securities and Exchange Commission (the “Report”), I, John C. Molina, J.D., Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John C. Molina

John C. Molina, J.D.
Chief Financial Officer and Treasurer

February 28, 2013

This certification accompanies this report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended. A signed original of this written statement required by Section 906 has been provided to Molina Healthcare, Inc. and will be retained by Molina Healthcare, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.