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, 2011

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, 2011, the last business day of our most recently completed second fiscal quarter, was approximately $731 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, 2011).

As of February 24, 2012, approximately 45,838,000 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 2012 Annual Meeting of Stockholders to be held on May 2, 2012, are incorporated by reference into Part III of this Form 10-K.

MOLINA HEALTHCARE, INC.

Table of Contents
Form 10-K

	Page
PART I	
Item 1. Business	1
Item 1A. Risk Factors	12
Item 1B. Unresolved Staff Comments	31
Item 2. Properties	31
Item 3. Legal Proceedings	31
Item 4. Mine Safety Disclosures	31
PART II	
Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	32
Item 6. Selected Financial Data	35
Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations	37
Item 7A. Quantitative and Qualitative Disclosures About Market Risk	62
Item 8. Financial Statements and Supplementary Data	63
Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	109
Item 9A. Controls and Procedures	109
Item 9B. Other Information	109
PART III	
Item 10. Directors, Executive Officers and Corporate Governance	111
Item 11. Executive Compensation	111
Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	111
Item 13. Certain Relationships and Related Transactions, and Director Independence	111
Item 14. Principal Accountant Fees and Services	111
PART IV	
Item 15. Exhibits and Financial Statement Schedules	112
Signatures	113

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. Our business focuses exclusively on government-sponsored health care programs, and includes our Health Plans segment, our Molina Medicaid Solutions sm segment, and our smaller direct delivery line of business. Our Health Plans segment consists of licensed health maintenance organizations serving Medicaid populations in ten states. Our Molina Medicaid Solutions segment provides design, development, implementation, and business process outsourcing solutions to Medicaid agencies in an additional five states. Our direct delivery line of business currently consists of 17 primary care community clinics in California, two clinics in Washington, and three county-owned clinics in Fairfax County, Virginia that we manage on behalf of the county. 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, Dr. J. Mario Molina.

Our Health Plans segment currently operates Medicaid managed care plans in the states of California, Florida, Michigan, Missouri, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin that serve a total of approximately 1.7 million members. 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 Health Plans segment derives its revenue principally in the form of premiums paid 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, a core information technology tool used to support the administration of state Medicaid and other health care entitlement programs. Our Molina Medicaid Solutions segment 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; to reduce the variability in our earnings resulting from fluctuations in medical care costs; to improve our operating profit margin percentages; and to 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 and our direct delivery business line 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 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 our Audit, Compensation, Corporate Governance and Nominating Committee, and Compliance Committee Charters, 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 26, 2011, 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.

Molina Healthcare, the Molina Healthcare logo, Molina Medicaid Solutions sm and motherhood matters! sm are registered servicemarks of Molina Healthcare, Inc.

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 rules, 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 currently about 59 percent, and ranges from a federally established FMAP floor of 50 percent to as high as 74 percent.

The most common state-administered Medicaid program is the Temporary Assistance for Needy Families program, or TANF (often pronounced "TAN-if"). Another common state-administered Medicaid program is for the 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 more 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 50% 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 2011, each of our health plans in California, Florida, Michigan, New Mexico, Ohio, Texas, Utah, and Washington 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 operate a Medicare Advantage private fee-for-service plan. Total enrollment in our Medicare Advantage plans at December 31, 2011 was approximately 31,000 members. Our 2011 premium revenues from Medicare across all health plans represented approximately 8.4% of our total premium revenues.

Overall, approximately 79% of our members are TANF, 11% are ABD, 8% are CHIP, and 2% are 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, and cost management through our Health Plans segment, to state-level MMIS administration through our Molina Medicaid Solutions segment, to the direct delivery of health care services at our clinics. 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, or COTS. 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 nine of our ten 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 1.7 million members, expanded our Health Plans segment to ten 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. We plan to continue our growth in existing markets by expanding our service areas and provider networks, increasing awareness of the Molina brand name, extending our services to new populations (including the aged, blind, or disabled), maintaining positive provider relationships, and integrating members from other health plans.

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. For example, on September 1, 2010, we acquired for approximately $16.8 million Abri Health Plan, a provider of Medicaid managed care services in Wisconsin. 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. For example, we can apply analytics to improve the functionality of care management processes. We believe that we can help strengthen these tools in ways that translate into both better care and cost containment. 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 community clinic model offers an integrated approach that helps us improve both the quality and cost-effectiveness of the care our members receive. Our direct delivery line of business currently consists of 17 primary care community clinics in California, two in Washington, and three county-owned clinics in Fairfax County, Virginia that we manage on behalf of the county. We will also be opening up a clinic in each of New Mexico and Florida in March 2012, and intend to open up additional clinics in California, New Mexico, Florida, Ohio, and Texas during 2012. 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 underserved 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 underserved by primary care providers.

Pursue opportunities presented by ICD-10 conversion requirements. Over the next two years, health insurance plans are required to upgrade their systems for diagnosis, medical procedure coding, and claims processing under the tenth revisions of the International Statistical Classification of Diseases, or ICD-10. The United States Department of Health and Human Services will require payers and providers to transition to ICD-10 by October 2013. However, in February 2012, CMS announced that it will postpone implementation of ICD-10 and will be issuing shortly a notice with a new timeline governing the pace of implementation. Thus, although delayed, the transition to ICD-10 is still expected to occur. For many smaller health plans with less than one million members, the costs of making the necessary systems upgrades will be substantial. For companies like ours, the benefits of scale in this environment will be significant. We believe we will be positioned to reduce the cost per member for compliance with ICD-10. At the same time, the new requirements will create revenue opportunities for Molina Medicaid Solutions.

Prepare for health care reform. In preparation for the large scale changes associated with federal health care reform, we have organized a dedicated business unit to address issues of strategy, policy, reform readiness, and implementation. Health care reform opportunities include an estimated 16 million more members eligible for Medicaid by 2019, 30 million more individuals covered by health insurance exchanges, and increasing demand for long-term care and behavioral health services. In the next two years, we anticipate that many states will be offering new Medicaid RFP expansions in order to avoid disruptions in 2014 in connection with the full implementation of health care reform.

Medicaid Contracts

With the exception of our Missouri health plan, which does not serve ABD or Medicare members, and 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 the Centers for Medicare and Medicaid Services, or 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 one- to two-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 will now expire 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 California health plan operates 16 company-owned primary care clinics in California staffed by our physicians, physician assistants, and nurse practitioners. 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 non-licensed subsidiary in Virginia which manages three health care clinics for Fairfax County, and our Washington health plan operates two Company-owned primary care clinics.

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 a predictive modeling capability 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 fifteen. *"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. Nine of our ten 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 3.4 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, Missouri, 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, Missouri, 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 both the federal and state governments jointly fund it, 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 the Centers for Medicare and Medicaid Services, or 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 Patient Protection and Affordable Care Act of 2010, or 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 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 (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 (“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, 2011, we had approximately 5,200 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., 53, 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., 47, has served in the role of Chief Financial Officer since 1995. He also has served as a director since 1994. Mr. Molina has been employed by us for over 30 years in a variety of positions. Mr. Molina is a past president of the California Association of Primary Care Case Management Plans. He was recently named to the Los Angeles branch of the Federal Reserve Bank of San Francisco’s board of directors. He earned a Juris Doctorate from the University of Southern California School of Law. Mr. Molina is the brother of J. Mario Molina, M.D.

Terry P. Bayer, 61, has served as our Chief Operating Officer since November 2005. She had formerly served as our Executive Vice President, Health Plan Operations since January 2005. 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, 53, has served as our Chief Accounting Officer since 2003. 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 25 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.

Stephen T. O’Dell, 60, has served as our Senior Vice President, Growth & Corporate Development, since December 2010. Mr. O’Dell is responsible for leading the Company’s strategic growth efforts, including mergers and acquisitions, business development and health care reform readiness strategy and implementation. Prior to this role, Mr. O’Dell served the Company as President and CEO of our California health plan and more recently as a Regional Vice President overseeing the strategic direction and operations of our health plans in Washington, Utah, New Mexico and Texas as well as the Company’s medical clinics in California. Mr. O’Dell has more than 30 years of executive experience in the managed health care industry. He has held executive positions at First Consulting Group, Blue Cross Blue Shield of Colorado, Nevada and New Mexico and FHP International. Mr. O’Dell holds a Master of Science degree in Health Administration from the University of Colorado Health Sciences Center and a Bachelor of Arts degree in History from Lewis & Clark College in Oregon.

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 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

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 are continuing to increase at the same time that state budgets are suffering from unprecedented deficits. Because governmental health care programs account for such a large portion of state budgets, efforts to contain overall government spending and to achieve a balanced budget often result in significant political pressure being directed at the funding for these health care programs. Resolving the budget shortfalls is now particularly difficult since program reductions and one-time strategies to plug the gaps have already been used in most states. In fiscal year 2011, 47 states implemented at least one new policy to control Medicaid costs and 50 states planned to do so in fiscal year 2012. Most states reported program reductions in multiple areas. However, the "maintenance of eligibility" requirements under the Patient Protection and Affordable Care Act generally prohibit states from restricting Medicaid eligibility or tightening enrollment procedures. States are also moving forward with a range of delivery system changes and programmatic initiatives designed to improve care and control costs.

Headed into state fiscal year 2013 (which in most instances starts on July 1, 2012), states do not expect revenue collections to recover to a level sufficient to avoid additional budget cuts. Already, 29 states have projected or have addressed shortfalls totaling $44 billion for fiscal year 2013. Among them are California and Texas, two of the most populous states in the country. 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. The mandate of health reform adding millions of individuals to Medicaid and CHIP will put further pressures on state Medicaid programs. 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. Some of the proposals relating to Medicaid would fundamentally change the structure and financing of the program, with major implications for providers and beneficiaries. One such proposal would be to convert Medicaid into a block grant, capping federal Medicaid payments to each state at a specified dollar amount, and limiting the growth in that dollar amount each year. Based on analysis of previous proposals to cap Medicaid, these dollar caps and growth limits would have to be set below the levels at which Medicaid is now expected to grow based on enrollment and health care inflation to save money. In the event the Medicaid program is fundamentally restructured, our business could be adversely affected.

Most recently, on August 2, 2011, the President signed into law the Budget Control Act of 2011, which, among other things, creates the Joint Select Committee on Deficit Reduction to recommend proposals in spending reductions to Congress. The Joint Select Committee was tasked with proposing legislation to reduce the United States federal deficit by $1.5 trillion for fiscal years 2012-2021 by December 23, 2011. Reductions in Medicare and Medicaid spending were initially included as a part of these deficit reduction measures. On September 19, 2011, President Obama presented his Plan for Economic Growth and Deficit Reduction to the Joint Select Committee, which included $72 billion in Medicaid savings. The Joint Select Committee, however, failed to propose legislation by the December 23, 2011 deadline. Therefore, approximately $1.2 trillion in domestic and defense spending reductions will automatically begin on January 1, 2013 and will be split evenly between domestic and defense spending. Payments to Medicare providers are included in the automatic spending cuts; however, 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. At this time, we are unable to determine how the automatic 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, or results of operations.

The recently enacted health care reform law and the implementation of that law 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 “ACA”. This legislation enacts comprehensive changes to the U.S. health care system, components of which will be phased in at various stages over the next eight years. Among other things, by January 1, 2014, the Medicaid program will be expanded to provide eligibility to nearly all low-income people under age 65 with income below 133 percent 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. In total, the Congressional Budget Office estimates that Medicaid and CHIP will cover an additional 16 million people by 2019. The legislation also imposes a franchise tax or premium excise tax of $8 billion starting in 2014, with increasing annual amounts thereafter. Such assessment may not be deductible for income tax purposes. As a result, several state officials have stated that the fiscal pressure that Medicaid puts on states is expected to increase if the federal health-care overhaul takes place in 2014. Although the federal government is required to pick up the costs for people newly eligible for the program, many who are now eligible but not enrolled are expected to be drawn in, and states must shoulder part of those costs.

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

In addition, there have been a number of lawsuits filed that challenge all or part of the health care reform law. On January 31, 2011, a Florida District Court ruled that the entire health care reform law is unconstitutional. Other courts have ruled in favor of the law or have only struck down certain provisions of the law. These cases are under appeal and others are in process. The United States Supreme Court is scheduled to hear oral arguments on certain aspects of these cases in March 2012, including the constitutionality of the individual mandate and of the requirement imposed on states that they expand coverage under the Medicaid program. We cannot predict the ultimate outcome of any of the litigation. Further, various Congressional leaders have indicated a desire to revisit or repeal the health care reform law. While the U.S House of Representatives voted to repeal the whole health care reform law, the U.S. Senate voted against such a repeal. There have separately been a number of bills introduced that would change certain provisions of the law. Because of these challenges, we cannot predict whether any or all of the legislation will be implemented as enacted, overturned, repealed, or modified. Any partial or complete repeal or amendment or implementation difficulties, or uncertainty regarding such events, could materially and adversely impact our ability to capitalize on the opportunities presented by the ACA or may cause us to incur additional costs of compliance.

If we fail to effectively accommodate the growth in Medicaid enrollment anticipated under the health reform legislation, our business may be materially adversely affected. In addition, if the new $8 billion insurance industry assessment is imposed as enacted, or if we are unable to obtain premium increases to offset the impact of the assessment or otherwise adjust our business model to address the assessment, our business, financial condition, cash flows, or results of operations could be materially adversely affected.

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 cost ratio, meaning our medical care costs as a percentage of our premium revenue, 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 cost ratio can create significant changes in our overall financial results. For example, if our overall medical care ratio for 2011 of 83.9% had been one percentage point higher, or 84.9%, our earnings for 2011 would have been approximately $0.25 per diluted share rather than our actual 2011 earnings of $0.45 per diluted share, a 44% reduction in our earnings.

Factors that may affect our medical care costs include the level of utilization of health care services, unexpected patterns in the annual 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 cost 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, or 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 Medicare Advantage or aged, blind, and disabled Medicaid members, is impacted by the more limited experience we have had with those populations. Finally, with regard to the new Medicaid and CHIP members we expect to enroll in 2012 through organic growth due primarily to the recession, certain new members may be disproportionately costly due to high utilization in their first several months of Medicaid or CHIP 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 2012 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. An atypically high incidence of flu in 2012, or the outbreak and rapid spread of any other highly contagious and potentially virulent disease, could increase the utilization rates among our members, resulting in significantly increased outpatient, inpatient, emergency room, and pharmacy costs.

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 Ohio and New Mexico health plans will be subject to competitive bidding during 2012. In the event the responsive bids of our Ohio or New Mexico health plans 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 recent loss of our Missouri contract. 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, or results of operations could be adversely affected.

There are numerous risks associated with the expansion of our Texas health plan's service areas and with any other expansion into new markets.

Effective March 1, 2012, our Texas health plan will be expanding into three new service delivery areas, representing the addition of approximately 148,000 additional members. There are numerous risks associated with a health plan's initial expansion into a new service area or the provision of medical services to a new population, including pent-up demand for medical services, elevated medical care costs, unfamiliarity with managed care processes, and our lack of actuarial experience in setting appropriate reserve levels. In the event the medical care costs of our Texas health plan or of our other health plans are higher than anticipated, we are unable to lower the medical care ratio associated with these new populations, our reserve levels are inadequate, or our enrollment projections are overestimated, the negative results of our Texas health plan could adversely affect our business, financial condition, cash flows, or results of operations.

In the event the expected reduction in the rates paid to our California health plan is not finally implemented, is not made effective retroactive 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. The California Department of Health Care Services has preliminarily indicated that the 10% rate reduction could be effective retroactive to July 1, 2011. The Company believes that this reduction in provider payments, if effected, will translate into a premium reduction of approximately 3.5% for the California health plan.

The proposed rate reduction was submitted for approval to CMS, and on October 27, 2011, CMS indicated its general approval of the rate cut. However, the United States District Court for the Central District of California issued a series of injunctions barring the California Department of Health Care Services from implementing the rate reductions as to various classes of providers. The California Department of Health Care Services recently reported that CMS asked for a delay of the submission of the AB 97 managed care rates to allow CMS to research its authority to review and approve the AB 97 managed care rates in light of the current fee-for-service injunction.

If the proposed rate cut is not finally implemented, if it is not made retroactive to July 1, 2011, or if it is otherwise modified from its current form, the results of our California health plan could be affected — positively or negatively — 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.

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 are in the process of or have completed renegotiating 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 will likely decline significantly in the future. 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, or 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 ten state health plans, and as of June 30, 2012, when the contract of our Missouri health plan is scheduled to end, we will derive premium revenues from nine state health plans. If we were 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 were 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 or 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, or 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 plan to satisfy one of these performance measure provisions could adversely affect our business, financial condition, cash flows, or results of operations.

In addition, the state contracts of our California, Florida, New Mexico, and Texas health plans 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, or 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 were 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 create 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, or results of operations.

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

Furthermore, a state undergoing a budget crisis may significantly delay the premiums paid to one of our health plans. During 2010, due to a prolonged budget impasse, some of the monthly premium payments made by the State of California to our California health plan were several months late. In January 2012, State Controller John Chiang warned that the State of California could run out of cash by March 2012 if quick action was not taken. Mr. Chiang added that revenue is $2.6 billion lower than projected for California's 2012 fiscal year while spending is higher by about the same amount. In a monthly report released by Mr. Chiang in February 2012 covering California's cash balance, receipts and disbursements for the prior month, it was noted that monthly revenues for the month of January had come in $528 million below the latest projections contained in the Governor's proposed 2012-13 budget and when compared against the 2011-12 Budget Act, January revenues were $1.2 billion below estimates. While the State Assembly of California passed a bill permitting short term borrowing from existing funds held by certain state departments in order to get the State of California through what is expected to be a seven-week cash shortfall, and though California also has access to an additional $865 million of internal borrowable funds due to recent legislation (SB 95) signed by the Governor, the State also warned that one of the consequences of such short term borrowing would be the delay of payments to providers of state services, including Medi-Cal. 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, or 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 reported, 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 profitabley. 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, 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 had made related payments to providers and were 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.

Federal regulations require entities subject to HIPAA to update their transaction formats for electronic data exchange to the new HIPAA 5010 standards; however, some entities are currently in transition to the new standards which could adversely impact administrative expense and compliance.

A federal mandate known as HIPAA 5010 requires health plans to use new standards for conducting certain operational and administrative transactions electronically beginning in January 2012. These administrative transactions include: claims, remittance, eligibility and claims status requests and responses. The HIPAA 5010 upgrade was prompted by government and industry's shared goal of providing higher-quality, lower-cost health care and the need for a comprehensive electronic data exchange environment for the ICD-10 mandate to be implemented by October 2013. Upgrading to the new HIPAA 5010 standards should increase transaction uniformity, support pay for performance, and streamline reimbursement transactions. We, along with other health plans, faced significant pressure to make sure that we installed our software and tested it for compatibility with our business partners. Because HIPAA 5010 affects electronic transactions such as patient eligibility, claims filing, claims status, and remittance advice, we proceeded proactively to achieve full functionality of HIPAA 5010 transactions, and did so, before the January 1, 2012 deadline. However, in November 2011, CMS announced it would delay enforcement actions related to implementation of HIPAA 5010 until March 31, 2012. As the delayed implementation deadline approaches for full implementation of HIPAA 5010, we will continue to test our claims management systems to prevent any operational disruptions.

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, in February 2012, it was reported that CMS will postpone implementation of ICD-10 and will be issuing shortly a notice with a new timeline governing the pace of implementation. 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, or results of operations.

The insolvency of a delegated provider could obligate us to pay their referral claims, which could have an adverse effect on our business, cash flows, or 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 if 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, or 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 the Company does not participate. These actions and the resulting negative publicity could become associated with or imputed to the Company, regardless of the Company's 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 the Company does 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, or 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 intercompany 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 non-extraordinary dividends must usually provide notice to the regulators ten or fifteen days in advance of the intended distribution date of the non-extraordinary dividend. The aggregate amounts our health plan subsidiaries could have paid us at December 31, 2011, 2010, and 2009 without approval of the regulatory authorities were approximately $17.6 million, $18.8 million, and $9.0 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. For example, we could be hindered in our ability to make debt service payments under our credit facility and/or our convertible senior notes.

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, or results of operations.

An 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 provisions of the ARRA 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 health information of more than 500 individuals.

Under ARRA, civil penalties for HIPAA violations by covered entities are increased up to an annual maximum of $1.5 million for uncorrected violations based on willful neglect. In addition, imposition of these penalties is now more likely because ARRA 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, ARRA requires us to notify affected individuals, HHS, and in some cases the media when unsecured personal health information is subject to a security breach.

ARRA also contains a number of provisions that provide incentives for states to initiate certain programs related to health care and health care technology, such as electronic health records. While provisions such as these do not apply to us directly, states wishing to apply for grants under ARRA, 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 ARRA 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 ARRA and may require us to incur significant costs in order to seek to comply with its requirements.

While we currently expend significant resources and 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, 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

MMIS operational problems in Idaho or Maine could result in reduced or withheld payments, damage assessments, increased administrative costs, or even contract termination, any of which could adversely affect our business, financial condition, cash flows, or results of operations.

From and after the MMIS operational or "go live" date of June 1, 2010 after which it began pilot operations, Molina Medicaid Solutions has experienced certain problems with the MMIS in Idaho. In the event Molina Medicaid Solutions is unsuccessful in correcting all of the identified problems, the Idaho Department of Administration may: (i) reduce or withhold its payments to Molina Medicaid Solutions, (ii) require Molina Medicaid Solutions to provide services at no additional cost to Idaho, (iii) require the payment of damages, or (iv) terminate its contract with Molina Medicaid Solutions. In addition, Molina Medicaid Solutions may incur much greater administrative costs than expected in correcting the MMIS problems, or in advancing interim payments to Idaho providers. For example, the consulting and outside service costs for Idaho following its go-live operational date have not declined from the pre-operational level as had been previously expected. Finally, Idaho DHW may not accept the MMIS developed and implemented by Molina Medicaid Solutions, or CMS may not certify such MMIS. All of such risks are also applicable to the MMIS in Maine which became operational and began pilot operations as of September 1, 2010. In addition, the state of Maine, in order to balance its budget, has requested that we renegotiate our contract with the state under terms which would reduce the amount of payments made under the life of the contract. The realization of any of the foregoing risks could adversely affect our business, financial condition, cash flows, or results of operations.

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 were 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, including its responsive bid in West Virginia during 2012, 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 2011, the government

contract of Molina Medicaid Solutions in Louisiana was subject to competitive bidding, and we were unsuccessful in being awarded a new contract. During 2012, the state MMIS contract of West Virginia will be subject to competitive bidding. Molina Medicaid Solutions also anticipates bidding in other states which have issued RFPs for procurement of a new MMIS. In the event the responsive bid in West Virginia is not successful, we will lose our fiscal agent contract in that state, and our revenues could be materially reduced as a result. In addition, 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, or 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, or 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 or 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

Restrictions and covenants in our credit facility may limit our ability to make certain acquisitions or reduce our liquidity and capital resources.

On September 9, 2011, we entered into a credit agreement for a $170 million revolving credit facility with various lenders and U.S. Bank National Association. The credit facility imposes numerous restrictions and covenants, including, but not limited to, prescribed consolidated leverage and fixed charge coverage ratios, net worth requirements, and acquisition and disposition limitations that restrict our financial and operating flexibility, including our ability to make certain acquisitions above specified values and declare dividends and other distributions without lender approval. Our ability to comply with these covenants may be affected by events beyond our control. As a result of the restrictions and covenants imposed under our credit facility, our growth strategy may be negatively impacted by our inability to react to market conditions, finance our operations, engage in strategic acquisitions or disposals, act with complete flexibility, or to use our credit facility in the manner intended. In addition, our credit facility matures in September 2016. If we are in default at a time when funds under the credit facility are required to finance an acquisition, or if a proposed acquisition does not satisfy the pro forma financial requirements under our credit facility, or if we are unable to renew or refinance our credit facility prior to its maturity, and if the default is not cured or waived, we may be unable to use the credit facility in the manner intended, and our operations, liquidity, and capital resources could be materially adversely affected.

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

Depending on acquisitions and other opportunities, we expect to continue to grow our membership and to expand into other markets. In fiscal year 2007, we had total premium revenue of $2.5 billion. In fiscal year 2011, we had total premium revenue of $4.6 billion, an increase of 87% over a five-year span. 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 its 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 were unsuccessful or without merit, we would 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 assure you 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, or 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.

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 control 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 NYSE, 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 ("GAAP") 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, or 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. 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, or the accounting reversal of any tax benefits or revenue previously recognized by us, could have an adverse effect on our provision for income taxes, estimated income tax liabilities, or 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 healthcare 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 the vendors' or service provider's 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 or indefinite-lived intangible assets could have a material impact on our financial results.

We conduct formal impairment tests on material long-lived assets, such as goodwill and indefinite-lived intangible assets, and intangible assets, net, at least annually; additionally, we continually evaluate whether events or changes in business conditions suggest potential impairment of such assets. Our judgments regarding the existence of impairment indicators are based on legal factors, market conditions, and operational performance. 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.

As of December 31, 2011, the balance of goodwill and indefinite-lived intangible assets was $154.0 million. Goodwill and indefinite-lived assets are not amortized, but are subject to impairment tests on an annual basis or more frequently if indicators of impairment exist. As of December 31, 2011, the balance of intangible assets, net, was $101.8 million. Intangible assets are amortized generally on a straight-line basis over their estimated useful lives. The determination of the value of goodwill and indefinite-lived intangible assets, and intangible assets, net, requires us to make estimates and assumptions about estimated asset lives, future business trends, and growth. Such evaluation is significantly impacted by estimates and assumptions of future revenues, costs and expenses, and other factors.

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 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. Accordingly, we are subject to all of the risks generally associated with owning and leasing real estate, which includes, but is 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; 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, 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, or results of operations.

Risks Related to Our Common Stock

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 (on a split-adjusted basis) to a high of $36.83. A number of factors will continue to influence the market price of our common stock, including:

- state and federal budget pressures,
- changes in expectations as to our future financial performance or changes in financial estimates, if any, of public market analysts,
- 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 factors set forth under "Risk Factors" in this report.

Our 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 stock does not continue to develop, securities analysts may not maintain or initiate research coverage of our Company and our shares, and this could depress the market for our shares.

Members of the Molina family own a majority 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 40% of our capital stock. 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 and removal of directors, amendments to our charter, and any merger, consolidation, or sale of our 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. Finally, the interests and objectives of the Molina family may be different from those of our company or our other stockholders, and they may vote their common stock in a manner that is contrary to the vote of our other 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, including securities that are convertible into or exchangeable for, or that represent the right to receive, 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, 2011, 45,815,392 shares of common stock and no shares of preferred or other capital stock were issued and outstanding.

It may be difficult for a third party to acquire our Company, which could inhibit stockholders from realizing a premium on their stock price.

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, and
- 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.

Table of Contents

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

We do not anticipate paying any cash dividends in the foreseeable future.

We have never declared or paid any cash dividends. While we have in the past and may again in the future use our available cash to repurchase our securities, we do not anticipate declaring or paying any cash dividends in the foreseeable future.

Item 1B: ***Unresolved Staff Comments***

None.

Item 2: ***Properties***

We lease a total of 68 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 26,000 square-foot data center in Albuquerque, New Mexico, and a community clinic in Pomona, California. While we believe our current facilities are 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.

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 February 15, 2012, there were 131 holders of record of our common stock. The high and low sales prices of our common stock for specified periods are set forth below:

Date Range	High	Low
2011		
First Quarter (1)	$ 26.86	$ 17.77
Second Quarter (1)	$ 29.03	$ 24.72
Third Quarter	$ 28.21	$ 14.82
Fourth Quarter	$ 26.31	$ 13.93
2010 (1)		
First Quarter	$ 17.59	$ 13.35
Second Quarter	$ 20.80	$ 16.67
Third Quarter	$ 21.20	$ 16.85
Fourth Quarter	$ 18.85	$ 16.43

(1) All applicable share and per-share amounts reflect the retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

Dividends

We have never paid cash dividends on our common stock. We currently intend to retain any future earnings to fund our business, and we do not anticipate paying any cash dividends 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 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 — Regulatory Capital and Dividends Restrictions.

Unregistered Issuances of Equity Securities

None.

Stock Repurchase Program

On July 27, 2011, our board of directors approved a stock repurchase program of up to $7 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 million (average cost of approximately $17.47 per share) during August 2011. This repurchase program was funded with working capital.

Effective as of October 26, 2011, our board of directors has authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior notes due 2014. The repurchase program will be funded with working capital or draws under our credit facility, and repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program extends through October 25, 2012, but the Company reserves the right to suspend or discontinue the program at any time. No securities were purchased under this program in 2011.

Table of Contents

Purchases of common stock made by or on behalf of the Company during the quarter ended December 31, 2011, including shares withheld by the Company to satisfy our employees' income tax obligations, are set forth below:

	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs (b)(c)	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs (b)(c)
October 1 — October 31	2,431(d)	$ 15.44	—	$ 75,000,000
November 1 — November 30	2,150(d)	$ 20.53	—	$ 75,000,000
December 1 — December 31	1,213(d)	$ 21.82	—	$ 75,000,000
Total	5,794(d)	$ 18.66	—	

(a) During the three months ended December 31, 2011, we did not repurchase any shares of our common stock outside of our publicly announced stock repurchase program except 5,794 shares of common stock withheld to settle our employees' income tax obligations.

(b) On July 27, 2011, our board of directors approved a stock repurchase program of up to $7 million to be used to purchase shares of our common stock under a Rule 10b5-1 trading plan. Our repurchases under this program were completed in August 2011.

(c) Effective as of October 26, 2011, our board of directors has authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior notes due 2014. The repurchase program extends through October 25, 2012, but the Company reserves the right to suspend or discontinue the program at any time. No repurchases have been made by the Company pursuant to this repurchase plan during the quarter ended December 31, 2011.

(d) Includes shares withheld by the Company to satisfy our employees' income tax withholdings.

Securities Authorized for Issuance Under Equity Compensation Plans (as of December 31, 2011)

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	553,049	$ 20.91	7,377,188(2)

(1) Options to purchase shares of our common stock issued under the 2000 Omnibus Stock and Incentive Plan, and the 2002 Equity Incentive Plan. Further grants under the 2000 Omnibus Stock and 2002 Equity Incentive Plan have been suspended.

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

Table of Contents

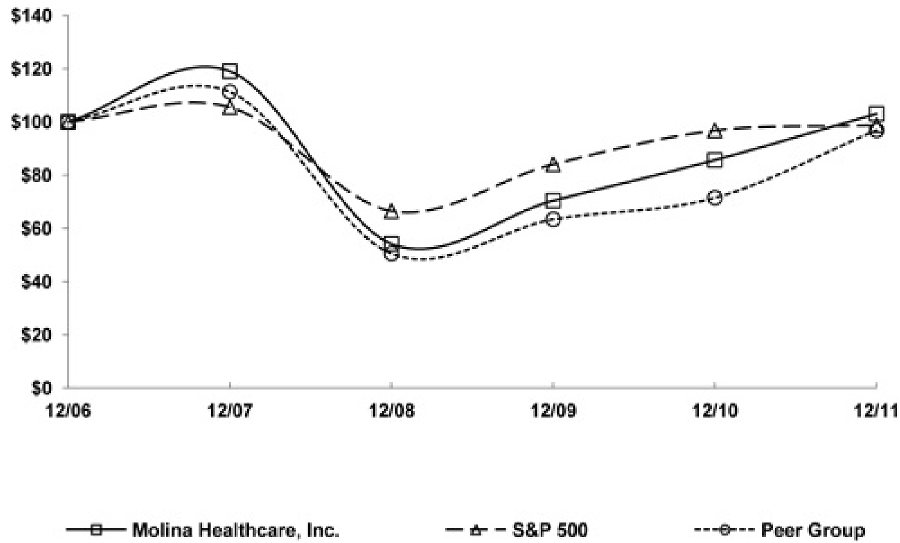
STOCK PERFORMANCE GRAPH

The following discussion shall not be deemed to be "soliciting material" or to be "filed" with the SEC nor shall this information be incorporated by reference into any future filing under the Securities Act or the Exchange Act, 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") and a peer group index for the five-year period from December 31, 2006 to December 31, 2011. The graph assumes an initial investment of $100 in Molina Healthcare, Inc. common stock and in each of the indices.

The peer group index 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).

COMPARISON OF 5 YEAR CUMULATIVE TOTAL RETURN
Among Molina Healthcare, Inc, The S&P 500 Index
And A Peer Group



* $100 invested on 12/31/06 in stock or index, including reinvestment of dividends. Fiscal year ending December 31.

Table of Contents

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, 2011 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,				
	2011	2010(1)	2009	2008	2007
Statements of Income Data:					
Revenue:					
Premium revenue	$ 4,603,407	$ 3,989,909	$ 3,660,207	$ 3,091,240	$ 2,462,369
Service revenue(1)	160,447	89,809	—	—	—
Investment income	5,539	6,259	9,149	21,126	30,085
Rental income	547	—	—		
Total revenue	4,769,940	4,085,977	3,669,356	3,112,366	2,492,454
Expenses:					
Medical care costs	3,859,994	3,370,857	3,176,236	2,621,312	2,080,083
Cost of service revenue(1)	143,987	78,647	—	—	—
General and administrative expenses	415,932	345,993	276,027	249,646	205,057
Premium tax expenses	154,589	139,775	128,581	100,165	81,020
Depreciation and amortization	50,690	45,704	38,110	33,688	27,967
Total expenses	4,625,192	3,980,976	3,618,954	3,004,811	2,394,127
Impairment of goodwill and intangible assets(2)	(64,575)	—	—	—	—
Gain on purchase of convertible senior notes	—	—	1,532	—	—
Operating income	80,173	105,001	51,934	107,555	98,327
Interest expense	15,519	15,509	13,777	13,231	5,605
Income before income taxes	64,654	89,492	38,157	94,324	92,722
Provision for income taxes	43,836	34,522	7,289	34,726	34,996
Net income	$ 20,818	$ 54,970	$ 30,868	$ 59,598	$ 57,726
Net income per share(3):					
Basic	$ 0.45	$ 1.34	$ 0.80	$ 1.44	$ 1.36
Diluted	$ 0.45	$ 1.32	$ 0.79	$ 1.43	$ 1.35
Weighted average number of common shares outstanding(3)	45,756,000	41,174,000	38,765,000	41,514,000	42,412,500
Weighted average number of common shares and potential dilutive common shares outstanding(3)	46,425,000	41,631,000	38,976,000	41,658,000	42,628,500
Operating Statistics:					
Medical care ratio(4)	83.9%	84.5%	86.8%	84.8%	84.5%
General and administrative expense ratio(5)	8.7%	8.5%	7.5%	8.0%	8.2%
Premium tax ratio(6)	3.4%	3.5%	3.5%	3.2%	3.3%
Members(7)	1,697,000	1,613,000	1,455,000	1,256,000	1,149,000

Table of Contents

	Year Ended December 31,				
	2011	2010(1)	2009	2008	2007(9)
Balance Sheet Data:					
Cash and cash equivalents	$ 493,827	$ 455,886	$ 469,501	$ 387,162	$ 459,064
Total assets	1,652,146	1,509,214	1,244,035	1,148,068	1,170,016
Long-term debt (including current maturities)	218,126	164,014	158,900	164,873	160,166
Total liabilities	897,073	790,157	701,297	616,306	655,640
Stockholders' equity	755,073	719,057	542,738	531,762	514,376

(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 will expire without renewal on June 30, 2012. In connection with this notification, we recorded a non-cash impairment charge of approximately $64.6 million in the fourth quarter of 2011.

(3) All applicable share and per-share amounts reflect the retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

(4) Medical care ratio represents medical care costs as a percentage of premium revenue. 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, our ability to effectively manage costs, contract changes, and changes in accounting estimates related to incurred but not reported claims. See *Management's Discussion and Analysis of Financial Condition and Results of Operations* for further discussion.

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

(6) Premium tax ratio represents such expenses as a percentage of premium revenue.

(7) 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.

Adjustments

We have adjusted all applicable share and per-share amounts to reflect the retroactive effects of the three-for-two stock split in the form of a stock dividend that was effective May 20, 2011.

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. Our business comprises our Health Plans segment, consisting of licensed health maintenance organizations serving Medicaid populations in ten states, and our Molina Medicaid Solutions segment, which provides design, development, implementation, and business process outsourcing solutions to Medicaid agencies in an additional five states. We also have a direct delivery business that currently consists of primary care community clinics in California and Washington; additionally, we manage three county-owned primary care clinics under a contract with Fairfax County, Virginia.

We report our financial performance based on the following two reportable segments: Health Plans; and Molina Medicaid Solutions.

Our Health Plans segment comprises health plans in California, Florida, Michigan, Missouri, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin, and includes our direct delivery business. This segment served approximately 1.7 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals as of December 31, 2011. 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.

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 will expire without renewal on June 30, 2012. In connection with this notification, we recorded a non-cash impairment charge of approximately $64.6 million, or $1.34 per diluted share. Most of the impairment charge is not tax deductible, resulting in a disproportionate impact to net income. For the year ended December 31, 2011, our Missouri health plan contributed premium revenue of $229.6 million, or 5% of total premium revenue, and comprised 79,000 members, or 4.7% of total Health Plans segment membership.

On May 1, 2010, we acquired a health information management business which we operate under the name, Molina Medicaid Solutions. 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 June 9, 2011, Molina Medicaid Solutions received notice from the state of Louisiana that the state intends to award the contract for a replacement Medicaid Management Information System, or MMIS, to another firm. Our revenue under the Louisiana MMIS contract from May 1, 2010, the date we acquired Molina Medicaid Solutions, through December 31, 2010, was approximately $32 million. For the year ended December 31, 2011, our revenue under the Louisiana MMIS contract was approximately $57 million. 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 between $45 million and $50 million in revenue annually under our Louisiana MMIS contract.

Table of Contents

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, 2011, we received approximately 94% 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 the Centers for Medicare and Medicaid Services, or 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, 2011, we received approximately 6% 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. Premiums PMPM for the Children's Health Insurance Program, or CHIP, members are generally among our lowest, with rates as low as approximately $70 PMPM in California. Premium revenues for Medicaid members are generally higher. Among the Temporary Assistance for Needy Families, or TANF, Medicaid population — the Medicaid group that includes mostly mothers and children — PMPM premiums range between approximately $110 in California to $250 in Missouri. Among our Medicaid Aged, Blind or Disabled, or 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 average PMPM premiums, 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,		
	2011	2010	2009
Total Ending Membership by Health Plan:			
California	355,000	344,000	351,000
Florida	69,000	61,000	50,000
Michigan	222,000	227,000	223,000
Missouri	79,000	81,000	78,000
New Mexico	88,000	91,000	94,000
Ohio	248,000	245,000	216,000
Texas	155,000	94,000	40,000
Utah	84,000	79,000	69,000
Washington	355,000	355,000	334,000
Wisconsin (1)	42,000	36,000	—
Total	1,697,000	1,613,000	1,455,000
Total Ending Membership by State for our Medicare Advantage Plans(1):			
California	6,900	4,900	2,100
Florida	800	500	—
Michigan	8,200	6,300	3,300
New Mexico	800	600	400
Ohio	200	—	—
Texas	700	700	500
Utah	8,400	8,900	4,000
Washington	5,000	2,600	1,300
Total	31,000	24,500	11,600

	As of December 31,		
	2011	2010	2009
Total Ending Membership by State for our Aged, Blind or Disabled Population:			
California	31,500	13,900	13,900
Florida	10,400	10,000	8,800
Michigan	37,500	31,700	32,200
New Mexico	5,600	5,700	5,700
Ohio	29,100	28,200	22,600
Texas	63,700	19,000	17,600
Utah	8,500	8,000	7,500
Washington	4,800	4,000	3,200
Wisconsin (1)	1,700	1,700	—
Total	192,800	122,200	111,500

(1) We acquired the Wisconsin health plan on September 1, 2010. As of December 31, 2011, the Wisconsin health plan had approximately 2,000 Medicare Advantage members covered under a reinsurance contract with a third party; these members are not included in the membership tables herein.

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. 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, G&A 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 managers 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 managers. As noted above, drugs and injectibles not paid through our pharmacy benefit managers 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, 24-hour on-call nurses, and a portion of our information technology costs. Salary and benefit costs are a substantial portion of these expenses. For the years ended December 31, 2011, 2010, and 2009, medically related administrative costs were approximately $102.3 million, $85.5 million, and $74.6 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 contracts in Idaho, Louisiana, Maine, New Jersey, West Virginia, and Florida. 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. We began to recognize deferred contract costs for our Maine contract in September 2010, at the same time we began to recognize revenue associated with that contract. In Idaho, we expect to begin recognition of deferred contract costs in 2012, in a manner consistent with our anticipated recognition of revenue.

2011 Financial Performance Summary

The following table and narrative briefly summarizes our financial and operating performance for the years ended December 31, 2011, 2010, and 2009. 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 because there are direct relationships between premium revenue earned, and the cost of health care and premium taxes.

	Year Ended December 31,		
	2011	2010	2009
	(Dollar amounts in thousands, except per-share data)		
Earnings per diluted share	$ 0.45	$ 1.32	$ 0.79
Premium revenue	$ 4,603,407	$ 3,989,909	$ 3,660,207
Service revenue	$ 160,447	$ 89,809	$ —
Operating income	$ 80,173	$ 105,001	$ 51,934
Net income	$ 20,818	$ 54,970	$ 30,868
Total ending membership	1,697,000	1,613,000	1,455,000
Premium revenue	96.5%	97.6%	99.8%
Service revenue	3.4%	2.2%	—
Investment income	0.1%	0.2%	0.2%
Total revenue	100.0%	100.0%	100.0%
Medical care ratio	83.9%	84.5%	86.8%
General and administrative expense ratio	8.7%	8.5%	7.5%
Premium tax ratio	3.4%	3.5%	3.5%
Operating income	1.7%	2.6%	1.4%
Net income	0.4%	1.3%	0.8%
Effective tax rate	67.8%	38.6%	19.1%

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. As described above, 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 83.9%, compared with a medical care ratio of 84.5% for fiscal year 2010. We have continued to lay the foundation for further growth, achieving certification of our Medicaid management information system in Maine, winning large contract awards in Texas, serving more of the ABD population in California, and preparing to serve dual-eligible members in many of our states.

During 2011, we continued to pursue the expansion of our Health Plans segment; membership grew 8.4% on a member-month basis over 2010. We have expanded our growing presence in Texas, where new contracts in 2010 and 2011 have led to the addition of approximately 61,000 members in 2011, which includes nearly 45,000 new ABD members. This membership growth not only provides increased scale for leveraging our resources in Texas, it makes us an increasingly important player in a state where the potential revenue opportunity will grow as new Medicaid beneficiaries qualify for coverage under health care reform.

Our Texas and Wisconsin health plans continue to face challenges. We have undertaken a number of measures—focused on both utilization and unit cost reductions—to improve the profitability of these health plans.

We remain concerned about state budget deficits, which are not expected to improve in 2012. Accordingly, the rate environment for our health plans remains uncertain, and we have received several rate reductions in 2011, including a 2.5% reduction in New Mexico effective July 1, 2011, a 2% reduction in Utah effective July 1, 2011, a 2% rate reduction in Texas effective September 1, 2011, and a 1% reduction in California effective October 1, 2011. Additionally, we have received a proposed rate reduction in California that we believe will translate into a premium reduction of approximately 3.5% retroactive to July 1, 2011. However, we have also received rate increases, including a 5% rate increase at our Missouri health plan effective July 1, 2011, a 7.5% rate increase at our Florida plan effective September 1, 2011, and a 1% rate increase at our Michigan plan effective October 1, 2011.

With respect to our Molina Medicaid Solutions business, our MMIS in Maine received full certification from CMS in December 2011. The state of Idaho has sent their formal request for system certification to CMS, and we anticipate certification review in early 2012, with formal certification in the second half of 2012.

Health Plans Segment

Premium Revenue

In the year ended December 31, 2011, compared with the year ended December 31, 2010, premium revenue increased 15.4% 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 $388.2 million for the year ended December 31, 2011, compared with $265.2 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 83.9% for the year ended December 31, 2011, compared with 84.5% for the year ended December 31, 2010. Absent that portion of the adjustment to New Mexico premium revenue that related to 2010, the medical care ratio was 84.0% for the year ended December 31, 2011. Total medical care costs increased less than 6% PMPM.

- Pharmacy costs (excluding the addition of pharmacy benefits at our Ohio health plan effective October 1, 2011) increased approximately 7% PMPM. Approximately two-thirds of the increase in pharmacy costs was attributable to higher unit costs, with the remainder due to increased utilization.
- Capitation costs decreased approximately 14% PMPM, primarily due to the transition of members in Michigan and Washington into fee-for-service networks.
- Fee-for-service costs increased approximately 8% PMPM, partially due to the transition of members from capitated provider networks into fee-for-service networks.
- Fee-for-service and capitation costs combined increased approximately 4% PMPM. Excluding the Texas health plan, fee-for-service and capitation costs combined increased approximately 2% PMPM.
- Hospital utilization decreased approximately 5%.

The medical care ratio of the California health plan increased to 85.8% for the year ended December 31, 2011, from 83.5% 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 behavioural 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 81.2% for the year ended December 31, 2011, from 83.7% 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 80.2% for the year ended December 31, 2011, from 80.6 % 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 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 77.6% for the year ended December 31, 2011, from 79.1% 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 93.4% for the year ended December 31, 2011, from 86.2% 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 85.7% 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 83.9% 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. We have undertaken a number of measures — focused on both utilization and unit cost reductions — to improve the profitability of the Wisconsin health plan. Significant improvements in inpatient utilization were realized in the second half of 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						
		Premium Revenue		Medical Care Costs			
	Member Months(1)	Total	PMPM	Total	PMPM	Medical Care Ratio	Premium Tax Expense
California	4,190	$ 575,176	$ 137.27	$ 493,419	$ 117.75	85.8 %	$ 7,499
Florida	788	203,945	258.70	187,358	237.66	91.9	41
Michigan	2,660	662,127	248.91	537,779	202.16	81.2	38,733
Missouri	959	229,584	239.38	195,832	204.19	85.3	—
New Mexico	1,074	345,732	321.94	277,338	258.25	80.2	9,285
Ohio	2,966	988,896	333.40	766,949	258.57	77.6	76,677
Texas	1,616	409,295	253.40	382,390	236.74	93.4	7,117
Utah	972	287,290	295.51	224,513	230.94	78.1	—
Washington	4,171	823,323	197.42	690,513	165.57	83.9	14,865
Wisconsin(2)	488	69,596	142.56	64,346	131.81	92.5	44
Other(3)	—	8,443	—	39,557	—	—	328
	19,884	$ 4,603,407	$ 231.51	$ 3,859,994	$ 194.13	83.9 %	$ 154,589

	Year Ended December 31, 2010						
		Premium Revenue		Medical Care Costs			
	Member Months(1)	Total	PMPM	Total	PMPM	Medical Care Ratio	Premium Tax Expense
California	4,197	$ 506,871	$ 120.77	$ 423,021	$ 100.79	83.5 %	$ 6,912
Florida	664	170,683	256.87	162,839	245.07	95.4	1
Michigan	2,708	630,134	232.66	527,596	194.80	83.7	39,187
Missouri	946	210,852	222.98	180,291	190.66	85.5	—
New Mexico	1,104	366,784	332.02	295,633	267.61	80.6	9,300
Ohio	2,817	860,324	305.42	680,802	241.69	79.1	67,358
Texas	708	188,716	266.72	162,714	229.97	86.2	3,251
Utah	921	258,076	280.27	235,576	255.84	91.3	—
Washington	4,141	758,849	183.27	636,617	153.75	83.9	13,513
Wisconsin(2)	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	84.5 %	$ 139,775

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

(2) We acquired the Wisconsin health plan on September 1, 2010.

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

Days in Medical Claims and Benefits Payable

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

	December 31,		
	2011	2010	2009
Days in claims payable: fee-for-service only	40 days	42 days	44 days
Number of claims in inventory at end of period	111,100	143,600	93,100
Billed charges of claims in inventory at end of period (in thousands)	$ 207,600	$ 218,900	$ 131,400

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:

	Twelve Months 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

We are currently deferring recognition of all revenue as well as all direct costs (to the extent that such costs are estimated to be recoverable) in Idaho until the MMIS in that state receives certification from CMS. For the year ended December 31, 2011, cost of service revenue includes $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.

Table of Contents

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 3.4% of premium revenue, for the year ended December 31, 2011, from 3.5% for the year ended December 31, 2010.

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. 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
- Amortization of capitalized software 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 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

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. Of the total charge, $58.5 million is not tax deductible, resulting in a disproportionate impact to net income.

Interest Expense

Interest expense was $15.5 million for 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 is 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%.

Year Ended December 31, 2010 Compared with the Year Ended December 31, 2009

Health Plans Segment

Premium Revenue

In the year ended December 31, 2010, compared with the year ended December 31, 2009, premium revenue increased 9.0% due to a membership increase of approximately 10.9% (on a member-month basis). On a PMPM basis, however, consolidated premium revenue decreased 2.1% because of declines in premium rates. The decrease in PMPM revenue was due to the transfer of the pharmacy benefit to the state fee-for-service programs in Ohio (effective February 1, 2010) and Missouri (effective October 1, 2009). Exclusive of the transfer of the pharmacy benefit in Ohio and Missouri, Medicaid premium revenue PMPM increased approximately 1.5% over the year ended December 31, 2009. Medicare enrollment exceeded 24,000 members at December 31, 2010, and Medicare premium revenue was $265.2 million for the year ended December 31, 2010, compared with $135.9 million for the year ended December 31, 2009.

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,					
	2010			2009		
	Amount	PMPM	% of Total	Amount	PMPM	% of Total
Fee for service	$ 2,360,858	$ 128.73	70.0 %	$ 2,077,489	$ 126.14	65.4 %
Capitation	555,487	30.29	16.5	558,538	33.91	17.6
Pharmacy	325,935	17.77	9.7	414,785	25.18	13.1
Other	128,577	7.01	3.8	125,424	7.62	3.9
Total	$ 3,370,857	$ 183.80	100.0 %	$ 3,176,236	$ 192.85	100.0 %

The medical care ratio decreased to 84.5% for the year ended December 31, 2010, compared with 86.8% for the year ended December 31, 2009.

The medical care ratio of the California health plan decreased to 83.5% for the year ended December 31, 2010, from 92.2% for the year ended December 31, 2009, primarily due to lower inpatient facility fee-for-service costs resulting from provider network restructuring and improved medical management.

The medical care ratio of the Florida health plan increased to 95.4% for the year ended December 31, 2010, from 93.8% for the year ended December 31, 2009, primarily due to higher capitation costs and higher fee-for-service costs in the outpatient and physician categories.

The medical care ratio of the Michigan health plan increased to 83.7% for the year ended December 31, 2010, from 81.5% for the year ended December 31, 2009, primarily due to higher inpatient facility fee-for-service costs.

The medical care ratio of the New Mexico health plan decreased to 80.6% for the year ended December 31, 2010, from 85.7% for the year ended December 31, 2009, primarily due to reduced fee-for-service costs which more than offset decreased premium revenue PMPM.

The medical care ratio of the Ohio health plan decreased to 79.1% for the year ended December 31, 2010, from 86.1% for the year ended December 31, 2009, primarily due to an increase in Medicaid premium PMPM of approximately 6% effective January 1, 2010 (exclusive of the reduction related to pharmacy benefits), partially offset by higher inpatient facility fee-for-service costs.

The medical care ratio of the Utah health plan decreased to 91.3% for the year ended December 31, 2010, from 91.8% for the year ended December 31, 2009, due to improved financial performance in the second half of 2010. That improved financial performance was the result of reduced fee-for-service costs in the second half of 2010 and an increase in Medicaid premium PMPM of approximately 7% effective July 1, 2010.

The medical care ratio of the Washington health plan decreased to 83.9% for the year ended December 31, 2010, from 84.5% for the year ended December 31, 2009, primarily due to reduced fee-for-service costs which more than offset decreased premium revenue PMPM. Premium revenue PMPM decreased for all of 2010 compared with 2009 because the rate increase of approximately 2.5% effective July 1, 2010 was not enough to offset decreases received during the second half of 2009.

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, 2010						
		Premium Revenue		Medical Care Costs			
	Member Months(1)	Total	PMPM	Total	PMPM	Medical Care Ratio	Premium Tax Expense
California	4,197	$ 506,871	$ 120.77	$ 423,021	$ 100.79	83.5 %	$ 6,912
Florida	664	170,683	256.87	162,839	245.07	95.4	1
Michigan	2,708	630,134	232.66	527,596	194.80	83.7	39,187
Missouri	946	210,852	222.98	180,291	190.66	85.5	—
New Mexico	1,104	366,784	332.02	295,633	267.61	80.6	9,300
Ohio	2,817	860,324	305.42	680,802	241.69	79.1	67,358
Texas	708	188,716	266.72	162,714	229.97	86.2	3,251
Utah	921	258,076	280.27	235,576	255.84	91.3	—
Washington	4,141	758,849	183.27	636,617	153.75	83.9	13,513
Wisconsin(2)	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	84.5 %	$ 139,775

	Year Ended December 31, 2009						
		Premium Revenue		Medical Care Costs			
	Member Months(1)	Total	PMPM	Total	PMPM	Medical Care Ratio	Premium Tax Expense
California	4,135	$ 481,717	$ 116.49	$ 443,892	$ 107.34	92.2 %	$ 16,446
Florida	386	102,232	264.94	95,936	248.62	93.8	16
Michigan	2,523	557,421	220.94	454,431	180.12	81.5	36,482
Missouri	927	230,222	248.25	191,585	206.59	83.2	—
New Mexico	1,042	404,026	387.67	346,044	332.03	85.7	11,043
Ohio	2,411	803,521	333.33	691,402	286.82	86.1	47,849
Texas	402	134,860	335.69	110,794	275.78	82.2	2,513
Utah	793	207,297	261.43	190,319	240.02	91.8	—
Washington	3,847	726,137	188.77	613,876	159.58	84.5	14,175
Wisconsin(2)	—	—	—	—	—	—	—
Other(3)(4)	—	12,774	—	37,957	—	—	57
	16,466	$ 3,660,207	$ 222.24	$ 3,176,236	$ 192.85	86.8 %	$ 128,581

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

(2) We acquired the Wisconsin health plan on September 1, 2010.

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

(4) As of December 31, 2009, our Nevada health plan no longer served members. Premium revenue and medical care costs for the Nevada health plan have been included in "Other."

Molina Medicaid Solutions Segment

Molina Medicaid Solutions contributed $2.6 million to operating income for the year ended December 31, 2010, but reported an operating loss of $3.6 million for the quarter ended December 31, 2010. The operating loss for the fourth quarter of 2010 was primarily the result of system stabilization costs incurred for two of Molina Medicaid Solutions' contracts.

Performance of the Molina Medicaid Solutions segment for the year ended December 31, 2010 was as follows:

	(In thousands)
Service revenue before amortization	$ 98,125
Amortization recorded as reduction of service revenue	(8,316)
Service revenue	89,809
Cost of service revenue	78,647
General and administrative costs	5,135
Amortization of customer relationship intangibles recorded as amortization	3,418
Operating income	$ 2,609

Consolidated Expenses and Other

General and Administrative Expenses

General and administrative expenses were $346.0 million, or 8.5% of total revenue, for the year ended December 31, 2010, compared with 276.0 million, or 7.5% of total revenue, for the year ended December 31, 2009. The increase in the G&A ratio was the result of higher administrative expenses for the Health Plans segment, driven in part by the cost of our Medicare expansion, higher variable compensation expense as a result of substantially improved financial performance in 2010, employee severance and settlement costs, and costs relating to the acquisitions of Molina Medicaid Solutions and the Wisconsin health plan.

Premium Tax Expense

Premium tax expense relating to Health Plans segment premium revenue was 3.5% of revenue for both years ended December 31, 2010, and 2009.

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,			
	2010		2009	
	Amount	% of Total Revenue	Amount	% of Total Revenue
	(Dollar amounts in thousands)			
Depreciation, and amortization of capitalized software	$ 27,230	0.7 %	$ 25,172	0.7 %
Amortization of intangible assets	18,474	0.4	12,938	0.3
Depreciation and amortization reported as such in the consolidated statements of income	45,704	1.1	38,110	1.0
Amortization recorded as reduction of service revenue	8,316	0.2	—	—
Amortization of capitalized software recorded as cost of service revenue	6,745	0.2	—	—
Total	$ 60,765	1.5 %	$ 38,110	1.0 %

Interest Expense

Interest expense increased to $15.5 million for the year ended December 31, 2010, from $13.8 million for the year ended December 31, 2009. We incurred higher interest expense relating to the $105 million draw on our credit facility (beginning May 1, 2010) to fund the acquisition of Molina Medicaid Solutions. Amounts borrowed to fund this acquisition were repaid in the third quarter using proceeds from our equity offering in the third quarter of 2010. Interest expense includes non-cash interest expense relating to our convertible senior notes, which amounted to $5.1 million and $4.8 million for the years ended December 31, 2010 and 2009, respectively.

Income Taxes

Income tax expense was recorded at an effective rate of 38.6% for the year ended December 31, 2010, compared with 19.1% for the year ended December 31, 2009. The lower rate in 2009 was primarily due to discrete tax benefits recorded in 2009 as a result of settling tax examinations, and higher than previously estimated tax credits.

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 as described in Overview, above.

Liquidity and Capital Resources

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, 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, 2011, 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 $5.5 million for the year ended December 31, 2011, compared with $6.3 million for the year ended December 31, 2010. Our annualized portfolio yields for the years ended December 31, 2011, 2010, and 2009 were 0.6%, 0.7%, and 1.2%, 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.

Table of Contents

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.

Cash provided by operating activities for the year ended December 31, 2011 was $225.4 million compared with $161.4 million for the year ended December 31, 2010, an increase of $64.0 million. This increase was primarily due to the change in deferred revenue. In 2011, deferred revenue was a use of cash amounting to $8.2 million, compared with $41.9 million in 2010.

Cash provided by financing activities decreased due to $111.1 million of net proceeds from our common stock offering in the third quarter of 2010, offset by the $48.6 million borrowed under a term loan used to purchase the Molina Center in 2011.

Reconciliation of Non-GAAP (1) to GAAP Financial Measures

EBITDA (2)

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

(1) GAAP stands for U.S. generally accepted accounting principles.

(2) 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. Management uses EBITDA 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.

Capital Resources

At December 31, 2011, the parent company — Molina Healthcare, Inc. — held cash and investments of approximately $23.6 million, compared with approximately $65.1 million of cash and investments at December 31, 2010. This decline was primarily due to a capital contribution to our Texas health plan in the fourth quarter of 2011 and cash paid to acquire the Molina Center.

On a consolidated basis, at December 31, 2011, we had working capital of $446.2 million compared with $392.4 million at December 31, 2010. At December 31, 2011 we had cash and investments of $893.0 million, compared with $813.8 million of cash and investments at December 31, 2010.

Effective as of October 26, 2011, our board of directors has authorized the repurchase of $75 million in aggregate of either our common stock or our convertible senior notes due 2014 (see discussion of “Convertible Senior Notes” below). The repurchase program will be funded with working capital or draws under our credit facility (see discussion of “Credit Facility” below).

On July 27, 2011, our board of directors approved a stock repurchase program of up to $7 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 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.

We believe that our cash resources, Credit Facility, and internally generated funds will be sufficient to support our operations, regulatory requirements, and capital expenditures for at least the next 12 months.

Credit Facility

On September 9, 2011, we entered into a credit agreement for a $170 million revolving credit facility (the "Credit Facility") with various lenders and U.S. Bank National Association, as LC Issuer, Swing Line Lender, and Administrative Agent. The Credit Facility will be used for general corporate purposes.

The Credit Facility has a term of five years under which all amounts outstanding will be due and payable on September 9, 2016. Subject to obtaining commitments from existing or new lenders and satisfaction of other specified conditions, we may increase the Credit Facility to up to $195 million. As of December 31, 2011, there was no outstanding principal balance under the Credit Facility. However, as of December 31, 2011, our lenders had issued two letters of credit in the aggregate principal amount of $10.3 million as required under the Molina Medicaid Solutions contracts with the states of Maine and Idaho, which reduced the amount available under the Credit Facility by $10.3 million.

Borrowings under the Credit Facility will bear 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 are 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 initial commitment fee shall be set at 0.35% until our delivery of its financials for the year ended December 31, 2011. The applicable margins range 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 are 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 includes 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 requires us to maintain a ratio of total consolidated debt to total consolidated EBITDA of not more than 2.75 to 1.00 as of the end of each fiscal quarter and a fixed charge coverage ratio of not less than 1.75 to 1.00. At December 31, 2011, we were in compliance with all financial covenants under the Credit Facility.

In the event of a default, including cross-defaults relating to specified other debt in excess of $20 million, the lenders may terminate the commitments under the Credit Facility and declare the amounts outstanding, including all accrued interest and unpaid fees, payable immediately. In addition, the lenders may enforce any and all rights and remedies created under the Credit Facility or applicable law.

In connection with our entrance into the Credit Facility, on September 9, 2011, we terminated our existing credit agreement with Bank of America, dated March 9, 2005, as amended to date, which had provided us with a $150 million revolving credit facility.

Convertible Senior Notes

As of December 31, 2011, $187.0 million in aggregate principal amount of our 3.75% Convertible Senior Notes due 2014 (the "Notes") were outstanding. The Notes rank equally in right of payment with our existing and future senior indebtedness. The 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 $1,000 principal amount of the 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 approximately 460,000 square foot office building, now named "Molina Center," located in Long Beach, California.

The outstanding principal amount under the Term Loan Agreement bears interest at the rate of 4.25% per annum from the date of the closing of the loan through December 31, 2011, and 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%. The loan matures on November 30, 2018, and is subject to a 25-year amortization schedule that commences 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. We have agreed to pay to the Administrative Agent a loan fee in the amount of $486,000 and an agency fee of $50,000. 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.

Regulatory Capital and Dividend Restrictions

Our health plans 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, and 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 intercompany eliminations) which may not be transferable to us in the form of loans, advances, or cash dividends was $492.4 million at December 31, 2011, and $397.8 million at December 31, 2010.

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, Missouri, 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, 2011, our health plans had aggregate statutory capital and surplus of approximately $509.9 million compared with the required minimum aggregate statutory capital and surplus of approximately $265.7 million. All of our health plans were in compliance with the minimum capital requirements at December 31, 2011. 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.

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. At December 31, 2011, we recorded a liability of $1.0 million under the terms of these contract provisions.

- *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 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):* A portion of premiums received by our New Mexico health plan 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. Our contract with the state of New Mexico requires that we spend a minimum percentage of premium revenue on certain explicitly defined medical care costs (the medical cost floor). The New Mexico health plan contract also contains certain limits on the amount our New Mexico health plan can: (a) expend on administrative costs; and (b) retain as profit. At December 31, 2011, we had not recorded any liability under the terms of these contract provisions. 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.

- *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. The rebates, if any, are calculated separately for the TANF/CHIP and ABD products. 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 had an aggregate liability of approximately $0.7 million accrued pursuant to our profit-sharing agreement with the state of Texas at December 31, 2011.

- *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 receivable of approximately $5.0 million for anticipated Medicare risk adjustment premiums at December 31, 2011.

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. Effective February 1, 2010 through June 30, 2011, we were eligible to earn additional incremental revenue of up to 0.25% of our total premium if we met certain pharmacy specific performance measures. These performance measures are generally linked to various quality-of-care measures dictated by the state.

Texas Health Plan Quality Incentive Premiums: Under our contract with the state of Texas, incremental revenue of up to 1% 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. The time period for the assessment of these performance measures previously followed the state's fiscal year, but effective January 1, 2011, it follows the calendar year. However, during 2011 the state of Texas notified us that it had discontinued the program for the 2011 calendar year. We anticipate that the program will be reinstituted in 2012.

Wisconsin Health Plan Quality Incentive Premiums: Under our contract with the state of Wisconsin, effective beginning in 2011, up to 3.25% of the premium 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, 2011 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, 2011.

	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

Table of Contents

	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

	Year Ended December 31, 2009				
	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	$ 2,378	$ 1,097	$ (171)	$ 926	$ 404,026
Ohio	7,040	5,715	937	6,652	803,521
Texas	1,322	1,322	—	1,322	134,860
	$ 10,740	$ 8,134	$ 766	$ 8,900	$ 1,342,407

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. 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. 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 revenue associated with such contracts on a straight-line basis over the period during which BPO, hosting, and support and maintenance services are delivered.

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. We began to recognize revenue associated with our Maine contract upon state acceptance in September 2010. In Idaho, we will begin recognition of revenue upon state acceptance.

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.

We are currently deferring recognition of all revenue as well as all direct costs (to the extent that such costs are estimated to be recoverable) in Idaho until the MMIS in that state receives certification from CMS. For the year ended December 31, 2011, cost of service revenue includes $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.

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,		
	2011	2010	2009
	(In thousands)		
Fee-for-service claims incurred but not paid (IBNP)	$ 301,020	$ 275,259	$ 246,508
Capitation payable	53,532	49,598	39,995
Pharmacy	26,178	14,649	20,609
Other	21,746	14,850	8,204
	$ 402,476	$ 354,356	$ 315,316

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 $301.0 million of our total medical claims and benefits payable of $402.5 million as of December 31, 2011. 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, 2011, was $294.9 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, 2011 that would have resulted had we changed our completion factors for the fifth through the twelfth months preceding December 31, 2011, 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%)	$ 119,317
(4%)	79,598
(2%)	39,799
2%	(39,799)
4%	(79,598)
6%	(119,317)

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, 2011 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%)	$ (69,169)
(4%)	(46,113)
(2%)	(23,056)
2%	23,056
4%	46,113
6%	69,169

The following per-share amounts are based on a combined federal and state statutory tax rate of 37.5%, and 46.4 million diluted shares outstanding for the year ended December 31, 2011. Assuming a hypothetical 1% change in completion factors from those used in our calculation of IBNP at December 31, 2011, net income for the year ended December 31, 2011 would increase or decrease by approximately $12.4 million, or $0.27 per diluted share. Assuming a hypothetical 1% change in PMPM cost estimates from those used in our calculation of IBNP at December 31, 2011, net income for the year ended December 31, 2011 would increase or decrease by approximately $7.2 million, or $0.16 per diluted share. The corresponding figures for a 5% change in completion factors and PMPM cost estimates would be $62.2 million, or $1.34 per diluted share, and $36.0 million, or $0.78 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 $12.4 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 base reserves have been adequately set, we believe that amounts ultimately paid out should 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. However, there can be no assurance that amounts ultimately paid out will not be higher or lower than this 8% to 10% range, as shown by our results for the year ended December 31, 2011, when the amounts ultimately paid out were less than the amount of the reserves we had established as of the beginning of that year by 14.6%.

As shown in greater detail in the table below, the amounts ultimately paid out on our liabilities in fiscal years 2010 and 2011 were less than what we had expected when we had established our reserves. While the specific reasons for the overestimation of our liabilities were different in each of the periods presented, in general the overestimations were tied to our assessment of specific circumstances at our individual health plans which were unique to those reporting periods.

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 exceeded the amount that will ultimately be paid out in satisfaction of that liability. The overestimation of claims liability at December 31, 2010 was due primarily to the following factors:

- We overestimated the impact of a buildup in claims inventory in Ohio.
- We overestimated the impact of the settlement of disputed provider claims in California.
- We underestimated the reduction in outpatient facility claims costs as a result of a fee schedule reduction in New Mexico effective November 2010, partially offsetting the impact of the two items above.

We recognized a benefit from prior period claims development in the amount of $49.4 million for the year ended 2010. This was primarily caused by the overestimation of our liability for claims and medical benefits payable at December 31, 2009. The overestimation of claims liability at December 31, 2009 was the result of the following factors:

- In New Mexico, we underestimated the degree to which cuts to the Medicaid fees schedule would reduce our liability as of December 31, 2009.
- In California, 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, 2011, we adjusted our base calculation to take account of the following factors which we believe are reasonably likely to change our final claims liability amount:

- The increasing amount of claims recoveries in Texas.
- Recent increases in inpatient utilization in Missouri, as well as a substantial increase in inpatient claims inventory.
- A significant reduction to our outstanding claims recoveries in Ohio.
- An increase to our ABD membership in California.
- Late enrollment of newborns, and hence late claims payments, in Michigan due to issues with the state's administration system, which has disrupted the normal completion pattern for claims in that state.

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 2010 and 2011, 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 both 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.

Table of Contents

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 exceeded 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,	
	2011	2010
	(Dollars in thousands, except per-member amounts)	
Balances at beginning of period	$ 354,356	$ 315,316
Balance of acquired subsidiary	—	3,228
Components of medical care costs related to:		
Current year	3,911,803	3,420,235
Prior year	(51,809)	(49,378)
Total medical care costs	3,859,994	3,370,857
Payments for medical care costs related to:		
Current year	3,516,994	3,085,388
Prior year	294,880	249,657
Total paid	3,811,874	3,335,045
Balances at end of year	$ 402,476	$ 354,356
Benefit from prior years as a percentage of:		
Balance at beginning of year	14.6%	15.7%
Premium revenue	1.1%	1.2%
Total medical care costs	1.3%	1.5%
Claims Data (1):		
Days in claims payable, fee for service	40	42
Number of members at end of period	1,697,000	1,613,000
Number of claims in inventory at end of period	111,100	143,600
Billed charges of claims in inventory at end of period	$ 207,600	$ 218,900
Claims in inventory per member at end of period	0.07	0.09
Billed charges of claims in inventory per member end of period	$ 122.33	$ 135.71
Number of claims received during the period	17,207,500	14,554,800
Billed charges of claims received during the period	$ 14,306,500	$ 11,686,100

(1) "Claims Data" for the year ended December 31, 2010 does not include our Wisconsin health plan acquired September 1, 2010.

Commitments and Contingencies

We are not an obligor to or guarantor of any indebtedness of any other party. We are not a party to off-balance sheet financing arrangements except for operating leases which are disclosed in Note 18 to the accompanying audited consolidated financial statements for the year ended December 31, 2011.

Contractual Obligations

In the table below, we present our contractual obligations as of December 31, 2011. 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	2012	2013-2014	2015-2016	2017 and Beyond
Medical claims and benefits payable	$ 402,476	$ 402,476	$ —	$ —	$ —
Principal amount of long-term debt(1)	235,600	1,197	189,361	2,568	42,474
Operating leases	101,424	25,553	40,936	22,338	12,597
Interest on long-term debt	32,527	9,061	16,267	3,788	3,411
Purchase commitments	33,595	19,845	12,142	1,608	—
Total contractual obligations	$ 805,622	$ 458,132	$ 258,706	$ 30,302	$ 58,482

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

As of December 31, 2011, we have recorded approximately $10.7 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, 2011 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.

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.

MOLINA HEALTHCARE, INC.

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

INDEX TO FINANCIAL STATEMENTS

	Page
MOLINA HEALTHCARE INC.	
Report of Independent Registered Public Accounting Firm	64
Consolidated Balance Sheets	65
Consolidated Statements of Income	66
Consolidated Statements of Stockholders' Equity	67
Consolidated Statements of Cash Flows	68
Notes to Consolidated Financial Statements	70

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, 2011 and 2010, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2011. 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, 2011 and 2010, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2011, 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, 2011, 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 29, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 29, 2012

Table of Contents

MOLINA HEALTHCARE, INC.

CONSOLIDATED BALANCE SHEETS

	December 31, 2011	December 31, 2010
	(Amounts in thousands, except per-share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 493,827	$ 455,886
Investments	336,916	295,375
Receivables	167,898	168,190
Income tax refundable	11,679	—
Deferred income taxes	18,327	15,716
Prepaid expenses and other current assets	19,435	25,050
Total current assets	1,048,082	960,217
Property, equipment, and capitalized software, net	190,934	100,537
Deferred contract costs	54,582	28,444
Intangible assets, net	101,796	105,500
Goodwill and indefinite-lived intangible assets	153,954	212,228
Auction rate securities	16,134	20,449
Restricted investments	46,164	42,100
Receivable for ceded life and annuity contracts	23,401	24,649
Other assets	17,099	15,090
	$ 1,652,146	$ 1,509,214
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims and benefits payable	$ 402,476	$ 354,356
Accounts payable and accrued liabilities	147,214	137,930
Deferred revenue	50,947	60,086
Income taxes payable	—	13,176
Current maturities of long-term debt	1,197	—
Total current liabilities	601,834	565,548
Long-term debt	216,929	164,014
Deferred income taxes	33,127	16,235
Liability for ceded life and annuity contracts	23,401	24,649
Other long-term liabilities	21,782	19,711
Total liabilities	897,073	790,157
Stockholders' equity (1):		
Common stock, $0.001 par value; 80,000 shares authorized; outstanding: 45,815 shares at December 31, 2011 and 45,463 shares at December 31, 2010	46	45
Preferred stock, $0.001 par value; 20,000 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	266,022	251,612
Accumulated other comprehensive loss	(1,405)	(2,192)
Retained earnings	490,410	469,592
Total stockholders' equity	755,073	719,057
	$ 1,652,146	$ 1,509,214

(1) All applicable share and per-share amounts reflect the retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

See accompanying notes.

Table of Contents

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2011	2010	2009
	(In thousands, except per-share data)		
Revenue:			
Premium revenue	$ 4,603,407	$ 3,989,909	$ 3,660,207
Service revenue	160,447	89,809	—
Investment income	5,539	6,259	9,149
Rental income	547	—	—
Total revenue	4,769,940	4,085,977	3,669,356
Expenses:			
Medical care costs	3,859,994	3,370,857	3,176,236
Cost of service revenue	143,987	78,647	—
General and administrative expenses	415,932	345,993	276,027
Premium tax expenses	154,589	139,775	128,581
Depreciation and amortization	50,690	45,704	38,110
Total operating costs and expenses	4,625,192	3,980,976	3,618,954
Impairment of goodwill and intangible assets	(64,575)	—	—
Gain on purchase of convertible senior notes	—	—	1,532
Operating income	80,173	105,001	51,934
Interest expense	15,519	15,509	13,777
Income before income taxes	64,654	89,492	38,157
Provision for income taxes	43,836	34,522	7,289
Net income	$ 20,818	$ 54,970	$ 30,868
Net income per share (1):			
Basic	$ 0.45	$ 1.34	$ 0.80
Diluted	0.45	1.32	0.79
Weighted average shares outstanding (1):			
Basic	45,756	41,174	38,765
Diluted	46,425	41,631	38,976

(1) All applicable share and per-share amounts reflect the retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

See accompanying notes.

Table of Contents

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock (1)		Additional Paid-in Capital (1)	Accumulated Other Comprehensive Loss	Retained Earnings	Treasury Stock	Total
	Outstanding	Amount					
				(In thousands)			
Balance at January 1, 2009	40,087	$ 40	$ 170,668	$ (2,310)	$ 383,754	$ (20,390)	$ 531,762
Comprehensive income:							
Net income	—	—	—	—	30,868	—	30,868
Other comprehensive income, net of tax:							
Unrealized gain on investments	—	—	—	498	—	—	498
Total comprehensive income	—	—	—	498	30,868	—	31,366
Purchase of treasury stock	—	—	—	—	—	(27,712)	(27,712)
Retirement of treasury stock	(2,028)	(2)	(48,100)	—	—	48,102	—
Retirement of convertible debt	—	—	(476)	—	—	—	(476)
Employee stock grants and employee stock plan purchases	351	—	8,516	—	—	—	8,516
Tax deficiency from employee stock compensation	—	—	(718)	—	—	—	(718)
Balance at December 31, 2009	38,410	38	129,890	(1,812)	414,622	—	542,738
Comprehensive income:							
Net income	—	—	—	—	54,970	—	54,970
Other comprehensive loss, net of tax:							
Unrealized loss on investments	—	—	—	(380)	—	—	(380)
Total comprehensive income				(380)	54,970		54,590
Common stock issued, net of issuance costs	6,525	7	111,124	—	—	—	111,131
Employee stock grants and employee stock plan purchases	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
Comprehensive income:							
Net income	—	—	—	—	20,818	—	20,818
Other comprehensive income, net of tax:							
Unrealized gain on investments	—	—	—	787	—	—	787
Total comprehensive income				787	20,818		21,605
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

(1) All applicable share and per-share amounts reflect the retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

See accompanying notes.

Table of Contents

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2011	2010	2009
	(In thousands)		
Operating activities:			
Net income	$ 20,818	$ 54,970	$ 30,868
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	74,383	60,765	38,110
Deferred income taxes	13,836	(4,092)	(1)
Stock-based compensation	17,052	9,531	7,485
Non-cash interest on convertible senior notes	5,512	5,114	4,782
Impairment of goodwill and intangible assets	64,575	—	—
Gain on purchase of convertible senior notes	—	—	(1,532)
Amortization of premium/discount on investments	7,242	2,029	—
Amortization of deferred financing costs	2,818	1,780	1,872
Gain on acquisition	(1,676)	—	—
Unrealized gain on trading securities	—	(4,170)	(3,394)
Loss on rights agreement	—	3,807	3,100
Tax deficiency from employee stock compensation	(714)	(968)	(749)
Changes in operating assets and liabilities:			
Receivables	352	(7,539)	(8,092)
Prepaid expenses and other current assets	3,308	(12,034)	383
Medical claims and benefits payable	48,120	34,363	22,874
Accounts payable and accrued liabilities	2,778	40,482	(26,467)
Deferred revenue	(8,154)	(41,899)	88,181
Income taxes	(24,855)	19,258	(2,049)
Net cash provided by operating activities	225,395	161,397	155,371
Investing activities:			
Purchases of equipment	(60,581)	(48,538)	(35,870)
Purchases of investments	(345,968)	(302,842)	(186,764)
Sales and maturities of investments	302,667	223,077	204,365
Net cash paid in business combinations	(84,253)	(130,743)	(11,294)
Increase in deferred contract costs	(42,830)	(29,319)	—
(Increase) decrease in restricted investments	(4,064)	(5,566)	1,928
Change in other noncurrent assets and liabilities	(1,898)	5,108	(10,078)
Net cash used in investing activities	(236,927)	(288,823)	(37,713)
Financing activities:			
Amount borrowed under term loan	48,600	—	—
Amount borrowed under credit facility	—	105,000	—
Proceeds from common stock offering, net of issuance costs	—	111,131	—
Repayment of amount borrowed under credit facility	—	(105,000)	—
Treasury stock purchases	(7,000)	—	(27,712)
Purchase of convertible senior notes	—	—	(9,653)
Credit facility fees paid	(1,125)	(1,671)	—
Proceeds from employee stock plans	7,347	4,056	2,015
Excess tax benefits from employee stock compensation	1,651	295	31
Net cash provided by (used in) financing activities	49,473	113,811	(35,319)
Net increase (decrease) in cash and cash equivalents	37,941	(13,615)	82,339
Cash and cash equivalents at beginning of period	455,886	469,501	387,162
Cash and cash equivalents at end of period	$ 493,827	$ 455,886	$ 469,501

See accompanying notes.

MOLINA HEALTHCARE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS — (continued)

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
Supplemental cash flow information:			
Cash paid during the period for:			
Income taxes	$ 54,663	$ 18,299	$ 23,480
Interest	$ 11,399	$ 10,951	$ 8,205
Schedule of non-cash investing and financing activities:			
Retirement of treasury stock	$ 7,000	$ —	$ 48,102
Details of business combinations:			
Increase in fair value of assets acquired	$ (81,256)	$ (159,916)	$ (34,594)
(Decrease) increase in fair value of liabilities assumed	(1,045)	24,450	—
Release of deposit	—	—	18,000
(Decrease) increase in payable to seller	(1,952)	4,723	5,300
Net cash paid in business combinations	$ (84,253)	$ (130,743)	$ (11,294)

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.

Our Health Plans segment comprises health plans in California, Florida, Michigan, Missouri, New Mexico, Ohio, Texas, Utah, Washington, and Wisconsin. As of December 31, 2011, these health plans served approximately 1.7 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.

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 will expire without renewal on June 30, 2012. In connection with this notification, we recorded a non-cash impairment charge of approximately $64.6 million, or $1.34 per diluted share. Most of the impairment charge is not tax deductible, resulting in a disproportionate impact to net income. For the year ended December 31, 2011, our Missouri health plan contributed premium revenue of $229.6 million, or 5% of total premium revenue, and comprised 79,000 members, or 4.7% of total Health Plans segment membership. For further discussion of the impairment charge, see Note 2, "Significant Accounting Policies."

Our Molina Medicaid Solutions segment, which we acquired during the second quarter of 2010, 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 June 9, 2011, Molina Medicaid Solutions received notice from the state of Louisiana that the state intends to award the contract for a replacement Medicaid Management Information System, or MMIS, to another firm. Our revenue under the Louisiana MMIS contract from May 1, 2010, the date we acquired Molina Medicaid Solutions, through December 31, 2010, was approximately $32 million. For the year ended December 31, 2011, our revenue under the Louisiana MMIS contract was approximately $57 million. 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 between $45 million and $50 million in revenue annually under our Louisiana MMIS contract.

Consolidation and Presentation

The consolidated financial statements include the accounts of Molina Healthcare, Inc. and all majority owned subsidiaries. See Note 18, "Commitments and Contingencies," for the discussion of a financing arrangement classified as a variable interest entity that is included in our consolidated financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation of the results as of the date and for the interim periods presented have been included; such adjustments consist of normal recurring adjustments. All significant intercompany balances and transactions have been eliminated 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 determination of allowances for uncollectible accounts;
- 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.

Adjustments and Reclassifications

We have adjusted all applicable share and per-share amounts to reflect the retroactive effects of the three-for-two stock split in the form of a stock dividend that was effective May 20, 2011.

We have reclassified certain prior year balance sheet amounts to conform to the 2011 presentation.

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 consist primarily of amounts due from the various states in which we operate, and are subject to potential retroactive adjustment. Because such receivables are readily determinable and our creditors are primarily state governments, 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." Additionally, we cede 100% of the financial responsibility for Medicare members covered by our Wisconsin health plan to third a party health reinsurer. In connection with the arrangement, as of December 31, 2011, we have recorded a receivable from the third party reinsurer of $3.0 million along with a corresponding current liability of $3.0 million.

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 25 to 31.5 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. 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
- Amortization of capitalized software 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 service revenue, or as cost of service revenue.

	Year Ended December 31,		
	2011	2010	2009
	(Dollar amounts in thousands)		
Depreciation, and amortization of capitalized software	$ 30,864	$ 27,230	$ 25,172
Amortization of intangible assets	19,826	18,474	12,938
Depreciation and amortization reported as such in the consolidated statements of income	50,690	45,704	38,110
Amortization recorded as reduction of service revenue	6,822	8,316	—
Amortization of capitalized software recorded as cost of service revenue	16,871	6,745	—
Total	$ 74,383	$ 60,765	$ 38,110

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 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 existing contract with the state of Missouri will expire without renewal on June 30, 2012. In connection with this notification, 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. Because the existing contract expires without renewal on June 30, 2012, 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. As described in Note 19, "Segment Reporting," the Missouri health plan is a component of our Health Plans segment. No impairment charges relating to long-lived assets, including intangible assets, were recorded in the years ended December 31, 2010, and 2009.

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 perform an impairment test. 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 2011. Because the existing contract expires without renewal on June 30, 2012, the impairment charge comprised all of the goodwill recorded at the time of our acquisition of the Missouri health plan in 2007. The goodwill impairment charge is not tax deductible. No impairment charges relating to goodwill were recorded in the years ended December 31, 2010, and 2009.

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."

Receivable/Liability for Ceded Life and Annuity Contracts

We report a 100% ceded reinsurance arrangement for life insurance policies written and held by our 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. See Note 22, "Subsequent Events."

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.

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, 2011, or December 31, 2010.

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, 2011 we received approximately 94% 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,		
	2011	2010	2009
	(In thousands)		
California	$ 575,176	$ 506,871	$ 481,717
Florida	203,945	170,683	102,232
Michigan	662,127	630,134	557,421
Missouri	229,584	210,852	230,222
New Mexico	345,732	366,784	404,026
Ohio	988,896	860,324	803,521
Texas	409,295	188,716	134,860
Utah	287,290	258,076	207,297
Washington	823,323	758,849	726,137
Wisconsin(1)	69,596	30,033	—
Other	8,443	8,587	12,774
	$ 4,603,407	$ 3,989,909	$ 3,660,207

(1) We acquired the Wisconsin health plan on September 1, 2010.

For the year ended December 31, 2010, we received approximately 6% 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. At December 31, 2011, we recorded a liability of $1.0 million under the terms of these contract provisions.

- *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 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):* A portion of premiums received by our New Mexico health plan 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. Our contract with the state of New Mexico requires that we spend a minimum percentage of premium revenue on certain explicitly defined medical care costs (the medical cost floor). The New Mexico health plan contract also contains certain limits on the amount our New Mexico health plan can: (a) expend on administrative costs; and (b) retain as profit. At December 31, 2011, we had not recorded any liability under the terms of these contract provisions. 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.

- *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. The rebates, if any, are calculated separately for the TANF/CHIP and ABD products. 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 had an aggregate liability of approximately $0.7 million accrued pursuant to our profit-sharing agreement with the state of Texas at December 31, 2011.

- *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 receivable of approximately $5.0 million for anticipated Medicare risk adjustment premiums at December 31, 2011.

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. Effective February 1, 2010 through June 30, 2011, we are eligible to earn additional incremental revenue of up to 0.25% of our total premium if we meet certain pharmacy specific performance measures. These performance measures are generally linked to various quality-of-care measures dictated by the state.

Texas Health Plan Quality Incentive Premiums: Under our contract with the state of Texas, incremental revenue of up to 1% 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. The time period for the assessment of these performance measures previously followed the state’s fiscal year, but effective January 1, 2011, it follows the calendar year. The state of Texas has notified us that it has discontinued the program for the 2011 calendar year.

Wisconsin Health Plan Quality Incentive Premiums: Under our contract with the state of Wisconsin, effective beginning in 2011, up to 3.25% of the premium 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, 2011 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, 2011.

	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

	Year Ended December 31, 2009				
	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	$ 2,378	$ 1,097	$ (171)	$ 926	$ 404,026
Ohio	7,040	5,715	937	6,652	803,521
Texas	1,322	1,322	—	1,322	134,860
	$ 10,740	$ 8,134	$ 766	$ 8,900	$ 1,342,407

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 managers 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 managers. As noted above, drugs and injectibles not paid through our pharmacy benefit managers 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, 24-hour on-call nurses, and a portion of our information technology costs. Salary and benefit costs are a substantial portion of these expenses. For the years ended December 31, 2011, 2010, and 2009, medically related administrative costs were approximately $102.3 million, $85.5 million, and $74.6 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,								
	2011			2010			2009		
	Amount	PMPM	% of Total	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 %	$ 2,077,489	$ 126.14	$ 65.4 %
Capitation	518,835	26.09	13.4	555,487	30.29	16.5	558,538	33.91	17.6
Pharmacy	418,007	21.02	10.8	325,935	17.77	9.7	414,785	25.18	13.1
Other	158,843	8.00	4.2	128,577	7.01	3.8	125,424	7.62	3.9
Total	$ 3,859,994	$ 194.13	$ 100.0 %	$ 3,370,857	$ 183.80	$ 100.0 %	$ 3,176,236	$ 192.85	$ 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, 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, 2011, or 2010.

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. 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. 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 service 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 revenue associated with such contracts on a straight-line basis over the period during which BPO, hosting, and support and maintenance services are delivered.

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. We began to recognize revenue associated with our Maine contract upon state acceptance in September 2010. In Idaho, we will begin recognition of revenue upon state acceptance.

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.

We are currently deferring recognition of all revenue as well as all direct costs (to the extent that such costs are estimated to be recoverable) in Idaho until the MMIS in that state receives certification from CMS. For the year ended December 31, 2011, cost of service revenue includes $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 at December 31, 2011, we determined that these costs should be expensed as a period cost.

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. 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, 2011, and 2010, our investments with PFM totaled $209 million and $327 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, 2011, we operated health plans in 10 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

Goodwill Impairment Testing. The FASB issued the following guidance which modifies goodwill impairment testing.

- ASU No. 2011-08, Intangibles—Goodwill and Other (ASC Topic 350) — Testing Goodwill for Impairment, a consensus of the FASB Emerging Issues Task Force. This guidance allows an entity the option to first assess qualitative factors to determine whether it is necessary to perform the two-step quantitative goodwill impairment test. Under that option, an entity would no longer be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. This guidance is effective for interim and annual goodwill impairment tests performed for fiscal years beginning after December 15, 2011. We do not expect the adoption of this guidance to impact our consolidated financial position, results of operations, or cash flows.

Presentation of Financial Statements. In June 2011, the FASB and International Accounting Standards Board, or IASB, issued the following guidance which modifies how other comprehensive income, or OCI, is reported under U.S. Generally Accepted Accounting Principles, or GAAP, and International Financial Reporting Standards, or IFRS.

- *ASU No. 2011-05, Comprehensive Income (ASC Topic 220) — Presentation of Comprehensive Income,* a consensus of the FASB Emerging Issues Task Force. This guidance eliminates the option to present components of OCI as part of the statement of changes to stockholders' equity. All filers are required to present all non-owner changes in stockholders' equity in a single statement of comprehensive income or in two separate but consecutive statements. This guidance is effective for interim and annual reporting beginning on or after December 15, 2011. We do not expect the adoption of this guidance to impact our consolidated financial position, results of operations or cash flows.

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,		
	2011	2010	2009
		(In thousands)	
Shares outstanding at the beginning of the period	45,463	38,410	40,088
Weighted-average number of shares issued under equity offering	—	2,506	—
Weighted-average number of shares purchased	(160)	—	(1,482)
Weighted-average number of shares issued under employee stock plans	453	258	159
Denominator for basic earnings per share	45,756	41,174	38,765
Dilutive effect of employee stock options and stock grants(1)	669	457	211
Denominator for diluted earnings per share(2)	46,425	41,631	38,976

(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, 2011, 2010, and 2009 there were approximately 137,000, 478,000 and 620,000 antidilutive 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 years ended December 31, 2011, 2010, and 2009, 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, 2011, 2010, and 2009.

4. Business Combinations

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 (see Note 12, "Long-Term Debt"). This business combination included the acquisition of the business interests associated with the Molina Center, such as leases to third-party tenants in place as of the acquisition date, and the day-to-day management and operations of the Molina Center. We acquired this business primarily to facilitate space needs for the projected future growth of the Company.

We have recorded $0.5 million in rental income in 2011 since the acquisition date. We incurred approximately $2.3 million and $0.2 million in transaction costs relating to this acquisition in 2011 and 2010, respectively, recorded to general and administrative expenses. Additionally, we recorded $0.6 million in deferred loan costs that are being amortized over the seven-year term of the loan.

Recording of assets acquired: The transaction has been accounted for using the acquisition method of accounting which requires, among other things, that most assets acquired and liabilities assumed be recognized at their fair values as of the acquisition date. The following table summarizes the acquisition-date fair values of the assets acquired as of December 7, 2011 (in thousands):

Allocation of purchase price:	
Building and improvements	$ 43,116
Land	10,570
Identifiable intangible assets	28,990
	82,676
Less fair value of total consideration:	
Cash paid	32,400
Term loan	48,600
Gain on acquisition	$ 1,676

A single estimate of fair value results from a complex series of judgments about future events and uncertainties and relies heavily on estimates and assumptions. Results that differ from the estimates and judgments used to determine the estimated fair value assigned to each class of assets acquired, as well as asset lives, can materially impact our results of operations.

Building and improvements: The fair value of the building amounted to $42.9 million, and will be amortized over a remaining useful life of 25 years. The fair value of improvements amounted to $0.2 million, to be amortized over a remaining useful life of 5 years.

Identifiable intangible assets: The fair value of the identifiable intangible assets we acquired amounted to $29.0 million, and was attributable to the value assigned to in-place leases of the Molina Center as of the acquisition date. This intangible asset has a weighted average useful life of 6.4 years. Accumulated amortization was approximately $0.4 million as of December 31, 2011, which reflects total amortization recorded since the acquisition date. For identifiable intangible assets recorded as of December 31, 2011, we expect to record amortization in future years as follows — 2012: $5.7 million, 2013: $5.6 million, 2014: $3.8 million, 2015: $3.5 million, and 2016: $3.1 million.

Gain on acquisition: In this acquisition, the fair value of the assets acquired exceeded the fair value of the total consideration paid by $1.7 million, resulting in a bargain purchase gain. This gain was recorded to general and administrative expenses in the accompanying consolidated income statement.

Wisconsin Health Plan

On September 1, 2010, we acquired 100% of the voting equity interests in Avatar Partners, LLC, which was the sole shareholder of Abri Health Plan, Inc., a Medicaid managed care organization based in Milwaukee, Wisconsin. Based on the final membership reconciliation performed in the first quarter of 2011, the final purchase price increased to $16.8 million as of December 31, 2011, from $15.5 million as of December 31, 2010. The $1.3 million increase was recorded to goodwill in 2011.

Additionally, we recorded a $2.8 million liability for contingent consideration in December 2010, based on an estimate of the Wisconsin health plan's minimum surplus requirements as of February 1, 2011. This liability was measured at fair value on a recurring basis using significant unobservable inputs, or Level 3 in the fair value measurement hierarchy. In 2011, we determined that there was no liability for contingent consideration. The following table presents a roll forward of this liability for 2011:

	Fair Value Hierarchy Level 3 (In thousands)
Balance at December 31, 2010	$ (2,800)
Total gains included in earnings	2,800
Balance at December 31, 2011	$ —

Molina Medicaid Solutions

On May 1, 2010, we acquired Molina Medicaid Solutions, previously an operating unit of Unisys Corporation for a purchase price of $131.3 million. Molina Medicaid Solutions provides design, development, implementation, and business process outsourcing solutions to state governments for their Medicaid Management Information Systems. In the first quarter of 2011, we recorded a $1.0 million reduction to goodwill to adjust certain acquisition date accruals as a result of information obtained regarding facts and circumstances that existed as of the acquisition date.

Florida Health Plan

On December 31, 2009, we acquired 100% of the voting equity interests in Florida NetPASS, LLC, or NetPASS. The final purchase price for this acquisition totalled $29.6 million. In 2010 we entered into arbitration with the sellers of NetPASS regarding certain alleged breaches of contract. That arbitration was settled prior to final hearing in December 2011 for $4.1 million paid to the sellers. This amount is recorded to general and administrative expenses in the accompanying consolidated income statements.

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 a comprehensive discussion of fair value measurements with regard to our current and non-current investments, see below.

As described in Note 12, "Long-Term Debt," the carrying amount of the convertible senior notes was $169.5 million and $164.0 million as of December 31, 2011 and 2010, respectively. Based on quoted market prices, the fair value of the convertible senior notes was approximately $192.0 million and $188.4 million as of December 31, 2011 and 2010, respectively. The carrying value of the term loan approximates fair value because of the short period of time between the loan origination date of December 7, 2011 and December 31, 2011.

To prioritize the inputs we use in measuring fair value, we apply a three-tier fair value hierarchy as follows:

- *Level 1 — Observable inputs such as quoted prices in active markets:* Our Level 1 securities consist of government-sponsored enterprise securities (GSEs) and U.S. treasury notes. Level 1 securities are classified as current investments in the accompanying consolidated balance sheets. These securities 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 securities consist of corporate debt securities, municipal securities, and certificates of deposit, and are classified as current investments in the accompanying consolidated balance sheets. Our investments in securities classified as Level 2 are traded frequently though not necessarily daily. 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.

- *Level 3 — Unobservable inputs in which little or no market data exists, therefore requiring an entity to develop its own assumptions:* We hold investments in auction rate securities which are designated as available-for-sale, and are reported at fair value of $16.1 million (par value of $19.0 million) as of December 31, 2011. Our investments in auction rate securities are collateralized by student loan portfolios guaranteed by the U.S. government. We continued to earn interest on substantially all of these auction rate securities as of December 31, 2011. Due to events in the credit markets, the auction rate securities held by us experienced failed auctions beginning in the first quarter of 2008. As such, quoted prices in active markets were not readily available during the majority of 2008, 2009, and 2010, and continued to be unavailable as of December 31, 2011. To estimate the fair value of these securities, we used pricing models that included factors such as the collateral underlying the securities, the creditworthiness of the counterparty, the timing of expected future cash flows, and the expectation of the next time the security would have a successful auction. The estimated values of these securities were also compared, when possible, to valuation data with respect to similar securities held by other parties. We concluded that these estimates, given the lack of market available pricing, provided a reasonable basis for determining the fair value of the auction rate securities as of December 31, 2011. For our investments in auction rate securities, we do not intend to sell, nor is it more likely than not that we will be required to sell, these investments before recovery of their cost.

As a result of changes in the fair value of auction rate securities designated as available-for-sale, we recorded pretax unrealized gains of $1.2 million and pretax unrealized losses of $0.2 million to accumulated other comprehensive loss for the year ended December 31, 2011, and 2010, respectively. Any future fluctuation 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 (loss). If we determine that any future valuation adjustment was other-than-temporary, we would record a charge to earnings as appropriate.

Until July 2, 2010, we held certain auction rate securities (designated as trading securities) with an investment securities firm. In 2008, we entered into a rights agreement with this firm that (1) allowed us to exercise rights (the "Rights") to sell the eligible auction rate securities at par value to this firm between June 30, 2010 and July 2, 2012, and (2) gave the investment securities firm the right to purchase the auction rate securities from us any time after the agreement date as long as we received the par value. On June 30, 2010, and July 1, 2010, all of the eligible auction rate securities remaining at that time were settled at par value. During 2010, the aggregate auction rate securities (designated as trading securities) settled amounted to $40.9 million par value (fair value $36.7 million). Substantially all of the difference between par value and fair value on these securities was recovered through the rights agreement. For the year ended December 31, 2010, we recorded pretax gains of $4.2 million on the auction rate securities underlying the Rights.

We accounted for the Rights as a freestanding financial instrument and, until July 2, 2010, recorded the value of the Rights under the fair value option. For the year ended December 31, 2010, we recorded pretax losses of $3.8 million on the Rights, attributable to the decline in the fair value of the Rights. When the remaining eligible auction rate securities were sold at par value on July 1, 2010, the value of the Rights was zero.

Our assets 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	$ —
Government-sponsored enterprise securities (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	—
	$ 353,050	$ 55,697	$ 281,219	$ 16,134

Our assets measured at fair value on a recurring basis at December 31, 2010, were as follows:

	Total	Level 1	Level 2	Level 3
	(In thousands)			
Corporate debt securities	$ 177,929	$ —	$ 177,929	$ —
Government-sponsored enterprise securities (GSEs)	59,713	59,713	—	—
Municipal securities	30,563	—	30,563	—
U.S. treasury notes	23,918	23,918	—	—
Auction rate securities	20,449	—	—	20,449
Certificates of deposit	3,252	—	3,252	—
	$ 315,824	$ 83,631	$ 211,744	$ 20,449

In prior periods we reported our investments in corporate debt securities, municipal securities and certificates of deposit in Level 1. As a result of analysis of the characteristics of our financial instruments in 2011, we have determined that these investments should be reported in Level 2, and have reclassified the tabular disclosure accordingly.

The following table presents our assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	(Level 3)
	(In thousands)
Balance at December 31, 2010	$ 20,449
Total gains (unrealized only):	
Included in other comprehensive income	1,235
Settlements	(5,550)
Balance at December 31, 2011	$ 16,134
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, 2011	$ 483

Our assets measured at fair value on a non-recurring basis in 2011, consisted of the goodwill and intangible assets associated with the acquisition of our Missouri health plan in 2007. As described in Note 1, "Basis of Presentation – Organization and Operations" we recorded a non-cash impairment charge of $64.6 million related to the loss of our Missouri health plan's existing contract with the state of Missouri. To arrive at this impairment charge, we conducted fair value measurements of the goodwill and intangible assets of our Missouri health plan. We used Level 3 inputs in applying an income approach to determining the fair value of these assets.

6. Investments

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

	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

	December 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
	(In thousands)			
Corporate debt securities	$ 177,692	$ 419	$ 182	$ 177,929
GSEs	59,386	353	26	59,713
Municipal securities	30,483	111	31	30,563
U.S. treasury notes	23,836	118	36	23,918
Auction rate securities	24,550	—	4,101	20,449
Certificates of deposit	3,252	—	—	3,252
	$ 319,199	$ 1,001	$ 4,376	$ 315,824

The contractual maturities of our investments as of December 31, 2011 are summarized below:

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 183,607	$ 183,775
Due one year through five years	153,210	153,573
Due after ten years	18,500	15,702
	$ 355,317	$ 353,050

Gross realized gains and gross realized 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 $302.7 million, $182.3 million, and $201.9 million for the year ended December 31, 2011, 2010, and 2009, respectively. Net realized investment gains for the year ended December 31, 2011, 2010, and 2009 were $367,000, $110,000, and $267,000, respectively.

We monitor our investments for other-than-temporary impairment. For investments other than our auction rate securities, we have determined that unrealized gains and losses at December 31, 2011, and 2010, 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.

As described in Note 5, "Fair Value Measurements," the unrealized losses on our auction rate securities were caused primarily by the illiquidity in the auction markets. Because the decline in market value is not due to the credit quality of the issuers, and because we do not intend to sell, nor is it more likely than not that we will be required to sell, these investments before recovery of their cost, we do not consider the auction rate securities that are designated as available-for-sale to be other-than-temporarily impaired at December 31, 2011.

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, 2011.

	In a Continuous Loss Position for Less than 12 Months		In a Continuous Loss Position for 12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In thousands)					
Corporate debt securities	$ 72,766	$ 215	$ —	$ —	$ 72,766	$ 215
GSEs	11,493	9	—	—	11,493	9
Municipal securities	12,033	18	—	—	12,033	18
Auction rate securities	—	—	16,134	2,866	16,134	2,866
	$ 96,292	$ 242	$ 16,134	$ 2,866	$ 112,426	$ 3,108

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, 2010.

	In a Continuous Loss Position for Less than 12 Months		In a Continuous Loss Position for 12 Months or More		Total	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
	(In thousands)					
Corporate debt securities	$ 55,578	$ 167	$ 1,848	$ 14	$ 57,426	$ 181
GSEs	7,244	26	—	—	7,244	26
Municipal securities	12,629	31	—	—	12,629	31
Auction rate securities	—	—	20,449	4,101	20,449	4,101
U.S. treasury notes	3,414	37	—	—	3,414	37
	$ 78,865	$ 261	$ 22,297	$ 4,115	$ 101,162	$ 4,376

7. Receivables

Health Plans segment receivables consist primarily of amounts due from the various states in which we operate. Such receivables are subject to potential retroactive adjustment. Because all of our receivable amounts are readily determinable and our creditors are in almost all instances state governments, our allowance for doubtful accounts is immaterial. Any amounts determined to be uncollectible are charged to expense when such determination is made. Accounts receivable were as follows:

	December 31, 2011	December 31, 2010
	(In thousands)	
Health Plans segment:		
California	$ 22,175	$ 46,482
Michigan	8,864	13,596
Missouri	27,092	22,841
New Mexico	9,350	18,310
Ohio	27,458	21,622
Texas	1,608	1,221
Utah	2,825	1,589
Washington	15,006	14,486
Wisconsin	4,909	5,437
Others	2,489	2,377
Total Health Plans segment	121,776	147,961
Molina Medicaid Solutions segment	46,122	20,229
	$ 167,898	$ 168,190

During the second quarter of 2011, we settled certain claims we had made against the state of Utah regarding the savings share provision of our contract in effect from 2003 through June of 2009. Additionally, we recognized a liability for certain overpayments received from the state for the period 2003 through 2009. As a result of these developments, we recognized $6.9 million in premium revenue without any corresponding charge to expense during the second quarter of 2011.

8. Property, Equipment, and Capitalized Software

A summary of property and equipment is as follows:

	December 31, 2011	December 31, 2010
	(In thousands)	
Land	$ 14,094	$ 3,524
Building and improvements	109,789	49,735
Furniture and equipment	79,112	60,074
Capitalized software	116,389	90,003
	319,384	203,336
Less: accumulated depreciation and amortization on building and improvements, furniture and equipment	(65,518)	(54,341)
Less: accumulated amortization for capitalized software	(62,932)	(48,458)
	(128,450)	(102,799)
Property, equipment, and capitalized software, net	$ 190,934	$ 100,537

Depreciation recognized for building and improvements, and furniture and equipment was $17.5 million, $13.9 million, and $11.0 million for the years ended December 31, 2011, 2010 and 2009, respectively. Amortization of capitalized software was $30.2 million, $20.1 million, and $14.2 million for the years ended December 31, 2011, 2010 and 2009, respectively.

Table of Contents

Molina Center

As described in Note 4, "Business Combinations," we acquired the Molina Center in December 2011. As of December 31, 2011, the carrying amount of the building was $42.9 million, and accumulated depreciation was insignificant. Future minimum rentals on noncancelable leases are as follows:

	(In thousands)
2012	$ 5,943
2013	6,053
2014	4,395
2015	4,545
2016	4,749
Thereafter	32,310
Total minimum future rentals	$ 57,995

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 10 years, for customer relationships is approximately 5 years, for backlog is approximately 2 years, and for provider networks is approximately 10 years. Based on the balances of our identifiable intangible assets as of December 31, 2011, we estimate that our intangible asset amortization will be $22.2 million in 2012, $21.6 million in 2013, $16.9 million in 2014, $9.7 million in 2015, and $8.8 million in 2016. 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," we recorded impairment charges to goodwill and intangible assets amounting to $58.5 million and $6.1 million, respectively, for the year ended December 31, 2011. For a description of our goodwill and intangible assets by reportable segment, refer to Note 19, "Segment Reporting."

	Cost	Accumulated Amortization	Net Balance
		(In thousands)	
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
Intangible assets:			
Contract rights and licenses	$ 121,017	$ 64,201	$ 56,816
Customer relationships	24,550	3,418	21,132
Contract backlog	23,600	8,316	15,284
Provider networks	18,525	6,257	12,268
Balance at December 31, 2010	$ 187,692	$ 82,192	$ 105,500

The changes in the carrying amount of goodwill and indefinite-lived intangible assets were as follows (in thousands):

Balance as of December 31, 2010	$ 212,228
Impairment of Missouri health plan goodwill	(58,530)
Goodwill adjustments relating to the acquisitions of Molina Medicaid Solutions and the Wisconsin health plan	256
Balance at December 31, 2011	$ 153,954

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 by health plan, and for our insurance company:

	December 31, 2011	December 31, 2010
	(In thousands)	
California	$ 372	$ 372
Florida	5,198	4,508
Insurance Company	4,711	4,689
Michigan	1,000	1,000
Missouri	504	508
New Mexico	15,905	15,881
Ohio	9,078	9,066
Texas	3,518	3,501
Utah	2,895	1,279
Washington	151	151
Wisconsin	—	260
Other	2,832	885
	$ 46,164	$ 42,100

The contractual maturities of our held-to-maturity restricted investments as of December 31, 2011 are summarized below.

	Amortized Cost	Estimated Fair Value
	(In thousands)	
Due in one year or less	$ 36,900	$ 36,909
Due one year through five years	9,264	9,307
	$ 46,164	$ 46,216

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, 2011 and 2010. The negative amounts displayed for "Components of medical care costs related to: Prior years" represent the amount by which our original estimate of claims and benefits payable at the beginning of the period exceeded 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, 2011	Year Ended December 31, 2010
	(Dollars in thousands, except per-member amounts)	
Balances at beginning of year	$ 354,356	$ 315,316
Balance of acquired subsidiary	—	3,228
Components of medical care costs related to:		
Current year	3,911,803	3,420,235
Prior years	(51,809)	(49,378)
Total medical care costs	3,859,994	3,370,857
Payments for medical care costs related to:		
Current year	3,516,994	3,085,388
Prior years	294,880	249,657
Total paid	3,811,874	3,335,045
Balances at end of year	$ 402,476	$ 354,356
Benefit from prior years as a percentage of:		
Balance at beginning of year	14.6%	15.7%
Premium revenue	1.1%	1.2%
Total medical care costs	1.3%	1.5%

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 exceeded the amount that will ultimately be paid out in satisfaction of that liability. The overestimation of claims liability at December 31, 2010 was due primarily to the following factors:

- We overestimated the impact of a buildup in claims inventory in Ohio.
- We overestimated the impact of the settlement of disputed provider claims in California.
- We underestimated the reduction in outpatient facility claims costs as a result of a fee schedule reduction in New Mexico effective November 2010, partially offsetting the impact of the two items above.

We recognized a benefit from prior period claims development in the amount of $49.4 million for the year ended 2010. This was primarily caused by the overestimation of our liability for claims and medical benefits payable at December 31, 2009. The overestimation of claims liability at December 31, 2009 was the result of the following factors:

- In New Mexico, we underestimated the degree to which cuts to the Medicaid fees schedule would reduce our liability as of December 31, 2009.
- In California, 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, 2011, we adjusted our base calculation to take account of the following factors which we believe are reasonably likely to change our final claims liability amount:

- The increasing amount of claims recoveries in Texas.
- Recent increases in inpatient utilization in Missouri, as well as a substantial increase in inpatient claims inventory.
- A significant reduction to our outstanding claims recoveries in Ohio.
- An increase to our aged blind and disabled membership in California.
- Late enrollment of newborns, and hence late claims payments, in Michigan due to issues with the State’s administration system, which has disrupted the normal completion pattern for claims in that state.

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 2010 and 2011, 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 both 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

Maturities of long-term debt for the years ending December 31 are as follows:

	Total	2012	2013	2014	2015	2016	Thereafter
Convertible senior notes	$ 187,000	$ —	$ —	$ 187,000	$ —	$ —	$ —
Term loan	48,600	1,197	1,155	1,206	1,259	1,309	42,474
	$ 235,600	$ 1,197	$ 1,155	$ 188,206	$ 1,259	$ 1,309	$ 42,474

Credit Facility

On September 9, 2011, we entered into a credit agreement for a $170 million revolving credit facility (the "Credit Facility") with various lenders and U.S. Bank National Association, as LC Issuer, Swing Line Lender, and Administrative Agent. The Credit Facility will be used for general corporate purposes.

The Credit Facility has a term of five years under which all amounts outstanding will be due and payable on September 9, 2016. Subject to obtaining commitments from existing or new lenders and satisfaction of other specified conditions, we may increase the Credit Facility to up to $195 million. As of December 31, 2011 there was no outstanding principal balance under the Credit Facility. However, as of December 31, 2011, our lenders had issued two letters of credit in the aggregate principal amount of $10.3 million in connection with the Molina Medicaid Solutions contracts with the states of Maine and Idaho, which reduces the amount available under the Credit Facility.

Borrowings under the Credit Facility will bear 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 are 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 initial commitment fee shall be set at 0.35% until our delivery of its financials for the year ended December 31, 2011. The applicable margins range 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 are 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 includes 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 requires us to maintain a ratio of total consolidated debt to total consolidated EBITDA of not more than 2.75 to 1.00 as of the end of each fiscal quarter and a fixed charge coverage ratio of not less than 1.75 to 1.00. At December 31, 2011, we were in compliance with all financial covenants under the Credit Facility.

In the event of a default, including cross-defaults relating to specified other debt in excess of $20 million, the lenders may terminate the commitments under the Credit Facility and declare the amounts outstanding, including all accrued interest and unpaid fees, payable immediately. In addition, the lenders may enforce any and all rights and remedies created under the Credit Facility or applicable law.

In connection with our entrance into the Credit Facility, on September 9, 2011, we terminated our existing credit agreement with Bank of America, dated March 9, 2005, as amended to date, which had provided us with a $150 million revolving credit facility. As of December 31, 2011 and December 31, 2010, there was no outstanding principal balance under this credit agreement.

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 approximately 460,000 square foot office building, or Molina Center, located in Long Beach, California.

The outstanding principal amount under the Term Loan Agreement bears interest at the rate of 4.25% per annum from the date of the closing of the loan through December 31, 2011, and 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%. The loan matures on November 30, 2018, and is subject to a 25-year amortization schedule that commences 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. We have agreed to pay to the Administrative Agent a loan fee in the amount of $486,000 and an agency fee of $50,000. 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.

Convertible Senior Notes

As of December 31, 2011, $187.0 million in aggregate principal amount of our 3.75% Convertible Senior Notes due 2014 (the "Notes") remain outstanding. The Notes rank equally in right of payment with our existing and future senior indebtedness. The 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 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 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 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 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 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 Notes have been allocated between a liability component and an equity component. We have determined that the effective interest rate of the 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 Notes are expected to be outstanding, as additional non-cash interest expense. As of December 31, 2011, we expect the Notes to be outstanding until their October 1, 2014 maturity date, for a remaining amortization period of 33 months. The Notes' if-converted value did not exceed their principal amount as of December 31, 2011. At December 31, 2011, the equity component of the 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,	
	2011	2010
	(In thousands)	
Details of the liability component:		
Principal amount	$ 187,000	$ 187,000
Unamortized discount	(17,474)	(22,986)
Net carrying amount	$ 169,526	$ 164,014

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Interest cost recognized for the period relating to the:			
Contractual interest coupon rate of 3.75%	$ 7,012	$ 7,012	$ 7,076
Amortization of the discount on the liability component	5,512	5,114	4,782
Total interest cost recognized	$ 12,524	$ 12,126	$ 11,858

13. Income Taxes

The provision for income taxes consisted of the following:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Current:			
Federal	$ 28,336	$ 36,395	$ 9,421
State	1,639	2,144	(1,558)
Total current	29,975	38,539	7,863
Deferred:			
Federal	14,028	(4,717)	1,924
State	(167)	700	(2,498)
Total deferred	13,861	(4,017)	(574)
Total provision for income taxes	$ 43,836	$ 34,522	$ 7,289

A reconciliation of the effective income tax rate to the statutory federal income tax rate is as follows:

	Years Ended December 31,		
	2011	2010	2009
	(in thousands)		
Taxes on income at statutory federal tax rate (35)%	$ 22,630	$ 31,323	$ 13,355
State income taxes, net of federal benefit	957	1,849	(2,637)
Benefit for unrecognized tax benefits	(396)	(57)	(3,315)
Nondeductible goodwill	20,485	—	—
Other	160	1,407	(114)
Reported income tax expense	43,836	34,522	7,289

Table of Contents

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 2011, excess tax benefits from shared-based compensation were $937,000. This amount was recorded as a decrease to income taxes payable and an increase to additional paid-in capital. During 2010 and 2009, tax-related deficiencies on share-based compensation were $673,000 and $718,000, respectively. Such amounts were recorded as adjustments 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, 2011 and 2010 were as follows:

	December 31,	
	2011	2010
	(in thousands)	
Accrued expenses	$ 14,541	$ 12,618
Reserve liabilities	1,292	877
State taxes	(396)	(120)
Other accrued medical costs	2,051	2,126
Net operating losses	27	27
Unrealized gains	(316)	(254)
Unearned premiums	4,139	3,517
Prepaid expenses	(3,032)	(3,006)
Other, net	21	(69)
Deferred tax asset, net of valuation allowance — current	18,327	15,716
Accrued expenses	223	791
Reserve liabilities	3,015	3,071
State tax credit carryover	2,609	1,960
Net operating losses	2,694	1,362
Unrealized losses	1,176	1,559
Depreciation and amortization	(39,939)	(20,110)
Deferred compensation	7,904	6,829
Debt basis	(7,604)	(9,673)
Other, net	(278)	(830)
Valuation allowance	(2,927)	(1,194)
Deferred tax liability, net of valuation allowance — long term	(33,127)	(16,235)
Net deferred income tax liability	$ (14,800)	$ (519)

At December 31, 2011, we had federal and state net operating loss carryforwards of $397,000 and $57 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, 2011, we had California enterprise zone tax credit carryovers of $4 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, 2011, $2.9 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 $1.7 million from $1.2 million at December 31, 2010 to $2.9 million as of December 31, 2011.

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 rollforward of our unrecognized tax benefits is as follows:

	Years Ended December 31,		
	2011	2010	2009
		(in thousands)	
Gross unrecognized tax benefits at beginning of period	$ (10,962)	$ (4,128)	$ (11,676)
Increases in tax positions for prior years	(137)	(6,891)	(3,748)
Decreases in tax positions for prior years	—	—	6,804
Settlements	—	—	4,355
Lapse in statute of limitations	387	57	137
Gross unrecognized tax benefits at end of period	$ (10,712)	$ (10,962)	$ (4,128)

As of December 31, 2011, we had $10.7 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, 2011 relate 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 $8.9 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, 2011, December 31, 2010, and December 31, 2009, we had accrued $65,000, $82,000, and $75,000, respectively, for the payment of interest and penalties.

We may be subject to examination by the Internal Revenue Service (“IRS”) for calendar years 2008 through 2011. 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 2011. Our subsidiary, HCLB, entered into a closing agreement with the IRS in December 2009 that successfully concluded with certainty the IRS examination of HCLB for the year ended May 2006.

14. Stockholders’ Equity

Securities Repurchase Program. Effective as of October 26, 2011, our board of directors has 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 will be funded with working capital or the Company’s credit facility, and repurchases may be made from time to time on the open market or through privately negotiated transactions. The repurchase program extends through October 25, 2012, but the Company reserves the right to suspend or discontinue the program at any time. No securities were purchased under this program in 2011.

In late 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 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.

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 752,000 shares of common stock, net of shares used to settle employees’ income tax obligations, for the year ended December 31, 2011. Stock plan activity resulted in a $21.4 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 $8.5 million, $5.9 million and $4.7 million in the years ended December 31, 2011, 2010, and 2009, 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 stock, performance shares, 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, 2011, we had employee equity incentives outstanding under three plans: (1) the 2011 Plan; (2) the 2002 Equity Incentive Plan (from which equity incentives are no longer awarded); and (3) the 2000 Omnibus Stock and Incentive Plan (from which equity incentives are no longer awarded). On March 1, 2011, our chief executive officer, chief financial officer, and chief operating officer were awarded 150,000 shares, 112,500 shares, and 27,000 shares, respectively, of restricted stock with performance and service conditions. Each of the grants shall vest on March 1, 2012, provided that: (i) the Company’s total operating revenue for 2011 is equal to or greater than $3.7 billion, and (ii) the respective officer continues to be employed by the Company as of March 1, 2012. In the event both vesting conditions are not achieved, the equity compensation awards shall lapse. As of December 31, 2011, we expect these awards to vest in full.

Restricted stock 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 201,700 and 164,700 shares of our common stock under the ESPP during the years ended December 31, 2011 and 2010, 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 stock-based compensation expense that are reported in general and administrative expenses in the consolidated statements of income:

	Year Ended December 31,					
	2011		2010		2009	
	(In thousands)					
	Pretax Charges	Net-of-Tax Amount	Pretax Charges	Net-of-Tax Amount	Pretax Charges	Net-of-Tax Amount
Restricted stock awards	$ 15,914	$ 9,946	$ 8,007	$ 5,044	$ 5,789	$ 3,589
Stock options (including expense relating to our ESPP)	1,138	712	1,524	960	1,696	1,052
Total stock-based compensation expense	$ 17,052	$ 10,658	$ 9,531	$ 6,004	$ 7,485	$ 4,641

As of December 31, 2011, there was $14.2 million of total unrecognized compensation expense related to unvested restricted stock awards, which we expect to recognize over a remaining weighted-average period of 1.8 years. This unrecognized compensation cost assumes an estimated forfeiture rate of 6.6% as of December 31, 2011. As of December 31, 2011, there was no remaining unrecognized compensation expense related to unvested stock options.

Table of Contents

Unvested restricted stock and restricted stock activity for the year ended December 31, 2011 is summarized below:

	Shares	Weighted Average Grant Date Fair Value
Unvested balance as of December 31, 2010	1,253,624	$ 15.55
Granted	792,300	23.21
Vested	(520,071)	17.76
Forfeited	(89,971)	15.60
Unvested balance as of December 31, 2011	1,435,882	18.97

The total fair value of restricted shares granted during the year ended December 31, 2011, 2010, and 2009 was $18.4 million, $12.7 million, and $8.0 million, respectively. The total fair value of restricted shares vested during the year ended December 31, 2011, 2010, and 2009 was $12.2 million, $6.4 million, and $3.2 million, respectively.

Stock option activity for the year ended December 31, 2011 is summarized below:

	Shares	Weighted Average Grant Date Fair Value	Average Intrinsic Value	Weighted Average Remaining Contractual term
			(In thousands)	(Years)
Stock options outstanding as of December 31, 2010	770,421	$ 20.39		
Exercised	(195,672)	18.82		
Forfeited	(21,700)	21.45		
Stock options outstanding as of December 31, 2011	553,049	20.91	$ 1,435	3.9
Stock options exercisable and expected to vest as of December 31, 2011	553,049	20.91	$ 1,435	3.9
Exercisable as of December 31, 2011	550,799	20.90	$ 1,435	3.9

The following is a summary of information about stock options outstanding and exercisable at December 31, 2011:

	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
$11.32 – $19.11	231,861	3.2	$ 17.31	231,861	$ 17.31
$20.03 – $21.59	184,275	5.0	20.86	184,275	20.86
$21.72 – $29.53	136,913	3.7	27.07	134,663	27.13
	553,049			550,799	

17. Related Party Transactions

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. As of December 31, 2011, and 2010 our carrying amount for this investment amounted to $3.9 million, and $3.8 million, respectively. For the years ended December 31, 2011, 2010, and 2009, we paid $24.3 million, $22.0 million, and $21.8 million, respectively, for medical service fees to this provider.

We are a party to a fee-for-service agreement with Pacific Hospital of Long Beach ("Pacific Hospital"). Until October 2010, Pacific Hospital was owned by Abrazos Healthcare, Inc., the shares of which are held as community property by the husband of Dr. Martha Bernadett, the sister of Dr. J. Mario Molina, our Chief Executive Officer, and John Molina, our Chief Financial Officer. Amounts paid to Pacific Hospital under the terms of this fee-for-service agreement were $0.7 million, $1.0 million, and $0.7 million, for the years ended December 31, 2011, 2010 and 2009, respectively. As of October 2010, Pacific Hospital was no longer owned by Abrazos Healthcare, Inc. or any other related party to the Company.

18. Commitments and Contingencies

Leases

We lease office space, clinics, equipment, and automobiles under agreements that expire at various dates through 2018. Future minimum lease payments by year and in the aggregate under all non-cancelable operating leases consist of the following approximate amounts:

	(In thousands)
2012	$ 25,553
2013	22,425
2014	18,511
2015	14,544
2016	7,794
Thereafter	12,597
Total minimum lease payments	$ 101,424

Rental expense related to these leases amounted to $23.1 million, $25.1 million, and $20.8 million for the years ended December 31, 2011, 2010, and 2009, 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, Virginia and Washington. Claims-made coverage under the policies for California and Washington is $1.0 million per occurrence with an annual aggregate limit of $3.0 million for Washington, beginning in 2010, and for California, each of the years ended December 31, 2011, 2010, and 2009. Claims-made coverage under the Virginia policy is $2.0 million per occurrence with an annual aggregate limit of $6.0 million for each of the years ended December 31, 2011 and 2010, and beginning July 1, 2008. We also carry claims-made managed care errors and omissions professional liability insurance for our health plan operations. This insurance is subject to a coverage limit of $15.0 million per occurrence and $15.0 million in the aggregate for each policy year.

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 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, and 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 intercompany eliminations) which may not be transferable to us in the form of loans, advances, or cash dividends was $492.4 million at December 31, 2011, and $397.8 million at December 31, 2010.

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, Missouri, 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, 2011, our health plans had aggregate statutory capital and surplus of approximately $509.9 million compared with the required minimum aggregate statutory capital and surplus of approximately $265.7 million. All of our health plans were in compliance with the minimum capital requirements at December 31, 2011. 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.

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 totals 39 percent 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 made a capital contribution of $5.9 million in and Molina Healthcare, Inc. made a loan in 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 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 variable interest entity, or 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, 2011 and the offsetting Wells Fargo 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. 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 ten states, 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.

Table of Contents

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,		
	2011	2010	2009
		(In thousands)	
Segment Information:			
Revenue:			
Health Plans:			
Premium revenue	$ 4,603,407	$ 3,989,909	$ 3,660,207
Investment income	5,539	6,259	9,149
Rental income	547	—	—
Molina Medicaid Solutions:			
Service revenue	160,447	89,809	—
	$ 4,769,940	$ 4,085,977	$ 3,669,356
Depreciation and amortization:			
Health Plans	$ 45,734	$ 42,282	$ 38,110
Molina Medicaid Solutions	28,649	18,483	—
	$ 74,383	$ 60,765	$ 38,110
Operating Income:			
Health Plans	$ 78,110	$ 102,392	$ 51,934
Molina Medicaid Solutions	2,063	2,609	—
Total operating income	80,173	105,001	51,934
Interest expense	15,519	15,509	13,777
Income before income taxes	$ 64,654	$ 89,492	$ 38,157

	As of December 31,	
	2011	2010
Goodwill and intangible assets, net:		
Health Plans	$ 159,963	$ 208,945
Molina Medicaid Solutions	95,787	108,783
	$ 255,750	$ 317,728
Total assets:		
Health Plans	$ 1,425,764	$ 1,333,599
Molina Medicaid Solutions	226,382	175,615
	$ 1,652,146	$ 1,509,214

20. Quarterly Results of Operations (Unaudited)

The following is a summary of the quarterly results of operations for the years ended December 31, 2011 and 2010.

	For The Quarter Ended,			
	March 31, 2011	June 30, 2011	September 30, 2011	December 31, 2011
	(In thousands)			
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	31,300	31,410	33,566	(16,103)
Income before income taxes	27,697	27,727	29,186	(19,956)
Net income	17,388	17,440	18,950	(32,960)
Net income per share (1):				
Basic	$ 0.38	$ 0.38	$ 0.41	$ (0.72)
Diluted	$ 0.38	$ 0.38	$ 0.41	$ (0.72)

	For The Quarter Ended,			
	March 31, 2010	June 30, 2010	September 30, 2010	December 31, 2010
	(In thousands)			
Premium revenue	$ 965,220	$ 976,685	$ 1,005,115	$ 1,042,889
Service revenue	—	21,054	32,271	36,484
Operating income	20,438	21,178	29,953	33,432
Income before income taxes	17,081	17,079	25,353	29,979
Net income	10,590	10,579	16,173	17,628
Net income per share (1)(2):				
Basic	$ 0.28	$ 0.27	$ 0.38	$ 0.39
Diluted	$ 0.27	$ 0.27	$ 0.38	$ 0.39

(1) All applicable share and per-share amounts reflect retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

(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, 2011, and 2010.

Table of Contents

21. Condensed Financial Information of Registrant

Following are our parent company only condensed balance sheets as of December 31, 2011 and 2010, and our condensed statements of income and condensed statements of cash flows for each of the three years in the period ended December 31, 2011.

Condensed Balance Sheets

	December 31, 2011	December 31, 2010
	(Amounts in thousands, except per-share data)	
ASSETS		
Current assets:		
Cash and cash equivalents	$ 14,650	$ 57,020
Investments	2,010	2,000
Income tax refundable	14,126	1,928
Deferred income taxes	9,133	7,006
Due from affiliates	60,569	19,059
Prepaid and other current assets	10,467	11,009
Total current assets	110,955	98,022
Property and equipment, net	82,437	81,445
Goodwill	53,769	58,719
Auction rate securities	4,694	6,046
Investments in subsidiaries	740,345	702,096
Advances to related parties and other assets	32,473	16,397
	$ 1,024,673	$ 962,725
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable and accrued liabilities	$ 71,392	$ 56,910
Long-term debt	169,526	164,014
Deferred income taxes	16,909	8,425
Other long-term liabilities	11,773	14,319
Total liabilities	269,600	243,668
Stockholders' equity (1):		
Common stock, $0.001 par value; 80,000 shares authorized; outstanding: 45,815 shares at December 31, 2011 and 45,463 shares at December 31, 2010	46	45
Preferred stock, $0.001 par value; 20,000 shares authorized, no shares issued and outstanding	—	—
Paid-in capital	266,022	251,612
Accumulated other comprehensive loss	(1,405)	(2,192)
Retained earnings	490,410	469,592
Total stockholders' equity	755,073	719,057
	$ 1,024,673	$ 962,725

(1) All applicable share and per-share amounts reflect the retroactive effects of the three-for-two common stock split in the form of a stock dividend that was effective May 20, 2011.

Table of Contents

Condensed Statements of Income

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
Revenue:			
Management fees and other operating revenue	$ 308,287	$ 238,883	$ 218,911
Investment income	81	1,153	1,540
Total revenue	308,368	240,036	220,451
Expenses:			
Medical care costs	31,672	30,582	26,865
General and administrative expenses	272,302	218,834	160,792
Depreciation and amortization	31,355	27,166	25,223
Total expenses	335,329	276,582	212,880
Gain on purchase of convertible senior notes	—	—	1,532
Operating (loss) income	(26,961)	(36,546)	9,103
Interest expense	14,958	15,500	13,770
Loss before income taxes and equity in net income of subsidiaries	(41,919)	(52,046)	(4,667)
Income tax benefit	(14,826)	(16,936)	(3,755)
Net loss before equity in net income of subsidiaries	(27,093)	(35,110)	(912)
Equity in net income of subsidiaries	47,911	90,080	31,780
Net income	$ 20,818	$ 54,970	$ 30,868

Table of Contents

Condensed Statements of Cash Flows

	Year Ended December 31,		
	2011	2010	2009
		(In thousands)	
Operating activities:			
Cash provided by operating activities	$ 28,606	$ 19,380	$ 40,551
Investing activities:			
Net dividends from and capital contributions to subsidiaries	27,872	70,800	21,960
Purchases of investments	(2,020)	(2,019)	(3,844)
Sales and maturities of investments	3,760	14,083	12,669
Cash paid in business combinations	—	(139,762)	(2,894)
Purchases of equipment	(30,930)	(40,419)	(32,245)
Changes in amounts due to and due from affiliates	(50,090)	(5,723)	(17,074)
Change in other assets and liabilities	(20,441)	829	(540)
Net cash used in investing activities	(71,849)	(102,211)	(21,968)
Financing activities:			
Proceeds from common stock offering, net of issuance costs	—	111,131	—
Amount borrowed under credit facility	—	105,000	—
Repayment of amount borrowed under credit facility	—	(105,000)	—
Treasury stock repurchases	(7,000)	—	(27,712)
Purchase of convertible senior notes	—	—	(9,653)
Payment of credit facility fees	(1,125)	(1,671)	—
Excess tax benefits from employee stock compensation	1,651	295	31
Proceeds from exercise of stock options and employee stock plan purchases	7,347	4,056	2,015
Net cash provided by (used in) financing activities	873	113,811	(35,319)
Net (decrease) increase in cash and cash equivalents	(42,370)	30,980	(16,736)
Cash and cash equivalents at beginning of year	57,020	26,040	42,776
Cash and cash equivalents at end of year	$ 14,650	$ 57,020	$ 26,040

Notes to Condensed Financial Information of Registrant

Note A — Basis of Presentation

Molina Healthcare, Inc. (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. and Molina Healthcare of Michigan, 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 parent company-only financial statements 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 2011, 2010, and 2009 for these services totaled $307.9 million, $238.5 million, and $218.6 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 and Dividends

During 2011, 2010, and 2009, the Registrant received dividends from its subsidiaries totaling $76.6 million, $81.3 million, and $76.7 million, respectively. Such amounts have been recorded as a reduction to the investments in the respective subsidiaries.

During 2011, 2010, and 2009, the Registrant made capital contributions to certain subsidiaries totaling $58.4 million, $10.5 million, and $54.7 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

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. As of December 31, 2010 and 2009, the Registrant's carrying amount for this investment totaled $3.9 million and $3.8 million, respectively. For the years ended December 31, 2011, 2010, and 2009, the Registrant paid $24.3 million, $22.0 million, and $21.8 million, respectively, for medical service fees to this provider.

The Registrant is a party to a fee-for-service agreement with Pacific Hospital of Long Beach ("Pacific Hospital"). Until October 2010, Pacific Hospital was owned by Abrazos Healthcare, Inc., the shares of which are held as community property by the husband of Dr. Martha Bernadett, the sister of Dr. J. Mario Molina, our Chief Executive Officer, and John Molina, our Chief Financial Officer. Amounts paid to Pacific Hospital under the terms of this fee-for-service agreement were $0.7 million, $1.0 million, and $0.7 million, for the years ended December 31, 2011, 2010, and 2009, respectively. As of October 2010, Pacific Hospital was no longer owned by Abrazos Healthcare, Inc. or any other related party to the Company.

22. Subsequent Events

Missouri Health Plan

On February 17, 2012, the Division of Purchasing of the Missouri Office of Administration notified us that we were not awarded a contract under the Missouri HealthNet Managed Care Request for Proposal. As a result, our existing contract with the state will expire without renewal on June 30, 2012.

Molina Healthcare Insurance Company

Effective February 17, 2012, we sold our wholly owned insurance subsidiary, Molina Healthcare Insurance Company. To be recorded in the first quarter of 2012, the transaction will result in the elimination of both the noncurrent receivable and liability for ceded life and annuity contracts, each amounting to approximately $23.4 million as of December 31, 2011. Additionally, a gain of approximately $2 million is expected to be recorded upon closing of the transaction.

Table of Contents

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, 2011, 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, 2011. 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, 2011, 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 110 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, 2011.

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

None.

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, 2011, 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, 2011, 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, 2011 and 2010, and the related consolidated statements of income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011 and our report dated February 29, 2012 expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 29, 2012

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 2012 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 2012 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 2012 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 2012 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 2012 Annual Meeting of Shareholders, and such required information 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 2012 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, 2011 and 2010

Consolidated Statements of Income — Years ended December 31, 2011, 2010, and 2009

Consolidated Statements of Stockholders' Equity — Years ended December 31, 2011, 2010, and 2009

Consolidated Statements of Cash Flows — Years ended December 31, 2011, 2010, and 2009

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.

Table of Contents

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 29 th day of February, 2012.

MOLINA HEALTHCARE, INC.

By: /s/ Joseph M. Molina, M.D.
Joseph M. Molina, M.D.
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.

EXHIBIT INDEX

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 29, 2012
/s/ John C. Molina **John C. Molina, J.D.**	Director, Chief Financial Officer, and Treasurer (Principal Financial Officer)	February 29, 2012
/s/ Joseph W. White **Joseph W. White, CPA, MBA**	Chief Accounting Officer (Principal Accounting Officer)	February 29, 2012
/s/ Garrey E. Carruthers, Ph.D. **Garrey E. Carruthers, Ph.D.**	Director	February 29, 2012
/s/ Charles Z. Fedak **Charles Z. Fedak, CPA, MBA**	Director	February 29, 2012
/s/ Frank E. Murray **Frank E. Murray, M.D.**	Director	February 29, 2012
/s/ Steven Orlando **Steven Orlando, CPA (inactive)**	Director	February 29, 2012
/s/ Sally K. Richardson **Sally K. Richardson**	Director	February 29, 2012
/s/ Ronna Romney **Ronna Romney**	Director	February 29, 2012
/s/ John P. Szabo, Jr. **John P. Szabo, Jr.**	Director	February 29, 2012

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
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.
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 Appendix A to registrant's Proxy Statement filed March 23, 2011.
10.7	2011 Employee Stock Purchase Plan	Filed as Appendix B to registrant's Proxy Statement filed March 23, 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.
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.

Number	Description	Method of Filing
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	Form of Indemnification Agreement	Filed as Exhibit 10.14 to registrant's Form 10-K filed March 14, 2007.
10.17	Credit Agreement, dated as of September 9, 2011, among Molina Healthcare, Inc., as the Borrower, certain lenders, and U.S. Bank National Association, as Administrative Agent	Filed as Exhibit 10.1 to registrant's current report on Form 8-K filed September 13, 2011.
10.18	Term Loan Agreement, dated as of December 7, 2011, among Molina Center LLC, various lenders and East West Bank, as Administrative Agent	Filed herewith.
10.19	Guaranty, dated as of December 1, 2011, by Molina Healthcare, Inc. in favor of East West Bank, as Administrative Agent	Filed herewith.
10.20	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 herewith.
10.21	Purchase Agreement, dated as of October 11, 2011, between Molina Center LLC and 200 Oceangate, LLC	Filed herewith.
10.22	First Amendment to Purchase Agreement, dated as of November 10, 2011, between Molina Center LLC and 200 Oceangate, LLC	Filed herewith.
10.23	Second Amendment to Purchase Agreement, dated as of November 30, 2011, between Molina Center LLC and 200 Oceangate, LLC	Filed herewith.
10.24	Hospital Services Agreement (fee-for-service) by and between Molina Healthcare of California, a California corporation, and Pacific Hospital of Long Beach	Filed as Exhibit 10.24 to registrant's Form 10-K filed March 16, 2010.
10.25	Hospital Services Agreement (capitation) by and between Molina Healthcare of California, a California corporation, and HealthSmart Pacific, Inc., dba Pacific Hospital of Long Beach	Filed as Exhibit 10.25 to registrant's Form 10-K filed March 16, 2010.
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.

Number	Description	Method of Filing
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	XBRL Taxonomy Instance Document.	To be furnished in a subsequent amendment to this Annual Report on Form 10-K.
101.SCH	XBRL Taxonomy Extension Schema Document.	To be furnished in a subsequent amendment to this Annual Report on Form 10-K.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	To be furnished in a subsequent amendment to this Annual Report on Form 10-K.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	To be furnished in a subsequent amendment to this Annual Report on Form 10-K.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	To be furnished in a subsequent amendment to this Annual Report on Form 10-K.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	To be furnished in a subsequent amendment to this Annual Report on Form 10-K.

Exhibit 10.18

TERM LOAN AGREEMENT

Dated as of December 1, 2011

among

MOLINA CENTER LLC

as Borrower,

EAST WEST BANK,

as Administrative Agent

and

EAST WEST BANK,
BANK OF CHINA, LOS ANGELES BRANCH,
CITY NATIONAL BANK,
UNION BANK, N.A.
and
THE BANK OF EAST ASIA (U.S.A.) N.A.

as Lenders

TABLE OF CONTENTS

		Page
ARTICLE 1 DEFINITIONS AND ACCOUNTING TERMS		1
1.1	Defined Terms	1
1.2	Use of Defined Terms	14
1.3	Accounting Terms	14
1.4	Rounding	15
1.5	Exhibits and Schedules	15
1.6	Miscellaneous Terms	15
ARTICLE 2 CREDIT FACILITY		16
2.1	Amount and Terms of Loan	16
2.2	Interest	16
2.3	Amortization of Loan	16
2.4	Prepayments	17
2.5	Default Rate	18
2.6	Loan Fee	18
2.7	Agency Fee	18
2.8	Non-Business Days	18
2.9	Manner and Treatment of Payments	18
2.10	Authorization to Debit Account	18
2.11	Funding Source	19
2.12	[Intentionally Deleted]	19
2.13	Collateral	19
2.14	Increased Loan Costs	19
2.15	Swap Contracts	19

ARTICLE 3 REPRESENTATIONS AND WARRANTIES 20

3.1 Existence and Qualification; Power; Compliance with Laws 20

3.2 Authority; Compliance with Other Agreements and Instruments and Government Regulations 20

3.3 No Governmental Approvals Required 21

3.4 Operation of Property 21

3.5 [Intentionally Deleted] 21

3.6 [Intentionally Deleted] 21

3.7 Title to Property 21

3.8 Intangible Assets 21

3.9 Litigation 21

3.10 Binding Obligations 22

3.11 No Default 22

3.12 ERISA 22

3.13 Regulations T, U and X; Investment Company Act 22

3.14 Disclosure 22

3.15 Tax Liability 22

3.16 [Intentionally Deleted] 22

3.17 Hazardous Materials 22

3.18 Regulatory and Legal Compliance 23

ARTICLE 4 AFFIRMATIVE COVENANTS (OTHER THAN INFORMATION AND REPORTING REQUIREMENTS) 24

4.1 Payment of Taxes and Other Potential Liens 24

4.2 Preservation of Existence 24

4.3 Single Purpose Entity 24

4.4 Maintenance of Properties 24

4.5 Maintenance of Insurance 25
4.6 Compliance With Laws 25
4.7 Inspection Rights 25
4.8 Keeping of Records and Books of Account 25
4.9 Compliance With Agreements 25
4.10 Use of Proceeds 25
4.11 Hazardous Materials Laws 25
4.12 Replacement Reserve Account 25
4.13 Bank Account 26
4.14 Estoppel Certificates 26
4.15 Performance and Funding of Deferred Maintenance 27
ARTICLE 5 NEGATIVE COVENANTS 28
5.1 Investments 28
5.2 ERISA 28
5.3 Change in Nature of Business 28
5.4 Liens; Negative Pledges; Sales and Leasebacks 28
5.5 Indebtedness and Contingent Obligations 28
5.6 Transactions with Affiliates 29
5.7 Financial Covenants 29
5.8 Leasing 30
5.9 Partition; Zoning 30
ARTICLE 6 INFORMATION AND REPORTING REQUIREMENTS 31
6.1 Financial and Business Information 31
6.2 Compliance Certificates 33

ARTICLE 7 CONDITIONS 34

7.1 Conditions Precedent to Closing 34

ARTICLE 8 EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT 37

8.1 Events of Default 37

8.2 Remedies Upon Event of Default 39

8.3 Application of Funds 40

ARTICLE 9 APPOINTMENT AND AUTHORIZATION OF ADMINISTRATIVE AGENT 41

9.1 Authorization of Administrative Agent 41

9.2 No Waiver by Lender 41

9.3 Receivership or Insolvency 41

9.4 Delegation of Duties 42

9.5 Liability of Administrative Agent 42

9.6 Reliance by Administrative Agent 43

9.7 Notice of Default 43

9.8 Credit Decision; Disclosure of Information by Administrative Agent 43

9.9 Indemnification of Administrative Agent 44

9.10 Administrative Agent in Individual Capacity 45

9.11 Successor Administrative Agent 45

9.12 Releases, Acquisition and Transfers of Collateral 46

9.13 Benefit 48

9.14 No Obligation by Borrower; Right of Reliance 48

9.15 Right of Reliance on Administrative Agent 48

9.16 Timing of Payments by Administrative Agent 48

9.17 Records of Advances and Payments 48

9.18 Required Lenders' Direction of Appraisal 48

ARTICLE 10 MISCELLANEOUS 49

10.1 Cumulative Remedies; No Waiver 49

10.2 Amendments; Consents 49

10.3 Costs, Expenses and Taxes 50

10.4 Survival of Representations and Warranties 51

10.5 Notices 51

10.6 Execution of Loan Documents 51

10.7 Binding Effect; Assignment 51

10.8 Lien on Deposits and Property in Possession of Administrative Agent 52

10.9 Indemnity by Borrower 52

10.10 Nonliability of Administrative Agent and Lenders 53

10.11 No Third Parties Benefited 54

10.12 Further Assurances 54

10.13 Integration 54

10.14 Governing Law 55

10.15 Severability of Provisions 55

10.16 Headings 55

10.17 Time of the Essence 55

10.18 JURY TRIAL WAIVER 55

10.19 Purported Oral Amendments 55

10.20 USA PATRIOT Act Notice 55

EXHIBITS

A Compliance Certificate

SCHEDULES

1.1(b) Schedule of Commitments

3.3 Governmental Approvals

3.17 Known Violations of Hazardous Materials Law

5.1 Investments

TERM LOAN AGREEMENT

This TERM LOAN AGREEMENT, dated as of December 1, 2011 (the "Agreement"), is entered into by and among MOLINA CENTER LLC, a Delaware limited liability company ("Borrower"), EAST WEST BANK, a California banking corporation, as Administrative Agent (" Administrative Agent") and EAST WEST BANK, a California banking corporation, BANK OF CHINA, LOS ANGELES BRANCH, a federally chartered branch of Bank of China Limited, a joint stock company incorporated in the People's Republic of China with limited liability, CITY NATIONAL BANK, a national banking association, UNION BANK, N.A., a national banking association, and THE BANK OF EAST ASIA (U.S.A.) N.A., a national banking association, as Lenders (collectively, together with their assignees and successors permitted hereunder, " Lenders," and each a "Lender").

Administrative Agent, Lenders, and Borrower desire to enter into an agreement setting forth the terms and conditions under which Borrower may obtain from Lenders a term loan to finance its acquisition of certain real property in the City of Long Beach, California, improved with two office towers commonly known as the "Arco Towers."

In consideration of the foregoing and the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE 1
DEFINITIONS AND ACCOUNTING TERMS

1.1 Defined Terms. As used herein, the following terms shall have the meanings set forth below:

"Adjusted LIBOR Rate" means, with respect to any Interest Period, an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to (a) the LIBOR Rate for such Interest Period multiplied by (b) the Statutory Reserve Rate.

"Administrative Agent Advances" means advances which the Administrative Agent makes, from time to time, on behalf of Lenders, to pay any costs, fees and expenses as described herein or to pay costs reasonably deemed necessary by Administrative Agent in order to preserve or protect the Collateral or any portion thereof (including costs of property taxes, insurance premiums, completion of construction, operation, management, improvements, maintenance, repair, sale and disposition of any Foreclosed Real Property).

"Administrative Agent's Office" means Administrative Agent's address as set forth on the signature pages to this Agreement, or such other address as Administrative Agent hereafter may designate by written notice to Borrower.

"Advance" means a disbursement of principal of the Loan.

"Affected Lender" has the meaning set forth for that term in Section 2.14.

"Affiliate" means, as to any Person, any other Person which directly or indirectly controls, or is under common control with, or is controlled by, such Person. As used in this definition, "control" (and the correlative terms, "controlled by" and "under common control with") shall mean possession, directly or indirectly, of power to direct or cause the direction of management or policies (whether through ownership of securities or partnership or other membership or ownership interests, by contract or otherwise).

"Agreement" means this Term Loan Agreement, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"Applicable Margin" means 3.25%.

"Borrower" means Molina Center, LLC, a Delaware limited liability company.

"Business Day" means any Monday, Tuesday, Wednesday, Thursday or Friday, other than a day on which banks are authorized or required to be closed in California.

"Calculation Period" means the six (6) month period ending on the last day of the last month prior to the month in which a calculation of Debt Coverage is being made pursuant to Section 5.7(a).

"Capital Expenditure" means any expenditure by a Person for or related to fixed assets or purchased intangibles that is treated as a capital expenditure under GAAP, including any amount that is required to be treated as an asset subject to a Capital Lease Obligation. The amount of Capital Expenditures in respect of fixed assets purchased or constructed by a Person in any fiscal period shall be net of (a) any net sales proceeds received during such fiscal period by such Person for fixed assets sold by such Person and (b) any casualty insurance proceeds received during such fiscal period by such Person for casualties to fixed assets and applied to the repair or replacement thereof.

"Capital Lease Obligations" means all monetary obligations of a Person under any leasing or similar arrangement that, in accordance with GAAP, is classified as a capital lease.

"Cash" means, when used in connection with any Person, all monetary and non-monetary items owned by that Person that are treated as cash in accordance with GAAP.

"Cash Equivalents" means, when used in connection with any Person, such Person's Investments in:

(a) Government Securities, in each case due within one year after the date of the making of such an Investment;

(b) readily marketable direct obligations of any State of the United States of America or any political subdivision of any such State or any public agency or instrumentality thereof given on the date of such Investment a credit rating of at least Aa by Moody's Investors Service, Inc. or AA by Standard & Poor's Corporation, in each case due within one year after the date of the making of such an Investment;

(c) certificates of deposit issued by, bank deposits in, eurodollar deposits through, bankers' acceptances of, and reverse repurchase agreements covering Government Securities executed by, Lender or any other bank, savings and loan or savings bank doing business in and incorporated under the Laws of the United States of America or any State thereof and having on the date of such Investment combined capital, surplus and undivided profits of at least $250,000,000, in each case due within one year after the date of the making of such an Investment;

(d) certificates of deposit issued by, bank deposits in, eurodollar deposits through, bankers' acceptances of, and reverse repurchase agreements covering Government Securities executed by, any branch or office located in the United States of America of a bank incorporated under the Laws of any jurisdiction outside the United States of America having on the date of such Investment combined capital, surplus and undivided profits of at least $500,000,000, in each case due within one year after the date of the making of such an Investment; and

(e) readily marketable commercial paper of corporations doing business in and incorporated under the Laws of the United States of America or any State thereof given on the date of such Investment the highest credit rating by Moody's Investors Service, Inc. and Standard & Poor's Corporation, in each case due within 270 days after the date of the making of such an Investment.

"Change in Control" means an event or series of events by which:

(a) Borrower ceases to be wholly owned by Parent; or

(b) Parent ceases to control the management and day-to-day operations of Borrower.

"Closing Date" means the date upon which the conditions precedent set forth in Section 7.1 are fulfilled or waived by Lenders and the Loan are initially funded.

"Code" means the Internal Revenue Code of 1986, as amended or replaced and as in effect from time to time.

"Collateral" means, collectively, all of the collateral subject to the Liens, or intended to be subject to the Liens, created by the Collateral Documents, whether or not perfected.

"Collateral Documents" means, collectively, the Deed of Trust, this Agreement and any other security agreement, assignment, deed of trust, mortgage or similar instrument now or hereafter executed by any Loan Party to secure the Obligations.

"Commitment" means, as to any Lender, the amount set forth for that Lender in the Schedule of Commitments.

"Compliance Certificate" means a certificate in the form of Exhibit A.

"Contingent Obligation" means, as to any Person, any (a) direct or indirect guarantee of Indebtedness of, or other obligation performable by, any other Person, including any endorsement (other than for collection or deposit in the ordinary course of business), co-making or sale with recourse of the obligations of any other Person or (b) contractual assurance (not arising solely by operation of Law) given to an obligee with respect to the performance of an obligation by, or the financial condition of, any other Person, whether direct, indirect or contingent, including any purchase or repurchase agreement covering such obligation or any collateral security therefor, any agreement to provide funds (by means of loans, capital contributions or otherwise) to such other Person, any agreement to support the solvency or level of any balance sheet item to such other Person, or any other arrangement of whatever nature having the effect of assuring or holding harmless any obligee against loss with respect to any obligation of such other Person including without limitation any "keep-well", "take-or-pay" or "through put" agreement or arrangement. As of each date of determination, the amount of any Contingent Obligation shall be deemed to be an amount equal to the stated or determinable amount of the related primary obligation (unless the Contingent Obligation is limited by its terms to a lesser amount, in which case to the extent of such amount) or, if not stated or determinable, the maximum reasonably anticipated liability in respect thereof as determined by such Person in good faith.

"Contractual Obligation" means, as to any Person, any provision of any outstanding security issued by that Person or of any material agreement, instrument or undertaking to which that Person is a party or by which it or any of its Property is bound.

"DCR Collateral Account" means a deposit account which may be established in the name of Borrower and maintained with East West Bank under the circumstances described in Section 5.7(a).

"Debt Coverage Ratio" means the ratio of (a) Net Operating Income for the Calculation Period to (b) the sum (without duplication) of (i) Interest Charges during the Calculation Period plus (ii) principal payments on all Indebtedness that are required to be made during the Calculation Period; provided, that there shall be excluded from clauses (b) (i) and (b)(ii) all Interest Charges and scheduled principal payments on Indebtedness as to which the lenders' rights to receive payment are expressly subordinated to the right of the Lenders to receive payments of Debt Service and other payments on the Loan.

"Debt Service" means the actual principal and interest payable under the Loan during the applicable Calculation Period.

"Debtor Relief Laws" means the Bankruptcy Code of the United States of America, as amended from time to time, and all other applicable liquidation, conservatorship, bankruptcy, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws from time to time in effect and affecting the rights of creditors generally.

"Deed of Trust" means the Deed of Trust, Assignment of Rents and Fixture Filing of even date herewith executed by Borrower, as Trustor, in favor of Administrative Agent, for the benefit of the Secured Parties, as beneficiary, encumbering the Real Property, either as originally executed or as the same may from time to time be supplemented, modified, amended, renewed, extended or supplanted.

"Default" means any condition or event that, with the giving of any applicable notice or passage of time specified in Section 8.1, or both, would constitute an Event of Default.

"Default Rate" means the interest rate set forth in Section 2.5.

"Defaulting Lender" means a Lender that fails to pay its Pro Rata Share of a an Advance within three (3) Business Days after notice from Administrative Agent, until such Lender cures such failure as permitted in this Agreement.

"Designated Deposit Account" means deposit account number 8003018341 in the name of Borrower and maintained with East West Bank.

"Dollars" or "$" means United States dollars.

"East West Bank" means East West Bank, a California banking corporation.

"Environmental Indemnity" means the Environmental Indemnity of even date herewith by Borrower in favor of Lender, setting forth certain indemnification obligations relating to Hazardous Materials (as defined below), either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"ERISA" means the Employee Retirement Income Security Act of 1974, and any regulations issued pursuant thereto, as amended or replaced and as in effect from time to time.

"ERISA Affiliate" means any Person (whether or not incorporated) that is required to be aggregated with a Borrower pursuant to Section 414 of the Code.

"Eurodollar Principal" means any principal of the Loan as to which interest is accruing at the Eurodollar Rate or at a Default Rate calculated with reference to the Eurodollar Rate.

"Eurodollar Rate" means, with respect to an Interest Period, a per annum rate of interest equal to the greater of (a) Adjusted LIBOR Rate for such Interest Period plus the Applicable Margin, or (b) 4.25%.

"Event of Default" has the meaning specified in Section 8.1.

"Fiscal Quarter" means the fiscal quarter of Borrower consisting of a three-month fiscal period ending on each March 31, June 30, September 30, and December 31.

"Fiscal Year" means the fiscal year of Borrower consisting of a twelve-month fiscal period ending on each December 31.

"GAAP" means generally accepted accounting principles in the United States set forth in the opinions and pronouncements of the Accounting Principles Board and the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or such other principles as may be approved by a significant segment of the accounting profession in the United States, that are applicable to the circumstances as of the date of determination, consistently applied. The term " consistently applied," as used in connection therewith, means that the accounting principles applied are consistent in all material respects to those applied at prior dates or for prior periods.

"Government Securities" means readily marketable direct full faith and credit obligations of the United States of America or obligations unconditionally guaranteed by the full faith and credit of the United States of America.

"Governmental Agency" means (a) any international, foreign, federal, state, county or municipal government, or political subdivision thereof, (b) any governmental or quasi-governmental agency, authority, board, bureau, commission, department, instrumentality or public body, (c) any court, administrative tribunal or public utility, or (d) any arbitration tribunal or other non-governmental authority to whose jurisdiction a Person has consented.

"Hazardous Materials" has the meaning set forth for that term in the Environmental Indemnity.

"Hazardous Materials Laws" has the meaning set forth for that term in the Environmental Indemnity.

"Indebtedness" means, as to any Person (without duplication), (a) indebtedness of such Person for borrowed money or for the deferred purchase price of Property (excluding trade and other accounts payable in the ordinary course of business in accordance with ordinary trade terms), including any Contingent Obligation for any such indebtedness, (b) indebtedness of such Person of the nature described in the foregoing clause (a) that is non-recourse to the credit of such Person but is secured by assets of such Person, to the extent of the fair market value of such assets as determined in good faith by such Person, (c) Capital Lease Obligations of such Person, (d) indebtedness of such Person arising under bankers' acceptance facilities or under facilities for the discount of accounts receivable of such Person, (e) any direct or contingent obligations of such Person under letters of credit issued for the account of such Person, and (f) any net obligations of such Person under written agreements with one or more financial institutions providing for "swap", "cap", "collar" or other interest rate protection with respect to any of the foregoing indebtedness. In no event shall the obligations of any Person in connection with foreign exchange contracts constitute Indebtedness.

"Indemnitee" has the meaning specified in Section 10.9.

"Intangible Assets" means assets that are considered intangible assets under GAAP, including customer lists, goodwill, computer software, copyrights, trade names, trademarks, patents, franchises, licenses, unamortized deferred charges, unamortized debt discount and capitalized research and development costs.

"Interest Charges" means, for any period, with respect to Borrower, the sum of (a) all interest paid or payable (without duplication) for such period by Borrower in connection with any of its funded Indebtedness or in connection with the deferred purchase price of assets,

in each case to the extent treated as “interest expense” in accordance with GAAP and (b) the portion of rent paid or payable (without duplication) for such fiscal period by Borrower under Capital Lease Obligations that should be treated as interest in accordance with Financial Accounting Standards Board Statement No. 13.

“Interest Period” means the period commencing on the day of each calendar month and ending on the last day of such calendar month.

“Investment” means, when used in connection with any Person, any investment by or of that Person, whether by means of purchase or other acquisition of capital stock or other Securities of any other Person or by means of loan, advance, capital contribution, guaranty or other debt or equity participation or interest, or otherwise, in any other Person, including any membership, partnership and joint venture interests of such Person in any other Person. The amount of any Investment shall be the amount actually invested, without adjustment for increases or decreases in the value of such Investment.

“Laws” means, collectively, all international, foreign, federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Agency charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, requests, licenses, authorizations and permits of, and agreements with, any Governmental Agency, in each case whether or not having the force of law.

“Lender” has the meaning specified in the preamble hereto.

“Lender’s Office” means Lender’s address as set forth on the signature pages to this Agreement, or such other address as Lender hereafter may designate by written notice to Borrower.

“LIBOR Rate” means, for any Interest Period, a rate of interest per annum equal to the rate that appears in the “Money Rates” section of the Wall Street Journal as the London interbank offered rate for deposits in US Dollars, for a period of one month, two Business Days prior to the commencement of such Interest Period. If such interest rate shall cease to be available from the Wall Street Journal, the LIBOR Rate shall be determined from such financial reporting service as Administrative Agent shall reasonably determine and use with respect to its other loan facilities on which interest is determined based on the London interbank offered rate. If a London interbank offered rate for deposits in US Dollars for a period of one month becomes unavailable, Administrative Agent shall designate a substitute index that is as closely comparable to the London interbank offered rate for deposits in US Dollars for a period of one month as is reasonably practicable, and shall give notice of such substitution to Borrower and the Lenders.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or other), charge, or preference, priority or other security interest or preferential arrangement in the nature of a security interest of any kind or nature whatsoever (including any conditional sale or other title retention agreement, any easement, right of way or other encumbrance on title to real property, and any financing lease having substantially the same economic effect as any of the foregoing).

"Loan" means the credit committed to be advanced by Lenders to Borrower, subject to the terms and conditions of this Agreement

"Loan Documents" means, collectively, this Agreement, the other Collateral Documents, the Notes, the Parent Guaranty, and any other agreements of any type or nature heretofore or hereafter executed and delivered by Borrower or any of their Affiliates to Administrative Agent in any way relating to or in furtherance of this Agreement (other than Swap Contracts), in each case either as originally executed or as the same may from time to time be supplemented, modified, amended, restated, extended or supplanted.

"Loan Party" means each of Borrower and Parent.

"Loan-to-Value Ratio" means the total committed amount of the Loan divided by the appraised "As-Is" value of the Property. The appraised "As-Is" value of the Property shall be based upon an appraisal prepared by a third-party appraiser acceptable to, and engaged directly by, Administrative Agent. The appraisal shall be satisfactory to the Required Lenders in all respects, and the value of the Property, as determined on the basis of such appraisal, shall be as reviewed, adjusted and approved by the Required Lenders.

"Material Adverse Effect" means any set of circumstances or events which (a) is material and adverse to the condition (financial or otherwise) or business operations of the Loan Parties taken as a whole, (b) materially impairs the ability of any Loan Party to perform its Obligations, (c) has a material, adverse effect on the Lien of any Loan Document or (d) materially impairs the ability of Administrative Agent or any of the Lenders to enforce a material right or remedy as provided in the Loan Documents.

"Maturity Date" means November 30, 2018; provided, however, that if such date is not a Business Day, the Maturity Date shall be the next following Business Day.

"Multiemployer Plan" means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA to which any Borrower or any of its ERISA Affiliates contributes or is obligated to contribute.

"Negative Pledge" means a Contractual Obligation that contains a covenant binding on Borrower that prohibits Liens on any of such entity's Property, other than (a) any such covenant contained in a Contractual Obligation granting or relating to a particular Lien which affects only the Property that is the subject of such Lien and (b) any such covenant that does not apply to Liens securing the Obligations, and (c) customary permitted junior Liens to be agreed upon by Borrower and Lender.

"Net Operating Income" means, for any period, the difference between Operating Expenses and Operating Revenue.

"Notes" and "Notes" have the meanings specified in Section 2.1.

"Obligations" means all present and future obligations of every kind or nature of Borrower or any other Loan Party at any time and from time to time owed to (i) Administrative Agent or Lenders or any one or more of them under any one or more of the Loan Documents, or (ii) any Swap Counterparty in connection with any Swap Transaction, in each case whether due or to become due, matured or unmatured, liquidated or unliquidated, or contingent or noncontingent, including obligations of performance as well as obligations of payment, and including interest that accrues after the commencement of any proceeding under any Debtor Relief Law by or against Borrower or any Affiliate of Borrower.

"Operating Expenses" means, with respect to any period of time, the total of all expenses actually paid or payable during such period, of whatever kind relating to the ownership, operation, maintenance or management of the Property, including (without duplication) Interest Charges and principal payments on all Indebtedness (including, without limitation, Capital Lease Obligations) other than Debt Service, costs of utilities, costs of ordinary repairs and maintenance, insurance premiums, ground rents (if any), license fees, Taxes (including payroll and related taxes with respect to employees of Borrower, but excluding income taxes), advertising expenses, management fees actually paid under any management agreement, operational equipment or other lease payments as reasonably approved by Administrative Agent, but specifically excluding depreciation and amortization, income taxes, Debt Service, any item of expense that would otherwise be covered by the provisions hereof but which is paid by any tenant under such tenant's Lease or other agreement provided such reimbursement by tenant is not included in the calculation of Operating Revenue. Operating Expenses shall be subject to appropriate seasonal and other adjustments in Lender's reasonable discretion.

"Operating Revenue" means, with respect to any period of time, all revenue actually received from the ownership and operation of the Property from whatever source during such period (including rents from any affiliate of Borrower or Parent leasing space in the Property but otherwise excluding any source affiliated with Borrower or Parent), including rents, utility charges, escalations, service fees or charges, license fees, parking fees, and other required pass-throughs, but excluding proceeds of sales of furniture, fixtures and equipment (except to the extent such sale proceeds offset amounts included in Operating Expenses for costs of acquiring furniture, fixtures and equipment), condemnation awards, insurance proceeds (other than business interruption or other loss of income insurance), unforfeited security deposits, utility and other similar deposits, and non-recurring or extraordinary income, including lease termination payments; provided, however, lease termination payments shall be included in Operating Revenue (i) if and to the extent held in reserve to offset amounts included in Operating Expenses consisting of leasing commissions or tenant improvements, and (ii) if delivered to Lender and held in reserve by Lender, as rents received with respect to the terminated lease amortized over the remaining term of such terminated lease and applied to Operating Expenses for the applicable Calculation Period. No credit to Operating Revenue shall be given with respect to free rent periods, rent concessions and rent credits. Operating Revenue shall be subject to appropriate and reasonable seasonal and other adjustments by Administrative Agent.

"Opinion of Counsel" means the favorable written legal opinion of Boutin Jones Inc., counsel to Borrower and Parent, together with copies of all factual certificates and legal opinions upon which such counsel has relied.

"Pacific Time" means the prevailing time in Los Angeles, California.

"Parent" means Molina Healthcare, Inc., a Delaware corporation.

"Parent Credit Facility" means that certain Credit Agreement executed by US Bank National Association as Administrative Agent, Lead Arranger and Sole Book Runner, by City National Bank and Union Bank, N.A., as Co-Syndication Agents, and by U.S. Bank National Association, City National Bank, Union Bank, N.A., BMO Harris Bank, N.A., East West Bank, BOKF, NA dba Bank of Albuquerque, Santa Barbara Bank & Trust, Land Bank of Taiwan, Los Angeles Branch and Hua Nan Commercial Bank Ltd., Los Angeles Branch, as lenders and Parent as borrower, dated as of September 9, 2011, as amended from time to time.

"Parent Guaranty" means the Guaranty of even date herewith by Parent in favor of Lender, either as originally executed or as it may from time to time be supplemented, modified, amended, restated or extended.

"PBGC" means the Pension Benefit Guaranty Corporation or any successor thereof established under ERISA.

"Pension Plan" means any "employee pension benefit plan" (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, which is subject to Title IV of ERISA and is maintained by any Borrower or to which any Borrower contributes or has an obligation to contribute.

"Permit" means any permit, approval, authorization, license, accreditation, certification, provider or supplier number, registration, certificate of authority, certificate of need, certificate of reimbursement, variance, qualification, filing or consent required under applicable Laws.

"Permitted Encumbrances" means:

(a) inchoate Liens incident to construction or maintenance of Property, or Liens incident to construction or maintenance of Property, now or hereafter filed of record for which adequate accounting reserves have been set aside (or deposits made pursuant to applicable Laws) and which are being contested in good faith by appropriate proceedings and have not proceeded to judgment; provided that, by reason of nonpayment of the obligations secured by such Liens, no such Property is subject to a material impending risk of loss or forfeiture, as reasonably determined by Administrative Agent;

(b) Liens for taxes and assessments on Property which are not yet past due, or Liens for taxes and assessments on Property for which adequate reserves have been set aside and are being contested in good faith by appropriate proceedings and have not proceeded to judgment; provided that, by reason of nonpayment of the obligations secured by such Liens, no such Property is subject to a material impending risk of loss or forfeiture, as reasonably determined by Administrative Agent;

(c) defects and irregularities in title to any Property which in the aggregate do not materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held;

(d) easements, exceptions, reservations, or other agreements that: (i) exist on the date hereof and are described in the ALTA lender's title insurance policy issued by the Title Company in connection with this Agreement; (ii) are granted by Borrower after the date hereof for the purpose of pipelines, conduits, cables, wire communication lines, power lines and substations, streets, trails, walkways, drainage, irrigation, water, and sewerage purposes, dikes, canals, ditches, the removal of oil, gas, coal, or other minerals, and other like purposes affecting Property which in the aggregate do not materially burden or impair the fair market value or use of such Property for the purposes for which it is or may reasonably be expected to be held; or (iii) are granted by Borrower after the date hereof for the purpose of facilitating the joint or common use of Property in or adjacent to a shopping center or similar project affecting Property which in the aggregate do not materially burden or impair the fair market value or use of such Property for the purposes for which it is or may reasonably be expected to be held;

(e) rights reserved to or vested in any Governmental Agency to control or regulate, or obligations or duties to any Governmental Agency with respect to, the use of any Property;

(f) rights reserved to or vested in any Governmental Agency to control or regulate, or obligations or duties to any Governmental Agency with respect to, any right, power, franchise, grant, license, or permit;

(g) present or future zoning laws and ordinances or other laws and ordinances restricting the occupancy, use, or enjoyment of Property;

(h) statutory Liens, other than those described in clauses (a) or (b) above, arising in the ordinary course of business with respect to obligations which are not delinquent or are being contested in good faith; provided that, if delinquent, adequate reserves have been set aside with respect thereto and, by reason of nonpayment, no Property is subject to a material impending risk of loss or forfeiture;

(i) covenants, conditions, and restrictions affecting the use of Property that: (i) exist on the date hereof and are described in the ALTA lender's title insurance policy issued by the Title Company in connection with this Agreement; or (ii) arise after the date hereof and in the aggregate do not materially impair the fair market value or use of the Property for the purposes for which it is or may reasonably be expected to be held;

(j) rights of tenants under leases and rental agreements covering Property entered into in the ordinary course of business of the Person owning such Property;

(k) Liens consisting of pledges or deposits to secure obligations under workers' compensation laws or similar legislation, including Liens of judgments thereunder which are not currently dischargeable;

(l) Liens consisting of pledges or deposits of Property to secure performance in connection with operating leases made in the ordinary course of business; provided that the aggregate value of all such pledges and deposits in connection with any such lease does not at any time exceed 20% of the annual fixed rentals payable under such lease;

(m) Liens consisting of deposits of Property to secure statutory obligations of Borrower or any Subsidiary of Borrower in the ordinary course of its business;

(n) Liens consisting of deposits of Property to secure (or in lieu of) surety, appeal or customs bonds; and

(o) Liens created by or resulting from any litigation or legal proceeding in the ordinary course of business which is currently being contested in good faith by appropriate proceedings; provided that, adequate reserves have been set aside and no material Property is subject to a material impending risk of loss or forfeiture.

"Person" means any entity, whether an individual, trustee, corporation, general partnership, limited liability company, limited partnership, joint stock company, trust, estate, unincorporated organization, business association, tribe, firm, joint venture, Governmental Agency, or otherwise.

"Property" means any interest in any kind of property or asset, whether real, personal or mixed, or tangible or intangible, including any leasehold interest or fixtures.

"Pro Rata Share" means, with respect to each Lender, a fraction in which that Lender's Commitment is the numerator and the Total Commitment is the denominator.

"Real Property" means, collectively, the real property described in the Deed of Trust.

"Regulation T" means Regulation T, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulation in substance substituted therefor.

"Regulation U" means Regulation U, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulation in substance substituted therefor.

"Regulation X" means Regulation X, as at any time amended, of the Board of Governors of the Federal Reserve System, or any other regulation in substance substituted therefor.

"Replacement Reserve Account" means deposit account number 8003018317 in the name of Borrower and maintained with East West Bank.

"Required Lenders" means, as of any date of determination, either (a) East West Bank and other Lenders who, together with East West Bank, hold more than 50% of the aggregate Commitments of Lenders (other than Commitments held by Defaulting Lenders), or (b) all of the Lenders (other than Defaulting Lenders) other than East West Bank.

"Requirement of Law" means, as to any Person, the certificate of organization, articles or certificate of incorporation and bylaws, the partnership agreement and any related certificate of partnership, or other organizational or governing documents of such Person, and any Law, or judgment, award, decree, writ or determination of a Governmental Agency, in each case applicable to or binding upon such Person or any of its Property or to which such Person or any of its Property is subject.

"Responsible Officer" means chief executive officer, president, chief financial officer, treasurer, assistant treasurer or controller of the Person designated and, solely for purposes of the delivery of incumbency certificates pursuant to Section 7.1, the secretary or any assistant secretary of the Person designated. Any document delivered hereunder that is signed by a Responsible Officer of a Loan Party shall be conclusively presumed to have been authorized by all necessary corporate, partnership or other action on the part of such Loan Party and such Responsible Officer shall be conclusively presumed to have acted on behalf of such Loan Party.

"Schedule of Commitments" means the Schedule of Commitments of all of the Lenders; the initial Schedule of Commitments is attached hereto as Schedule 1.1(b), and the Schedule of Commitments shall be adjusted whenever a Lender withdraws or is added.

"Secured Parties" means, collectively, the Administrative Agent (for the benefit of the Lenders and the Swap Counterparties) and the Swap Counterparties.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board of Governors of the Federal Reserve System with respect to the Adjusted LIBOR Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board of Governors of the Federal Reserve System). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency fundings and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Subsidiary" of a Person means a corporation, partnership, joint venture, limited liability company or other business entity of which a majority of the shares of securities or other interests having ordinary voting power for the election of directors or other governing body (other than securities or interests having such power only by reason of the happening of a contingency) are at the time beneficially owned, or the management of which is otherwise controlled, directly, or indirectly through one or more intermediaries, or both, by such Person.

"Swap Contract" means any agreement, whether or not in writing, relating to any Swap Transaction, including, unless the context otherwise clearly requires, any form of master agreement (the " Master Agreement") published by the International Swaps and Derivatives Association, Inc., or any other master agreement, entered into prior to the date hereof or any time after the date hereof, between Swap Counterparty and Borrower (or its Affiliate), together with any related schedule and confirmation, as amended, supplemented, superseded or replaced from time to time.

"Swap Counterparty" means any Lender, or an Affiliate of Administrative Agent, in its capacity as counterparty under any Swap Contract; provided that if any Lender that is a counterparty to a Swap Contract shall cease to be a Lender, such entity (or its Affiliate, as the case may be) shall nevertheless remain a Swap Party for so long as it is a counterparty under such Swap Contract.

"Swap Transaction" means any transaction that is a rate swap, basis swap, forward rate transaction, commodity swap, commodity option, equity or equity index swap or option, bond option, note or bill option, interest rate option, forward foreign exchange transaction, cap transaction, collar transaction, floor transaction, currency swap transaction, cross-currency rate swap transaction, swap option, currency option, credit swap or default transaction, T-lock, or any other similar transaction (including any option to enter into the foregoing) or any combination of the foregoing, entered into prior to the date hereof or anytime after the date hereof between Swap Counterparty and Borrower (or its Affiliate) so long as a writing, such as a Swap Contract, evidences the parties' intent that Borrower's obligations arising under such transaction shall be secured by the Deed of Trust or are obligations of Borrower under a Swap Transaction hereunder.

"Taxes" means any and all present and future taxes, levies, imposts, duties, fees, deductions, withholdings or charges of a similar nature imposed or assessed by any Authority or taxing authority thereof, together with any interest thereon and any penalties with respect thereto.

"Title Company" means First American Title Insurance Company.

"Total Commitment" means the aggregate amount of credit that Borrower may obtain, at any one time under this Agreement, which amount shall not exceed $48,600,000,000.

"UCC" means the California Uniform Commercial Code, as amended from time to time.

1.2 Use of Defined Terms. Any defined term used in the plural shall refer to all members of the relevant class, and any defined term used in the singular shall refer to any one or more of the members of the relevant class.

1.3 Accounting Terms. All accounting terms not specifically defined in this Agreement shall be construed in conformity with, and all financial data required to be submitted by this Agreement shall be prepared in conformity with, GAAP applied on a consistent basis, except as otherwise specifically prescribed herein. In the event that GAAP changes during the term of this Agreement such that the financial covenants contained in ARTICLE 5 would then be calculated in a different manner or with different components, (a) Borrower and Lender agree to amend this Agreement in such respects as are necessary to conform those covenants as criteria for evaluating Borrower' financial condition to substantially the same criteria as were effective

prior to such change in GAAP and (b) Borrower shall be deemed to be in compliance with the financial covenants contained in ARTICLE 5 during the 60-day period following any such change in GAAP if and to the extent that Borrower would have been in compliance therewith under GAAP as in effect immediately prior to such change.

1.4 Rounding. Any financial ratios required to be maintained by Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed in this Agreement and rounding the result up or down to the nearest number (with a round-up if there is no nearest number) to the number of places by which such ratio is expressed in this Agreement.

1.5 Exhibits and Schedules. All Exhibits and Schedules to this Agreement, either as originally existing or as the same may from time to time be supplemented, modified or amended, are incorporated herein by this reference. A matter disclosed on any Schedule shall be deemed disclosed on all Schedules.

1.6 Miscellaneous Terms. The term "or" is disjunctive; the term "and" is conjunctive. The term "shall" is mandatory; the term "may" is permissive. Masculine terms also apply to females; feminine terms also apply to males. The term "including" is by way of example and not limitation. The words "herein," "hereto," "hereof" and "hereunder" and words of similar import when used in any Loan Document shall refer to such Loan Document as a whole and not to any particular provision thereof. Article, Section, Exhibit and Schedule references are to the Loan Document in which such reference appears. The term "documents" includes any and all instruments, documents, agreements, certificates, notices, reports, financial statements and other writings, however evidenced, whether in physical or electronic form. In the computation of periods of time from a specified date to a later specified date, the word "from" means "from and including"; the words "to" and "until" each mean "to but excluding"; and the word "through" means "to and including."

ARTICLE 2
CREDIT FACILITY

2.1 Amount and Terms of Loan. Subject to the terms and conditions set forth in this Agreement, each Lender shall advance to Borrower, within one (1) Business Day after satisfaction of the conditions in Section 7.1, its Pro Rata Share of Advances of principal of the Loan and shall advance to Administrative Agent, within two Business Days after demand therefor by Administrative Agent, its Pro Rata Share of Administrative Agent Advances. The total amount of Advances of principal of the Loan shall not exceed $48,600,000. The principal of the Loan shall be disbursed to Borrower by the Lenders as follows:

(a) $48,300,000 will be disbursed to Borrower in a single Advance on the Closing Date; and

(b) $300,000 will be disbursed into the Replacement Reserve Account on the Closing Date. Borrower shall have the right to withdraw funds from the Replacement Reserve Account monthly, within five (5) Business Days days after delivery by Borrower to Administrative Agent of a requisition therefor, together with evidence reasonably satisfactory to Administrative Agent that Borrower has incurred costs during the previous calendar month in connection with performance of the deferred maintenance items listed on the property inspection report prepared by Marx Okubo Associates, Inc., and dated October 14, 2011 that are at least equal to the amount requisitioned .

If all or any portion of the Loan is prepaid or repaid at any time, it may not be reborrowed. The obligation of Borrower to repay the Loan, and interest accrued thereon, shall be evidenced by the Promissory Notes of even date herewith made by Borrower to the order of each Lender (collectively, the " Notes," and each a "Note"). The liabilities and obligations of each Lender hereunder shall be several and not joint, and neither Administrative Agent nor any Lender shall be responsible for the performance by any other Lender of its obligations hereunder.

2.2 Interest. Subject to the provisions of Section 2.5, the outstanding principal amount of the Loan shall bear interest, computed on the basis of a year of 360 days and the actual number of days elapsed, as follows:

(a) from the date of closing of the Loan through December 31, 2011, at the rate of 4.25% per annum; and

(b) for each Interest Period commencing with the Interest Period that commences on January 1, 2012, at the Eurodollar Rate applicable to such Interest Period.

2.3 Amortization of Loan. Borrower shall repay principal and interest on the Loan on the first day of each month (commencing January 1, 2012 and continuing through November 1, 2018) in an aggregate monthly amount as follows:

(a) The payment due in January, 2012 shall be $264,966.49;

(b) The payment due on the first day of each subsequent month shall be the payment that would be required in such month in order to fully amortize the principal of the Loan that is outstanding immediately following receipt and application of the payment for the immediately preceding month in equal monthly combined payments of principal and interest, with interest at the Eurodollar Rate applicable as of the first day of the immediately preceding month, over the portion of a 25-year period commencing January 1, 2012 that remains as of the first day of the immediately preceding month; and

(c) The entire unpaid balance of the Loan shall be paid in full by Borrower on the Maturity Date.

Administrative Agent will deliver to Borrower during each month a payment invoice stating the Eurodollar Rate in effect for such month, the balance of principal outstanding and the payment required pursuant to Section 2.3(b) on the first day of the next month.

Prior to the occurrence of an Event of Default, each such payment shall be applied first to accrued interest and then to principal. Notwithstanding anything to the contrary contained herein, the Loan may be prepaid from time to time in accordance with Section 2.3. Any prepayments hereunder will be in addition to any scheduled payments and shall be applied in inverse order of maturity.

2.4 Prepayments.

(a) In the event of the payment of any Eurodollar Principal other than on the last day of an Interest Period applicable thereto (including as a result of a Default), Borrower shall compensate Lender for the loss, cost and expense attributable to such payment. Such loss, cost or expense to Lender shall be deemed to include an amount determined by Lender to be the excess, if any, of (i) the amount of interest which would have accrued on such Eurodollar Principal had such payment not occurred, at the Adjusted LIBOR Rate that would have been applicable to such Eurodollar Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Eurodollar Principal), over (ii) the amount of interest which would accrue on such Eurodollar Principal for such period at the interest rate which Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the eurodollar market. A certificate of Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section and the basis for such calculation shall be delivered to Borrower and shall be conclusive absent manifest error. Borrower shall pay Lender the amount shown as due on any such certificate within ten (10) Business Days after receipt thereof. Nothing contained herein shall affect any breakage costs or premiums due under any Swap Agreement.

(b) Upon prepayment of the balance of the Loan at any time and for any reason other than at the end of an Interest Period, Borrower shall be obligated to pay the applicable amounts provided for in Section 2.4, whether such prepayment is made or occurs (i) as the result of a voluntary acceptance by Lender of a prepayment tendered by Borrower; (ii) by acceleration as a result of a Default by Borrower; (iii) in connection with any reinstatement of the Loan under any foreclosure proceedings or in connection with the purchase of the property at a foreclosure sale; or (iv) in connection with any right of redemption exercised by Borrower or any other party having the right to redeem or prevent any foreclosure of the Deed of Trust.

(c) Prepayments shall not relieve Borrower of its obligations to continue to make payments under the payment schedule. Rather, prepayments shall reduce the principal balance due on the Loan and may result in Borrower's making fewer payments with respect thereto. Borrower agrees not to send Lenders payments marked "paid in full", "without recourse", or similar language. If Borrower send such a payment, any Lender may accept it without losing any of that Lender's rights under this Agreement, and Borrower shall remain obligated to pay any further amounts owing to that Lender.

2.5 Default Rate. Upon the occurrence and during the continuance of any Event of Default, the outstanding principal amount of the Loan shall, at the option of Lender, thereafter bear interest, payable by Borrower in the manner and at the times provided in this Agreement and the Notes, at a rate per annum which is 5.00% per annum higher than the otherwise applicable rate, to the fullest extent permitted by applicable Laws (the " Default Rate").

2.6 Loan Fee. On the Closing Date, Borrower shall pay to Administrative Agent a loan fee in the amount of $486,000. Such loan fee shall be paid to Administrative Agent at Administrative Agent's Office, and shall be distributed among the Lenders as of the Closing Date in accordance with their respective Pro Rata Shares.

2.7 Agency Fee. On the Closing Date, Borrower shall pay to Administrative Agent an agency fee pursuant to a separate letter agreement between Borrower and Administrative Agent.

2.8 Non-Business Days. If any payment to be made by Borrower or any other Loan Party under any Loan Document shall come due on a day other than a Business Day, payment shall instead be considered due on the next succeeding Business Day and the extension of time shall be reflected in computing interest.

2.9 Manner and Treatment of Payments. All payments to be made by Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. Except as otherwise expressly provided herein, each payment hereunder or on the Notes or under any other Loan Document shall be made to Administrative Agent at Administrative Agent's Office in immediately available funds not later than 11:00 a.m., Pacific Time, on the day of payment specified herein (which must be a Business Day). All payments received after 11:00 a.m., Pacific Time, on any particular Business Day, shall be deemed received on the next succeeding Business Day, and such extension of time shall be reflected in computing interest or fees, as the case may be. All payments shall be made in lawful money of the United States of America.

2.10 Authorization to Debit Account. Borrower authorizes Administrative Agent to debit the Designated Deposit Account to effectuate payment of amounts due and payable to Administrative Agent and the Lenders under this Agreement. Any resulting overdraft in the Designated Deposit Account shall be payable on the next following Business Day.

2.11 Funding Source. Nothing in this Agreement shall be deemed to obligate any Lender to obtain the funds for the Loan in any particular place or manner or to constitute a representation by such Lender that it has obtained or will obtain the funds for the Loan in any particular place or manner.

2.12 [Intentionally Deleted].

2.13 Collateral. The Loan, together with all other Obligations, shall be secured by the Liens created by the Collateral Documents.

2.14 Increased Loan Costs. If any Lender shall have determined that the introduction of any applicable Law, rule, regulation or guideline regarding capital adequacy, or any change therein or any change in the interpretation or administration thereof by any central bank or other Governmental Agency charged with the interpretation or administration thereof, or compliance by such Lender or any corporation controlling such Lender, with any request, guidelines or directive regarding capital adequacy (whether or not having the force of Law) of any such central bank or other authority, affects or would affect the amount of capital required or expected to be maintained by such Lender or any corporation controlling such Lender and (taking into consideration such Lender's or such corporation's policies with respect to capital adequacy), determines that the amount of such capital is increased as a consequence of its obligations under this Agreement, then, within five (5) Business Days after delivery to Borrower of a statement setting forth the amount for which Borrower is responsible hereunder, and the basis of calculation of such amount, Borrower shall pay to such Lender (an " Affected Lender") such amounts sufficient to compensate such Lender for such increase. If an Affected Lender requires payment by Borrower of any amount pursuant to this Section 2.14, Borrower shall be obligated to pay such amount, but shall have the right, exercisable at any time within ninety (90) days after its payment of such amount, to pay off the entire portion of the Loan held by such Affected Lender. Borrower shall not be obligated to pay any premium or penalty, but shall be obligated to pay any amounts that are payable pursuant to Section 2.4, and pursuant to any Swap Contract, in connection with such payoff. Any payoff made pursuant to this Section 2.14 shall be distributed solely to the Affected Lender, and not to other Lenders, by Administrative Agent.

2.15 Swap Contracts. Borrower shall have the right to enter into a Swap Contract with respect to the Loan with any one or more of the Lenders, or with Affiliates of any one or more of the Lenders, provided that Administrative Agent gives its prior written consent to such Swap Contract, which consent shall not be unreasonably withheld. Borrower shall not enter into any Swap Contract or Swap Transaction with any Swap Counterparty that is not a Lender, or an Affiliate of a Lender. No Swap Contract with respect to the Loan shall have a term that extends beyond the Maturity Date.

ARTICLE 3
REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants to Administrative Agent and each Lender that:

3.1 Existence and Qualification; Power; Compliance with Laws . Borrower is duly formed, validly existing and in good standing under the Laws of Delaware. Parent is duly formed, validly existing and in good standing under the Laws of Delaware. Each of Borrower and Parent is duly qualified or registered to transact business, and is in good standing, in California and each other jurisdiction in which the conduct of its business or the ownership or leasing of its Properties makes such qualification or registration necessary. Each of Borrower and Parent has all requisite power and authority to conduct its business, to own and lease its Property, to execute and deliver each Loan Document to which it is a party, and to perform the Obligations to be performed by it. As of the Closing Date, the chief executive offices of each of Borrower and Parent are located at the respective addresses set forth for notices in the signature pages to this Agreement. Borrower (a) is in compliance with all Laws and other legal requirements applicable to its business, (b) has obtained from each applicable Governmental Agency all authorizations, consents, approvals, orders, licenses and permits that are necessary for the transaction of its businesses, (c) has accomplished with each applicable Governmental Agency all filings, registrations and qualifications that are necessary for the transaction of its businesses, or (d) obtained from each applicable Governmental Agency exemptions from any of the items described in the foregoing clauses (b) and (c), as necessary for the transaction of its businesses.

3.2 Authority; Compliance with Other Agreements and Instruments and Government Regulations . The execution, delivery and performance by each Loan Party of the Loan Documents to which it is a party have been duly authorized by all necessary corporate action, and do not:

(a) require any consent or approval not heretofore obtained of any equity holder, security holder or creditor of such Loan Party;

(b) violate or conflict with any provision of such Loan Party’s limited liability company agreement, charter, partnership agreement, articles of incorporation or bylaws, as applicable;

(c) result in or require the creation or imposition of any Lien (other than pursuant to the Collateral Documents) upon or with respect to any Property now owned or leased or hereafter acquired by such Loan Party;

(d) violate any Requirement of Law applicable to such Loan Party;

(e) constitute a “transfer of an interest” or an “obligation incurred” that is avoidable by a trustee under Section 548 of the Bankruptcy Code of 1978, as amended, or constitute a “fraudulent conveyance,” “fraudulent obligation” or “fraudulent transfer” within the meanings of the Uniform Fraudulent Conveyances Act or Uniform Fraudulent Transfer Act, as enacted in any applicable jurisdiction; and

(f) result in a breach of or default under, or would, with the giving of notice or the lapse of time or both, constitute a breach of or default under, or cause or permit the acceleration of any obligation owed under, any indenture or loan or credit agreement or any other Contractual Obligation to which such Loan Party is a party or by which such Loan Party or any of its Property is bound or affected.

(g) Neither Borrower nor Parent is in material violation of, or material default under, any Requirement of Law, Contractual Obligation, or any indenture, loan or credit agreement.

3.3 No Governmental Approvals Required. Except as set forth in Schedule 3.3, no authorization, consent, approval, order, license or permit from, or filing, registration or qualification with, any Governmental Agency is required to authorize or permit under applicable Laws the execution, delivery and performance by each Loan Party of the Loan Documents to which it is a party.

3.4 Operation of Property. Borrower has obtained all material Permits from each Governmental Agency and other Person, and made all required or appropriate filings, that are necessary for Borrower to own its assets, to carry on its business (without interruption or restriction), and to execute, deliver and perform the Loan Documents to which it is a party. Borrower has not been notified by any Governmental Agency or other Person during the immediately preceding 24-month period that such Governmental Agency or Person has rescinded, imposed any limitation or restriction upon, or not renewed, or intends to rescind, impose any limitation or restriction upon or not renew, any such Permit.

3.5 [Intentionally Deleted]

3.6 [Intentionally Deleted]

3.7 Title to Property. As of the Closing, Borrower will have good and valid title to all the Property (other than assets which are the subject of a Capital Lease Obligation) free and clear of all Liens, other than Permitted Encumbrances.

3.8 Intangible Assets. Borrower owns, or possesses the right to use to the extent necessary in its business, all trademarks, trade names, copyrights, patents, patent rights, computer software, licenses and other Intangible Assets that are used in the conduct of its business as now operated and which are material to the condition (financial or otherwise), business or operations of Borrower, and no such Intangible Asset, to the best knowledge of Borrower, conflicts with the valid trademark, trade name, copyright, patent, patent right or Intangible Asset of any other Person to the extent that such conflict constitutes a Material Adverse Effect.

3.9 Litigation. Except for (a) any matter fully covered (subject to applicable deductibles and retentions) by insurance and with respect to which the insurance carrier has not denied coverage, nor issued any denial of claim, nor any other statement that the claim is in excess of coverage, and (b) any matter, or series of related matters, not fully covered by insurance (subject to applicable deductibles and retentions) involving a claim against Borrower or Parent which is, in the reasonable opinion of Borrower’s or Parent’s legal counsel, in an

amount less than $100,000, as of the Closing Date, there are no actions, suits, proceedings or investigations pending as to which Borrower has been served or has received notice or, to the best knowledge of Borrower, threatened against or affecting Borrower or Parent or their respective properties before any Governmental Agency. As of the Closing Date, there is no reasonable basis for any action, suit, proceeding or investigation against or affecting Borrower or Parent or any of their respective properties before any Governmental Agency which would constitute a Material Adverse Effect.

3.10 Binding Obligations. Each of the Loan Documents to which the Loan Parties are parties, when executed and delivered by such Loan Parties, will constitute the legal, valid and binding obligation of such Loan Parties, enforceable against such Loan Parties in accordance with its terms, except as enforcement may be limited by Debtor Relief Laws or equitable principles relating to the granting of specific performance and other equitable remedies as a matter of judicial discretion.

3.11 No Default. No event has occurred and is continuing that is a Default or an Event of Default.

3.12 ERISA. Neither Borrower nor Parent maintains a Pension Plan.

3.13 Regulations T, U and X; Investment Company Act. No part of the proceeds of the Loan will be used to purchase or carry, or to extend credit to others for the purpose of purchasing or carrying, any "margin stock" (as such term is defined in Regulations U and X) or will otherwise be used in violation of Regulations T, U and X. None of the Loan Parties are engaged principally, or as one of their important activities, in the business of extending credit for the purpose of purchasing or carrying any such "margin stock." None of the Loan Parties are required to be registered as an "investment company" under the Investment Company Act of 1940.

3.14 Disclosure. No written statement made by any Loan Party to Administrative Agent in connection with this Agreement, or in connection with the Loan, contains any untrue statement of a material fact or omits a material fact necessary in order to make the statement made not misleading in light of all the circumstances existing at the date the statement was made.

3.15 Tax Liability. The Loan Parties have filed all tax returns which are required to be filed, and have paid, or made provision for the payment of, all taxes with respect to the periods, Property or transactions covered by said returns, or pursuant to any assessment received by the Loan Parties, except such taxes, if any, as are being contested in good faith by appropriate proceedings and as to which adequate reserves have been established and maintained.

3.16 [Intentionally Deleted].

3.17 Hazardous Materials. Borrower has not at any time disposed of, discharged, released or threatened the release of any Hazardous Materials on, from or under the Real Property in violation of any Hazardous Materials Law. To the best knowledge of Borrower, no condition exists that violates any Hazardous Material Law affecting the Real Property, except as described in Schedule 3.17. No portion of the Real Property is or has been utilized by any Loan Party as a site for the manufacture of any Hazardous Materials. To the extent that any Hazardous

Materials are used, generated or stored by any Loan Party or any of its Subsidiaries on the Real Property, or transported to or from the Real Property by any Loan Party or any of its Subsidiaries, such use, generation, storage and transportation are in compliance with all Hazardous Materials Laws.

3.18 Regulatory and Legal Compliance. Borrower is in compliance in all material respects with all applicable Laws. Borrower has not received any notice from any Governmental Agency or any other Person of any alleged violation or noncompliance with any such Laws.

ARTICLE 4
AFFIRMATIVE COVENANTS
(OTHER THAN INFORMATION AND
REPORTING REQUIREMENTS)

So long as the Loan remains unpaid, or any other Obligation remains unpaid or unperformed, Borrower shall, unless Administrative Agent otherwise consents:

4.1 Payment of Taxes and Other Potential Liens. Pay and discharge promptly all taxes, assessments and governmental charges or levies imposed upon Borrower or its Property or any part thereof and upon its respective income or profits or any part thereof, except that Borrower shall not be required to pay or cause to be paid any tax, assessment, charge or levy that is not yet past due, or is being contested in good faith by appropriate proceedings so long as Borrower has established and maintains adequate reserves for the payment of the same.

4.2 Preservation of Existence. Preserve and maintain its existence as a California limited liability company and all material authorizations, rights, franchises, privileges, consents, approvals, orders, licenses, permits, or registrations from any Governmental Agency that are necessary for the transaction of its business and qualify and remain qualified to transact business in each jurisdiction in which such qualification is necessary in view of its business or the ownership or leasing of its Property.

4.3 Single Purpose Entity. At all times be a limited liability company that: (a) is formed or organized solely for the purpose of holding a direct ownership interest in the Collateral; (b) does not engage in any business other than the ownership, management and operation of the Collateral; (c) does not have any assets other than its interest in the Collateral; (d) does not have any Indebtedness other than that expressly permitted by this Agreement; (e) maintains books and records, and keeps accounts, separate and distinct from the books and records and accounts of any other Person; (f) is subject to all of the limitations on powers set forth in the organizational documents of Borrower in effect on the date of this Agreement; (g) holds itself out as being a Person and a legal entity separate and distinct from any other Person; (h) does not make any loans or advances to any other Person; and (i) maintains adequate capital for the normal obligations reasonably foreseeable in a business of its size and character.

4.4 Maintenance of Properties. Maintain, preserve and protect all of its Property in good order and condition, subject to wear and tear in the ordinary course of business, and not permit any waste of its property, except that (a) the failure to maintain, preserve and protect a particular item of Property that is at the end of its useful life or that is not of significant value, either intrinsically or to the operations of Borrower, shall not constitute a violation of this covenant and (b) the failure to repair damage to any portion of its Property resulting from a casualty that generates payment of insurance proceeds, which insurance proceeds are not permitted by Administrative Agent to be applied to payment of costs of repair to such portion of such Property pursuant to Section 2.12 of the Deed of Trust, shall not constitute a violation of this covenant so long as Borrower restores the remaining portion of such Property to a safe and operational condition.

4.5 Maintenance of Insurance. Maintain liability, casualty and other insurance as required by Section 2.11 of the Deed of Trust.

4.6 Compliance With Laws. Comply in all material respects with all Requirements of Laws, except that the Loan Parties and their Subsidiaries need not comply with a Requirement of Law then being contested by any of them in good faith by appropriate proceeding.

4.7 Inspection Rights. Upon reasonable notice, at any time during regular business hours and as often as reasonably requested (but not so as to materially interfere with the business of Borrower or any of their Subsidiaries) permit Administrative Agent, or any authorized employee or representative thereof, to examine, audit and make copies and abstracts from the records and books of account of Borrower, to visit and inspect the Real Property, and to discuss the affairs, finances and accounts of Borrower with any of their officers, key employees or accountants.

4.8 Keeping of Records and Books of Account. Keep adequate records and books of account reflecting all financial transactions in conformity with GAAP and in material conformity with all applicable requirements of any Governmental Agency having regulatory jurisdiction over the Borrower.

4.9 Compliance With Agreements. Promptly and fully comply with all Contractual Obligations under all material agreements, indentures, leases or instruments to which Borrower is a party.

4.10 Use of Proceeds. Use the proceeds of the Loan to finance Borrower's purchase of the Real Property.

4.11 Hazardous Materials Laws. Keep and maintain the Real Property and each portion thereof in compliance in all material respects with all Hazardous Materials Laws and promptly advise Administrative Agent in writing of (a) any and all enforcement, cleanup, removal or other governmental or regulatory actions instituted, completed or threatened in writing pursuant to any applicable Hazardous Materials Laws, (b) any and all claims made or threatened in writing by any third party against Borrower or the Real Property relating to damage, contribution, cost recovery, compensation, loss or injury resulting from any Hazardous Materials and (c) discovery by a Responsible Officer of Borrower of any occurrence or condition on any real property adjoining or in the vicinity of the Real Property that could reasonably be expected to cause the Real Property or any part thereof to be subject to any restrictions on the ownership, occupancy, transferability or use of the Real Property under any Hazardous Materials Laws.

4.12 Replacement Reserve Account.

(a) Deposit at least the following amounts in Cash into the Replacement Reserve Account on or before the first day of each calendar month, commencing January 1, 2012:

(1) From January 1, 2012 through and including January 1, 2015, $100,000;

(2) From February 1, 2015 through the Maturity Date, an amount equal to $0.20 per square foot of floor area in the Improvements.

Provided, that Borrower shall have no obligation to make any deposit into the Replacement Reserve Account at any time when the balance therein is equal to or greater than $2,000,000, and Borrower shall have the right to withdraw (and Administrative Agent shall consent to the withdrawal) any amount in the Replacement Reserve Account that is in excess of $2,000,000.

(b) Apply funds from the Replacement Reserve Account only as follows:

(1) The $300,000 in Loan proceeds deposited into the Replacement Reserve Account pursuant to Section 2.1(b) shall be applied by Borrower, on or before December 1, 2012, to payment of costs of performance of the deferred maintenance items listed on the property inspection report prepared by Marx Okubo Associates, Inc., and dated October 14, 2011;

(2) Funds deposited into the Replacement Reserve Account by Borrower pursuant to Section 4.12(a) shall be applied as follows:

(A) First, for payment of costs of repair of the building heating, ventilation and air conditioning system; and

(B) Second, for payment of costs of the replacement of the building plaza deck;

(3) After completion of repair of the building heating, ventilation and air conditioning system and the replacement of the building plaza deck, for payment of costs of such other replacement, repair and maintenance of the buildings, fixtures, equipment and other capital assets on the Real Property as Borrower shall elect to conduct.

The Replacement Reserve Account shall be a "blocked" deposit account with Administrative Agent, from which no amounts may be withdrawn without the consent of Administrative Agent, and shall be subject to a security interest, securing performance of the Obligations pursuant to a pledge and security agreement in form and content satisfactory to Administrative Agent.

4.13 Bank Account. Maintain its operating bank accounts with Administrative Agent.

4.14 Estoppel Certificates.

(a) Deliver to Administrative Agent, within 30 days after request therefor by Administrative Agent, a written statement in form and content reasonably approved by Administrative Agent, confirming the outstanding balance of principal of the Loan, whether, to the best knowledge of Borrower, a Default or Event of Default exists under this Agreement and, if so, what actions are being taken to cure the same.

(b) Exercise reasonable best efforts to cause tenants of the Real Property to deliver to Administrative Agent, within 30 days after request therefor by Administrative Agent, a written statement in form and content reasonably approved by Administrative Agent, confirming the operative terms of their leases and whether any default or potential default exists thereunder.

4.15 Performance and Funding of Deferred Maintenance .

(a) Complete the work of repair of the the heating, ventilation and air conditioning systems of the buildings on the Real Property (the " HVAC Work") and replacement of the plaza deck on the Real Property (the " Plaza Deck Replacement") before December 1, 2014.

(b) Within 90 days after the date of funding of the first Advance of principal of the Loan, deliver to Administrative Agent (i) at least three bids from licensed contractors reasonably approved by Administrative Agent for entry into guaranteed maximum price contracts under which such contractors will perform the HVAC Work, and (ii) at least three bids from licensed contractors reasonably approved by Administrative Agent for entry into guaranteed maximum price contracts under which such contractors will perform the Plaza Deck Replacement. If the aggregate cost of the HVAC Work and the Plaza Deck Replacement, pursuant to such bids, will exceed $3,600,000, Borrower shall deposit into the Replacement Reserve Account, on or before the first day of each calendar month commencing with the fourth month after the month in which the first Advance of principal of the Loan is funded, an amount equal to one-thirty-sixth of the excess over $3,600,000.

ARTICLE 5
NEGATIVE COVENANTS

So long as the Loan remains unpaid, or any other Obligation remains unpaid or unperformed, Borrower shall not, unless Administrative Agent otherwise consents:

5.1 Investments. Make or suffer to exist any Investment, other than:

(a) Investments in existence on the Closing Date and disclosed on Schedule 5.1;

(b) Investments consisting of Cash Equivalents;

(c) Investments consisting of the extension of credit to customers or suppliers of the Loan Parties in the ordinary course of business and any Investments received in satisfaction or partial satisfaction thereof; and

(d) Investments representing all or a portion of the sales price of Property sold or services provided to another Person.

5.2 ERISA. At any time, permit any Pension Plan to: (a) engage in any non-exempt "prohibited transaction" (as defined in Section 4975 of the Code); (b) fail to comply with ERISA or any other applicable Laws; (c) incur any material "accumulated funding deficiency" (as defined in Section 302 of ERISA); or (d) terminate in any manner.

5.3 Change in Nature of Business. Conduct any business other than ownership and operation of the Real Property, or own any Property other than the Real Property and the other Collateral.

5.4 Liens; Negative Pledges; Sales and Leasebacks. Create, incur, assume or suffer to exist any Lien or Negative Pledge of any nature upon or with respect to any of its Property or Collateral or agree to grant a Negative Pledge for the benefit of any other party other than Administrative Agent, or engage in any sale and leaseback transaction with respect to any of its respective Property or Collateral, whether now owned or hereafter acquired, except:

(a) Liens and Negative Pledges under the Loan Documents; and

(b) Permitted Encumbrances.

5.5 Indebtedness and Contingent Obligations. Create, incur, assume or suffer to exist any Indebtedness, or any Contingent Obligation in an aggregate amount in excess of $1,000,000, except:

(a) Indebtedness and Contingent Obligations under the Loan Documents;

(b) Indebtedness under Swap Contracts entered into with Swap Counterparties; provided that no Swap Contract entered into with respect to the Loan shall have a scheduled termination date later than the Maturity Date;

(c) Indebtedness and Contingent Obligations owed by Borrower to Parent, so long as (i) no Event of Default exists or would result from such proposed Indebtedness or Contingent Obligation or from the application of the proceeds thereof; (ii) all such Indebtedness and Contingent Obligations shall be unsecured and subordinated in right of payment to the payment in full of the Obligations, and (iii) any such Indebtedness and Contingent Obligations has been approved in advance, in writing, by Administrative Agent, which approval shall not be unreasonably withheld; and

(d) Indebtedness consisting of Capital Lease Obligations, or otherwise incurred to finance the purchase or construction of capital assets (which shall be deemed to exist if the Indebtedness is incurred at or within 90 days before or after the purchase or construction of the capital asset), or to refinance any such Indebtedness.

5.6 Transactions with Affiliates. Enter into any transaction of any kind (including, without limitation, the extension of any credit or the incurrence of any indebtedness, the making or receipt of any distribution, the purchase, sale, lease or exchange of any property, or the payment of any fees) with any Affiliate of Borrower without the prior written consent of Lender; provided, however, Borrower may, without the prior consent of Lender, do the following: (i) distribute excess Cash to Parent; (ii) borrow money from Parent to the extent permitted pursuant to Section 5.5, above; (iii) obtain capital infusions from Parent; (iv) enter into leases for vacant space in the Property, on no less than then-current market terms.

5.7 Financial Covenants.

(a) Debt Coverage Ratio. Permit the Debt Coverage Ratio, as of the last day of each June and December to be less than 1.30:1, unless Borrower shall, within fifteen (15) days after receipt of demand therefor at any time in which the Debt Coverage Ratio is less than 1.30:1, deposit into the DCR Collateral Account Cash in an amount equal to twice the difference between Borrower's annualized Net Operating Income for the most recent Calculation Period and the amount of annual Net Operating Income that would have been needed in order to generate a Debt Coverage Ratio of 1.30:1 for such Calculation Period. The DCR Collateral Account shall be a "blocked" deposit account with Administrative Agent," from which no amounts may be withdrawn without the consent of the Administrative Agent (which consent shall only be given with approval from the Required Lenders), and shall be subject to a security interest, securing performance of the Obligations pursuant to a pledge and security agreement in form and content satisfactory to Administrative Agent. If, with respect to any later Calculation Period, the amount required to be deposited into such account is less than the amount in such account, Administrative Agent shall permit Borrower to withdraw the excess Cash from the DCR Collateral Account.

(b) Loan-to-Value Ratio. If, at any time during the term of the Loan, the Loan-to-Value Ratio is greater than seventy percent (70%), Borrower shall, within fifteen (15) days after receipt of demand therefor from Administrative Agent (which demand shall be made upon direction from the Required Lenders), make a payment in reduction of principal of the Loan in an amount sufficient to cause the Loan-to-Value Ratio to be sixty percent (60%); provided, however, that Administrative Agent and Lenders shall have the right to require a payment in reduction of principal pursuant to this Section 5.7(b) only once during the term of the Loan.

5.8 Leasing. Enter into any lease, license or other agreement under which any Person is granted any right to occupy any portion of the Real Property (a) which is not negotiated at arm's length (other than leases, licenses and other agreements with Affiliates of Parent, which shall not be at arm's length) and which does not provide for rent and other terms that are reasonably consistent with those terms that prevail, at the time of entry into such lease, license or other agreement, in the market for similar office space, and (b) without furnishing a copy of the lease, license or other agreement to Administrative Agent prior to execution thereof. Failure by Administrative Agent to give notice to Borrower that Administrative Agent believes that a proposed lease, license or agreement is not in compliance with this Section 5.8 within five (5) Business Days after Administrative Agent's receipt of the copy thereof furnished by Borrower shall be deemed a waiver by Administrative Agent to object to such lease, license or agreement.

5.9 Partition; Zoning. Without the prior written consent of the Required Lenders, seek to partition or subdivide the Real Property or alter the zoning or land use classification thereof.

ARTICLE 6
INFORMATION AND REPORTING REQUIREMENTS

6.1 Financial and Business Information. So long as the Loan remains unpaid, or any other Obligation remains unpaid or unperformed, Borrower shall, unless the Required Lenders otherwise consent, deliver to Administrative Agent at Borrower' sole expense:

(a) with respect to the Fiscal Year ended December 31, 2011, as soon as available and without unreasonable delay, and with respect to each Fiscal Year ending thereafter, as soon as available but in any event within 120 days after the end of such Fiscal Year:

(1) the balance sheet as at the end of such Fiscal Year and related statements of income, operations and cash flows of Borrower for such Fiscal Year, setting forth in each case in comparative form the figures for the previous Fiscal Year, all in reasonable detail, prepared using a methodology that may not conform to GAAP but fairly presents the financial condition of Borrower as of the dates and for the periods indicated, in conformity with Borrower's usual and customary practices consistently applied throughout the periods covered, accompanied by a certificate signed by the chief executive officer, chief financial officer, treasurer or controller of Borrower to the effect that such statements are true and correct in all material respects; and

(2) the consolidated and consolidating balance sheet of Parent and its Subsidiaries, as at the end of such Fiscal Year, and the related consolidated and consolidating statements of income, operations and cash flows of Parent and its Subsidiaries for such Fiscal Year, setting forth in comparative form the figures for the previous Fiscal Year and showing changes in shareholders' equity for such Fiscal Year, audited by Ernst & Young or another firm of certified public accountants reasonably approved by Administrative Agent.

(b) with respect to the Fiscal Quarter ended March 31, 2012, as soon as available and without unreasonable delay, and with respect to each Fiscal Quarter ending thereafter (other than the fourth Fiscal Quarter of any Fiscal Year), as soon as available but in any event within 45 days after the end of such Fiscal Quarter:

(1) the balance sheet of Borrower as at the end of such Fiscal Quarter and the related statements of income, operations and cash flows of Borrower for such Fiscal Quarter, all in reasonable detail, prepared using a methodology that may not conform to GAAP but fairly presents the financial condition of Borrower as of the dates and for the periods indicated, in conformity with Borrower's usual and customary practices consistently applied throughout the periods covered, accompanied by a certificate signed by the chief executive officer, chief financial officer, treasurer or controller of Borrower to the effect that such statements are true and correct in all material respects;

(2) the consolidated and consolidating balance sheets of Parent and its Subsidiaries, as at the end of such Fiscal Quarter, the related consolidated and consolidating statements of income or operations of Parent and its Subsidiaries for such Fiscal Quarter and for the portion of the Fiscal Year then ended, and the related consolidated and consolidating statements of changes in shareholders' equity and cash flows for the portion of the Fiscal Year then ended, in each case setting forth in comparative form, the figures for the corresponding Fiscal Quarter of the previous Fiscal Year and the corresponding portion of the previous Fiscal Year, all in reasonable detail, accompanied by a certificate signed by the chief executive officer, chief financial officer, treasurer or controller of each Loan Party to the effect that such statements were prepared in accordance with GAAP and are fairly stated in all material respects.

(c) within 45 days after each June 30 and December 31, an operating statement for the Real Property for the six months ended with such date, in form and level of detail reasonably acceptable to Administrative Agent;

(d) within 10 days after the end of each calendar month, (i) a rent roll for the Real Property stating the name of each tenant in occupancy, the suite number(s) occupied by such tenant, the date of such tenant's lease, the rent and CAM charges payable by such tenant, the amount of any prepaid rents or security deposits held with respect to such tenant, the amounts of any delinquencies in payment by such tenant, and a description of any disputes or defaults in connection with such tenant's lease or occupancy, and (ii) a statement of leasing activity with respect to all unoccupied space, in form and level of detail reasonably acceptable to Administrative Agent;

(e) promptly upon the request of Administrative Agent, copies of any detailed audit reports or recommendations submitted to Borrower or to Parent by independent accountants in connection with the accounts or books of Borrower or Parent or Parent's Subsidiaries or any audit thereof;

(f) as soon as practicable, and in any event within five (5) Business Days after a Responsible Officer of Borrower becomes aware of the existence of any condition or event which constitutes a Default, written notice specifying the nature and period of existence thereof and specifying what action the Borrower is taking or proposes to take with respect thereto;

(g) promptly upon a Responsible Officer of Borrower becoming aware that (i) any Person has commenced a legal proceeding with respect to a claim against Borrower that is $100,000 or more in excess of the amount thereof that is fully covered by insurance (subject to deductibles permitted hereunder) or (ii) any Person has commenced a legal proceeding with respect to a claim against Borrower under a contract with respect to a claim in excess of $100,000 or which otherwise may reasonably be expected to result in a Material Adverse Effect, a written notice describing the pertinent facts relating thereto and what action Borrower is taking or proposes to take with respect thereto;

(h) proof of payment of all taxes, including taxes on Real Property, upon the request of Administrative Agent;

(i) within ten (10) days after filing, but in any event within nine months after the end of each Fiscal Year (commencing with the Fiscal Year ended July 31, 2010), copies of each Borrower's and Parent's state and federal income tax returns, together with all schedules for the tax period ended in such Fiscal Year;

(j) any event, occurrence or condition that has had, or is reasonably likely to have, a Material Adverse Effect upon Borrower or Parent; and

(k) such other data and information regarding the Borrower's or Parent's Subsidiaries and their businesses as from time to time may be reasonably requested by Administrative Agent.

6.2 Compliance Certificates. So long as the Loan remains unpaid, or any other Obligation remains unpaid or unperformed, Borrower shall, unless Administrative Agent otherwise consents, deliver to Administrative Agent, at Borrower' sole expense, concurrently with the financial statements required pursuant to Sections 6.1(a) and 6.1(b), a duly completed Compliance Certificate signed by the chief executive officer, chief financial officer, treasurer or controller of the manager of Borrower.

ARTICLE 7
CONDITIONS

7.1 Conditions Precedent to Closing. The obligation of Lenders to make the Loan or to take, fulfill or perform any other action under this Agreement is subject to the following conditions precedent:

(a) Administrative Agent shall have received all of the following, each of which shall be originals unless otherwise specified, each properly executed by a Responsible Officer of each Loan Party that is party thereto, each dated as of the Closing Date and each in form and substance satisfactory to Administrative Agent and its legal counsel (unless otherwise specified or, in the case of the date of any of the following, unless Administrative Agent otherwise agrees or directs):

(i) this Agreement;

(ii) the Notes;

(iii) the Parent Guaranty;

(iv) the Deed of Trust in a form acceptable for recordation in the Official Records of Los Angeles County, California;

(v) proper financing statements in form appropriate for filing under the Uniform Commercial Code of all applicable jurisdictions, covering such portion of the Collateral (including fixtures) as Administrative Agent may deem necessary or desirable in order to perfect any Liens created under the Collateral Documents;

(vi) confirmation of the first priority of the UCC-1 financing statement that perfects Administrative Agent's security interest in personal property;

(vii) assurance from the Title Company that it is committed to issue its ALTA lender's title insurance policy insuring the validity and priority of the Lien of the Deed of Trust, subject only to such exceptions as may be acceptable to Lender, in the amount of $48,600,000, and with such endorsements as to coverage (other than a survey endorsement) and reinsurance commitments as Administrative Agent may require;

(viii) the Environmental Indemnity;

(ix) a subordination and nondisturbance agreement executed by Parent, covering all leases of space in the Real Property to Parent;

(x) estoppel certificates received by Borrower in accordance with the terms of the purchase and sale agreement pursuant to which Borrower acquired the Real Property;

(xi) the Opinion of Counsel;

(xii) such documentation as Administrative Agent may reasonably require to establish the due organization, valid existence and good standing of each Loan Party, its qualification to engage in business in each jurisdiction in which it is engaged in business or required to be so qualified, its authority to execute, deliver and perform any Loan Documents to which it is a party, and the identity, authority and capacity of each Responsible Officer thereof authorized to act on its behalf, including certified copies of charter documents and amendments thereto, bylaws and operating agreements and amendments thereto, certificates of good standing or qualification to engage in business, tax clearance certificates, certificates of corporate resolutions, incumbency certificates, certificates of Responsible Officers, and the like;

(xiii) evidence that all actions necessary or, in the opinion of Administrative Agent, desirable to perfect and protect the Liens of the Collateral Documents have been taken;

(xiv) if Administrative Agent requires, an environmental questionnaire prepared and certified by Borrower and an environmental survey of the Real Property prepared by an environmental consultant satisfactory to Administrative Agent;

(xv) evidence of the casualty, liability and other insurance coverage as required under this Agreement and Section 2.11 of the Deed of Trust; and

(xvi) such other assurances, certificates, documents, consents or opinions as Lender may reasonably require.

(b) Borrower shall have paid the loan fee pursuant to Section 2.6, the agency fee pursuant to Section 2.7, and the reasonable costs and expenses of Lender in connection with the negotiation, preparation, execution and delivery of the Loan Documents pursuant to Section 10.3.

(c) Unless waived by Lender, Borrower shall have paid all fees, charges and disbursements of counsel to Lender (directly to such counsel if requested by Lender) to the extent invoiced prior to or on the Closing Date, plus such additional amounts of such fees, charges and disbursements as shall constitute its reasonable estimate of such fees, charges and disbursements incurred or to be incurred by it through the closing proceedings; provided that such estimate shall not thereafter preclude a final settling of accounts between Borrower and Lender.

(d) Borrower shall have deposited Cash in an amount not less than $300,000 into the Replacement Reserve.

(e) The representations and warranties of Borrower contained in ARTICLE 3 shall be true and correct.

(f) No circumstance or event shall have occurred that constitutes a Material Adverse Effect as of the Closing Date.

(g) Borrower and any other Loan Parties shall be in compliance with all the terms and provisions of the Loan Documents, and no Default or Event of Default shall have occurred and be continuing.

ARTICLE 8
EVENTS OF DEFAULT AND REMEDIES UPON EVENT OF DEFAULT

8.1 Events of Default. The existence or occurrence of any one or more of the following events, whatever the reason therefor and under any circumstances whatsoever, shall constitute an "Event of Default":

(a) Borrower fails to pay any principal or interest on the Loan, or any portion thereof,

(1) in the case of a scheduled monthly payment under Section 2.3(b), on or before the later to occur of (A) the date that is ten (10) days after the same becomes due, or (B) the date that is two (2) Business Days after the date of Borrower's receipt of the monthly invoice required to be delivered by Administrative Agent pursuant to Section 2.3; or

(2) in the case of any payment of principal or interest on the Loan, or any portion thereof, other than a scheduled monthly payment under Section 2.3(b), on or before the date that is ten (10) days after the same becomes due; or

(b) Borrower fails to pay any fees or other amounts payable under this Agreement or the other Loan Documents, or any portion thereof, within the period specified in the applicable Loan Document or absent a specified period, within ten (10) days after demand therefor; or

(c) Borrower fails to perform or observe any of the covenants contained in Sections 4.2, 5.3, 5.7 or ARTICLE 6; or

(d) Borrower or Parent fails to perform or observe any other covenant or agreement (not specified in clauses (a) through (c) above) contained in any Loan Document on its part to be performed or observed and does not cure such failure for a period of ten (10) Business Days after notice from Administrative Agent of such failure; provided, if such failure is susceptible of cure but cannot reasonably be cured within such ten day period, Borrower or Parent fails to promptly commence to cure such failure and do not effect a cure within thirty (30) Business Days after such notice from Administrative Agent; or

(e) Any representation or warranty made in any Loan Document, or in any certificate delivered pursuant to any Loan Document, proves to have been incorrect in any material respect when made or reaffirmed; or

(f) Borrower or Parent (i) fails to pay the principal, or any principal installment, of any present or future Indebtedness, or any guaranty of present or future Indebtedness, on its part to be paid, when due (or within any stated grace period), whether at the stated maturity, upon acceleration, by reason of required prepayment or otherwise or (ii) fails to perform or observe any other term, covenant or agreement on its part to be performed or observed, or suffers any event of default to occur, in connection

with any present or future Indebtedness, or of any guaranty of present or future Indebtedness, if as a result of such failure or sufferance any holder or holders thereof (or a lender or trustee on its or their behalf) has the right to declare such Indebtedness due before the date on which it otherwise would become due or the right to require Borrower or Parent to redeem or purchase, or offer to redeem or purchase, all or any portion of such Indebtedness; or

(g) Any Loan Document, at any time after its execution and delivery and for any reason other than the agreement or action of Administrative Agent or the Lenders or satisfaction in full of all the Obligations, ceases to be in full force and effect or is declared by a court of competent jurisdiction to be null and void, invalid or unenforceable as to any material right or remedy on the part of Administrative Agent or Lenders (other than with respect to Article 9, to which this subsection (g) shall not be applicable); or any Collateral Document ceases to create a valid and effective Lien in any portion of the Collateral; or Borrower or Parent denies in writing that it has any or further liability or obligation under any Loan Document to which it is a party, or purports to revoke, terminate or rescind same; or

(h) A final judgment against Borrower or Parent is entered for the payment of money in excess of $100,000 (not covered by insurance or for which an insurer has reserved its rights) and, absent procurement of a stay of execution, such judgment remains unsatisfied for 30 calendar days after the date of entry of judgment, or in any event later than five days prior to the date of any proposed sale thereunder; or any writ or warrant of attachment or execution or similar process is issued or levied against all or any material part of the property of Borrower or Parent and is not released, vacated or fully bonded within 30 calendar days after its issue or levy; or

(i) Borrower or Parent institutes or consents to the institution of any proceeding under a Debtor Relief Law relating to it or to all or any material part of its Property, or is unable or admits in writing its inability to pay its debts as they mature, or makes an assignment for the benefit of creditors; or applies for or consents to the appointment of any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer for it or for all or any material part of its Property; or any receiver, trustee, custodian, conservator, liquidator, rehabilitator or similar officer is appointed without the application or consent of that Person and the appointment continues undischarged or unstayed for 30 calendar days; or any proceeding under a Debtor Relief Law relating to any such Person or to all or any part of its Property is instituted without the consent of that Person and continues undismissed or unstayed for 30 calendar days; or

(j) The occurrence of an Event of Default (as such term is or may hereafter be specifically defined in any other Loan Document) under any other Loan Document; or

(k) Any Pension Plan maintained by Parent is finally determined by the PBGC to have an “accumulated funding deficiency” as that term is defined in Section 302 of ERISA in excess of an amount equal to 5% of the consolidated total assets of such Borrower as of the most recently ended Fiscal Quarter; or

(l) The occurrence of any Change in Control with respect to Borrower; or

(m) The occurrence of any set of events or circumstances that constitute a Material Adverse Effect; provided, as to any such set of events or circumstances not described as an Event of Default under the preceding subparagraphs (a) through (l), Borrower shall have the right to notice and opportunity to cure such Material Adverse Effect in accordance with subparagraph (d) above; or

(n) The occurrence of an event of default (after expiration of applicable notice and cure periods without cure) under the Parent Credit Facility.

8.2 Remedies Upon Event of Default. If any Event of Default occurs and is continuing, Administrative Agent may (and shall, upon direction from the Required Lenders) take any or all of the following actions, without notice to (except as expressly provided for in any Loan Document) or demand upon Borrower, which are hereby expressly waived by each Borrower:

(a) Take possession of the Real Property in person or through a court-appointed receiver, and do anything required, necessary or advisable in Lender's sole discretion to fulfill the obligations of Borrower hereunder. Without restricting the generality of the foregoing, Borrower hereby appoints Administrative Agent as Borrower' lawful attorney-in-fact with full power of substitution in the premises to perform any of the following actions:

(i) without inquiring into and without respect to the validity thereof, pay, settle or compromise all existing bills and claims which may be Liens, or avoid such bills and claims becoming Liens, against the Real Property or any portion thereof;

(ii) prosecute and defend actions or proceedings in connection with the Real Property; and

(iii) do any and every act that Borrower might do on their own behalf with respect to the Real Property, it being expressly agreed that this power of attorney shall be a power coupled with an interest and cannot be revoked;

(b) Declare the unpaid principal amount of the Loan, all interest accrued and unpaid thereon, and all other amounts owing or payable hereunder or under any other Loan Document to be immediately due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby expressly waived by Borrower;

(c) Otherwise enforce any and all Liens and security interests created pursuant to the Collateral Documents (including, without limitation, foreclosure of the Deed of Trust by judicial action, implementation of the power of sale granted pursuant to the Deed of Trust), implement action of the assignment of rents made pursuant to the Deed of Trust and realization upon the security interests granted to Lender pursuant to the Deed of Trust and this Agreement;

(d) Suspend or terminate all obligations of Lender and all rights of Borrower and any other Loan Parties under the Loan Documents, except that Lender may waive the Event of Default, which waiver or determination shall apply equally to, and shall be binding upon, Lender;

(e) Proceed in accordance with applicable Laws to protect, exercise and enforce the rights and remedies of Lender under the Loan Documents against Borrower and any other Loan Party and such other rights and remedies as are provided by Law or equity;

provided, however, that upon the occurrence of any Event of Default described in Section 8.1(i), all obligations of Lenders and all rights of Borrower and any other Loan Parties under the Loan Documents shall automatically be terminated (except that Administrative Agent may waive the Event of Default, which waiver or determination shall apply equally to, and shall be binding upon, all Lenders), and all interest and other amounts as aforesaid shall automatically become due and payable without further act of Lender.

Borrower acknowledges and agrees that this Section does not limit the right of any Administrative Agent to (i) exercise self-help remedies such as but not limited to, set off against any account in which Administrative Agent holds a security interest as collateral security for the Obligations, (ii) initiate judicial or non-judicial foreclosure against any real or personal property Collateral, (iii) exercise any judicial or power of sale rights, or (iv) act in a court of Law to obtain an interim remedy such as, but not limited to, injunctive relief, writ of possession or appointment of a receiver, or additional or supplementary remedies.

8.3 Application of Funds. The order and manner in which Administrative Agent's rights and remedies are to be exercised shall be determined by Administrative Agent (subject to Article 9) in its sole discretion, and all payments received by Administrative Agent shall be applied first to the costs and expenses of Administrative Agent (including reasonable attorneys' fees and disbursements and the reasonably allocated costs of attorneys employed by Administrative Agent), second, to the payment of accrued and unpaid interest due under any Loan Documents to and including the date of such application, and third, to the payment of all other Obligations. No application by Administrative Agent of partial payments received from or on behalf of Borrower will cure any Event of Default, or prevent acceleration, or continued acceleration, of amounts payable under the Loan Documents or Swap Contracts, or prevent the exercise, or continued exercise, of rights or remedies of Administrative Agent, Lenders or Swap Counterparties hereunder or thereunder or at Law or in equity, except as required under applicable Laws.

ARTICLE 9
APPOINTMENT AND AUTHORIZATION OF ADMINISTRATIVE AGENT.

9.1 Authorization of Administrative Agent. Each Lender hereby irrevocably (subject to Section 9.11) appoints, designates and authorizes Administrative Agent to take such action on its behalf under the provisions of this Agreement and each other Loan Document and to exercise such powers and perform such duties as are expressly delegated to it by the terms of this Agreement and any other Loan Document, together with such powers as are reasonably incidental thereto. Notwithstanding any provision to the contrary contained elsewhere herein or in any other Loan Document, Administrative Agent shall not have any duties or responsibilities except those expressly set forth herein, nor shall Administrative Agent have or be deemed to have any fiduciary relationship with any Lender. No implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or any other Loan Document shall otherwise exist against Administrative Agent. Without limiting the generality of the foregoing sentence, the use of the term " agent" herein and in the other Loan Documents with reference to Administrative Agent is not intended to connote any fiduciary or other implied (or express) obligations arising under agency doctrine of any applicable law. Instead, such term is used merely as a matter of market custom, and is intended to create or reflect only an administrative relationship between independent contracting parties.

9.2 No Waiver by Lender. No individual Lender or group of Lenders shall have any right to amend or waive, or consent to the departure of any party from any provision of any Loan Document, or secure or enforce the obligations of Borrower or any other party pursuant to the Loan Documents or otherwise. All such rights, on behalf of Administrative Agent or any Lender or Lenders, shall be held and exercised solely by and at the option of Administrative Agent for the pro rata benefit of Lenders. Such rights, however, are subject to the rights of a Lender or Lenders, as expressly set forth in this Agreement and to approve matters or direct Administrative Agent to take or refrain from taking action as set forth in this Agreement. Except as expressly otherwise provided in this Agreement and the other Loan Documents, Administrative Agent shall have and may use its reasonable discretion with respect to exercising or refraining from exercising any discretionary rights or taking or refraining from taking any actions which Administrative Agent is expressly entitled to exercise or take under this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or the other Loan Documents, including (i) the determination if and to what extent matters or items subject to Administrative Agent's satisfaction are acceptable or otherwise within its discretion, (ii) the making of Administrative Agent Advances, and (iii) the exercise of remedies pursuant to this Agreement any other Loan Document and any action so taken or not taken shall be deemed consented to by Lenders.

9.3 Receivership or Insolvency. In case of the pendency of any receivership, insolvency, liquidation, bankruptcy, reorganization, arrangement, adjustment, composition or other judicial proceeding relative to Borrower or Parent, no individual Lender or group of Lenders shall have the right, and Administrative Agent (irrespective of whether the principal of the loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether Administrative Agent shall have made any demand on Borrower) shall be exclusively entitled and empowered on behalf of itself and Lenders, by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Loan and all other obligations that are owing and unpaid and to file such other documents as may be necessary or advisable in order to have the claims of Lenders and Administrative Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of Lenders and Administrative Agent and their respective agents and counsel and all other amounts due Lenders and Administrative Agent); and

(b) to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same in accordance with the terms of this Agreement;

and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to Administrative Agent and, in the event that Administrative Agent shall consent to the making of such payments directly to Lenders, to pay to Administrative Agent any amount due for the reasonable compensation, expenses, disbursements and advances of Administrative Agent and its agents and counsel in accordance with the terms of this Agreement.

Nothing contained herein shall be deemed to authorize Administrative Agent to authorize or consent to or accept or adopt on behalf of any Lender any plan of reorganization, arrangement, adjustment or composition affecting the Indebtedness or the rights of Lenders except as approved by the Required Lenders or to authorize Administrative Agent to vote in respect of the claims of Lenders except as approved by the Required Lenders in any such proceeding.

9.4 Delegation of Duties. Administrative Agent may execute any of its duties under this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document by or through agents, employees or attorneys-in-fact and shall be entitled to advice of counsel and other consultant experts concerning all matters pertaining to such duties. Administrative Agent shall not be responsible for the negligence or misconduct of any agent or attorney-in-fact that it selects with reasonable care.

9.5 Liability of Administrative Agent. No Agent-Related Persons shall (i) be liable to any Lender for any action taken or omitted to be taken by any of them under or in connection with this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document or the transactions contemplated hereby (except for its own gross negligence or willful misconduct), or (ii) be responsible in any manner to any Lender for any recital, statement, representation or warranty made by Borrower or any subsidiary or Affiliate of Borrower, or any officer thereof, contained in this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document, or in any certificate, report, statement or other document referred to or provided for in, or received by Administrative Agent under or in connection with, this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document, or the validity, effectiveness, genuineness, enforceability or sufficiency of this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document, or for any failure of Borrower or any other party to any Loan Document to perform its obligations hereunder or thereunder. No Agent-Related Person shall be under any obligation to any Lender to ascertain or to inquire as to the observance or performance of any of the agreements contained in, or conditions of, this Agreement or any other Loan Document, or to inspect the properties, books or records of Borrower, Parent or any of their Affiliates.

9.6 Reliance by Administrative Agent. Administrative Agent shall be entitled to rely, and shall be fully protected in relying, upon any writing, resolution, notice, consent, certificate, affidavit, letter, telegram, facsimile, telex or telephone message, statement or other document or conversation believed by it to be genuine and correct and to have been signed, sent or made by the proper person or persons, and upon advice and statements of legal counsel (including counsel to any party to the Loan Documents), independent accountants and other experts selected by Administrative Agent with reasonable care. Administrative Agent shall be fully justified in failing or refusing to take any action under this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document unless it shall first receive such advice or concurrence of the Required Lenders or all Lenders if required hereunder as it deems appropriate and, if it so requests, it shall first be indemnified to its satisfaction by Lenders against any and all liability and expense which may be incurred by it by reason of taking or continuing to take any such action. Administrative Agent shall in all cases be fully protected in acting, or in refraining from acting, under this Agreement, the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document in accordance with a request or consent of the Required Lenders or such greater number of Lenders as may be expressly required hereby in any instance, and such request and any action taken or failure to act pursuant thereto shall be binding upon all Lenders. In the absence of written instructions from the Required Lenders or such greater number of Lenders, as expressly required hereunder, Administrative Agent may take or not take any action, at its discretion, unless this Agreement specifically requires the consent of the Required Lenders or such greater number of Lenders.

9.7 Notice of Default. Administrative Agent shall not be deemed to have knowledge or notice of the occurrence of any Event of Default, unless Administrative Agent shall have gained actual knowledge in its capacity as a Lender or shall have received written notice from a Lender or from Borrower referring to this Agreement, describing such Event of Default. Administrative Agent will notify Lenders promptly of its receipt of any such notice. Administrative Agent shall take such action with respect to such Event of Default as may be requested by the Required Lenders in accordance with Article 8; provided, however, that unless and until Administrative Agent has received any such request, Administrative Agent may (but shall not be obligated to) take such action, or refrain from taking such action, with respect to such Event of Default as it shall deem advisable or in the best interest of Lenders.

9.8 Credit Decision; Disclosure of Information by Administrative Agent.

(a) Each Lender acknowledges that no Agent-Related Person has made any representation or warranty to it, and that no act by Administrative Agent hereafter taken, including any consent to and acceptance of any assignment or review of the affairs of Borrower, and/or Parent, shall be deemed to constitute any representation or warranty by any Agent-Related Person to Lenders or any of them as to any matter. Each Lender represents to Administrative Agent that it has, independently and without reliance upon any Agent-Related Person and based on such documents and information as it has deemed appropriate, made its own appraisal of and investigation into the business, prospects, operations, property, financial and other condition and creditworthiness of

Borrower and Parent, and all applicable bank or other regulatory laws relating to the transactions contemplated hereby, and made its own decision to enter into this Agreement and to extend credit to Borrower hereunder. Each Lender also represents that it will, independently and without reliance upon any Agent-Related Person and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit analysis, appraisals and decisions in taking or not taking action under this Agreement, the Notes, the Deed of Trust, the Parent Guaranty and the other Loan Documents, and to make inquiries of Administrative Agent as it deems necessary to inform itself as to the business, prospects, operations, property, financial and other condition and creditworthiness of Borrower and Parent. Notwithstanding the foregoing, no individual Lender shall have the right to require that Borrower or Parent provide to such Lender independent access to the Real Property or independent delivery to such Lender of notices, reports, documents or information not specifically required of Borrower under Article 6 of this Agreement.

(b) Administrative Agent upon its receipt shall provide each Lender such notices, reports and other documents expressly required to be furnished by Borrower or Parent to Administrative Agent. Administrative Agent shall also provide each Lender and/or make available for each Lender's inspection during reasonable business hours and at the Lender's expense, upon the Lender's written request therefor: (i) copies of the Loan Documents; (ii) such information as is then in Administrative Agent's possession in respect of the current status of principal and interest payments and accruals in respect of the Loan; (iii) copies of all current financial statements in respect of Borrower or Parent or other person liable for payment or performance by Borrower of any obligations under the Loan Documents, then in Administrative Agent's possession with respect to the Loan; and (iv) other current factual information then in Administrative Agent's possession with respect to the Loan and bearing on the continuing creditworthiness of Borrower or any Parent, or any of their respective Affiliates; provided, that Administrative Agent shall not be obligated to provide any Lender with any information in violation of law or any contractual restrictions on the disclosure thereof (provided such contractual restrictions shall not apply to distributing to a Lender factual and financial information expressly required to be provided herein). Except as set forth above, Administrative Agent shall not have any duty or responsibility to provide Lenders or any of them with any credit or other information concerning the business, prospects, operations, property, financial and other condition or creditworthiness of Borrower or Parent or any of their respective Affiliates which may come into the possession of any of Agent-Related Persons.

9.9 Indemnification of Administrative Agent. Whether or not the transactions contemplated hereby are consummated, Lenders hereby jointly and severally indemnify upon demand each Agent-Related Person (to the extent not reimbursed by or on behalf of Borrower and without limiting the obligation of Borrower to do so if required by applicable provisions of the Loan Documents), and hold harmless each Agent-Related Person from and against any and all indemnified liabilities incurred by it; provided, however, that no Lender shall be liable for the payment to any Agent-Related Person of any portion of such indemnified liabilities to the extent determined in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Agent-Related Person's own gross negligence or willful misconduct; provided, further, that no action taken in accordance with the directions of the Required Lenders

shall be deemed to constitute gross negligence or willful misconduct for purposes of this Section 9.9. Without limitation of the foregoing, to the extent that Administrative Agent is not reimbursed by or on behalf of Borrower, each Lender shall reimburse Administrative Agent upon demand for its Pro Rata Share of any costs or out-of-pocket expenses (including attorneys' fees) incurred by Administrative Agent in the performance of its duties under this Agreement. The undertaking in this Section 9.9 shall survive the payment of all Indebtedness hereunder and the resignation or replacement of Administrative Agent.

9.10 Administrative Agent in Individual Capacity. Administrative Agent, in its individual capacity, and its Affiliates may make loans to, issue letters of credit for the account of, accept deposits from, acquire equity interests in and generally engage in any kind of banking, trust, financial advisory, underwriting or other business with any party to the Loan Documents and their respective Affiliates as though Administrative Agent were not Administrative Agent hereunder and without notice to or consent of Lenders. Lenders acknowledge that Borrower and East West Bank or its Affiliate have entered or may enter into Swap Contracts. A portion of the Loan may be funded to honor Borrower's payment obligations under the terms of such Swap Contracts, and Lenders shall have no right to share in any portion of such payments except to the extent of their rights as Swap Counterparties. Lenders acknowledge that, pursuant to such activities, East West Bank or its Affiliates may receive information regarding any party to the Loan Documents or their respective Affiliates (including information that may be subject to confidentiality obligations in favor of such parties or such parties' Affiliates) and acknowledge that Administrative Agent shall be under no obligation to provide such information to them. With respect to its Pro Rata Share of the Loan, East West Bank shall have the same rights and powers under this Agreement as any other Lenders and may exercise such rights and powers as though it were not Administrative Agent or party to Swap Contracts, and the terms "**Lender**" and "**Lenders**" include East West Bank in its individual capacity.

9.11 Successor Administrative Agent. Administrative Agent may, and at the request of the Required Lenders as a result of Administrative Agent's gross negligence or willful misconduct or default in performing its duties under this Agreement shall, resign as Administrative Agent upon 30 days' notice to Lenders. If Administrative Agent resigns under this Agreement, the Required Lenders shall appoint from among Lenders a successor administrative agent for Lenders, which successor administrative agent shall be consented to by Borrower at all times other than during the existence of an Event of Default (which consent of Borrower shall not be unreasonably withheld or delayed). If no successor administrative agent is appointed prior to the effective date of the resignation of Administrative Agent, Administrative Agent may, after consulting with Lenders and Borrower, appoint a successor administrative agent from among Lenders. Upon the acceptance of its appointment as successor administrative agent hereunder, such successor administrative agent shall succeed to all the rights, powers and duties of the retiring Administrative Agent and the term "Administrative Agent" shall mean such successor administrative agent, and the retiring Administrative Agent's appointment, powers and duties as Administrative Agent shall be terminated. After any retiring Administrative Agent's resignation hereunder as Administrative Agent, the provisions of this Section 9.12 and other applicable Sections of this Agreement shall inure to its benefit as to any actions taken or omitted to be taken by it while it was Administrative Agent under this Agreement. If no successor administrative agent has accepted appointment as Administrative Agent by the date which is thirty (30) days following a retiring Administrative Agent's notice of resignation, the retiring Administrative Agent's resignation shall nevertheless thereupon become effective and Lenders shall perform all of the duties of Administrative Agent hereunder until such time, if any, as the Required Lenders appoint a successor agent as provided for above.

9.12 Releases, Acquisition and Transfers of Collateral.

(a) Lenders hereby irrevocably authorize Administrative Agent to transfer or release any lien on, or after foreclosure or other acquisition of title by Administrative Agent on behalf of the Lenders to transfer or sell, any Collateral (A) upon the termination of the Commitments and payment and satisfaction in full of all Obligations, (B) in connection with a release, transfer or sale of a lien or property if such transfer or release is conditioned upon receipt by Administrative Agent of the payment required pursuant to Section 4.2(c), and (C) after foreclosure or other acquisition of title to any Foreclosed Real Property, (i) for a purchase price of not less than 80% of the value indicated in the most recent appraisal of such Foreclosed Real Property obtained by Administrative Agent made in accordance with regulations governing Administrative Agent, or (ii if approved by the Required Lenders.

(b) If an Event of Default has occurred hereunder, Administrative Agent may take title to any of the Collateral to which it is entitled as a result of exercise of its remedies under the Deed of Trust and applicable law, in its name and in its capacity as administrative agent, for the benefit of all Lenders according to their Pro Rata Shares.

(c) Administrative Agent may take title to Foreclosed Real Property in its name and in its capacity as administrative agent or in the name of an Affiliate of Administrative Agent, but for the benefit of all Lenders according to their Pro Rata Shares. Administrative Agent and all Lenders hereby expressly waive and relinquish any right of partition with respect to the Foreclosed Real Property so acquired. After Foreclosed Real Property is acquired, Administrative Agent shall appoint and retain one or more persons (individually and collectively, the "Property Manager") experienced in the management, leasing, sale and/or disposition of similar properties; provided, however, that Administrative Agent shall not appoint or retain any Affiliate of Administrative Agent as the Property Manager unless the terms of such appointment or retention are approved in writing by the Required Lenders. After consulting with the Property Manager, Administrative Agent shall prepare a written plan for completion of construction (if required), operation, management, improvement, maintenance, repair, sale and disposition of the Foreclosed Real Property and a budget for the aforesaid, which may include a reasonable management fee payable to Administrative Agent (the "Business Plan"). Administrative Agent will deliver the Business Plan not later than the sixtieth (60th) day after the on the date of the foreclosure sale or recordation of the deed in lieu of foreclosure (the " Acquisition Date") to each Lender with a written request for approval of the Business Plan. If the Business Plan is approved by the Required Lenders, Administrative Agent and the Property Manager shall adhere to the Business Plan until a different Business Plan is approved by the Required Lenders. Administrative Agent may propose an amendment to the Business Plan as it deems appropriate, which shall also be subject to Required Lender approval. If the Business Plan (as may be amended) proposed by Administrative Agent is not approved by the Required Lenders, or if

sixty (60) days have elapsed following the Acquisition Date without a Business Plan being proposed by Administrative Agent, any Lender may propose an alternative Business Plan, which Administrative Agent shall submit to all Lenders for approval by the Required Lenders. If an alternative Business Plan is approved by the Required Lenders, Administrative Agent may appoint one of the approving Lenders to implement the alternative Business Plan. Notwithstanding any other provision of this Agreement, unless in violation of an approved Business Plan or otherwise in an emergency situation, Administrative Agent shall have the right but not the obligation to take any action in connection with the Collateral (including those with respect to property taxes, insurance premiums, completion of construction, operation, management, improvement, maintenance, repair, sale and disposition), or any portion thereof.

(d) Upon request by Administrative Agent or Borrower at any time, Lenders will confirm in writing Administrative Agent's authority to sell, transfer or release any such liens of particular types or items of Collateral or Foreclosed Real Property pursuant to this Section 9.12; provided, however, that (i) Administrative Agent shall not be required to execute any document necessary to evidence such release, transfer or sale on terms that, in Administrative Agent's opinion, would expose Administrative Agent to liability or create any obligation or entail any consequence other than the transfer, release or sale without recourse, representation or warranty, and (ii) such transfer, release or sale shall not in any manner discharge, affect or impair the obligations of Borrower other than those expressly being released.

(e) Except as provided in Section 2.14 and except as otherwise provided below with respect to Defaulting Lenders, aggregate principal and interest payments, payments for indemnified liabilities, proceeds of foreclosure or sale of the Foreclosed Real Property, and net operating income from the collateral during any period it is owned by Administrative Agent on behalf of Lenders ("Payments") shall be apportioned among the Lenders in accordance with their Pro Rata Shares and payments of any fees (other than fees designated for Administrative Agent's separate account) shall, as applicable, be apportioned among the Lenders in accordance with their Pro Rata Shares. Notwithstanding anything to the contrary in this Agreement, all Payments that would otherwise be due and payable to Defaulting Lenders shall instead be paid to and specially apportioned among the Administrative Agent and Lenders other than Defaulting Lenders in accordance with their Pro Rata Shares. Such special apportionment shall be in the proportion that any amounts required to be paid by Lenders pursuant to this Agreement which are not paid by Defaulting Lenders and are paid by Administrative Agent or any Lender other than a Defaulting Lender bears to the total amount not paid by such Defaulting Lender. Such special apportionment shall be made until Administrative Agent and Lenders have been paid in full for all of the amounts they advanced in place of the Defaulting Lender. All Payments shall be remitted to Administrative Agent and all such Payments not constituting payment of specific fees, and all proceeds of the Collateral received by Administrative Agent, shall be applied first, to pay any fees, indemnities, costs, expenses and reimbursements then due to Administrative Agent from Borrower; second, to pay any fees, costs, expenses and reimbursements then due to Lenders from Borrower; third, to pay, pro rata, interest and late charges due in respect of the Obligations and Administrative Agent Advances; fourth, to pay or prepay, pro rata,

principal of the Obligations and Administrative Agent Advances; fifth, to pay any indebtedness of Borrower under Swap Contracts; and last, to Borrower, if required by law, or Lenders in accordance with their Pro Rata Shares at the termination of the Total Commitment.

9.13 Benefit. The terms and conditions of this Article 9 are inserted for the sole benefit of Administrative Agent and Lenders, and to the extent provided in this Section 9.13, for the benefit of Borrower. Except for those provisions described in this Section 9.13 which benefit Borrower, the terms and conditions of Article 9 may be waived by Administrative Agent and Lenders in whole or in part, with or without terms or conditions, without prejudicing Administrative Agent's or Lenders' rights to later assert them in whole or in part. Notwithstanding the foregoing or anything else in this Agreement to the contrary, Sections 9.1, 9.2, 9.3, 9.14 and 9.15 of this Article 9 are also for the benefit of Borrower, and may not be waived in whole or in part by Administrative Agent or any Lender or Lenders, or amended, without the prior written consent of Borrower.

9.14 No Obligation by Borrower; Right of Reliance. Borrower shall have no obligations under this Article 9, express or implied, and no duty of investigation or inquiry as to the performance or non-performance by Administrative Agent or any Lender of its obligations under this Article 9 or Section 10.2, or any other provision of this Agreement pursuant to which Administrative Agent may not act without the consent or approval of any one or more Lenders.

9.15 Right of Reliance on Administrative Agent. Borrower and Parent shall have the right to rely upon the written directions, authorizations, consents, approvals, waivers and decisions (collectively, "Directions") of the Administrative Agent in all matters pertaining to the Loan Documents and performance thereunder, without more and without investigation or inquiry as to the authority of Administrative Agent to so act and notwithstanding any actual knowledge on the part of Borrower or Parent to the contrary.

9.16 Timing of Payments by Administrative Agent. Administrative Agent shall exercise its reasonable best efforts to pay to each Lender its Pro Rata Share of any principal or interest paid by Borrower (except for payments under Section 2.14, which shall be paid only to the Affected Lender) within one (1) Business Day after Administrative Agent's receipt of payment thereof from Borrower, and shall in any event make each such payment within three (3) Business Days after Administrative Agent's receipt of payment thereof from Borrower.

9.17 Records of Advances and Payments. Each Lender shall use its best efforts to keep a record of the Loan made by it and payments received by it with respect to its Note, and such record shall be presumptive evidence of the amounts owing. Notwithstanding the foregoing sentence, no Lender shall be liable to any Loan Party for any failure to keep such a record, and no such failure shall affect the amount of the Obligations hereunder.

9.18 Required Lenders' Direction of Appraisal. Administrative Agent shall cause the Property to be appraised and shall invoke the provisions of Section 5.7(b) if it is directed to do so by the Required Lenders.

ARTICLE 10
MISCELLANEOUS

10.1 Cumulative Remedies; No Waiver. The rights, powers, privileges and remedies of Administrative Agent and the Lenders provided herein or in the Notes, the Deed of Trust, the Parent Guaranty or any other Loan Document are cumulative and not exclusive of any right, power, privilege or remedy provided by Law or equity. No failure or delay on the part of Administrative Agent or any Lender in exercising any right, power, privilege or remedy may be, or may be deemed to be, a waiver thereof; nor may any single or partial exercise of any right, power, privilege or remedy preclude any other or further exercise of the same or any other right, power, privilege or remedy.

10.2 Amendments; Consents. Administrative Agent and Lenders shall be entitled to amend (whether pursuant to a separate intercreditor agreement or otherwise) any of the terms, conditions or agreements set forth in Article 9 or as to any other matter in this Agreement or any other Loan Document respecting payments to Administrative Agent or Lenders as among themselves or the required number of Lenders to approve or disapprove any matter or to take or refrain from taking any action, without the consent of Borrower or any other person or entity or the execution by Borrower or any other person or entity of any such amendment or intercreditor agreement. Subject to the foregoing, Administrative Agent may amend or waive any provision of this Agreement, or any other Loan Document, or consent to any departure by any party to the Loan Documents therefrom with the prior written consent of the Required Lenders and Borrower or the applicable party to the Loan Documents, as the case may be, and each such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided further, however, no such amendment, waiver or consent shall, without the consent of all Lenders (other than Defaulting Lenders):

(a) extend or increase the Commitment of any Lender without the written consent of such Lender (it being understood that a waiver of an Event of Default shall not constitute an extension or increase in any Lender's Commitment);

(b) postpone any date fixed by this Agreement, the Notes or any other Loan Document for any payment or mandatory prepayment of principal, interest, fees or other amounts due to Lenders (or any of them) hereunder or under the Notes or any other Loan Document, without the written consent of each Lender directly affected thereby;

(c) reduce the principal of, or the rate of interest specified herein on, any portion of the Loan, or any fees or other amounts payable under this Agreement, the Notes or any other Loan Document, without the written consent of each Lender directly affected thereby; provided;

(d) change the definition of "Pro Rata Share" or "Required Lenders" or any other provision hereof specifying the number or percentage of Lenders required to amend, waive or otherwise modify any rights hereunder or make any determination or grant any consent hereunder, without the written consent of each Lender;

(e) amend this Section 10.2 without the written consent of each Lender;

(f) release the liability of Borrower or any existing Parent without the written consent of each Lender;

(g) permit the sale, transfer, pledge, mortgage or assignment of any Collateral or any direct or indirect interest in Borrower, except as expressly permitted under the Loan Documents as in effect on the Closing Date, without the written consent of each Lender;

(h) transfer or release any lien on, or after foreclosure or other acquisition of title by Administrative Agent on behalf of Lenders transfer or sell, any Collateral, except as provided in Section 9.12 as in effect on the Closing Date without the written consent of each Lender; or

(i) amend the Guaranty, or release Parent from any of its obligations thereunder;

and, provided, further, that no amendment, waiver or consent shall, unless in writing and signed by Administrative Agent in addition to the Lenders required above, affect the rights or duties of Administrative Agent under this Agreement, the Notes or any other Loan Document. Notwithstanding anything to the contrary herein, no Defaulting Lender shall have any right to approve or disapprove any amendment, waiver or consent hereunder, except that the Commitment of such Lender may not be increased without the consent of such Lender. The granting or withholding of the consents required pursuant to this Section 10.2 shall be within the sole discretion of the applicable Lenders.

10.3 Costs, Expenses and Taxes. Borrower shall pay on demand the reasonable costs and expenses of Administrative Agent in connection with the negotiation, preparation, execution and delivery of the Loan Documents, and of Administrative Agent in connection with the administration, amendment, waiver, refinancing, restructuring, reorganization (including a bankruptcy reorganization) and enforcement or attempted enforcement of the Loan Documents, and any matter related thereto, including, without limitation, filing fees, recording fees, title insurance fees, appraisal fees, search fees and other out-of-pocket expenses and the reasonable fees and out-of-pocket expenses of any legal counsel (including the allocated fees and all disbursements and other expenses of any internal legal counsel), independent public accountants and other outside experts retained by Administrative Agent, and including, without limitation, any costs, expenses or fees incurred or suffered by Administrative Agent in connection with or during the course of any bankruptcy or insolvency proceedings of Borrower; provided that Administrative Agent shall, in connection with any such amendment, waiver, refinancing, restructuring, reorganization, enforcement or attempted enforcement of the Loan Documents use commercially reasonable efforts to avoid duplicative efforts by legal counsel on behalf of Administrative Agent. Borrower shall pay any and all documentary and other taxes (other than income or gross receipts taxes generally applicable to banks) and all costs, expenses, fees and charges payable or determined to be payable in connection with the filing or recording of this Agreement, any other Loan Document or any other instrument or writing to be delivered hereunder or thereunder, or in connection with any transaction pursuant hereto or thereto, and

shall reimburse, hold harmless and indemnify Administrative Agent from and against any and all loss, liability or legal or other expense with respect to or resulting from any delay in paying or failure to pay any tax, cost, expense, fee or charge or that any of them may suffer or incur by reason of the failure of Borrower or Parent to perform any of its Obligations. Any amount payable to Administrative Agent under this Section 10.3 shall bear interest at the Default Rate from the fifth (5th) Business Day following a demand for payment specifying the costs demanded in reasonable detail. Notwithstanding anything in this Section 10.3 to the contrary, Borrower and Parent shall not be liable or responsible for costs or fees incurred by Administrative Agent or any Lender in connection with the syndication of the Loan, the negotiation or enforcement of Article 9 or any other agreement by or between the Lenders or the Administrative Agent, or any dispute by or between Administrative Agent or any Lenders with respect to their respective rights or obligations as between each other.

10.4 Survival of Representations and Warranties. All representations and warranties contained herein or in any other Loan Document, or in any certificate or other writing delivered by or on behalf of any one or more of the Loan Parties, will survive the making of the Loan hereunder and the execution and delivery of the Notes, and have been or will be relied upon by Lender, notwithstanding any investigation made by Administrative Agent or on its behalf.

10.5 Notices. Except as otherwise expressly provided in the Loan Documents, all notices, requests, demands, directions and other communications provided for hereunder or under any other Loan Document must be in writing and must be mailed, delivered or sent by overnight courier to the appropriate party at the address set forth on the signature pages of this Agreement or other applicable Loan Document or, as to any party to any Loan Document, at any other address as may be designated by it in a written notice sent to all other parties to such Loan Document in accordance with this Section 10.5. Except as otherwise expressly provided in any Loan Document, if any notice, request, demand, direction or other communication required or permitted by any Loan Document is given by mail it will be effective on the earlier of receipt or the third Business Day after deposit in the United States mail with first class or airmail postage prepaid; or if given by personal delivery, when actually delivered.

10.6 Execution of Loan Documents. Unless Lender otherwise specifies with respect to any Loan Document, this Agreement and any other Loan Document may be executed in any number of counterparts and any party hereto or thereto may execute any counterpart; as to each Loan Document, all of such executed counterparts, when taken together will be deemed to be the same instrument. The execution of this Agreement or any other Loan Document by any party hereto or thereto will not become effective until counterparts hereof or thereof, as the case may be, have been executed by all the parties hereto or thereto.

10.7 Binding Effect; Assignment.

(a) This Agreement and the other Loan Documents shall be binding upon and shall inure to the benefit of the parties hereto and thereto and their respective successors and assigns, subject to the other restrictions contained in this Section 10.7.

(b) Borrower may not assign its rights hereunder or thereunder or any interest herein or therein without the prior written consent of Administrative Agent. Any assignment by Borrower without the prior written consent of Administrative Agent shall be void; provided that no Person other than Administrative Agent and the Lenders shall have any rights under this sentence.

(c) No Lender shall have the right to assign all or a portion of its rights or delegate any of its obligations under the Loan Documents without the express prior written consent of Administrative Agent, which consent may be granted or withheld by Administrative Agent in its sole, but reasonable, discretion. In connection with exercise of its discretion, Administrative Agent shall have the right to consider the number of Lenders and the size of the Pro Rata Shares that would result from a proposed assignment, as well as the financial strength and sophistication of the proposed assignee. In any event, the proposed assignee must be a commercial bank that is either (i) organized under the laws of the United States of America or any state thereof, or (ii) organized under the laws of any other nation provided that such bank has a branch or agency located within the United States of America. If and to the extent a Lender receives the consent of Administrative Agent to make such an assignment, Borrower shall execute new Notes to reflect the changed Pro Rata Shares of the affected Lenders, and the assigning Lender and the assignee shall execute such documents to evidence the assignment as Administrative Agent shall reasonably require, including an assumption by the assignee of the obligations of the assigning Lender with respect to the portion of the Pro Rata Share of the Total Commitment and outstanding Advances and Administrative Agent Advances, a relinquishment of rights of the assigning Lender with respect to such portion of the Pro Rata Share of the Total Commitment and outstanding Advances and Administrative Agent Advances and a confirmation of the Pro Rata Shares of the assigning Lender and the assignee. Promptly following satisfaction of the foregoing conditions, Administrative Agent shall give notice to Borrower and all of the Lenders of the effectiveness of the assignment and of the revised Pro Rata Shares of the Lenders. Borrower shall not be obligated to pay or reimburse Administrative Agent or any Lender (including any assigning Lender or assignee Lender) for any costs incurred in connection with any assignment or prospective assignment by a Lender.

10.8 Lien on Deposits and Property in Possession of Administrative Agent . The only accounts maintained by Borrower with Administrative Agent which shall be subject to a security agreement in favor of Administrative Agent shall be the DCR Collateral Account and the Replacement Reserve Account. If an Event of Default has occurred and is continuing, Administrative Agent may, to the extent permitted by applicable Laws, exercise its rights under Article 9 of the Uniform Commercial Code and other applicable Laws and apply any funds in those accounts against the Obligations.

10.9 Indemnity by Borrower. Borrower agrees to indemnify, save and hold harmless Administrative Agent and each Lender and their respective directors, officers, agents, attorneys and employees, successors and assigns (each, an " Indemnitee," and collectively, the "Indemnitees") from and against: (a) any and all claims, demands, actions or causes of action that are asserted against any Indemnitee by any Person that relates to the Collateral, or the ownership or operation thereof by Borrower, (b) any and all claims, demands, actions or causes of action if the claim, demand, action or cause of action arises out of or relates to the Loan, the use or contemplated use of proceeds of the Loan, the relationship of Borrower and Lenders under

this Agreement or any transaction contemplated by this Agreement, in each instance other than with respect to Article 9 or the relationship by and between the Lenders and the Administrative Agent;, (c) any administrative or investigative proceeding by any Governmental Agency arising out of or related to a claim, demand, action or cause of action described in clauses (a) or (b) above other than related to Article 9 or the relationship by and between the Lenders and the Administrative Agent; and (d) any and all liabilities, losses, costs or expenses (including attorneys' fees and disbursements and other professional services) that any Indemnitee suffers or incurs as a result of the assertion of any foregoing claim, demand, action or cause of action; provided that no Indemnitee shall be entitled to indemnification for any loss caused by its own gross negligence or willful misconduct as finally determined in a non appealable decision by a court of competent jurisdiction. If any claim, demand, action or cause of action is asserted against any Indemnitee, such Indemnitee shall reasonably, promptly notify Borrower, but the failure to so promptly notify Borrower shall not affect Borrower' obligations under this Section. Any Indemnitee that proposes to settle or compromise any claim or proceeding for which Borrower may be liable for payment of indemnity hereunder shall give Borrower written notice of the terms of such proposed settlement or compromise reasonably in advance of settling or compromising such claim or proceeding and shall obtain Borrower' prior consent, which consent shall not unreasonably be withheld. Each Indemnitee is authorized to employ counsel in enforcing its rights hereunder and in defending any claim, demand, action or cause of action covered by this Section 10.9; provided that each Indemnitee shall endeavor, but shall not be obligated, in connection with any matter covered by this Section 10.9 which also involves other Indemnitees, to use reasonable efforts to avoid unnecessary duplication of effort by counsel for all Indemnitees. Any obligation or liability of Borrower to any Indemnitee under this Section 10.9 shall survive the expiration or termination of this Agreement and the repayment of all Loans and the payment and performance of all other Obligations owed to Lender. Notwithstanding anything in this Section 10.9 to the contrary, the foregoing obligations on the part of Borrower shall not apply to any claim, cause of action or dispute arising out of or related to the syndication of the Loan, the matters set forth in Article 9 of this Agreement, or the relationship by or between the Administrative Agent and any one or more Lenders, or any of them.

10.10 Nonliability of Administrative Agent and Lenders . Borrower acknowledges and agrees that:

(a) Any inspections of any Property of Borrower made by or through Administrative Agent or any Lender is for purposes of administration of the Loan Documents only and Borrower are not entitled to rely upon the same;

(b) By accepting or approving anything required to be observed, performed, fulfilled or given to Administrative Agent or any Lender pursuant to the Loan Documents, neither Administrative Agent nor any Lender shall be deemed to have warranted or represented the sufficiency, legality, effectiveness or legal effect of the same, or of any term, provision or condition thereof, and such acceptance or approval thereof shall not constitute a warranty or representation to anyone with respect thereto by Administrative Agent or any Lender;

(c) The relationship between Borrower and Administrative Agent or any Lender is, and shall at all times remain, solely that of a Borrower and Lender; neither Administrative Agent nor any Lender shall under any circumstance be construed to be partners or joint venturers of Borrower or Borrower's Affiliates; neither Administrative Agent nor any Lender shall under any circumstance be deemed to be in a relationship of confidence or trust or a fiduciary relationship with Borrower or Borrower's Affiliates, or to owe any fiduciary duty to Borrower or Borrower's Affiliates; neither Administrative Agent nor any Lender undertakes or assumes any responsibility or duty to Borrower or Borrower's Affiliates to select, review, inspect, supervise, pass judgment upon or inform Borrower or Borrower's Affiliates of any matter in connection with their Property or the operations of Borrower or Borrower's Affiliates; Borrower and Borrower's Affiliates shall rely entirely upon their own judgment with respect to such matters; and any review, inspection, supervision, exercise of judgment or supply of information undertaken or assumed by Administrative Agent or any Lender in connection with such matters is solely for the protection of Administrative Agent or such Lender and neither Borrower nor any other Person is entitled to rely thereon; and

(d) No Indemnitee shall be responsible or liable to any Person for any loss, damage, liability or claim of any kind relating to injury or death to Persons or damage to Property or other loss, damage, liability or claim caused by the actions, inaction or negligence of Borrower or its Affiliates and Borrower hereby indemnifies and holds each Indemnitee harmless from any such loss, damage, liability or claim. In no event shall any Indemnitee be responsible for any punitive, exemplary, consequential or special damages.

10.11 No Third Parties Benefited. This Agreement is made for the purpose of defining and setting forth certain obligations, rights and duties of Borrower, Administrative Agent and the Lenders in connection with the Loan, and is made for the sole benefit of Borrower, Administrative Agent and the Lenders, and their respective permitted successors and assigns. Except as provided in Sections 10.7 and 10.9, no other Person shall have any rights of any nature hereunder or by reason hereof.

10.12 Further Assurances. Borrower shall, at its sole expense and without expense to Administrative Agent or any Lender, do, execute and deliver such further acts and documents as Lender from time to time reasonably requires for the assuring and confirming unto Administrative Agent and the Lenders the rights hereby created or intended now or hereafter so to be, or for carrying out the intention or facilitating the performance of the terms of any Loan Document.

10.13 Integration. This Agreement, together with the other Loan Documents, comprises the complete and integrated agreement of the parties on the subject matter hereof and supersedes all prior agreements, written or oral, on the subject matter hereof. In the event of any conflict between the provisions of this Agreement and those of any other Loan Document, the provisions of this Agreement shall control and govern; provided that the inclusion of supplemental rights or remedies in favor of Administrative Agent or any Lender in any other Loan Document shall not be deemed a conflict with this Agreement. Each Loan Document was drafted with the joint participation of the respective parties thereto and shall be construed neither against nor in favor of any party, but rather in accordance with the fair meaning thereof.

10.14 Governing Law. This agreement and the other loan documents shall be governed by, and construed in accordance with, the law of the State of California.

10.15 Severability of Provisions. Any provision in any Loan Document that is held to be inoperative, unenforceable or invalid as to any party or in any jurisdiction shall, as to that party or jurisdiction, be inoperative, unenforceable or invalid without affecting the remaining provisions or the operation, enforceability or validity of that provision as to any other party or in any other jurisdiction, and to this end the provisions of all Loan Documents are declared to be severable.

10.16 Headings. Article and Section headings in this Agreement and the other Loan Documents are included for convenience of reference only and are not part of this Agreement or the other Loan Documents for any other purpose.

10.17 Time of the Essence. Time is of the essence of the Loan Documents.

10.18 JURY TRIAL WAIVER EACH PARTY HERETO HEREBY IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT OR ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY OR THEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PERSON HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PERSON WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

10.19 Purported Oral Amendments. BORROWER AND LENDER EXPRESSLY ACKNOWLEDGE THAT THIS AGREEMENT AND THE OTHER LOAN DOCUMENTS MAY ONLY BE AMENDED OR MODIFIED, OR THE PROVISIONS HEREOF OR THEREOF WAIVED OR SUPPLEMENTED, BY AN INSTRUMENT IN WRITING THAT COMPLIES WITH SECTION 10.2. EACH BORROWER AGREES THAT IT WILL NOT RELY ON ANY COURSE OF DEALING, COURSE OF PERFORMANCE, OR ORAL OR WRITTEN STATEMENTS BY ANY REPRESENTATIVE OF LENDER THAT DOES NOT COMPLY WITHSECTION 10.2 TO EFFECT AN AMENDMENT, MODIFICATION, WAIVER OR SUPPLEMENT TO THIS AGREEMENT OF THE OTHER LOAN DOCUMENTS.

10.20 USA PATRIOT Act Notice. Each Lender hereby notifies Borrower that pursuant to the requirements of the USA PATRIOT Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the "Act"), such Lender is required to obtain, verify and record information that identifies Borrower, which information includes the name and address of Borrower and other information that will allow such Lender to identify Borrower in accordance with the Act.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

BORROWER:

MOLINA CENTER LLC,
a Delaware limited liability company

By: /s/ John C. Molina
John C. Molina
President

Address for Notices to Borrower:

Molina Center, LLC.
300 University Avenue, Suite 100
Sacramento, CA 95825
Attention: Joseph W. White, Chief Accounting Officer
Facsimile: (562) 437-7235
Telephone: (916) 646-9193 x 111566

with a copy to:

Molina Healthcare, Inc.
300 University Avenue, Suite 100
Sacramento, CA 95825
Attention: Jeff Barlow
General Counsel
Facsimile: (916) 646-4572
Telephone: (916) 646-9193 x 114663

Signature Page to
Term Loan Agreement

ADMINISTRATIVE AGENT:

EAST WEST BANK,
a California banking corporation

By: /s/ Robert Lo
Robert Lo
Senior Vice President

Address for Notices:

East West Bank
135 N. Los Robles Ave., Suite 600
Pasadena, CA 91101
Attention: May Kwong
Facsimile: (626) 817-8899
Telephone: (626) 768-6718
Email: mkwong@eastwestbank.com

with a copy to:

East West Bank
Loan Servicing Department
9300 Flair Drive, 6th Floor
El Monte, CA 91731
Attention: Linda Lam
Facsimile: (626) 927-2088
Telephone: (626) 371-8688
Email: linda.lam@eastwestbank.com

Signature Page to
Term Loan Agreement

LENDERS:

EAST WEST BANK,

a California banking corporation

By: /s/ May Kwong
May Kwong
First Vice President

Address for Notices:

East West Bank
135 N. Los Robles Ave., Suite 600
Pasadena, CA 91101
Attention: May Kwong
Facsimile: (626) 817-8899
Telephone: (626) 768-6718
Email: mkwong@eastwestbank.com

with a copy to:

East West Bank
Loan Servicing Department
9300 Flair Drive, 6th Floor
El Monte, CA 91731
Attention: Linda Lam
Facsimile: (626) 927-2088
Telephone: (626) 371-8688
Email: linda.lam@eastwestbank.com

Signature Page to
Term Loan Agreement

CITY NATIONAL BANK,
a national banking association

By: /s/ Lindsay Dun
Lindsay Dunn
Vice President

Address for notices:

City National Bank
555 S. Flower Street, 25th Floor
Los Angeles, CA 90071
Attention: Lyndsay Dunn
Facsimile: (213) 673-8299
Telephone: (213) 673-8269
Email: Lindsay.Dunn@cnb.com

Signature Page to
Term Loan Agreement

BANK OF CHINA, LOS ANGELES BRANCH,
a federally chartered branch of Bank of China Limited, a joint stock company incorporated in the People's Republic of China with limited liability

By: /s/ Jason Fu
Jason Fu aka Hou Yue Fu
Vice President

By: /s/ Edwin Chan
Edwin Chan
Assistant Vice President

Address for Notices:

Bank of China, Los Angeles Branch
444 S. Flower Street, Suite 3900
Los Angeles, CA 90071
Attention: Jason Fu
Facsimile: (213) 688-7720
Telephone: (213) 688-8700 x 235
Email: jfu@bocusa.com

With a copy to:

Bank of China, New York Branch
410 Madison Avenue
New York, NY 10017
Attention: Wenzhen Zhang
Facsimile: (212) 935-3101
Telephone: (212) 371-4185
Email: synloanadmin.nyb@bocusa.com

Signature Page to
Term Loan Agreement

UNION BANK, N.A.,
a national banking association

By: /s/ Susan Swerdloff
Susan Swerdloff
Vice President

Address for notices:

Union Bank, N.A.
445 S. Figueroa Street, 10th Floor
Los Angeles, CA 90071
Attention: Erik Siegfried
Facsimile: (213) 236-7637
Telephone: (213) 236-4028
Email: susan.swerdloff@unionbank.com

With a copy to:

Union Bank, N.A.
970 West 190th Street, Suite 995
Torrance, CA 90502
Attention: Charles D. Wilmot
Facsimile: (310) 767-5873
Telephone: (310) 767-5867
Email: charles.wilmot@unionbank.com

Signature Page to
Term Loan Agreement

THE BANK OF EAST ASIA (U.S.A.) N.A.,
a national banking association

By: /s/ Daisy Tung
Daisy Tung
Senior Vice President

By: /s/ Alise Weeling-Lee
Alise Weeling-Lee
Vice President & Credit Manager

Address for notices:

The Bank of East Asia (U.S.A.) N.A.
388 East Valley Boulevard, Suite 118
Alhambra, CA 91801 USA
Attention: Daisy Tung
Facsimile: (626) 284-4841
Telephone: (626) 457-2233
Email: tungdml@hkbea-us.com

Signature Page to
Term Loan Agreement

EXHIBIT A

COMPLIANCE CERTIFICATE

See attached.

FORM OF COMPLIANCE CERTIFICATE

To: The Lenders Party to the
Term Loan Agreement Described Below

This Compliance Certificate is furnished pursuant to that certain Term Loan Agreement dated as of December 1, 2011 (as amended, modified, renewed or extended from time to time, the “Agreement”) among Molina Center LLC (the “Borrower”), the lenders from time to time party thereto (the “Lenders”) and East West Bank, as Administrative Agent for the Lenders. Unless otherwise defined herein, capitalized terms used in this Compliance Certificate have the meanings ascribed thereto in the Agreement.

THE UNDERSIGNED HEREBY CERTIFIES THAT:

1. I am the duly *select one* [elected]/[appointed] *select one* [chief executive officer]/[chief financial officer]/[treasurer]/[controller] of the manager of the Borrower;

2. I have reviewed the terms of the Agreement and I have made, or have caused to be made under my supervision, a detailed review of the transactions and conditions of the Borrower and its Subsidiaries during the accounting period covered by the attached financial statements;

3. The examinations described in paragraph 2 did not disclose, and I have no knowledge of, the existence of any condition or event which constitutes a Default or Event of Default during or at the end of the accounting period covered by the attached financial statements or as of the date of this Compliance Certificate, except as follows(*if none, write “NONE;” otherwise describe in detail, the nature of the condition or event, the period during which it has existed and the action which the Borrower has taken, is taking, or proposes to take with respect to each such condition or event*):

____

____

____

4. Schedule I attached hereto sets forth financial data and computations evidencing the Borrower’s compliance with the covenant contained in Section 5.7(a) of the Agreement, all of which data and computations are true, complete and correct;

5. Schedule II attached hereto sets forth the various reports and deliveries which are required at this time under the Agreement and the other Loan Documents and the status of compliance.

The foregoing certifications, together with the computations set forth in Schedule I hereto and the financial statements delivered with this Certificate in support hereof, are made and delivered this ____ day of __________, 20__.

____
Signature

____
Printed Name

____
Title

SCHEDULE I TO COMPLIANCE CERTIFICATE

Compliance for Compliance Period ending , 20 with
Provisions of Section 5.7(a) of the Agreement

Numerator:		
Operating Revenue during Calculation Period: (attach detail)	$	______________
Less: Operating Revenue during Calculation Period: (attach detail)	$	______________
Difference: Net Operating Income	$	______________
Denominator:		
Interest Charges during Calculation Period:	$	______________
Plus: Principal payments required during Calculation Period on all Indebtedness other than Indebtedness subordinated to the Loan:	$	______________
Sum:	$	______________
Numerator divided by Denominator:		________________
Compliant? *select one*		[Yes] / [No]

SCHEDULE II TO COMPLIANCE CERTIFICATE

Reports and Deliveries Currently Due

Schedule 1.1(b)

(Schedule of Commitments)

Bank	Final Allocation Loan Portion	%
East West Bank (Administrative Agent)	$ 13,000,000	26.748971%
Bank of China, Los Angeles Branch	$ 10,000,000	20.576132%
City National Bank	$ 13,000,000	26.748971%
Union Bank, N.A.	$ 6,300,000	12.962963%
The Bank of East (U.S.A.) N.A.	$ 6,300,000	12.962963%
Total:	**$ 48,600,000**	100%

Schedule 3.3

Governmental Approvals

None

Schedule 3.17

Known Violations of Hazardous Materials Law

In a letter dated October 24, 2011, 200 Oceangate, LLC (the former owner of the Real Property), received Waste Discharge Requirements and a National Pollutant Discharge Elimination System (NPDES) permit (the "NPDES Permit") from the California Regional Water Quality Control Board, Los Angeles Region (the "CRWQCB"), governing the discharge of seepage groundwater from the subbasement parking structure located on the premises of the Real Property. Reasonable Potential Analysis (RPA) of water quality data submitted to the CRWQCB indicated concentrations for arsenic and nickel at the cusp of their respective screening levels. As a result, the CRWQCB determined that effluent limitations for these parameters are not appropriate, but that long term monitoring for these parameters are necessary to ensure that the concentrations for these parameters remain insignificant. The Borrower intends to monitor the water quality of the groundwater discharge in accordance with the monitoring and reporting requirements set forth in the NPDES Permit.

Schedule 5.1

Investments

None

GUARANTY

This GUARANTY is made as of December 1, 2011, by MOLINA HEALTHCARE, INC., a Delaware corporation (" Guarantor"), in favor of EAST WEST BANK, a California banking corporation, in its capacity as administrative agent (in such capacity, " Administrative Agent") for itself and the other "Lenders," as such term is defined below.

RECITALS

A. Pursuant to the terms of the Term Loan Agreement dated as of even date herewith (as amended, extended, renewed, supplemented or otherwise modified from time to time, the "Term Loan Agreement") by and among Molina Center LLC, a Delaware limited liability company (" Borrower"), Administrative Agent, East West Bank, Bank of China, Los Angeles Branch, City National Bank, Union Bank, N.A. and The Bank of East Asia (USA) N.A. and their assignees and successors from time to time as "Lenders" thereunder (collectively, " Lenders," and each, a "Lender"), Lenders have agreed to make a term loan to Borrower in the aggregate principal amount of up to Forty Eight Million Six Hundred Thousand Dollars ($48,600,000) (the " Loan"). Capitalized terms used but not otherwise defined in this Guaranty shall have the meanings ascribed to such terms in the Term Loan Agreement.

B. The obligations of Borrower for repayment of the Loan are evidenced by Promissory Notes dated as of even date herewith (as amended, extended, renewed, replaced, split, supplemented or otherwise modified from time to time, the " Notes") made by Borrower to the order of each of the Lenders, in the aggregate principal amount of the Loan. The obligations of Borrower under the Term Loan Agreement and the Notes are secured by the Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing (as amended, extended, renewed, supplemented or otherwise modified from time to time, the " Deed of Trust") executed by Borrower as trustor, naming First American Title Insurance Company as trustee and Administrative Agent as beneficiary, encumbering the "Property" (as described in the Deed of Trust), and by other collateral security.

C. The Term Loan Agreement, the Notes, the Deed of Trust and all other agreements and documents evidencing or securing Borrower's obligations in connection with the Lenders' issuance of the Loan are referred to in this Guaranty as the " Loan Documents".

D. Guarantor's execution and delivery of this Guaranty is a condition precedent to Lenders' issuance of the Loan. Guarantor has an interest in Borrower and will directly benefit from Lenders' extension of the Loan to Borrower and is therefore willing to enter into this Guaranty to induce Lenders to extend the Loan.

AGREEMENT

1. Guaranty.

(a) Guarantor unconditionally and irrevocably guarantees the full and prompt payment of all obligations, principal, interest, fees, costs and other sums owed under the Loan Documents at the times and according to the terms expressed in the Loan Documents, including any interest, late charges, default interest, fees and costs (including reasonable attorneys' fees)

that would have accrued under the Loan Documents but for the commencement of a case under Title 11 of the United States Code or any successor statute (the "Bankruptcy Code"). Notwithstanding anything else to the contrary contained in this Guaranty, the maximum principal amount of the Notes for which the Guarantor shall be liable under this Guaranty shall in no event exceed Twenty Million Dollars ($20,000,000) (the " Cap").

(b) Guarantor's liability under this Guaranty is a guaranty of payment and performance and not a guaranty of collection.

2. Changes Do Not Affect Liability. Guarantor agrees that Administrative Agent, on behalf of the Lenders, may without notice to Guarantor and without limiting Guarantor's liability under, or affecting the enforceability of, this Guaranty:

(a) grant extensions of time, renewals or other indulgences and modifications to Borrower or any other party under the Loan Documents;

(b) change the rate of interest or rate or amount of fees under the Term Loan Agreement or any other Loan Document;

(c) change, amend or modify the Loan Documents;

(d) authorize the sale, exchange, release or subordination of any security or collateral in which Administrative Agent or the Lenders has an interest, or fails to create, perfect or maintain the priority of any security interest in any such collateral;

(e) take additional security for any obligation evidenced by the Loan Documents;

(f) discharge or release any party or parties liable under the Loan Documents;

(g) accept or make compositions or other arrangements or file or refrain from filing a claim in any bankruptcy proceeding of Borrower, any other guarantor, any pledgor of collateral for any person's obligations to any Lender or any other person related to the Loan Documents;

(h) make other or additional credit available to Borrower in such amounts and at such times as Administrative Agent may determine;

(i) credit payments in such manner and order of priority to principal, interest or other obligations as Administrative Agent may determine; and

(j) otherwise deal with Borrower, any other guarantor, any pledgor of collateral for any person's obligations to any Lender or any other person related to the Loan Documents as Administrative Agent may determine in its discretion.

3. Additional Waivers.

(a) Guarantor waives all benefits and defenses it may have under California Civil Code Section 2809 and agrees that Guarantor's liability may be larger in amount and more burdensome than that of Borrower. Guarantor's liability under this Guaranty shall continue until all sums due under the Loan Documents have been paid in full and shall not be limited or affected in any way by any impairment or any diminution or loss of value of any security or collateral for the obligations under the Loan Documents, from whatever cause, including, without limitation, Administrative Agent's or Lenders' failure to perfect a security interest in any such security or collateral or any disability or other defense of Borrower, any other guarantor, any pledgor of collateral for any person's obligations to Administrative Agent or any Lender or any other person related to the Loan Documents.

(b) Guarantor agrees that its liability under, and the enforceability of, this Guaranty are absolute and are not contingent upon the genuineness, validity or enforceability of any of the Loan Documents or the availability of any defense to Borrower, any other guarantor or surety, any pledgor of collateral for any person's obligations to Administrative Agent or any Lender or any other person related to the obligations under the Loan Documents. Guarantor waives all benefits and defenses it may have under California Civil Code Section 2810 and agrees that Guarantor shall be liable even if Borrower, any other guarantor, any pledgor of collateral for any person's obligations to Administrative Agent or any Lender or any other person related to the obligations outstanding under the Loan Documents had no liability at the time of execution of any Loan Documents or later ceases to be liable.

(c) Guarantor waives its rights under California Civil Code Section 2815 and agrees that by doing so Guarantor does not have any right to revoke this Guaranty until all obligations under the Loan Documents have been fully satisfied.

(d) Guarantor waives its rights under California Civil Code Section 2819 and agrees that by doing so Guarantor's liability and the enforceability of this Guaranty shall continue even if Administrative Agent or any Lender alters any obligations under the Loan Documents in any respect.

(e) Guarantor waives its rights under California Civil Code Section 2839 and agrees that by doing so (i) its obligations under this Guaranty shall not be deemed satisfied by a mere offer of payment by Borrower or any other person of the principal obligations under the Loan Documents and (ii) Guarantor's liability under and the enforceability of this Guaranty shall continue until all obligations under the Loan Documents have been fully satisfied.

(f) Guarantor waives all benefits and defenses it may have under California Civil Code Sections 2787 to 2855, inclusive, including, without limitation, the right to require Administrative Agent or any Lender to (i) proceed against Borrower, any other guarantor or surety, any pledgor of collateral for any person's obligations to Administrative Agent or any Lender or any other person related to the obligations outstanding under the Loan Documents, (ii) proceed against or exhaust any other security or collateral Administrative Agent may hold, or (iii) pursue any other right or remedy for Guarantor's benefit, and agrees that Administrative Agent and the Lenders may foreclose against all or a part of the Property or any other security

Administrative Agent or the Lenders may hold without taking any action against Borrower, any other guarantor or surety, any pledgor of collateral for any person's obligations to Administrative Agent or any Lender or any other person related to the obligations outstanding under the Loan Documents, and without proceeding against or exhausting any security or collateral Administrative Agent or any Lender holds.

(g) Guarantor waives its rights under California Civil Code Sections 2899 and 3433 and agrees that by doing so that neither Administrative Agent nor any Lender has an obligation regarding the order in which it exercises its remedies against the Property or any other collateral security encumbered pursuant to any of the Loan Documents.

(h) Guarantor waives diligence and all demands, protests, presentments and notices of every kind or nature, including notices of protest, dishonor, nonpayment, acceptance of this Guaranty and creation, renewal, extension, modification or accrual of any of the obligations under the Loan Documents. Guarantor also waives the right to plead all statutes of limitation as a defense to Guarantor's liability under, or the enforceability of, this Guaranty.

(i) Guarantor waives any rights or benefits it may have by reason of California Code of Civil Procedure Section 580a which could limit the amount which Administrative Agent and the Lenders could recover in a foreclosure of the Property to the difference between the amount owing under the Loan Documents and the fair value of the Property or other real property sold at a nonjudicial foreclosure sale or sales of any other real property held by Administrative Agent or any Lender as security for the obligations under the Loan Documents.

(j) Guarantor waives all rights and defenses arising out of an election of remedies by Administrative Agent or any Lender, even though that election of remedies, such as a nonjudicial foreclosure of the Property or any other real property given to secure the obligations under the Loan Documents, may destroy Guarantor's rights of subrogation and reimbursement against Borrower by the operation of Section 580d of the California Code of Civil Procedure or otherwise.

4. Guarantor Informed of Borrower's Condition. Guarantor acknowledges that it has had an opportunity to review the Loan Documents, the value of the security for the obligations under the Loan Documents, and Borrower's financial condition and ability to repay the obligations owing under the Loan Documents. Guarantor agrees to keep itself fully informed of all aspects of Borrower's financial condition and the performance of Borrower's obligations to Administrative Agent, on behalf of the Lenders and that neither Administrative Agent nor any of the Lenders has any duty to disclose to Guarantor any information pertaining to Borrower or any security for the obligations owing under the Loan Documents.

5. Subrogation, Reimbursement and Contribution Rights. Guarantor agrees that its rights of subrogation and reimbursement against Borrower, its right of subrogation against any other collateral or security for the obligations owing under the Loan Documents or the pledgor of such collateral or security and its right of contribution from any guarantor of the obligations owing under the Loan Documents shall be subordinate to Administrative Agent's and the Lenders' rights against Borrower, in such collateral or security, against any such pledgor and

against any such guarantor. Guarantor shall have no such rights of subrogation, reimbursement or contribution until all amounts due under the Loan Documents have been paid in full and Administrative Agent, on behalf of the Lenders, has released, transferred or disposed of all of its rights in any collateral or security. Guarantor waives its rights under California Civil Code Sections 2847, 2848 and 2849 to the extent inconsistent with the foregoing.

6. Confirmation of Waivers; Borrower's Obligations are Secured by Real Property.

(a) Guarantor is aware that it is waiving all rights and defenses that it may have because Borrower's obligations are secured by real property. This means, among other things:

(i) Administrative Agent or Lenders may collect from Guarantor without first foreclosing on the Property or any other real or personal property collateral for Borrower's obligations pledged by Borrower or any other person; and

(ii) if Administrative Agent or Lenders foreclose on the Property:

(A) the amount of Borrower's obligations outstanding may be reduced only by the price for which the Property is sold at the foreclosure sale, even if the Property is worth more than the sale price; and

(B) Administrative Agent or Lenders may collect from Guarantor even if Administrative Agent, by foreclosing on the Property, has destroyed any right Guarantor may have to collect from Borrower.

(b) These are unconditional and irrevocable waivers of any rights and defenses Guarantor may have because Borrower's debt is secured by real property. These rights and defenses include, but are not limited to, any rights or defenses based upon Section 580a, 580b, 580d or 726 of the California Code of Civil Procedure.

7. Guaranty Continues if Payments Are Avoided or Recovered from Administrative Agent or Lenders. If all or any portion of the obligations guaranteed under this Guaranty are paid or performed, Guarantor's obligations under this Guaranty shall continue and remain in full force and effect if all or any part of such payment or performance is avoided or recovered directly or indirectly from Administrative Agent or Lenders as a preference, fraudulent transfer or otherwise, irrespective of (a) any notice of revocation given by Guarantor prior to such avoidance or recovery, and (b) payment in full of the obligations under the Loan Documents.

8. Subordination. Any rights of Guarantor, whether now existing or later arising, to receive payment on account of any indebtedness (including interest) owed to it by Borrower or any subsequent owner of the Property, or to withdraw capital invested by it in Borrower, or to receive distributions from Borrower, shall at all times be subordinate as to lien and time of payment and in all other respects to the full and prior repayment to Administrative Agent and the Lenders of the obligations owing under the Loan Documents. Guarantor shall not be entitled to enforce or receive payment of any sums hereby subordinated until all obligations owing under the Loan Documents have been fully satisfied and any such sums received in violation of this

Guaranty shall be received by Guarantor in trust for Administrative Agent, on behalf of Lenders, except for distributions of provided, however, that Guarantor may receive distributions of excess Cash from Borrower as permitted pursuant to Section 5.6 of the Term Loan Agreement.

9. Representations and Warranties. Guarantor makes the following representations and warranties to Administrative Agent and Lenders:

(a) This Guaranty has been duly executed and delivered and is the legal, valid and binding obligation of Guarantor, enforceable against Guarantor in accordance with its terms.

(b) Guarantor's execution and delivery of, and its performance of its obligations under, this Guaranty do not and will not conflict with any (i) contractual or legal restriction or obligation, or (ii) court or regulatory order, binding on or affecting Guarantor.

(c) There is no pending or, to the actual knowledge of Guarantor, threatened action, proceeding or investigation before any court, governmental agency or arbitrator against or affecting Guarantor, the Property, any of the Collateral, or any of Guarantor's other assets which, if decided adversely to Guarantor, would materially and adversely affect the financial condition of Guarantor or of any of Guarantor's assets, or would materially and adversely affect the present or future ability of Guarantor to perform its obligations under the Guaranty.

(d) Guarantor is not insolvent nor will it be rendered insolvent by the transactions contemplated by the Loan Documents. After giving effect to the transactions contemplated by the Loan Documents, Guarantor will not be left with an unreasonably small amount of capital with which to engage in its business or undertakings, nor will Guarantor have intended to incur, or believe that it has incurred, debts beyond its ability to pay such debts as they mature.

(e) Except as disclosed to Administrative Agent in writing, the financial statements and all financial data delivered to Administrative Agent relating to Guarantor are true, correct and complete in all material respects. Such financial statements fairly present the financial position of Guarantor as of the dates indicated. No material adverse change has occurred in Guarantor's financial position since the date of such financial statements, and Guarantor has not incurred any indebtedness since the date of any such statements.

(f) Guarantor has filed all required federal, state and local tax returns. Guarantor has paid all federal, state and local taxes prior to delinquency (including any interest and penalties) other than taxes being promptly and actively contested in good faith and by appropriate proceedings.

(g) Guarantor is in material compliance with all laws, regulations and court orders applicable to it and its business.

(h) All of the representations and warranties made by Borrower with respect to "Parent" in the Term Loan Agreement are hereby incorporated herein as representations and warranties of Guarantor to Administrative Agent and the Lenders, with the same effect as though the same were fully stated herein.

(i) None of Guarantor's representations or warranties contained in this Guaranty, the Term Loan Agreement or any other document, certificate or written statement furnished to Administrative Agent and Lenders on behalf of Guarantor contains any untrue statement of a material fact or omits to state a material fact necessary in order to make the statements contained in this Guaranty or in such other document, certificate or written statement (when taken in their entirety) not misleading. There is no fact known to Guarantor which materially or adversely affects the business, operations, assets or condition (financial or otherwise) of Guarantor which has not been disclosed in this Guaranty or in another written statement delivered to Administrative Agent by Borrower or Guarantor.

10. Covenants.

(a) Guarantor shall deliver the following information to Administrative Agent in form and substance reasonably satisfactory to Administrative Agent:

(i) as soon as available, but in any event within 45 days after the end of each Fiscal Quarter (commencing with the Fiscal Quarter ended December 31, 2011), the financial statements required by Section 6.1(b) of the Term Loan Agreement as of the end of such Fiscal Quarter;

(ii) as soon as filed, but in any event within 120 days after the end of each Fiscal Year (commencing with the Fiscal Year ended December 31, 2011), the financial required by Section 6.1(a) of the Term Loan Agreement as of the end of such Fiscal Year; and

(iii) all other information, reports and notices relating to Guarantor that Administrative Agent shall reasonably request.

(b) Guarantor shall comply with all requirements applicable to Guarantor under the Term Loan Agreement, including, without limitation, Articles 4, 5 and 6 of the Term Loan Agreement.

11. Borrower. As used in this Guaranty, "Borrower" shall include any successor to Borrower with respect to the Loan Documents and any estate created by the commencement of a case under the Bankruptcy Code or any other insolvency, bankruptcy, reorganization or liquidation proceeding, or by any trustee under the Bankruptcy Code, liquidator, sequestrator or receiver of Borrower or Borrower's property or similar person duly appointed pursuant to any law generally governing any insolvency, bankruptcy, reorganization, liquidation, receivership or like proceeding.

12. Opportunity to Review. Guarantor acknowledges that it has had the opportunity to review the matters discussed and contemplated by the Loan Documents, including the remedies Administrative Agent or Lenders may pursue against Borrower in the event of a default under the Loan Documents, the value of the security or collateral for the obligations owing under the Loan Documents and Borrower's financial condition and ability to perform under the Loan Documents to which Borrower is a party. Guarantor has had the opportunity to review this Guaranty with its counsel.

13. Miscellaneous.

(a) Notices. Any notice, demand or request required under this Guaranty shall be given in writing at the addresses set forth below by personal service; telecopy; overnight courier; or registered or certified, first class mail, return receipt requested.

If to Guarantor:

Molina Healthcare, Inc.
300 University Avenue, Suite 100
Sacramento, CA 95825
Attention: Joseph W. White, Chief Accounting Officer
Facsimile: (562) 437-7235
Telephone: (916) 646-9193 x 111566

With a copy to:

Molina Healthcare, Inc.
300 University Avenue, Suite 100
Sacramento, CA 95825
Attention: Jeff Barlow
General Counsel
Facsimile: (916) 646-4572
Telephone: (916) 646-9193 x 114633

If to Administrative Agent:

East West Bank
135 N. Los Robles Ave., Suite 600
Pasadena, CA 91101
Attention: May Kwong
First Vice President
Facsimile: (626) 817-8899
Telephone: (626) 768-6718

With a copy to:

East West Bank
Loan Servicing Department
9300 Flair Drive, 6th Floor
El Monte, California 91731
Attention: ______________________
Facsimile: ______________________
Telephone: ______________________

Such addresses may be changed by notice to the other parties given in the same manner as required above. Any notice, demand or request shall be deemed received as follows: (i) if sent by personal service, at the time such personal service is effected; (ii) if sent by telecopy, upon the sender's receipt of a confirmation report indicating receipt by the recipient's telecopier; (iii) if sent by overnight courier, on the business day immediately following deposit with the overnight courier; and (iv) if sent by mail, three business days following deposit in the mail.

(b) Governing Law. All questions with respect to the construction of this Guaranty and the rights and liabilities of the parties to this Guaranty shall be governed by the laws of the State of California.

(c) Binding on Successors. This Guaranty shall inure to the benefit of, and shall be binding upon, the successors and assigns of each of the parties to this Guaranty. Administrative Agent or Lenders may assign this Guaranty with one or more of the Loan Documents, without in any way affecting Guarantor's liability under it or them.

(d) Attorneys' Fees.

(i) Guarantor shall reimburse Administrative Agent and Lenders for all reasonable attorneys' fees, costs and expenses, incurred by Administrative Agent and Lenders in connection with the enforcement of Administrative Agent and Lenders' rights under this Guaranty and each of the other Loan Documents, including, without limitation, reasonable attorneys' fees, costs and expenses for trial, appellate proceedings, out-of-court negotiations, workouts and settlements or for enforcement of rights under any state of federal statute, including, without limitation, reasonable attorneys' fees, costs and expenses incurred to protect Administrative Agent and Lenders' security and attorneys' fees, costs and expenses incurred in bankruptcy and insolvency proceedings such as (but not limited to) seeking relief from stay in a bankruptcy proceeding. The term "expenses" means any expenses incurred by Administrative Agent or Lenders in connection with any of the out-of-court, or state, federal or bankruptcy proceedings referred to above, including, without limitation, the fees and expenses of any appraisers, consultants and expert witnesses retained or consulted by Administrative Agent or Lenders in connection with any such proceeding.

(ii) Administrative Agent and Lenders shall also be entitled to its and their attorneys' fees, costs and expenses incurred in any post-judgment proceedings to collect and enforce the judgment. This provision is separate and several and shall survive the merger of this Guaranty into any judgment on this Guaranty.

(iii) Notwithstanding anything in this Section 13(d) to the contrary, Guarantor shall not be liable or responsible for costs or fees incurred by Administrative Agent or any Lender in connection with the syndication of the Loan, the negotiation or enforcement of Article 9 of the Term Loan Agreement or any other agreement by or between the Lenders or the Administrative Agent, or any dispute by or between Administrative Agent or any Lenders with respect to their respective rights or obligations as between each other.

(e) Counterparts. This Guaranty may be executed in any number of original counterparts, each of which shall be deemed an original, but all of which when taken together shall constitute one instrument. The original signature page of any counterpart may be detached from such counterpart and attached to any other counterpart identical to such counterpart (except having additional signature pages executed by other parties to this Guaranty) without impairing the legal effect of any such signature(s).

(f) Entire Agreement. This Guaranty constitutes the entire agreement and understanding between the parties in respect of the subject matter of this Guaranty and supersedes all prior agreements and understandings with respect to such subject matter, whether oral or written.

(g) Waivers. Waiver by Administrative Agent or Lenders of any term, covenant or condition under this Guaranty or the Loan Documents, or of any default by Guarantor under this Guaranty or the Loan Documents, or any failure by Administrative Agent or Lenders to insist upon strict performance by Guarantor of any term, covenant or condition contained in this Guaranty or the Loan Documents, shall be effective or binding on Administrative Agent and Lenders only if made in writing by Administrative Agent; no such waiver shall be implied from any omission by Administrative Agent or Lenders to take action with respect to any such term, covenant, condition or default. No express written waiver by Administrative Agent of any term, covenant, condition or default shall affect any other term, covenant, condition or default or cover any other time period than the application of any such term, covenant or condition to the matter as to which a waiver has been given or the default or time period specified in such express waiver. This Guaranty may be amended only by an instrument in writing signed by the parties to this Guaranty.

(h) Severability. If any part of this Guaranty is declared invalid for any reason, such shall not affect the validity of the rest of the Guaranty. The other parts of this Guaranty shall remain in effect as if this Guaranty had been executed without the invalid part. The parties declare that they intend and desire that the remaining parts of this Guaranty continue to be effective without any part or parts that have been declared invalid.

14. WAIVER OF TRIAL BY JURY. TO THE EXTENT PERMITTED BY LAW, EACH OF ADMINISTRATIVE AGENT AND GUARANTOR WAIVES TRIAL BY JURY WITH RESPECT TO ANY ACTION, CLAIM, SUIT OR PROCEEDING IN RESPECT OF OR ARISING OUT OF THIS GUARANTY OR THE OTHER LOAN DOCUMENTS OR THE CONDUCT OF THE RELATIONSHIP AMONG ADMINISTRATIVE AGENT, LENDERS AND GUARANTOR. EACH PARTY HAS OBTAINED THE ADVICE OF THEIR RESPECTIVE LEGAL COUNSEL BEFORE SIGNING THIS GUARANTY AND ACKNOWLEDGE THAT THEY VOLUNTARILY AGREED TO THIS WAIVER OF THEIR RIGHT TO TRIAL BY JURY WITH FULL KNOWLEDGE OF ITS SIGNIFICANCE AND LEGAL CONSEQUENCE.

15. Right to Deal with Administrative Agent. Guarantor shall have the same rights as are provided to Borrower pursuant to Sections 9.13, 9.14 and 9.15 of the Term Loan Agreement.

[Signature page follows]

IN WITNESS WHEREOF, Guarantor has caused this Guaranty to be duly executed as of the date first written above.

GUARANTOR:

MOLINA HEALTHCARE, INC.,
a Delaware corporation

By: /s/ John C. Molina
John C. Molina
Chief Financial Officer

Guaranty

Exhibit 10.20

ENVIRONMENTAL INDEMNITY

This ENVIRONMENTAL INDEMNITY (this "Indemnity") is entered into as of December 1, 2011, by MOLINA CENTER LLC, a Delaware limited liability company ("Borrower") and MOLINA HEALTHCARE, INC. ("Guarantor"; collectively, jointly and severally with Borrower, "Indemnitor"), for the benefit of EAST WEST BANK, a California banking corporation, in its capacity as administrative agent (in such capacity, " Administrative Agent") for itself, Bank of China, Los Angeles Branch, City National Bank, Union Bank, N.A. and The Bank of East Asia (USA) N.A. and their assignees and successors from time to time as "Lenders" under the Term Loan Agreement defined below (collectively, "Lenders," and each, a "Lender"), Lenders and each of Administrative Agent's and Lenders' successors, assigns and participants, parents, subsidiaries and affiliated corporations, and its and their respective directors, officers, agents, attorneys and employees (each individually, an " Indemnitee" and collectively, "Indemnitees").

RECITALS

A. Pursuant to the terms of the Term Loan Agreement dated as of even date herewith (as amended, extended, renewed, supplemented or otherwise modified from time to time, the "Term Loan Agreement") by and among Administrative Agent, Lenders and Borrower, Lenders have agreed to make a term loan to Borrower in the principal amount of up to Forty Eight Million Six Hundred Thousand Dollars ($48,600,000) (the " Loan"). Capitalized terms used but not otherwise defined in this Indemnity shall have the meanings ascribed to such terms in the Term Loan Agreement. The obligations of Borrower for repayment of the Loan are evidenced by the Promissory Note dated as of even date herewith (as amended, extended, renewed, replaced, split, supplemented or otherwise modified from time to time, the "Note") made by Borrower to the order of Administrative Agent, on behalf of Lenders, in the principal amount of the Loan.

B. Borrower's obligations to Administrative Agent and Lenders under the Term Loan Agreement are secured by the Deed of Trust, Security Agreement, Assignment of Rents and Fixture Filing dated as of even date herewith (as amended, extended, renewed, supplemented or otherwise modified from time to time, the "Deed of Trust") executed by Borrower, as trustor, naming First American Title Insurance Company as trustee and Administrative Agent as beneficiary, and by other collateral security. The Deed of Trust encumbers the "Property" (as described in the Deed of Trust). The obligations of Indemnitor under this Indemnity are not secured by the Deed of Trust.

C. Indemnitor's execution of this Indemnity is a condition precedent to Lenders' issuance of the Loan. Indemnitor is willing to execute this Indemnity because of the benefits Lenders' issuance of the Loan will confer on Borrower and Guarantor.

AGREEMENT

1. Indemnity. Indemnitor shall be solely responsible for, and shall indemnify and hold harmless each Indemnitee 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;

threatened release, discharge or disposal; or presence of "Hazardous Materials" (as defined below) on or about the Property, including, without limitation: (a) all foreseeable consequential damages incurred by any Indemnitee; (b) the costs of any required or necessary repair, cleanup or detoxification of the Property and the preparation and implementation of any closure, remedial or other required plans; and (c) all reasonable costs and expenses incurred by any Indemnitee in connection with clauses (a) and (b), including, without limitation, reasonable attorneys' fees.

For purposes of this Indemnity, the following terms shall have the following definitions:

"Hazardous Materials" means (i) any chemical, compound, material, mixture or substance that is now or hereafter defined or listed in, or otherwise classified pursuant to, any "Hazardous Materials Law" (as defined below) as a "hazardous substance", "hazardous material", "hazardous waste", "extremely hazardous waste", "acutely hazardous waste", "radioactive waste", "infectious waste", "biohazardous waste", "toxic substance", "pollutant", "toxic pollutant", "contaminant" as well as any formulation not mentioned herein intended to define, list, or classify substances by reason of deleterious properties such as ignitability, corrosivity, reactivity, carcinogenicity, toxicity, reproductive toxicity "EP toxicity," or "TCLP toxicity"; (ii) petroleum, natural gas, natural gas liquids, liquified natural gas, synthetic gas usable for fuel (or mixtures of natural gas and such synthetic gas) and ash produced by a resource recovery facility utilizing a municipal solid waste stream, and drilling fluids, produced waters and other wastes associated with the exploration, development or production of crude oil, natural gas, or geothermal resources; (iii) "hazardous substance" as defined in Section 25281(f) of the California Health and Safety Code; (iv) "waste" as defined in Section 13050(d) of the California Water Code (v) asbestos in any form; (vi) urea formaldehyde foam insulation; (vii) transformers or other equipment which contain dielectric fluid containing levels of polychlorinated biphenyls (PCBs) in excess of fifty (50) parts per million; (viii) radon; and (ix) any other chemical, material, or substance that, because of its quantity, concentration, or physical or chemical characteristics, exposure to which is limited or regulated for health and safety reasons by any governmental authority, or which poses a significant present or potential hazard to human health and safety or to the environment if released into the workplace or the environment.

"Hazardous Materials Laws" means all present and future federal, state and local laws, ordinances, regulations, permits, guidance documents, policies, decrees, orders and any other requirements, whether statutory, regulatory or contractual, of governmental authorities relating to health, safety, the environment or the use, handling, disposal or transportation of any Hazardous Materials (including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980, the Resource Conservation Recovery Act, the Clean Water Act, the Clean Air Act, and the applicable provisions of the California Health and Safety Code and the California Water Code, as each such statute may from time to time be amended, and the rules, regulations, and guidance documents promulgated pursuant to any such statute).

Notwithstanding the foregoing, Indemnitor shall have no liability under this Indemnity for the release of any Hazardous Material on the Property by any Indemnitee or any such release occurring after foreclosure, a deed in lieu of foreclosure or the possession of the Property by a receiver.

2. Indemnity Procedure.

(a) If any Indemnitee notifies Indemnitor of any claim or notice of the commencement of any action, administrative or legal proceeding or investigation as to which Indemnitor's obligation to indemnify under Section 1 above applies, Indemnitor shall assume on behalf of such Indemnitee, and conduct with due diligence and in good faith, the investigation and defense of, and the response to, such claim, action, proceeding or investigation, with counsel reasonably satisfactory to the Indemnitee; provided, however, that such Indemnitee shall have the right to be represented by advisory counsel of its own selection and at its own expense; and provided, further, that if any such claim, action, proceeding, or investigation involves both Indemnitor and an Indemnitee, and such Indemnitee shall have reasonably concluded that there may be legal defenses available to it which are different from, additional to, or inconsistent with those available to Indemnitor, then the Indemnitee shall have the right to select separate counsel to participate in the investigation and defense of and response to such claim, action, proceeding or investigation on its own behalf at Indemnitor's expense.

(b) If any claim, action, proceeding, or investigation arises as to which Indemnitor's duty to indemnify under this Indemnity applies, and Indemnitor fails to assume promptly (and in any event within ten days after being notified of the claim, action, proceeding, or investigation) the defense of an Indemnitee, then such Indemnitee may contest and settle the claim, action, proceeding, or investigation at Indemnitor's expense using counsel selected by such Indemnitee; provided, however, that after any such failure by Indemnitor no such contest need be made by such Indemnitee and settlement or full payment of any claim may be made by such Indemnitee without Indemnitor's consent and without releasing Indemnitor from any obligations to such Indemnitee under this Indemnity.

3. Damages Unrelated to Credit. This Indemnity is given solely to protect Administrative Agent, Lenders and the other Indemnitees against claims, losses, damages, costs, expenses, claims and liabilities, and not as additional security for, or as a means of payment of, Indemnitor's obligations under the Term Loan Agreement or any other obligation secured by the Deed of Trust. The obligations of Indemnitor under this Indemnity are independent of, and shall not be measured or affected by (a) any amounts at any time owing under the Term Loan Agreement or secured by the Deed of Trust, (b) the sufficiency or insufficiency of any collateral (including, without limitation, the Property) given to Administrative Agent or Lenders to secure the performance of the Term Loan Agreement, the Note or any obligation in favor of Administrative Agent, on behalf of Lenders, (c) the consideration given by Administrative Agent, Lenders or any other party in order to acquire the Property, (d) the modification, expiration or termination of the Deed of Trust or any other document or instrument securing or otherwise relating to the obligations owing under the Term Loan Agreement, or (e) the payment in full of all obligations owing under the Term Loan Agreement, the Note or any obligation in favor of Administrative Agent or Lenders (including, without limitation, by amounts paid or credit bid at a foreclosure sale or by discharge in connection with a deed in lieu of foreclosure). Indemnitor's obligations under this Indemnity are not secured, whether by the Deed of Trust or otherwise.

4. Survival of Sale by Borrower. Except as otherwise provided in this Indemnity, Indemnitor's obligations under this Indemnity shall survive the sale or other transfer of the Property by Borrower. The rights of each Indemnitee under this Indemnity shall be in addition to any other rights and remedies of such Indemnitee against Indemnitor under any other document or instrument executed by Indemnitor, or at law or in equity (including, without limitation, any right of reimbursement or contribution pursuant to CERCLA), and shall not in any way be deemed a waiver of any of such rights.

5. Subrogation. If Indemnitor fails to indemnify the Indemnitees as provided in this Indemnity, the Indemnitees shall be subrogated to any rights Indemnitor may have against third parties relating to the matters covered by this Indemnity.

6. Payment of Costs. Indemnitor shall pay, upon demand, all costs and expenses (including, without limitation, reasonable attorneys fees) incurred by any Indemnitee in the enforcement of this Indemnity or the collection of any amounts due under this Indemnity.

7. Successors and Assigns. This Indemnity shall be binding upon Indemnitor, its successors and assigns, and shall inure to the benefit of and shall be enforceable by each Indemnitee, its successors, and assigns (including, without limitation, any entity to which a Lender assigns or sells all or any portion of its interest in the Note, and any successor to Administrative Agent under the Term Loan Agreement).

8. Notices. Any notice, demand or request required under this Indemnity shall be given in the manner required in the Deed of Trust.

9. Separate Actions. Multiple actions may be brought and judgments obtained under this Indemnity. A separate and new right of action arises each time that a claim or liability arises under this Indemnity.

10. Governing Law. This Indemnity shall be governed and construed in accordance with the laws of the State of California.

11. Severability. All provisions contained in this Indemnity are severable and the invalidity or unenforceability of any provision shall not affect or impair the validity or enforceability of the remaining provisions of this Indemnity.

12. Entire Agreement. This Indemnity constitutes the entire agreement and supersedes all prior agreements and understandings, both written and oral, between the parties with respect to the subject matter contained in this Indemnity.

[Signature page follows]

IN WITNESS WHEREOF, Indemnitor has caused this Indemnity to be duly executed as of the date first written above.

BORROWER:

MOLINA CENTER LLC,
a Delaware limited liability company

By: /s/ John C. Molina
John C. Molina
President

GUARANTOR:

MOLINA HEALTHCARE, INC.
a Delaware corporation

By: /s/ John C. Molina
John C. Molina
Chief Financial Officer

Signature Page to
Environmental Indemnity
Molina Center LLC

Exhibit 10.21

200 & 300 OCEANGATE, LONG BEACH, CALIFORNIA

PURCHASE AGREEMENT

BETWEEN

200 OCEANGATE, LLC, A DELAWARE LIMITED LIABILITY COMPANY

AND

MOLINA CENTER LLC, A DELAWARE LIMITED LIABILITY COMPANY

OCTOBER 11, 2011

TABLE OF CONTENTS

1.	Agreement of Sale	1
2.	Purchase Price	2
3.	Non-Refundable Payment and Deposit	2
4.	Documents to be Delivered to Buyer	4
5.	Title	6
6.	Access	7
7.	Due Diligence Period	9
8.	Acceptance of Property “As Is”	10
9.	Conditions to Closing	13
10.	Closing	14
11.	Representations and Warranties	21
12.	Risk of Loss; Insurance Proceeds; Condemnation	27
13.	Assignment	26
14.	Seller’s Covenants During Contract Period	27
15.	ARBITRATION OF DISPUTES	29
16.	Indemnification	31
17.	Miscellaneous	31
18.	Notice	31

LIST OF EXHIBITS

Exhibit A	Description of the Land
Exhibit B	Materials and Documents Delivered to Buyer
Exhibit C	Rent Roll
Exhibit D	Form of Tenant Estoppel Certificate
Exhibit E	Service Contracts
Exhibit F	Grant Deed
Exhibit G	Bill of Sale and General Assignment
Exhibit H	FIRPTA Affidavit
Exhibit I	Form of Tenant Notice Letter
Exhibit J	Form of Owner’s Affidavit
Exhibit K	Buyer’s Insurance
Exhibit L	Seller’s Insurance

PURCHASE AGREEMENT

200 & 300 OCEANGATE, LONG BEACH, CALIFORNIA

THIS AGREEMENT is entered into as of the 11th day of October, 2011 ("**Contract Date**"), by and between 200 OCEANGATE, LLC, a Delaware limited liability company ("**Seller**"), and MOLINA CENTER LLC, a Delaware limited liability company ("**Buyer**").

RECITALS

Seller owns and is offering for sale the land and improvements commonly known as 200 & 300 Oceangate, Long Beach, California, and more completely described below. Buyer has offered to buy the property, and the parties are entering into this Agreement to set forth the terms and conditions of the sale to Buyer.

NOW, THEREFORE, in consideration of the foregoing and the agreements set forth below, the parties hereto agree as follows:

1. Agreement of Sale.

1.1 Seller hereby agrees to sell to Buyer and Buyer hereby agrees to purchase from Seller that certain real property (the "**Land**") with street address of 200 & 300 Oceangate, Long Beach, California, and more particularly described in attached Exhibit A, together with Seller's right, title and interest in the following, which together with the Land, shall be termed the "**Property**" herein:

(a) the approximately 461,263 square foot office project located at 200 & 300 Oceangate, Long Beach, California and all fixtures and other improvements located upon the Land (collectively, the "**Improvements**");

(b) all easements, rights of way, privileges, licenses, appurtenances and other rights and benefits of Seller belonging to or in any way related to the Land, and the Improvements, including water rights, mineral rights, air rights and development rights, if any (together with the Land and Improvements, the "**Real Property**");

(c) all fixtures, furnishings, equipment and other tangible personal property owned by Seller that are used for the operation of the Property and that are located on the Property or that are used exclusively for the operation of the Property (the "**Personal Property**");

(d) the Leases and Service Contracts (as such terms are hereinafter defined) and all security deposits held by Seller with respect to the Leases;

(e) to the extent assignable, all certificate(s) of occupancy, building or equipment permits, consents, authorizations, variances, waivers, licenses, permits, certificates and approvals from any governmental or quasi-governmental authority necessary for the use of the Land or the Improvements (collectively, the "**Approvals**");

(f) all transferable or assignable warranties (the "**Warranties**") relating to the ownership, development, use and operation of the Land and Improvements;

(g) to the extent assignable, all of Seller's interest in all structural, soil, seismic, geologic, engineering and other reports and studies, all operating manuals for all systems, equipment and operating components of the Property, all marketing materials that are distributed or shown to potential tenants in the marketing of the Property for lease, photos and depictions, all architectural drawings, plans and specifications relating to all or any portion of the Real Property, and all intellectual property rights to the Property, including, without limitation, trade names, trademarks, service marks, logos or other source and business identifiers, trademark registrations and applications for registration used at or relating to the Real Property and any written agreement granting to Seller any right to use any trademark or trademark registration at or in connection with the Real Property (the " **Intangible Property**").

2. Purchase Price. The purchase price for the Property is Eighty-Three Million Dollars ($83,000,000.00) (" **Purchase Price**") and shall be paid in cash by Buyer at the Closing (as defined in Section 10.1 below).

3. Non-Refundable Payment and Deposit

3.1 Non-Refundable Payment. On the Contract Date, as consideration for Seller's agreement to enter into this Agreement and grant Buyer the right to conduct due diligence and terminate this Agreement on and subject to the terms of Section 7, and as a condition precedent to the effectiveness of this Agreement, Buyer shall deliver directly to Seller, by personal check, cash or wire transfer funds in the amount of One Hundred and No/100 ths Dollars ($100) (the "**Non-Refundable Payment**"). The Non-Refundable Payment shall be fully earned and retained by Seller immediately upon receipt and, notwithstanding any provisions of this Agreement to the contrary, the Non-Refundable Payment shall not be returned to Buyer in any circumstance.

3.2 Deposit; Liquidated Damages.

(a) Initial Deposit. Within one (1) business day after the Contract Date, Buyer shall deposit in an escrow (the " **Escrow**") established for the within contemplated transaction with First American Title Insurance Company, National Commercial Services, 1850 Mt. Diablo Blvd., Suite 300, Walnut Creek, California, 94596, Attention: Kitty Schlesinger, Order No. NCS-453433-CC (the " **Title Company**"), the sum of Five Hundred Thousand Dollars ($500,000) (the "**Initial Deposit**"), with instructions to the Title Company to hold the Initial Deposit in the Escrow in an interest-bearing account, with interest accruing for the benefit of Buyer. In the event the sale of the Property is consummated, the Initial Deposit and all interest earned thereon shall be applied towards the Purchase Price. If Buyer elects to terminate this Agreement pursuant to its terms or fails to notify Seller in writing that the Property is acceptable, as provided in Section 7, prior to the end of the Due Diligence Period (as defined in Section 7), the Initial Deposit and all interest thereon shall be returned to Buyer, and the parties shall be released from all further obligations and liability under this Agreement, except for those obligations that survive the termination of this Agreement.

(b) Additional Deposit. Concurrently with, and subject to, the delivery of the Approval Notice to Buyer as provided in Section 7, Buyer shall deposit in the Escrow the additional sum of Two Million and No/100ths Dollars ($2,000,000) (the " **Additional Deposit**" and together with the Initial Deposit, the "**Deposit**"), with instructions to the Title Company to hold such Additional Deposit in the Escrow, in an interest bearing account, with interest accruing for the benefit of Buyer. In the event the sale of the Property to Buyer is consummated, the Deposit and all interest earned thereon shall be applied towards the Purchase Price.

(c) Non-Refundable Deposit. Upon the delivery by Buyer to Seller of the Approval Notice, the Deposit shall be non-refundable to Buyer except in the following events, upon the occurrence of which the Deposit and all interest thereon shall be returned to Buyer: (i) the Closing fails to occur due to a material default by Seller under this Agreement; (ii) the Closing fails to occur as a result of a failure of a condition to Closing in favor of Buyer, but only if such failure occurs other than as a result of a material default by Buyer under this Agreement; or (iii) the terms of this Agreement expressly provide for the return of the Deposit to Buyer. On the Closing Date, the Deposit and all interest earned thereon shall be applied to the Purchase Price.

(d) **Liquidated Damages. If this Agreement does not terminate pursuant to Section 7, but Buyer fails to consummate this transaction on the scheduled Closing Date (as defined in Section 10.1) due to default by Buyer and any such default continues for five (5) business days after written notice from Seller to Buyer, which written notice shall detail such default, Seller shall be entitled to the Deposit, and all interest thereon, as liquidated damages. The parties have acknowledged and agreed that Seller's damages, in the event of a default by Buyer, would be extremely difficult or impracticable to determine. Therefore, by placing their initials below, the parties acknowledge that the Deposit, and all interest thereon, has been agreed upon, after negotiation, as the parties' reasonable estimate of Seller's damages. Notwithstanding the foregoing, in no event shall Seller's ability to recover from Buyer any loss, cost, damage or expense pursuant to any indemnification or other provision of this Agreement that survives the Closing be deemed limited in any respect by this provision or by Seller's receipt of the Deposit.** The parties agree that the Deposit is not intended as a forfeiture or penalty within the meaning of California Civil Code Sections 3275 or 3369 but shall be treated as liquidated damages pursuant to California Civil Code Sections 1671, 1676 and 1677.

/s/ Jeanne R Myerson, President	/s/ John C. Molina, CFO
Seller	Buyer

This Section 3.2 is not intended to limit Seller's remedies under Sections 6, 17.7 or 17.8.

4. Documents to be Delivered to Buyer.

4.1 Due Diligence Deliveries. Seller has provided Buyer with, and Buyer acknowledges receipt of, copies of the materials and documents identified in Exhibit B attached hereto.

4.2 Title Report. Seller has also provided to Buyer, and Buyer acknowledges receipt of that certain title commitment for the Property prepared under Order No. NCS-453433-CC, dated September 9, 2011, together with a copy of each document referred to therein (collectively, the " **Preliminary Title Report**").

4.3 Property Documents. Buyer shall have the right, at Buyer's sole cost and expense and with at least one (1) business day prior notice, to review Seller's real property transaction files (excluding any privileged or confidential information and excluding any valuation and appraisal information), lease files, plans and specification files, and other files relating to the Property and its ownership, operation, management and maintenance during regular business hours, which files are located in the management office at the Property.

4.4 Leases. Seller shall deliver to Buyer copies of the existing leases, license agreements and rental agreements covering any portion of the Property, any guarantees thereof, and all amendments, modifications and supplements thereto as listed on Exhibit C hereto (each a "**Lease**" and collectively, the "**Leases**").

4.5 Tenant Estoppels.

(a) Seller shall deliver to Buyer an estoppel certificate (a " **Tenant Estoppel**"), in the form of attached Exhibit D or, if the applicable Lease provides for a different form of estoppel in the form specified in the applicable Lease, dated no earlier than thirty (30) days prior to Closing, from as many of the tenants of the Property (the "**Tenants**") from whom Seller is able to obtain such Tenant Estoppels through the exercise of Seller's diligent, good faith efforts. Seller shall, at least ten (10) days prior to the expiration of the Due Diligence Period and prior to delivery to the Tenants for execution, deliver completed forms of Tenant Estoppels to Buyer for Buyer's review and approval, provided that Seller shall not be obligated to deliver the form of Tenant Estoppel for any of the following Tenants (collectively, the "**Government Tenants**"): (A) the State of California acting by and through the Director of the Department of General Services; and (B) the United States of America, Department of Veterans Affairs. Buyer may disapprove a Tenant Estoppel only if (i) it is not in the form of Exhibit D or, if the applicable Lease provides for a different form or content of estoppel in the form or content specified in the applicable Lease, the form or content provided by the applicable Lease, or (ii) if the information set forth in the Tenant Estoppel is not consistent with the terms set forth in the applicable Lease. If Buyer has not responded as to such approval within three (3) business days of receipt of a Tenant Estoppel, Buyer shall be deemed to have approved the Tenant Estoppel in question for delivery to Tenant. Seller shall deliver completed Tenant Estoppels to Buyer as they are received by Seller. Notwithstanding the foregoing, Seller shall not be obligated to prepare or seek Tenant Estoppels with respect to the following Leases, as amended and assigned to date: (1) License Agreement, dated November 30, 2000, by and between Pacific Towers Associates

and Captivate Network, Inc.; (2) Antenna Site License Agreement, dated as of November 30, 2006, by and between Seller and Direct America Satellite Services; (3) Telecommunications License Agreement, dated July 13, 2005, by and between Seller and Rocket Internetworking, Inc.; (4) Telecommunications Access and License Agreement, dated December 21, 2009, by and between Seller and TCG Los Angeles, Inc.; (5) License Agreement, dated December 21, 2000, by and between XO Communications, Inc., and Pacific Towers Associates; and (6) UPS Drop Box Agreement, dated February 2, 2010, by and between United Parcel Service, Inc., and Seller.

(b) Estoppel Thresholds. Buyer shall have a right to terminate this Agreement upon written notice prior to the Closing Date and receive a refund of the Deposit and all interest thereon as its sole remedy if Seller fails to deliver to Buyer at least three (3) days prior to the Closing Date, Tenant Estoppels from (i) the State of California acting by and through the Director of the Department of General Services, which is the contracting party under five (5) separate Leases – State Lands Commission (two Leases), California Coastal Commission, and Department of Industrial Relations (two Leases), confirming that such Leases are in effect, that the Tenant has no default claims against Seller, that the term of the Lease is consistent with the term reflected in the Lease, and that the base monthly rent payable is consistent with the base monthly rent shown in the Lease, (ii) the United States of America, Department of Veterans Affairs confirming that the Lease is in full force and effect, the date to which the rent and other charges have been paid in advance, if any; and whether any notice of default has been issued, and (iii) each of (1) AECOM Technology Corp., (2) Pacific Maritime Association, (3) Long Beach Publishing Company, Inc., and Medianews Group, Inc., (4) J. Perez Associates, Inc., and (5) Crowell Weedon & Co. (collectively, the "**Major Non-Government Tenants in Occupancy**") in the form approved or deemed approved by Buyer pursuant to Section 4.5(a) above. Buyer acknowledges and agrees that if the Major Non-Government Tenants in Occupancy delete or modify one or both of sections 20 and 21 of the form Tenant Estoppel attached as Exhibit D, such deletion(s) or modification(s) shall not constitute a change in the form approved or deemed approved by Buyer. As used in this Agreement, the term "**Major Non-Government Tenants**" shall mean the Major Non-Governmental Tenants in Occupancy.

4.6 Service Contracts. Seller has delivered to Buyer, and Buyer acknowledges receipt of, copies of the service, maintenance, management and other contracts and agreements related to the operation and management of the Property, excluding the property management agreement which will not be assigned at Closing, all of which are listed on the attached Exhibit E (the "**Service Contracts**"). If Buyer delivers the Approval Notice, Buyer shall be deemed to have agreed to assume at Closing all of the Service Contracts.

4.7 Survey. Seller shall deliver a copy of Seller's existing survey to Buyer (the "**Survey**"). Buyer may, at its sole cost and expense, cause the Survey to be updated and recertified as deemed necessary and appropriate by Buyer.

4.8 Discharge Permit. So long as this Agreement remains in effect, Seller shall endeavor, at its sole cost and expense, to obtain a discharge permit from an applicable regulatory authority (a "**Discharge Permit**") with respect to the operation of the water collection and discharge system at the Property (the "**Discharge System**"). Seller confirms that it has retained and shall continue to retain, at its sole cost and expense, Kennedy/Jenks Consultants to oversee

the necessary water quality testing, produce the reports and collect the data required in connection with obtaining a Discharge Permit (the " **Water Testing**"). Seller shall promptly provide, or cause to be promptly provided, to Buyer (on an ongoing basis for so long as this Agreement remains in effect) copies of all reports, studies and data obtained and/or generated by Seller's consultants with respect to any Discharge Permit, the Discharge System and/or the Water Testing and any applications or other materials submitted to, and any written correspondence with, any applicable regulatory authority with respect to a Discharge Permit, the Discharge System and/or the Water Testing. If a Discharge Permit is issued prior to Closing, from and after the issuance of such Discharge Permit and continuing until Closing, Seller shall perform all sampling, analysis and data collection as and when required under such Discharge Permit, and disclose the same promptly to Buyer. Buyer shall have the right, from time to time during the Due Diligence Period, to collect samples of water discharged via the Discharge System ("**Samples**"), and to perform water quality testing and analysis on such Samples, at Buyer's cost; provided, however: (i) Buyer shall not (without Seller's prior consent) collect Samples more often than once per calendar week (except that Buyer shall be allowed to collect a high tide sample followed by a low tide sample, or vice-versa, as long as such sampling collection is completed within a 24 hour period); (ii) Buyer's right to collect Samples shall cease upon Buyer's receipt of written notice from Seller confirming that a Discharge Permit covering the operation of the Discharge System has been formally issued and is currently effective; (iii) Samples shall be collected using sampling protocols acceptable to Seller (in Seller's commercially reasonable discretion); (iv) testing and analysis performed on any Samples shall be performed by laboratories (and in accordance with protocols) acceptable to Seller (in Seller's commercially reasonable discretion); and (v) access to the Property in connection with the collection of Samples shall be subject to the requirements of Section 6.

5. Title.

5.1 Title Commitment. Buyer shall be responsible for obtaining, no later than the end of the Due Diligence Period, a commitment from the Title Company to issue at Closing a policy of title insurance in a form acceptable to Buyer, which is not conditioned on the performance by any party or third party of any actions other than the express obligations of the parties under this Agreement (the " **Commitment**"). Seller will provide, at Closing, an affidavit to the Title Company in the form attached hereto as Exhibit J. Buyer shall deliver the Commitment to Seller together with a letter from Buyer to Seller stating that the exceptions to title reflected in the Commitment are approved by Buyer. If Buyer does not provide Seller with the Commitment and such letter prior to the expiration of the Due Diligence Period, the title reflected in the Preliminary Title Report (or any updated title report) shall be deemed unacceptable and disapproved, this Agreement shall terminate and the Deposit, together with all interest thereon, shall be returned to Buyer. Seller shall have no duty to cure, and Buyer shall not be entitled to any offset or credit against the Purchase Price due to, any defect in the title to the Property or any condition or aspect of the Property, to which Buyer may object, except as may be agreed by Seller in writing, in its sole and absolute discretion; provided, however, that Seller shall remove, bond over, or obtain a title endorsement for any liens ("**Seller Liens**") that affect the Property and that are not liens for taxes or assessments accruing on or after the Closing and that are not created by, or the result of actions of, Buyer, Molina or any of their respective affiliates, agents, employees or contractors. Any cure that Seller has so agreed to perform or is obligated to

perform shall become a condition precedent to Closing in favor of Buyer and shall be cured by the Closing Date. For purposes of this Section 5.1, a "cure" of a title exception means the elimination of such exception from title and shall not include the bonding of, or endorsement over unless such bonding is in an amount and on terms required by the Title Company for elimination of such exception from the Title Policy (as defined in Section 5.3) as reasonably determined by Buyer. If such cure is not accomplished by the Closing Date, Buyer, as its sole and exclusive remedy, may either terminate this Agreement, in which case the Deposit shall be returned to Buyer, or waive such objection and complete the Closing subject to such exception, provided that if Seller refuses to remove a Seller Lien at Closing, Buyer shall have the right to instruct the Title Company, as escrow agent, to apply a portion of the Purchase Price sufficient to discharge such Seller Lien at Closing.

5.2 Permitted Exceptions. The following shall constitute the "**Permitted Exceptions**": (a) the Title Company's standard exceptions; (b) all exceptions that are shown on the Commitment; (c) all of the Leases; and (d) all exceptions that arise after the expiration of the Due Diligence Period and prior to the Closing that are not Seller Liens and that are approved by Buyer, in writing, in its sole and absolute discretion, or are caused by Buyer or Molina, their agents, employees, contractors or representatives or result from any new survey of the Real Property or any update of any existing survey.

5.3 Title Policy. Evidence of title shall be the issuance by the Title Company at Closing of a policy of title insurance in the form of the Commitment, subject only to the Permitted Exceptions ("**Title Policy**"). Seller shall be responsible for the cost of a CLTA standard coverage policy of title insurance in the amount of the Purchase Price; Buyer shall be responsible for the incremental cost of an ALTA extended coverage policy of title insurance, the cost of any endorsements to the Title Policy and for providing any necessary surveys (other than the Survey) to the Title Company.

5.4 No Recording. Neither this Agreement nor any memorandum of this Agreement shall be recorded by, or on behalf of, Buyer in the Official Records of the County of Los Angeles. If Buyer violates the terms of this Section 5.4 by recording or attempting to record this Agreement or a memorandum thereof, such act shall not operate to bind or cloud the title to the Property, shall constitute a material breach and default by Buyer under this Agreement, and shall entitle Seller to terminate this Agreement by written notice to Buyer, which termination notice may be recorded against the Property.

6. Access.

6.1 Provided that Buyer has complied with the insurance requirements in Section 6.3 and gives Seller at least one (1) business day's prior notice (oral or written), Seller shall allow Buyer and authorized representatives of Buyer reasonable access, at reasonable times, to the Property for the purposes of satisfying Buyer with respect to the Property. In performing its examinations and inspections of the Property, Buyer shall use reasonable efforts to minimize any interference with Seller's and the Tenants' use and occupancy of the Property. Seller shall have the right at all times to have a representative of Seller accompany any of Buyer or Buyer's employees, agents, contractors, consultants, officers, directors, representatives, managers or

members (collectively, "**Buyer's Agents**") while such persons are on the Property. Buyer may conduct interviews with the Tenants, provided Buyer has given Seller no less than two (2) business days notice prior to any such interview, and provided further that Seller shall have the right to be present at all such interviews. Buyer's breach of this Section 6.1 (and all subsections) shall constitute a material breach and default by Buyer of this Agreement. All investigations and inspections shall be performed in compliance with this Section 6 and all local, state and federal laws, rules and regulations, including, without limitation, any and all permits required thereunder, which permits shall be obtained by and at the sole cost of Buyer.

(a) Buyer shall not conduct or allow any physically intrusive or destructive testing of, on or under the Property, without Seller's prior written consent, which consent may be withheld at Seller's sole and absolute discretion; provided, however, Buyer may, subject to its damage and repair obligations in this Section 6.1 and 6.2, inspect the Property for asbestos-related materials. Buyer shall provide Seller with two (2) days written notice prior to the commencement of any physically intrusive or destructive testing, accompanied by a detailed work plan describing the nature, scope, location and purpose of the proposed work. Buyer acknowledges and agrees that Seller's review of Buyer's work plan is solely for the purpose of protecting Seller's interests, and shall not be deemed to create any liability of any kind on the part of Seller in connection with such review that, for example, the work plan is adequate or appropriate for any purpose or complies with applicable legal requirements. All work and investigations shall be performed in compliance with all local, state and federal laws, rules and regulations, including, without limitation, any and all permits required thereunder, all of which shall be at the sole cost and expense of Buyer.

(b) During the performance of Buyer's investigations, Buyer shall promptly remove and properly dispose of all samples, substances and materials extracted from or generated by Buyer at the Property and, upon the completion of its investigations, shall return the Property to its original condition, including the removal of all equipment and materials used or generated during its investigations. Buyer shall name itself as the generator on any waste manifests required to dispose of said materials and shall obtain its own waste generator identification number with respect thereto. If Buyer fails to perform or cause such restoration, and such failure shall continue for two (2) days after Buyer receives written notice from Seller demanding the cure thereof, Seller may perform or cause to be performed such restoration work, and Buyer shall reimburse Seller for all the costs and expenses thereof within two (2) days after receipt of bills therefor from Seller.

6.2 Notwithstanding anything in this Agreement to the contrary, any entry upon, inspection, or investigation of the Property by Buyer or Buyer's Agents shall be performed at the sole risk and expense of Buyer, and Buyer shall be solely and absolutely responsible for the acts or omissions of any of Buyer's Agents. Furthermore, Buyer shall protect, indemnify, defend and hold Seller, and its successors, assigns, and affiliates harmless from and against any and all losses, damages (whether general, punitive or otherwise), liabilities, claims, causes of action, judgments, costs and legal or other expenses (including, but not limited to, attorneys' fees and costs) (collectively, "**Access Claims**") suffered or incurred by any or all of such indemnified parties to the extent resulting from any act or omission of Buyer or Buyer's Agents in connection with: (i) Buyer's inspection or investigations of the Property; (ii) Buyer's entry upon the

Property; (iii) any activities, studies or investigations conducted at, to, or on the Property by Buyer or Buyer's Agents; or (iv) the presence by Buyer or Buyer's Agents at or on the Property. If at any time prior to Closing, Buyer or Buyer's Agents cause any damage to the Property, Buyer shall, at its sole expense, immediately restore the Property to the same condition as existed immediately prior to the occurrence of such damage as determined by Seller in Seller's reasonable discretion. Buyer's obligations under this Section 6.2 shall survive the termination of this Agreement or the Closing, as the case may be, notwithstanding any other provisions herein to the contrary, and shall not be limited by the terms of Section 3. Buyer shall, at all times, keep the Property free and clear of any mechanics', materialmen's or design professional's claims or liens arising out of or relating to its investigations of the Property. The foregoing provisions of this Section 6.2 shall not apply to, and Buyer shall have no liability for, or obligation to protect, indemnify, defend or hold Seller (or any other person or party) harmless from or against any of the following: (i) the discovery by Buyer or any of Buyer's Agents of any Hazardous Material on, under or affecting the Property, except to the extent that Buyer and Buyer's Agents exacerbate such condition in any material respect; (ii) the discovery by Buyer or Buyer's Agents of adverse physical, environmental, economic, neighborhood or other conditions at, on, in, under, around or affecting the Property, except to the extent that Buyer and Buyer's Agents exacerbate such condition in any material respect; or (iii) events, occurrences or conditions resulting from the acts or omissions of Seller or Seller's agents or representatives, except to the extent Buyer and Buyer's Agents exacerbate such events, occurrences or condition in any material respect. Notwithstanding anything in this Section 6.2 to the contrary, Buyer shall have no duty or obligation to identify or repair any condition in, on or affecting the Property that Buyer or Buyer's Agents discover or of which they are aware that may or could be unsafe or dangerous unless and to the extent such unsafe or dangerous condition was caused by the Buyer or Buyer's Agents.

6.3 Buyer shall maintain in full force and effect during the term of this Agreement, the public liability insurance covering Buyer and its activities at the Property on the terms and with the coverages described in the ACORD Certificate of Liability Insurance attached hereto as Exhibit K, naming Seller as an additional insured under all such liability insurance.

7. Due Diligence Period. Buyer shall have until 5:00 p.m., California time, on the date that is thirty (30) days after the Contract Date ("Due Diligence Period") to inspect and investigate the Property, including roof, plumbing, soils, electrical, sprinkler, water, sewer, mechanical, engineering, heating, ventilation and air conditioning and life safety systems, structural integrity of the Improvements, measurement of the square footage of the Land and Improvements, legal status and requirements pertaining to the Property (including applicable building codes, zoning, environmental, public health and fire safety laws), hazardous substance inspections including preparation of an environmental assessment, suitability of the Property for Buyer's purposes and all other matters of significance to Buyer. Buyer agrees to keep the results of such testing and inspections confidential, except to the extent that disclosure is required by law (in which case Buyer will notify Seller in writing prior to making any such disclosure), which confidentiality obligations shall survive the termination of this Agreement. Buyer shall order and pay for all costs and expenses with respect to such inspections and investigations. If, in Buyer's sole and absolute discretion, Buyer desires to proceed with its acquisition of the Property, Buyer shall deliver written notice to Seller (the " **Approval Notice**"), prior to the expiration of the Due

Diligence Period, stating that it approves the Property, in which case the parties shall proceed to complete the Closing (subject to the terms and conditions of this Agreement). If Buyer fails to deliver the Approval Notice prior to the expiration of the Due Diligence Period or if such Approval Notice seeks to modify any of the terms or provisions of this Agreement, Buyer will be deemed to have disapproved the Property and to have exercised its right to terminate this Agreement pursuant to this Section 7, in which case this Agreement shall automatically terminate as of the expiration of the Due Diligence Period and the Initial Deposit, together with all interest earned thereon, shall be returned to Buyer. Further, if Buyer fails to deposit the full Additional Deposit in Escrow prior to the expiration of the Due Diligence Period, regardless of whether Buyer has delivered the Approval Notice, Buyer will be deemed to have disapproved the Property and to have exercised its right to terminate this Agreement pursuant to this Section 7, in which case this Agreement shall automatically terminate as of the expiration of the Due Diligence Period and the Initial Deposit, together with all interest earned thereon, shall be returned to Buyer. Notwithstanding anything in this Agreement to the contrary, Buyer may elect, at any time prior to the expiration of the Due Diligence Period, for any reason or no reason, to terminate this Agreement, upon which termination the Deposit and all interest earned thereon shall be refunded to Buyer and the parties shall have no further obligation to each other excepts for those obligations which expressly survive such termination.

8. Acceptance of Property "As Is". ACKNOWLEDGING BUYER'S OPPORTUNITY TO INSPECT AND INVESTIGATE THE PROPERTY AS PROVIDED IN THIS AGREEMENT, BUYER AGREES TO TAKE THE PROPERTY "AS IS" WITH ALL FAULTS AND CONDITIONS THEREON, SUBJECT ONLY TO THE EXPRESS REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLER SET FORTH IN THIS AGREEMENT OR THE OTHER AGREEMENTS ENTERED INTO BETWEEN BUYER AND SELLER AS OF THE CLOSING DATE. ANY INFORMATION, REPORTS, STATEMENTS, DOCUMENTS OR RECORDS ("**DISCLOSURES**") PROVIDED OR MADE TO BUYER OR ITS CONSTITUENTS BY SELLER, ITS AGENTS, REPRESENTATIVES OR EMPLOYEES CONCERNING THE PROPERTY SHALL NOT CONSTITUTE REPRESENTATIONS OR WARRANTIES. BUYER SHALL NOT RELY ON SUCH DISCLOSURES BUT, RATHER, BUYER SHALL RELY SOLELY ON ITS OWN INSPECTION OF THE PROPERTY AND THE EXPRESS REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLER IN THIS AGREEMENT. ACCORDINGLY, BUYER'S DELIVERY OF THE APPROVAL NOTICE PURSUANT TO THE PROVISIONS OF SECTION 7 (DUE DILIGENCE PERIOD) ABOVE, SHALL CONSTITUTE BUYER'S ACKNOWLEDGMENT AND AGREEMENT TO THE FOLLOWING: (i) BUYER HAS REVIEWED, EVALUATED AND VERIFIED THE DISCLOSURES AND DOCUMENTS AND HAS CONDUCTED ALL INSPECTIONS, INVESTIGATIONS, TESTS, ANALYSES, APPRAISALS AND EVALUATIONS OF THE PROPERTY (INCLUDING FOR TOXIC OR HAZARDOUS MATERIALS, SUBSTANCES OR WASTES (DEFINED AND REGULATED AS SUCH PURSUANT TO SECTIONS 25316 AND 25501 OF THE CALIFORNIA HEALTH & SAFETY CODE, THE RESOURCE CONSERVATION AND RECOVERY ACT, THE COMPREHENSIVE ENVIRONMENTAL RESPONSE COMPENSATION AND LIABILITY ACT OF 1980, AS AMENDED ("**CERCLA**") OR ANY SIMILAR LAWS AND ALL REGULATIONS PROMULGATED THEREUNDER)) AS BUYER CONSIDERS NECESSARY OR APPROPRIATE TO SATISFY ITSELF FULLY WITH RESPECT TO THE CONDITION AND ACCEPTABILITY OF THE PROPERTY (ALL

OF SUCH INSPECTIONS, INVESTIGATIONS AND REPORTS BEING HEREIN COLLECTIVELY CALLED THE "**INVESTIGATIONS**"); (ii) SELLER HAS PERMITTED BUYER ACCESS TO THE PROPERTY AND HAS DELIVERED TO, OR MADE AVAILABLE TO, BUYER ALL OF THE MATERIALS REFERENCED IN SECTION 4 (INCLUDING THE DOCUMENTS AND MATERIALS IDENTIFIED ON EXHIBIT B) (COLLECTIVELY, THE '**DOCUMENTS**"); AND (iii) BUYER HAS COMPLETED ITS DUE DILIGENCE WITH RESPECT TO THE PROPERTY AND THE DOCUMENTS TO ITS SATISFACTION, IS THOROUGHLY FAMILIAR WITH THE PHYSICAL CONDITION OF THE PROPERTY, AND SUBJECT ONLY TO THE EXPRESS REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLER IN THIS AGREEMENT OR THE OTHER AGREEMENTS ENTERED INTO BETWEEN BUYER AND SELLER AS OF THE CLOSING DATE, IS ACQUIRING THE PROPERTY BASED EXCLUSIVELY UPON ITS OWN INVESTIGATIONS AND INSPECTIONS OF THE PROPERTY AND THE DOCUMENTS.

FURTHER, BUYER'S DELIVERY OF THE APPROVAL NOTICE PURSUANT TO THE PROVISIONS OF SECTION 7 (DUE DILIGENCE PERIOD) ABOVE, SHALL CONSTITUTE BUYER'S ACKNOWLEDGMENT AND AGREEMENT TO THE PROVISIONS OF THIS SECTION 8 AND THAT, REGARDLESS OF THE CONTENT OF ANY OF THE DOCUMENTS OR ANY STATEMENTS THAT SELLER, ITS AGENTS, EMPLOYEES, OFFICERS, CONTRACTORS, PARTNERS OR MEMBERS MAY HAVE MADE TO BUYER, ITS AGENTS, EMPLOYEES, OFFICERS, CONTRACTORS, PARTNERS OR MEMBERS PRIOR TO OR DURING THE DUE DILIGENCE PERIOD, OTHER THAN THE EXPRESS REPRESENTATIONS, WARRANTIES AND COVENANTS OF SELLER IN THIS AGREEMENT AND THE OTHER AGREEMENTS ENTERED INTO BY AND BETWEEN BUYER AND SELLER AS OF THE CLOSING DATE, SELLER HAS NOT MADE, DOES NOT MAKE AND SPECIFICALLY DISCLAIMS ANY REPRESENTATIONS, WARRANTIES, PROMISES, COVENANTS, AGREEMENTS OR GUARANTIES OF ANY KIND OR CHARACTER WHATSOEVER, WHETHER EXPRESS OR IMPLIED, ORAL OR WRITTEN, PAST, PRESENT OR FUTURE, OF, AS TO, CONCERNING OR WITH RESPECT TO: (1) THE NATURE, QUALITY OR CONDITION OF THE PROPERTY, INCLUDING, WITHOUT LIMITATION, THE WATER, SOIL AND GEOLOGY; (2) THE INCOME TO BE DERIVED FROM THE PROPERTY; (3) THE SUITABILITY OF THE PROPERTY FOR ANY AND ALL ACTIVITIES AND USES THAT BUYER MAY CONDUCT THEREON; (4) THE COMPLIANCE OF OR BY THE PROPERTY OR ITS OPERATION WITH ANY LAWS, RULES, ORDINANCES OR REGULATIONS OF ANY APPLICABLE GOVERNMENTAL AUTHORITY OR BODY; (5) THE HABITABILITY, MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OF THE PROPERTY; OR (6) ANY OTHER MATTER WITH RESPECT TO THE PROPERTY. BUYER SPECIFICALLY DISCLAIMS ANY REPRESENTATIONS REGARDING TERMITES OR WASTES, AS DEFINED BY THE U.S. ENVIRONMENTAL PROTECTION AGENCY REGULATIONS AT 40 C.F.R., OR ANY HAZARDOUS SUBSTANCE, AS DEFINED BY CERCLA AND REGULATIONS PROMULGATED THEREUNDER.

EXCEPT WITH RESPECT TO HAZARDOUS MATERIALS THAT WERE DISCHARGED, RELEASED OR DISPOSED BY SELLER OR ITS MEMBERS, MANAGERS, PARTNERS, DIRECTORS, OFFICERS, SHAREHOLDERS, TRUSTEES, BENEFICIARIES, AGENTS, EMPLOYEES AND REPRESENTATIVES IN VIOLATION OF APPLICABLE ENVIRONMENTAL LAWS AS OF THE DATE OF SUCH DISCHARGE, DISPOSAL OR RELEASE, BUYER, ITS SUCCESSORS AND ASSIGNS, HEREBY WAIVE, RELEASE AND AGREE NOT TO MAKE ANY CLAIM OR BRING ANY COST RECOVERY ACTION OR CLAIM FOR CONTRIBUTION OR OTHER ACTION OR CLAIM AGAINST SELLER (COLLECTIVELY OR INDIVIDUALLY) OR ITS RELATED ENTITIES, AND ITS AND THEIR MEMBERS, MANAGERS, PARTNERS, DIRECTORS, OFFICERS, SHAREHOLDERS, TRUSTEES, BENEFICIARIES, AGENTS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, HEIRS AND ASSIGNS (COLLECTIVELY, "SELLER AND ITS AFFILIATES") BASED ON, (x) ANY FEDERAL, STATE, OR LOCAL ENVIRONMENTAL OR HEALTH AND SAFETY LAW OR REGULATION, INCLUDING CERCLA OR ANY STATE EQUIVALENT, OR ANY SIMILAR LAW NOW EXISTING OR HEREAFTER ENACTED; (y) ANY DISCHARGE, DISPOSAL, RELEASE, OR ESCAPE OF ANY CHEMICAL, OR ANY MATERIAL WHATSOEVER, ON, AT, TO, OR FROM THE PROPERTY; OR (z) ANY CONDITIONS WHATSOEVER ON, IN, UNDER, OR IN THE VICINITY OF THE PROPERTY. EXCEPT WITH RESPECT TO ANY CLAIMS ARISING OUT OF ANY BREACH OF COVENANTS, REPRESENTATIONS OR WARRANTIES EXPRESSLY SET FORTH IN THIS AGREEMENT OR THE DOCUMENTS EXECUTED IN CONNECTION WITH THIS AGREEMENT, BUYER, ON BEHALF OF ITSELF AND ITS PARTNERS, MEMBERS, MANAGERS, DIRECTORS, OFFICERS, SHAREHOLDERS, TRUSTEES, BENEFICIARIES, AGENTS, EMPLOYEES, REPRESENTATIVES, SUCCESSORS, HEIRS AND ASSIGNS HEREBY RELEASES, SELLER AND ITS AFFILIATES, FROM ANY AND ALL CLAIMS OF ANY KIND WHATSOEVER, KNOWN OR UNKNOWN, WITH RESPECT TO ANY ASPECT OF THE PROPERTY, INCLUDING THE FOREGOING MATTERS, AND SPECIFICALLY WAIVES WITH RESPECT TO ALL SUCH MATTERS THE PROVISIONS OF CALIFORNIA CIVIL CODE SECTION 1542, AND ANY COMPARABLE LAW APPLICABLE IN THE STATE WHERE THE PROPERTY IS LOCATED, REGARDING THE MATTERS COVERED BY A GENERAL RELEASE, WHICH PROVIDES AS FOLLOWS:

> "A GENERAL RELEASE DOES NOT EXTEND TO CLAIMS WHICH THE CREDITOR DOES NOT KNOW OR SUSPECT TO EXIST IN HIS OR HER FAVOR AT THE TIME OF EXECUTING THE RELEASE, WHICH IF KNOWN BY HIM OR HER MUST HAVE MATERIALLY AFFECTED HIS OR HER SETTLEMENT WITH THE DEBTOR."

BUYER AND SELLER REPRESENT AND ACKNOWLEDGE THAT THIS SECTION 8 WAS EXPLICITLY NEGOTIATED AND BARGAINED FOR AS A MATERIAL PART OF BUYER'S CONSIDERATION BEING PAID. Terms appearing in this Section 8 in all capital letters that have been defined elsewhere in this Agreement shall have the meanings set forth in such definitions.

9. Conditions to Closing.

9.1 Buyer's Conditions to Closing. Buyer's obligation to purchase the Property is conditioned upon the satisfaction of each of the following conditions each of which is for the exclusive benefit of Buyer. Buyer may, at any time or times before the Closing, waive one or more of the following conditions, but only in writing and any such waiver will not affect its rights and remedies with respect to the remaining conditions:

(a) Buyer shall have received the requisite Tenant Estoppels as and when required under Section 4.5(b). If Buyer has not received the requisite Tenant Estoppels at least six (6) business days prior to the Closing Date, Buyer shall have the one-time right to extend the Closing Date by an additional two (2) business days by delivering written notice of Buyer's exercise of such right to Seller no later than the date five (5) business days prior to the Closing Date. If Buyer timely exercises such right, the Closing Date shall be extended by two (2) business days.

(b) The Rent Roll and Delinquency Report (as defined in Sections 11.1(h) and 11.1(i) below) shall have been updated to a date not earlier than three (3) business days prior to the Closing Date, and such updated Rent Roll and Delinquency Report shall not identify any material adverse change (with a change being deemed to be material and adverse only if the change would expose Buyer to damages or a loss of income in excess of Thirty-Five Thousand and No/100ths Dollars ($35,000)) in the aggregate as to all Leases with the Government Tenants and Major Non-Governmental Tenants as compared to the status of such Leases as shown on the Rent Roll and Delinquency Report delivered to Buyer two (2) business days prior to the expiration of the Due Diligence Period pursuant to Sections 11.1(h) and 11.1(i) below;

(c) No Government Tenant or Major Non-Government Tenant shall have notified Seller or Buyer of any material adverse change in its Tenant Estoppel (with a change being deemed to be material and adverse only if the change would expose Buyer to damages or a loss of income in excess of Thirty-Five Thousand and No/100ths Dollars ($35,000) in the aggregate as to all such Tenant Estoppels); no proceedings under any federal or state bankruptcy or insolvency laws have been commenced by or against any of the Major Non-Government Tenants that have not been terminated; no general assignment for the benefit of creditors has been made by any of the Major Non-Government Tenants; and no trustee or receiver of any of the Major Non-Government Tenants' property has been appointed;

(d) Seller's performance of all its obligations hereunder;

(e) The truth, completeness and accuracy, in all material respects, of each representation and warranty made by Seller as of the Contract Date and the Closing; and

(f) The issuance at Closing of the Title Policy.

9.2 Seller's Conditions. Seller's obligation to sell the Property is conditioned upon the satisfaction of each of the following conditions, each of which is for the exclusive benefit of Seller. Seller may, at any time before the Closing, waive one or more of the following conditions, but only in writing and any such waiver will not affect its rights and remedies with respect to the remaining conditions:

(a) The performance by Buyer of all its obligations hereunder; and

(b) The truth, completeness and accuracy, in all material respects, of each representation and warranty made by Buyer as of the Contract Date and the Closing.

9.3 Seller Default. If, at the Closing, (i) Seller is in default of any of its obligations hereunder, or (ii) any of Seller's representations or warranties set forth in Section 11.1 are untrue, inaccurate or incorrect when given, in any material respect, or (iii) the Closing otherwise fails to occur by reason of Seller's failure or refusal to perform its obligations hereunder in a prompt and timely manner, and any such circumstance described in any of clauses (i), (ii) or (iii) continues for five (5) business days after written notice from Buyer to Seller, which written notice shall detail such default, untruth or failure, as applicable, then Buyer shall have the right, to elect, as its sole and exclusive remedy, to (a) terminate this Agreement by written notice to Seller, promptly after which (A) the Deposit and all interest earned thereon shall be returned to Buyer, and (B) Seller shall pay to Buyer any title, escrow, legal and inspection fees incurred by Buyer and any other expenses incurred by Buyer in connection with its review of the Property, and the negotiation, documentation and performance of this Agreement (including, without limitation, the fees and expenses of environmental and engineering consultants, legal and accounting fees and expenses, and other out-of-pocket third party charges related to the transactions contemplated by this Agreement and their consummation), subject to a cap of $125,000 (collectively, "**Buyer's Costs**"), in which case, the parties shall have no further rights or obligations hereunder except for obligations which expressly survive the termination of this Agreement, or (b) waive the condition and proceed to Closing, or (c) seek specific performance of this Agreement by Seller. As a condition precedent to Buyer exercising any right it may have to bring an action for specific performance hereunder, Buyer must commence such an action within ninety (90) days after the occurrence of Seller's default. Buyer agrees that its failure to timely commence such an action for specific performance within such ninety (90) day period shall be deemed a waiver by it of its right to commence an action for specific performance as well as a waiver by it of any right it may have to file or record a notice of *lis pendens* or notice of pendency of action or similar notice against any portion of the Property. Notwithstanding the foregoing, if by Seller's affirmative acts the remedy of specific performance has been rendered unavailable to Buyer, Buyer shall have and may assert against Seller as a result of Seller's default under this Agreement, any and all rights available at law and in equity, without imposition of the limitations in this Agreement on Buyer's rights, remedies or damages.

10. Closing.

10.1 Closing Date. The consummation of the purchase and sale of the Property (the "**Closing**") shall be held at the offices of the Title Company (or at such other location as the parties may agree) on the later to occur of: (i) the date that is twenty-one (21) days after Buyer's delivery of the Approval Notice; and (ii) the date that is ten (10) business days following the date upon which both Buyer and Seller have received written notice confirming that a Discharge Permit covering the operation of the Discharge System has been formally issued and is currently

effective (the "**Closing Date**"), which may be extended in accordance with the terms of Sections 9.1(a), this Section 10.1 and Section 11.2, but in any event shall not be later than January 13, 2012 (the "**Outside Closing Date**"). Buyer acknowledges that Seller is required to defease the existing securitized loan that is currently secured by a deed of trust on the Property (the "**Existing Loan**") in order to deliver title to the Property free and clear of the lien of such deed of trust (the "**Existing Deed of Trust**"). In connection with such defeasance, Buyer agrees to cooperate in good faith with all usual and customary requirements imposed by the master loan servicer, bond trustee and ratings agency for such defeasance transaction so long as Buyer is not required to incur any additional liability or expense in so doing. The parties acknowledge that, in light of the defeasance, the Grant Deed (as defined below) will be recorded, and the Seller's proceeds will be disbursed, one day after the Closing Date. Seller may extend the Closing Date by up to three (3) business days to accommodate such defeasance. Seller shall be solely responsible for any and all costs, fees and expenses in connection with such defeasance, and any yield maintenance or other premiums or payments required in connection with such defeasance. The defeasance of the Existing Loan shall not be a condition to Seller's obligation to close the Escrow.

10.2 Seller's Deposits Into Escrow. Seller shall deposit the following documents and items into escrow at least one (1) business day prior to the Closing Date:

(a) a duly executed and acknowledged grant deed conveying the Property and Improvements to Buyer in the form of the attached Exhibit F, together with a separate transfer tax affidavit (the "**Grant Deed**");

(b) a duly executed bill of sale and general assignment, in the form of the attached Exhibit G (the "**Assignment**"), transferring the Personal Property, Leases, Service Contracts, Approvals, Warranties and Intangible Property to Buyer;

(c) an affidavit in the form of the attached Exhibit H stating that Seller is not a "foreign person" under IRC Section 1445(f)(3);

(d) tenant notice letters for all tenants at the Property informing them of the sale of the Property and assignment of the Leases to Buyer, in the form of attached Exhibit I;

(e) a duly executed affidavit in the form required by the California Franchise Tax Board certifying that no withholding of any amount of the Purchase Price is required in connection with the Closing;

(f) Seller's share of the closing costs as described in Section 10.5 below or instructions to Title Company to deduct same from the Purchase Price;

(g) an owner's title affidavit in the form of the attached Exhibit J;

(h) the Rent Roll, updated to a date no earlier than three (3) business days prior to the Closing Date, certified by Seller as true and correct;

(i) A certification that all of the representations and warranties set forth in Section 11.1 remain true, complete and accurate, except to the extent of any exceptions to such representations and warranties identified in such certification; and

(j) such other documents as may reasonably be required to complete the Closing.

10.3 Seller's Deliveries to Buyer Outside of Escrow. Seller shall deliver to Buyer at the Property (except as otherwise provided below) on or before the Closing Date, all of the following:

(a) originals, to the extent in Seller's possession or control, or copies of the Leases and the Service Contracts, which copies are certified by Seller as true and correct;

(b) the original Estoppel Certificates, duly executed by the Tenants, which shall be delivered to Buyer's counsel, James Moore of Boutin Jones Inc.;

(c) all keys and security codes to the Property;

(d) electronic or hard copies of all Documents; and

(e) originals or copies of all Lease files and Property files, including all records, instruments and correspondence related to maintenance and repair, the Tenants, the Leases, construction and alteration of the Improvements (base building and tenant improvements), and operation of the Property, to the extent such files are located at the Real Property.

10.4 Buyer's Deposits into Escrow. Buyer shall deposit the following into escrow at least one (1) business day prior to the Closing Date:

(a) the balance of the Purchase Price in immediately available funds;

(b) Buyer's share of the closing costs as described in Section 10.5. below;

(c) two original duly executed counterparts of the Assignment; and

(d) such other documents as may reasonably be required to complete the Closing.

10.5 Adjustment and Proration. All accounts receivable and all accounts payable shall be prorated between Buyer and Seller as of 12:01 a.m. on the Closing Date, on the basis of a 365-day year, with Seller entitled to all accounts receivable and responsible for all accounts payable with respect to the period prior to such date and time, and with Buyer entitled to all accounts receivable and responsible for all accounts payable with respect to the period from and after such date and time. Prior to Closing, Seller shall prepare for review, comment and agreement by Buyer a proration statement for the Property, and each party shall be credited or charged at the Closing, in accordance with the following:

(a) Accounts Receivable. Seller shall account to Buyer for any Rents actually collected by Seller for the month in which the Closing occurs, and Buyer shall be credited for its pro rata share applicable to the period from and after the Closing Date. For purposes of this Agreement, the term " **Rents**" means and includes Fixed Rents and Additional Rents; "**Fixed Rents**" means the periodic fixed rent payable by a Tenant under its Lease; and "**Additional Rents**" means all amounts, other than Fixed Rents, due from any Tenant under any Lease, including without limitation, percentage rents, escalation charges for real estate taxes, parking charges, marketing fund charges, reimbursement of operating expenses or common area expenses, maintenance escalation rents or charges, cost of living increases or other charges of a similar nature, if any, and any additional charges and expenses payable under any Lease.

(b) Accounts Payable. For purposes of this Agreement, the term " **Expenses**" means all operating expenses normal to the operation and maintenance of the Property, including without limitation real property taxes and assessments, current installments of any improvement bonds or assessments which are a lien on the Property or which are pending and may become a lien on the Property, water, sewer and utility charges, amounts payable under any Service Contract for any period in which the Closing occurs, permits, licenses and inspection fees. Expenses shall not include expenses which are of a capital nature.

(i) Prepaid Expenses. To the extent Expenses have been paid prior to the Closing Date for any part of the period on or after the Closing Date, Seller shall account to Buyer for such prepaid Expenses, and Seller shall be credited for the amount of such prepaid expenses applicable to the period after the Closing Date.

(ii) Unpaid Expenses. To the extent Expenses relating to the period prior to the Closing Date are unpaid as of the Closing Date but are ascertainable, Buyer shall be credited for Seller's pro rata share of such Expenses for the period prior to the Closing Date.

(iii) Service Contracts. Payments due under any Service Contracts shall be prorated as of the Closing Date, and Buyer shall be liable for all payments accruing thereunder after the Closing. Seller shall be responsible for all payments under all contracts and agreements not assumed by Buyer

(c) Property Taxes. Seller shall be responsible for all real and personal property ad valorem taxes and special assessments applicable to the period prior to the Closing Date; Buyer shall be responsible for all real and personal property ad valorem taxes and special assessments applicable to the period from and after the Closing Date. With respect to any property tax appeal or reassessment filed by Seller for the current tax year or tax years (or portions thereof) prior to the Closing, Seller shall be entitled to the full amount of any refund or rebate resulting therefrom applicable to the period before the Closing Date, except to the extent such amounts are payable to, or otherwise accrue to the benefit of, the Tenants pursuant to the Leases, which amounts Seller shall promptly refund to such Tenants.

(d) Utility Charges. All utility (including electricity, gas, water, sewer and telephone) charges will be prorated to the Closing Date as Expenses. All refundable utility security deposits, if any, will be retained by Seller.

(e) Government Tenants. Buyer acknowledges that the Government Tenants pay Rents in arrears. Accordingly, Seller shall receive a credit at Closing for the Rents that accrue under the Leases of the Government Tenants in the month that Closing occurs, to the extent any rents accrue under such Leases.

(f) Molina Rents and Reimbursements. If, as of the Closing Date, Seller is due any amounts from Molina under its Lease that are ascertainable, Seller shall receive a credit at Closing for such amounts. Likewise, if any amounts are due and owing from Seller to Molina at Closing, Seller shall pay such amounts to Molina at or before Closing. Any amounts that are due and owing from Seller to Molina after Closing shall be paid by Seller to Molina as and when such amounts come due, after deduction for all amounts then due and owing to Seller by Molina or Buyer.

(g) Post-Closing. If the amount of any proration cannot be determined at the Closing, the adjustments will be made between the parties as soon after Closing as possible, as follows:

(i) Non-delinquent Rents. If after the Closing either Buyer or Seller collects any non-delinquent Rents applicable to the month in which the Closing occurred (or if Seller collects any Rents applicable to any month following the month in which the Closing occurred), such Rents shall be prorated as of the Closing Date and paid to the party entitled thereto not later than five (5) business days following receipt, except to the extent such party received a credit at Closing for such Rents.

(ii) Delinquent Rents for Month in which the Closing Occurred. If after the Closing Date either Buyer or Seller receives from any Tenant Rents that were delinquent as of the Closing Date and that relate to the rental period in which the Closing occurred, then such Rents shall be applied in the following order of priority: First, to reimburse Buyer for all out-of-pocket third-party collection costs actually incurred by Buyer in collecting such Rents; second, to satisfy such Tenant's Rent obligations relating to the period after the Closing Date; and third, to satisfy such delinquent Rent obligations relating to the period prior to the Closing Date. Buyer agrees to use commercially reasonable efforts to collect any such delinquent rents but Buyer has no obligation to institute any collection action or otherwise incur any material cost in connection therewith. Seller shall have no right to pursue or continue the collection of such delinquent Rents from any Tenant in occupancy as of the Closing Date, but Seller shall have the right to continue to prosecute any collection proceedings that were initiated prior to the Closing against any tenant no longer in occupancy as of the Closing Date. Notwithstanding the foregoing, if Molina owes any Rents for any period prior to Closing for which Seller did not receive a credit at Closing, Buyer shall pay all Rents received from Molina to Seller until such Rents owed to Seller have been paid in full.

(iii) Expenses. With respect to any invoice received by Buyer or Seller after the Closing Date for Expenses that relate to the period in which the Closing occurred, the party receiving such invoice shall give the other party written notice of such invoice, and the other party shall have thirty days to review and approve the accuracy of any such invoice. If the parties agree that the Invoice is accurate and should be paid, the parties shall compute each party's pro rata share, and deliver a check for that amount in favor of the vendor.

(h) Survival of Obligations. The obligations of Seller and Buyer under this Section 10.5 shall survive the Closing.

10.6 Items Not to be Prorated. There shall be no prorations or adjustments of any kind with respect to:

(a) Insurance Premiums. Insurance Premiums shall not be prorated. Seller will terminate its coverages as of the Closing Date, and Buyer shall be responsible for obtaining its own coverages as of the Closing Date.

(b) Delinquent Fixed Rents for Full Months Prior to the Month in which the Closing Occurred. Delinquent Fixed Rents with respect to Tenants under the Leases applicable to months prior to the calendar month in which the Closing occurred shall remain the property of Seller, and Buyer shall have no claim thereto whether collected by Seller or Buyer, before or after the Closing, and no responsibility of any kind with respect thereto except as specifically set forth herein. Seller shall not take or continue to take collection measures from or after the Closing. Buyer agrees to use commercially reasonable efforts to collect any delinquent Fixed Rents owed Seller, but Buyer has no obligation to institute any collection action or otherwise incur any material costs in connection therewith. Except with respect to the Rents collected from Molina, Fixed Rents collected from Tenants after the Closing Date shall be applied in the following order of priority: First, to reimburse Buyer for all out-of-pocket third-party collection costs actually incurred by Buyer in collecting such Rents; second, to satisfy such Tenant's Rent obligations relating to the period after the Closing Date; and third, to satisfy such delinquent Rent obligations relating to periods prior to the Closing Date. In the event that Buyer collects any such delinquent Fixed Rents, Buyer shall apply such Fixed Rents as contemplated above and shall promptly pay over to Seller any amounts properly owed to Seller.

(c) Additional Rents Relating to Full or Partial Months Prior to the Closing Date. If Additional Rents relating to full or partial months prior to the Closing Date are not finally adjusted between Seller and any Tenant until after the Closing Date, then any refund to which any Tenant may be entitled shall be the obligation of Seller, and any additional amounts due from the Tenant for such period shall be the property of Seller. Buyer shall have no obligation with respect to any such refund due to any Tenant and no claim to any such amounts due from any Tenant, except that Buyer shall promptly pay to Seller any such delinquent Additional Rent amounts as it actually collects. If Seller receives any refund of expenses paid prior to the Closing and relating to a period prior to the Closing, and such expenses were reimbursed in whole or in part by any Tenant, Seller shall refund to each Tenant its share of any such refund. Buyer agrees to use commercially reasonable efforts to collect any such Additional Rents but Buyer has no obligation to institute any collection action or otherwise incur any material cost in connection therewith.

(d) Security Deposits. Seller shall deliver to Buyer (or credit to Buyer at Closing) all prepaid rents, security deposits, letters of credit and other collateral actually held by Seller or any of its affiliates or successors in interest under any of the Leases, to the extent not applied by Seller prior to the Closing Date to the extent permitted under the Leases. From and after the Contract Date, Seller shall not apply any security deposits without the Buyer's prior written consent.

(e) Survival. The terms of Section 10.6 shall survive the Closing.

10.7 Closing Costs. The Closing costs for this transaction shall be paid as follows:

(a) Seller shall pay (i) any brokerage fees to the Selling Broker as required under Section 17.8 below; (ii) one-half of all transfer and sales taxes (including documentary transfer taxes); (iii) all costs, expenses and fees related to the defeasance of the Existing Loan; (iv) the cost of the Title Policy, up to but not to exceed an amount equal to the cost of owner's standard CLTA coverage title insurance in the amount of the Purchase Price; (v) one-half of the escrow fees; and (vi) all other costs and expenses allocated to Seller pursuant to this Agreement.

(b) Buyer shall pay (i) any brokerage fees to the Buying Broker as required under Section 17.8 below; (ii) one half of all transfer and sales taxes (including documentary transfer taxes); (iii) the increased cost of the Title Policy associated with ALTA extended coverage and endorsements requested by Buyer (except for "gap" coverage); (iv) all recording fees (other than in connection with any documents recorded in connection with the defeasance of the Existing Loan); (v) one-half of the escrow fees; and (vi) all other costs and expenses allocated to Buyer pursuant to this Agreement.

(c) All other costs shall be paid in accordance with customary practices in the County of Los Angeles.

10.8 Closing. Pursuant to Section 10.1 above, Title Company shall close the escrow for this transaction when it is in a position to issue the Title Policy and has received from Seller and Buyer the items required of each in Sections 10.2 and 10.4 above. Title Company shall close escrow by doing the following:

(a) Recording the Grant Deed in the Official Records of the County of Los Angeles;

(b) Delivering to Buyer the Title Policy, the original documents and items listed in Section 10.2 above, and a closing statement for the escrow consistent with this Agreement and signed by Buyer and Seller (the "**Closing Statement**"), and any refund due Buyer; and

(c) Delivering to Seller the amount due Seller as shown on the Closing Statement, the original documents listed in Section 10.4 above, and a signed original of Seller's Closing Statement.

10.9 Possession. Seller shall deliver possession of the Property to Buyer on the Closing Date, subject to the rights of the Tenants under the Leases.

11. Representations and Warranties.

11.1 Representations and Warranties of Seller. Seller hereby makes the following representations and warranties to Buyer, which representations and warranties shall survive the Closing, and all of which (i) are material and are being relied upon by Buyer, and (ii) are true, complete and accurate as of the date hereof.

(a) Organization. Seller is a limited liability company, duly organized, validly existing and in good standing under the laws of the State of Delaware, and qualified to do business, and in good standing, in the State of California.

(b) Authorization. This Agreement has been duly authorized, executed, and delivered by Seller; the obligations of Seller under this Agreement are legal, valid, and binding obligations of Seller; and this Agreement does not, and at the time of Closing will not, (i) violate or conflict with the organizational documents of Seller or any member of Seller acting on Seller's behalf, (ii) violate or conflict with any judgment, decree, or order of any court applicable to or affecting Seller, (iii) breach the provisions of, or constitute a default under, any contract, agreement, instrument, or obligation to which Seller is a party or by which Seller is bound, or (iv) violate or conflict with any law, ordinance, or governmental regulation or permit applicable to Seller. All documents that are executed by Seller and that are delivered to Buyer at the Closing will be, at the time of Closing, duly authorized, executed, and delivered by Seller; the obligations of Seller under such documents will be, at the time of Closing, legal, valid, and binding obligations of Seller; and such documents will not, at the time of Closing, (i) violate or conflict with the organizational documents of Seller or any member of Seller acting on Seller's behalf, (ii) violate or conflict with any judgment, decree, or order of any court applicable to or affecting Seller, (iii) breach the provisions of, or constitute a default under, any contract, agreement, instrument, or obligation to which Seller is a party or by which Seller is bound, or (iv) violate or conflict with any law, ordinance, or governmental regulation or permit applicable to Seller.

(c) Bankruptcy. No proceedings under any federal or state bankruptcy or insolvency laws have been commenced by or against Seller which have not been terminated; no general assignment for the benefit of creditors has been made by Seller; and no trustee or receiver of Seller's property has been appointed.

(d) Not a Foreign Person. Seller is not a foreign person within the meaning of section 1445(f)(3) of the Internal Revenue Code of 1986. Seller has read and understands the provisions of sections 18662 and 18668 of the California Revenue and Tax Code (the " **Act**") and has a "permanent place of business" within California within the meaning of the Act and the regulations and guidelines of the California Franchise Tax Board promulgated from time to time pursuant thereto.

(e) Litigation. Except as disclosed in writing to Buyer, no litigation or proceeding is pending or, to Seller's knowledge, threatened that affects the Property or Seller's ability to consummate the transactions contemplated by this Agreement.

(f) Violations. Except as disclosed in writing to Buyer, Seller has not received any written notice of any violation by the Property of any applicable rule, regulation, ordinance or government directive from any administrative or governmental authority that has not been cured.

(g) Leases; Landlord Defaults. There are no leases, rental agreements, license agreements or occupancy rights affecting the Property other than those listed on Exhibit C and any matters of record. Seller has not received any written notice of a default by Seller from any Tenant under any of the Leases that has not been cured, other than as set forth in the Tenant Estoppels.

(h) Rent Roll. Exhibit C contains a complete and correct list of all existing Leases, setting forth with respect to each Lease, the following minimum information (the "**Rent Roll**"): the name of the Tenant, the number of the room or suite occupied by the Tenant, the square footage of the space, the commencement and expiration dates, the amount of the monthly base rent payment, the current monthly additional rent payment for the Tenant share of Real Property expenses and taxes, the amount of any security deposit or prepaid rent, and the amount and due date of any payments due Tenants in the future as reimbursement for costs of tenant improvements. Seller shall deliver an updated Rent Roll to Buyer two (2) business days prior to the expiration of the Due Diligence Period, which shall be accurate as of the date set forth on the updated Rent Roll (which date shall not be more than three (3) business days prior to the date the updated Rent Roll is delivered to Buyer). Seller shall deliver a further updated Rent Roll to Buyer two (2) business days prior to the Closing Date, which shall be accurate as of the date set forth on the updated Rent Roll (which date shall not be more than three (3) business days prior to the Closing Date).

(i) Delinquency Report. With the exception of delinquencies in the payment of rents which are set forth on the Rent Roll, Seller has not delivered written notice to any Tenant of any default in the payment of rent under its Lease that has not been cured. Exhibit C contains a true and correct report (the "**Delinquency Report**") showing the name of each Tenant as to which a delinquency currently exists as to the payment of Rents and specifying the amount of each such delinquency, and the period of time during which each such delinquency has been outstanding. Seller shall deliver an updated Delinquency Report to Buyer two (2) business days prior to the expiration of the Due Diligence Period, which shall be accurate as of the date set forth on the updated Delinquency Report (which date shall not be more than three (3) business days prior to the date the updated Delinquency Report is delivered to Buyer). Seller shall deliver a further updated Delinquency Report to Buyer two (2) business days prior to the Closing Date, which shall be accurate as of the date set forth on the updated Delinquency Report (which date shall not be more than three (3) business days prior to the Closing Date).

(j) Leases. The Documents contain a true, correct and complete copy of each Lease. Each such Lease constitutes the entire agreement between Seller and each other party thereto. As of the Closing Date, no rents due under, or any other interest in, any of the Leases will be assigned to any party other than Buyer, or otherwise pledged or encumbered in any way.

(k) Tenant Improvements; Lease Costs. Except as set forth in Exhibit C, all of the improvements to be constructed by Seller under each of the Leases, have been fully completed and paid for. Except as set forth in Exhibit C, Seller has paid, in full, any leasing commissions, except for future contingent obligations set forth in the Rent Roll.

(l) Service Contracts. Exhibit E contains a true and complete list of all Service Contracts. The Documents include true and complete copies of all Service Contracts. To Seller's knowledge, there have been no material defaults by any Party to a Service Contract which have not been cured. To Seller's knowledge, Seller is not in breach or default under any Service Contract which has not been cured. The Service Contracts constitute the entire agreement between Seller and the other parties to the Service Contracts.

(m) Insurance. Exhibit L correctly identifies the policies of casualty and liability insurance currently in effect with respect to the Property. All premiums for such insurance have been paid in full. Seller has not received any notice or request from any insurance company or Board of Fire Underwriters (or organization exercising functions similar thereto) canceling or threatening to cancel any of said policies or denying or disputing coverage thereunder.

(n) Commission Agreements. Except as expressly set forth in the Leases or on Exhibit C, there are no lease brokerage agreements, leasing commission agreements or other agreements providing for payments of any amounts for leasing activities or procuring tenants with respect to the Property, other than such commissions as may be due on future lease renewals, expansions or extensions.

(o) Environmental Releases. To Seller's knowledge, no Hazardous Materials have been discharged, released or disposed of by Seller or its members, managers, partners, directors, officers, shareholders, trustees, beneficiaries, agents, employees and representatives in violation of applicable Environmental Laws as of the date of such discharge, disposal or release As used herein, the term "Hazardous Materials" means without regard to amount and/or concentration any hazardous or toxic substance, material or waste wherever located expressly including but not limited to petroleum and petroleum derived compounds, which is included within the definition of any hazardous or toxic material, substance or waste in any federal, state or local statutes, laws, ordinances or regulations applicable to the Property, as well as any soils, ground or surface waters, wetlands or other environmental media which may be contaminated by such Hazardous Material, including the following: (a) those substances defined as a hazardous substance, hazardous waste, hazardous material, toxic substance, solid waste, pollutant or contaminant under any Environmental Law, as defined below; (b) those substances listed in the United States Department of Transportation Table [49 CFR § 172.101], or by the Environmental Protection Agency, or any successor agency, as hazardous substances [40 CFR Part 302]; (c) other substances, materials, and wastes that are regulated or classified as hazardous or toxic under federal, state or local laws or regulations applicable to the Property; and (d) any material, waste, or substance that is a petroleum or refined petroleum product or byproduct, asbestos, or any rock, including serpentine rock, which contains or might contain asbestos, chlorinated solvents, biologic waste, polychlorinated biphenyl, designated as a hazardous substance pursuant to 33 USCS §1321 or listed pursuant to 33 USCS §1317, a flammable explosive, or a radioactive

material. As used herein, the term "Environmental Law" means all federal, state, local or municipal laws, rules, orders, regulations, statutes, ordinances, codes, decrees or requirements of any government authority applicable to the Property and regulating, relating to, or imposing liability or standards of conduct concerning any Hazardous Material, or pertaining to environmental conditions on or under the Property described in this Agreement, as now in effect, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act of 1980 (CERCLA) [42 USCS §§9601 et seq.]; the Resource Conservation and Recovery Act of 1976 (RCRA) [42 USCS §§6901 et seq.]; the Clean Water Act, also known as the Federal Water Pollution Control Act (FWPCA) [33 USCS §§1251 et seq.]; the Toxic Substances Control Act (TSCA) [15 USCS §§2601 et seq.]; the Hazardous Materials Transportation Act (HMTA) [49 USCS §§1801 et seq.]; the Insecticide, Fungicide, Rodenticide Act (7 USCS §§136 et seq.]; the Superfund Amendments and Reauthorization Act [42 USCS §§6901 et seq.]; the Clean Air Act [42 USCS §§7401 et seq.]; the Safe Drinking Water Act [42 USCS §§300f et seq.]; the Solid Waste Disposal Act [42 USCS §§6901 et seq.]; the Surface Mining Control and Reclamation Act [30 USCS §§1201 et seq.]; the Emergency Planning and Community Right to Know Act [42 USCS §§11001 et seq.]; the Occupational Safety and Health Act [29 USCS §§655 and 657]; the California Underground Storage of Hazardous Materials Act [Health and Safety Code §§25280 et seq.]; the California Hazardous Materials Account Act [Health and Safety Code §§25100 et seq.]; the California Safe Drinking Water and Toxic Enforcement Act [Health and Safety Code §§24249.5 et seq.]; the Porter-Cologne Water Quality Act [Water Code §§13000 et seq.], together with any amendments of or regulations promulgated under the statutes cited above, and any other federal, state or local law, statute, ordinance or regulation applicable to the Property now in effect that pertains to the regulation or protection of the environment, including ambient air, soil, soil vapor, groundwater, surface water, or land use.

For purposes of the representations and warranties given by Seller in this Agreement, the phrase "to Seller's knowledge" or other terms regarding the knowledge of Seller, shall mean the actual, current knowledge of Kennard P. Perry and Cory Kristoff, excluding constructive or imputed knowledge or duty of inquiry, existing as of the Contract Date and the Closing. In no event shall there be any personal liability on the part of any of the foregoing individuals on account of any breach of any representation or warranty of Seller herein.

11.2 Material Changes; Survival. Two (2) business days prior to the expiration of the Due Diligence Period, Seller shall deliver to Buyer a certification that all of the representations and warranties set forth in Section 11.1 remain true, complete and accurate, except to the extent of any exceptions to such representations and warranties identified in such certification. Further, if, prior to the Closing, Seller becomes aware of any fact or circumstance that would materially change a representation or warranty of Seller in this Agreement, then Seller shall promptly, and in all events at least five (5) business days prior to the Closing Date (which date shall be extended if necessary to give Buyer five business days to review such material change), give written notice of such changed fact or circumstance to Buyer. If, prior to Closing, upon Seller's notice or otherwise, Buyer becomes aware of the material untruth or inaccuracy of, or facts or circumstances that would change materially, any representation or warranty of Seller in this Agreement that was true when made by Seller, then Buyer shall have the option of: (i) waiving such breach of representation or warranty or material adverse change and completing its purchase of the Property pursuant to this Agreement; (ii) reaching agreement with Seller to

adjust the terms of this Agreement to compensate Buyer for such change; or (iii) terminating this Agreement and receiving the return of the Deposit as Buyer's sole remedy prior to Closing. All of Seller's representations and warranties shall survive the Closing; provided, however, that Seller's representations and warranties set forth in Sections 11.1(d) through 11.1(i) shall survive the Closing only with respect to written claims alleging a specific breach of one or more of those representations and warranties received by Seller prior to the first anniversary of the Closing Date. Buyer shall not be entitled to any right or remedy for any inaccuracy in or breach of any representation, warranty or covenant under this Agreement or any conveyance document unless the amount of damages, in the aggregate, proximately caused by all such breaches or inaccuracies exceeds Fifty Thousand and No/100ths Dollars ($50,000). If Buyer's aggregate damages exceed Fifty Thousand and No/100ths Dollars ($50,000), Buyer shall be entitled to recover the entire first Fifty Thousand and No/100ths Dollars ($50,000) of damages suffered by Buyer. Notwithstanding anything to the contrary in this Agreement the aggregate liability of Seller under this Agreement to Buyer for any and all actions or claims by Buyer with respect to these representations and warranties that survive the Closing shall be limited to One Million Five Hundred Thousand Dollars ($1,500,000).

11.3 Representations and Warranties of Buyer. Buyer hereby makes the following representations and warranties to Seller, which representations and warranties shall survive the Closing and all of which (i) are material and are being relied upon by Seller, (ii) are true, complete and accurate in all respects as of the date hereof and shall be true, complete and accurate as of the Closing Date, and (iii) shall survive the Closing:

(a) Organization. Buyer is a limited liability company, duly organized, validly existing and in good standing under the laws of the State of Delaware, and is qualified to do business, and is in good standing, in the State of California.

(b) Authorization. This Agreement has been duly authorized, executed, and delivered by Buyer; the obligations of Buyer under this Agreement are legal, valid, and binding obligations of Buyer; and this Agreement does not, and at the time of Closing will not, (i) violate or conflict with the organizational documents of Buyer or any member of Buyer acting on Buyer's behalf, (ii) violate or conflict with any judgment, decree, or order of any court applicable to or affecting Buyer, (iii) breach the provisions of, or constitute a default under, any contract, agreement, instrument, or obligation to which Buyer is a party or by which Buyer is bound, or (iv) violate or conflict with any law, ordinance, or governmental regulation or permit applicable to Buyer. All documents that are delivered to Seller at the Closing will be, at the time of Closing, duly authorized, executed, and delivered by Buyer; the obligations of Buyer under such documents will be, at the time of Closing, legal, valid, and binding obligations of Buyer; and such documents will not, at the time of Closing, (i) violate or conflict with the organizational documents of Buyer or any member of Buyer acting on Buyer's behalf, (ii) violate or conflict with any judgment, decree, or order of any court applicable to or affecting Buyer, (iii) breach the provisions of, or constitute a default under, any contract, agreement, instrument, or obligation to which Buyer is a party or by which Buyer is bound, or (iv) violate or conflict with any law, ordinance, or governmental regulation or permit applicable to Buyer.

(c) Bankruptcy. No proceedings under any federal or state bankruptcy or insolvency laws have been commenced by or against Buyer which have not been terminated; no general assignment for the benefit of creditors has been made by Buyer; and no trustee or receiver of Buyer's property has been appointed.

12. Risk of Loss; Insurance Proceeds; Condemnation.

12.1 Damage or Destruction. In the event of damage or destruction of the Improvements that occurs prior to the Closing Date that (i) would require the expenditure of an amount less than one percent (1%) of the Purchase Price to repair, and (ii) does not permit any Government Tenant or Major Non-Government Tenant to terminate its Lease (each of the foregoing events, a "**Material Damage Event**"), Buyer and Seller shall consummate this Agreement, and Seller shall (a) assign to Buyer at Closing all rights to insurance proceeds on account of such damage or destruction, including any insurance proceeds previously received by Seller with respect to such damage or destruction, and (b) pay to Buyer the amount of the deductible or retention applicable to such damage or destruction under the insurance policy. In the event such damage or destruction results in or causes a Material Damage Event, Buyer or Seller may elect to terminate this Agreement by written notice to the other within ten (10) days after the Material Damage Event. If neither party elects to terminate this Agreement, Seller shall assign the insurance proceeds and pay the applicable deductible or retention to Buyer at Closing and Seller shall have no further responsibility to Buyer for such damage or destruction. If either party elects to terminate this Agreement, the Deposit and all interest thereon shall be refunded to Buyer and the parties shall no further obligation to each other except for those obligations which expressly survive the termination of this Agreement.

12.2 Eminent Domain. If, prior to the Closing, a taking by eminent domain of all or any portion of the Land or Improvements is pending, and such taking would (i) materially and adversely interfere with the use of the Property for its current permitted uses, (ii) materially and adversely affect ingress, egress or parking for the Property or any Tenant's access to its space, (iii) would permit the termination of any Lease by any Government Tenant or Major Non-Government Tenant, or (iv) has a value exceeding one percent (1%) of the Purchase Price (each a "**Material Taking**"), Buyer or Seller shall have the right, by delivering written notice to the other within ten (10) days after Seller delivers written notice to Buyer of such pending taking, to terminate this Agreement, in which event the Deposit and all interest thereon shall be returned to Buyer. If neither party elects to terminate this Agreement or if the taking would not result in or cause a Material Taking, then this Agreement shall remain in effect, and Seller shall assign to Buyer at Closing its rights to the compensation and damages due Seller on account of such taking (and will not settle any proceedings relating to such taking without Buyer's prior written consent) and Seller shall have no further responsibility to Buyer for such taking. Seller shall promptly (and in any event prior to the Closing) notify Buyer of any condemnation affecting the Property.

The provisions of this Section 12 shall supersede the provisions of any applicable laws with respect to the subject matter of this Section 12.

13. Assignment. Buyer may not, at any time, assign this Agreement or Buyer's rights or obligations under this Agreement, either directly or indirectly, without the prior written consent of Seller, which Seller may withhold in its sole and absolute discretion. Subject to the foregoing, this Agreement shall be binding upon, inure to the benefit of, and be enforceable by the parties hereto and their respective heirs, devisees, executors, administrators, legal representatives, successors and assigns. In connection with any approved assignment, the assignee shall assume the assignor's obligations hereunder, but assignor shall nevertheless remain liable therefor.

14. Seller's Covenants During Contract Period. Between Seller's execution of this Agreement and the Closing, or earlier termination of this Agreement as permitted hereunder, Seller shall (i) maintain the Property in good order, condition and repair, reasonable wear and tear excepted; (ii) not make any material physical changes to the Improvements; (iii) continue to manage the Property in the manner in which it is being managed; (iv) not enter into any contracts or agreements affecting the Property unless such contracts can be completed or terminated prior to the Closing or Buyer, in its sole discretion, agrees to assume such contract or agreement as of the Closing Date, in which case such contracts shall be included within the term "**Service Contracts**"; (v) not enter into any lease, amendment of lease or other agreement pertaining to the Property, or permit any tenant of the Property to enter into any sublease or assignment of lease, except as provided in Section 14.1; (vi) after the end of the Due Diligence Period, not offer the Property for sale publicly or otherwise solicit, make, pursue, negotiate or accept offers for the sale of the Property to or from any party; (viii) maintain the insurance described on Exhibit L in full force and effect, except as otherwise approved by Buyer; and (ix) not dispose of or encumber the Property or any part thereof, except for dispositions of personal property in the ordinary course of business. From and after the Contract Date, Seller shall provide Buyer with regular written updates as to the status of any leasing activity at the Property.

14.1 New Leases and Lease Amendments; Lease Expenses.

(a) If Seller desires to enter into any new lease affecting the Property (each a "**New Lease**") or any termination, amendment, modification, expansion or renewal of any existing Lease (each, a "**Lease Amendment**"), after the Contract Date but prior to Closing, Seller shall provide Buyer with a copy of the proposed New Lease or Lease Amendment and a copy of the landlord's anticipated improvement costs, tenant improvement allowances, brokerage commissions and out-of-pocket costs and expenses in connection with the New Lease or Lease Amendment for Buyer's review and approval, which approval shall not be unreasonably withheld; provided, however, Buyer shall not have the right to disapprove any New Lease or Lease Amendment prior to the expiration of the Due Diligence Period. Buyer shall advise Seller, in writing, whether Buyer approves or reasonably disapproves such proposed New Lease or Lease Amendment within three (3) business days after Buyer's receipt of the proposed New Lease or Lease Amendment; provided, however, if Buyer fails to notify Seller within such three (3) business day period, Buyer shall be deemed to have approved the proposed transaction. If after the expiration of the Due Diligence Period, Buyer reasonably disapproves of the proposed New Lease or Lease Amendment, Seller shall not enter into such New Lease or Lease Amendment. If Buyer unreasonably disapproves of the proposed New Lease or Lease Amendment, Seller shall have the full right, power and authority to execute such New Lease or Lease Amendment so long as Seller delivers to Buyer at least three (3) business days' prior written notice of such execution; provided, however, that after receipt of such notice, Buyer shall have the right to terminate this Agreement, upon written notice delivered to Seller within three

(3) business days after receipt of Seller's notice of execution of such New Lease or Lease Amendment. If Buyer timely exercises such termination right, this Agreement shall terminate and the Deposit and all interest thereon shall be returned to Buyer. In all other events, this Agreement shall remain in full force and effect. Notwithstanding the foregoing, Seller acknowledges that it shall not enter into any extension or expansion of the AECOM Technology Corp. Lease during the term of this Agreement without Buyer's approval, which may be withheld at Buyer's sole discretion.

(b) New Lease Expenses. If the Closing occurs, Buyer shall assume and be responsible for (and to the extent previously paid by Seller, reimburse Seller on the Closing Date for) a pro rata portion of any and all improvement costs, tenant improvement allowances, brokerage commissions and out-of-pocket costs and expenses actually paid or incurred by Seller (collectively the " **New Lease Expenses**") arising out of or in connection with those New Leases and Lease Amendments entered into by Seller after the Contract Date pursuant to the foregoing provisions of this Section 14.1; such pro rata portion shall equal the product of (i) the New Lease Expenses multiplied by (ii) a fraction, the numerator of which is the number of months of the lease term of the New Lease (or the number of months of the term of any exercised extension period provided by any Lease Amendment, as applicable) remaining as of the Closing Date, and the denominator of which is the total number of months of such lease term (or exercised extension period, as applicable). Seller shall be responsible for the remaining pro rata portion of the New Lease Expenses. All New Leases and Lease Amendments entered into by Seller pursuant to this Section 14.1 shall be part of the Leases, shall be deemed included on Exhibit C and shall be assumed by Buyer upon Closing.

(c) Existing Lease Expenses. Seller shall be responsible for the cost of tenant improvement work, scheduled rent-free periods and leasing commissions required to be paid under or with respect to all Leases (and amendments thereto) entered into prior to the Contract Date and the cost of tenant improvement work, leasing commissions required to be paid under or with respect to Leases with Government Tenants and the scheduled rent-free periods set forth in the Leases with Government Tenants (collectively, "**Existing Lease Expenses**"), and if Seller fails to deliver Buyer evidence reasonably acceptable to Buyer confirming that such Existing Lease Expenses have been paid prior to the expiration of the Due Diligence Period, Seller shall give Buyer a credit therefore at Closing which shall be calculated as follows: Buyer and Seller shall attempt to agree on the amount of the credit for such Existing Lease Expenses during the Due Diligence Period, which amount shall equal 100% of the anticipated post-Closing Existing Lease Expenses (" **Closing Leasing Credit**"). If Seller and Buyer can agree on the Closing Leasing Credit on or before the expiration of the Due Diligence Period, such amount shall be credited against the Purchase Price due from Buyer at Closing. If Seller and Buyer cannot agree on the Closing Leasing Credit at least five (5) business days prior to the expiration of the Due Diligence Period, then at least three (3) business days prior to the expiration of the Due Diligence Period, Seller shall give Buyer written notice of the amount of the Closing Leasing Credit that Seller is willing to offer. If Buyer timely delivers the Approval Notice, Buyer shall be deemed to have accepted Seller's proposed Closing Leasing Credit and Buyer will proceed with the acquisition of the Property under the terms of this Agreement. Except as otherwise agreed to by Seller and Buyer, the Closing Leasing Credit shall constitute Seller's sole and only obligations with respect to the Existing Lease Expenses, and as of the Closing Date Buyer shall

assume all such obligations (as to leasing commissions only, up to the amount set forth for leasing commissions in the Closing Lease Credit) and indemnify and hold Seller harmless with respect thereto (as to leasing commissions only, up to the amount set forth for leasing commissions in the Closing Lease Credit).

15. ARBITRATION OF DISPUTES. IN THE EVENT OF ANY DISPUTE BETWEEN THE PARTIES ARISING UNDER OR RELATED TO THIS AGREEMENT, SUCH DISPUTE, SHALL BE RESOLVED BY BINDING ARBITRATION BEFORE A SINGLE ARBITRATOR. SUCH ARBITRATION MAY BE INITIATED BY EITHER PARTY BY DELIVERING WRITTEN NOTICE OF INTENT TO ARBITRATE TO THE OTHER PARTY AND TO THE SAN FRANCISCO OFFICE OF THE AMERICAN ARBITRATION ASSOCIATION ("**AAA**"), WHICH NOTICE SHALL DESCRIBE THE DISPUTE AND THE PARTY'S PROPOSAL FOR RESOLVING THE DISPUTE IN DETAIL. WITHIN THIRTY (30) DAYS AFTER DELIVERY OF SUCH NOTICE EACH PARTY SHALL PROVIDE ALL RELEVANT DOCUMENTS AND MATERIALS THAT PERTAIN TO THE DISPUTE. THE PARTIES SHALL FIRST ENDEAVOR TO AGREE ON THE ARBITRATOR, BUT IF THEY ARE UNABLE TO DO SO WITHIN TEN (10) DAYS AFTER THE ARBITRATION HAS BEEN INITIATED, THE ARBITRATOR SHALL BE SELECTED, WITHIN THIRTY (30) DAYS AFTER THE ARBITRATION WAS INITIATED, USING THE AAA PROCEDURES. THE ARBITRATOR SHALL BE A RETIRED SUPERIOR COURT JUDGE OR A LICENSED, PRACTICING ATTORNEY WHO IS SUBSTANTIALLY FAMILIAR WITH THE REAL ESTATE LAW, CUSTOM, PRACTICE, OR PROCEDURE, IN THE AREA IN WHICH THE PROPERTY IS LOCATED, PERTINENT TO THE DISPUTE BEING ARBITRATED, IN EITHER CASE WITH NOT LESS THAN TWENTY (20) YEARS CONTINUOUS EXPERIENCE AS A JUDGE AND/OR REAL ESTATE PRACTITIONER. IN ESTABLISHING WHETHER AN ARBITRATOR IS ABLE TO SERVE, THE PARTIES SHALL ADVISE HIM OR HER OF THE NAMES OF ALL PARTIES AND THEIR AFFILIATES AND PRINCIPAL OFFICERS AND OWNERS, AND CONFIRM THAT THERE IS NO CONFLICT OF INTEREST, WHICH FOR PURPOSES HEREOF SHALL MEAN NO BUSINESS OR PERSONAL CONNECTIONS WITH THE ARBITRATOR, OR HIS OR HER FIRM, WITH ANY OF SUCH PARTIES EITHER CURRENTLY OR AT ANY TIME DURING THE IMMEDIATELY PRECEDING THREE (3) YEARS. THE ARBITRATION SHALL BE CONDUCTED PURSUANT TO THE AAA'S COMMERCIAL ARBITRATION RULES, AS MODIFIED BY THIS SECTION 15, OR BY SUCH OTHER ORGANIZATION AND RULES AS THE PARTIES MAY MUTUALLY AGREE UPON. IF AAA IS NOT AVAILABLE AND THE PARTIES CANNOT AGREE ON AN ALTERNATE CHOICE, THE PROVISIONS OF CALIFORNIA CODE OF CIVIL PROCEDURE SECTION 1280 ET. SEQ. SHALL APPLY. ALL ARBITRATION PROCEEDINGS SHALL BE CONFIDENTIAL, AND NEITHER PARTY NOR THE ARBITRATOR MAY DISCLOSE THE CONTENT OR RESULTS OF ANY ARBITRATION HEREUNDER WITHOUT THE WRITTEN CONSENT OF BOTH PARTIES. THE ARBITRATOR SHALL FOLLOW THE LAW (INCLUDING APPLICABLE STATUTES OF LIMITATIONS) AND ALL RULES OF EVIDENCE UNLESS THE PARTIES STIPULATE TO THE CONTRARY. ANY PROVISIONAL REMEDY (INCLUDING PRELIMINARY OR PERMANENT INJUNCTIONS AND WRITS OF ATTACHMENT AND POSSESSION) WHICH WOULD BE AVAILABLE FROM A COURT OF LAW OR EQUITY SHALL BE AVAILABLE FROM

THE ARBITRATOR PENDING COMPLETION OF THE ARBITRATION. THE BENEFITED PARTY OF SUCH PROVISIONAL REMEDY SHALL BE ENTITLED TO ENFORCE SUCH REMEDY IN COURT IMMEDIATELY, EVEN THOUGH A FINAL ARBITRATION AWARD HAS NOT YET BEEN RENDERED. WITHIN THIRTY (30) DAYS AFTER HIS OR HER APPOINTMENT, THE ARBITRATOR SHALL HEAR AND DECIDE THE DISPUTE SUBMITTED TO ARBITRATION HEREUNDER AND SHALL PROMPTLY PREPARE A WRITTEN DECISION ON THE MERITS OF THE MATTERS IN DISPUTE, WHICH DECISION SHALL STATE THE FACTS AND LAW RELIED UPON AND THE REASONS FOR THE ARBITRATOR'S DECISION. THE ARBITRATOR MAY, AT HIS OR HER DISCRETION, ELECT WHETHER TO MEET WITH THE PARTIES AND WHETHER TO CONDUCT A HEARING ATTENDED BY ALL PARTIES; PROVIDED, HOWEVER, THAT FOR DISPUTES INVOLVING $50,000.00 OR MORE, THE ARBITRATOR SHALL CONDUCT A HEARING. DISCOVERY SHALL BE ALLOWED IN ACCORDANCE WITH CALIFORNIA CODE OF CIVIL PROCEDURE 1283.05. THE ARBITRATOR SHALL HAVE COMPLETE DISCRETION TO RESOLVE DISCOVERY DISPUTES, TO ORDER THE PRODUCTION OF DOCUMENTS AND PRESENTATION OF WITNESSES AND TO LIMIT SUCH DISCOVERY, INCLUDING THE NUMBER AND SCOPE OF DEPOSITIONS THAT MAY BE TAKEN BY THE PARTIES. PRIOR TO ISSUING HIS OR HER FINAL WRITTEN DECISION, THE ARBITRATOR SHALL INFORM THE PARTIES, IN WRITING, OF THE ARBITRATOR'S EXPECTED DECISION ON THE MATTER AND THE REASONS THEREFORE AND GIVE THE PARTIES FIVE (5) BUSINESS DAYS TO SUBMIT ADDITIONAL ARGUMENTS OR INFORMATION, IN WRITING, TO THE ARBITRATOR AND THE OTHER PARTIES. THE AWARD OR DECISION OF THE ARBITRATOR, WHICH MAY INCLUDE AN ORDER OF SPECIFIC PERFORMANCE, SHALL BE FINAL AND BINDING ON ALL PARTIES AND ENFORCEABLE IN ANY COURT OF COMPETENT JURISDICTION; PROVIDED, HOWEVER, THAT THE AWARD MAY BE VACATED OR CORRECTED FOR ANY OF THE REASONS PERMITTED UNDER AND PURSUANT TO CALIFORNIA CODE OF CIVIL PROCEDURE SECTIONS 1286.2 OR 1286.6. THE ARBITRATOR SHALL HAVE NO AUTHORITY TO MODIFY ANY OF THE TERMS OF THIS AGREEMENT. THE FEES AND EXPENSES OF THE ARBITRATOR AND THE COSTS AND ATTORNEYS' FEES OF THE PREVAILING PARTY SHALL BE PAID BY THE PARTY WHO IS NOT THE PREVAILING PARTY, AS DEFINED IN SECTION 17.7 (ATTORNEYS' FEES) AND DETERMINED BY THE ARBITRATOR IN ITS DECISION.

NOTICE: BY INITIALING IN THE SPACE BELOW YOU ARE AGREEING TO HAVE ANY DISPUTE ARISING OUT OF THE MATTERS INCLUDED IN THE 'ARBITRATION OF DISPUTES' PROVISION DECIDED BY NEUTRAL ARBITRATION AS PROVIDED BY CALIFORNIA LAW AND YOU ARE GIVING UP ANY RIGHTS YOU MIGHT POSSESS TO HAVE THE DISPUTE LITIGATED IN A COURT OR JURY TRIAL. BY INITIALING IN THE SPACE BELOW YOU ARE GIVING UP YOUR JUDICIAL RIGHTS TO DISCOVERY AND APPEAL, UNLESS THOSE RIGHTS ARE SPECIFICALLY INCLUDED IN THE 'ARBITRATION OF DISPUTES' PROVISION. IF YOU REFUSE TO SUBMIT TO ARBITRATION AFTER AGREEING TO THIS PROVISION, YOU MAY BE COMPELLED TO ARBITRATE UNDER THE AUTHORITY OF THE CALIFORNIA CODE OF CIVIL PROCEDURE. YOUR AGREEMENT TO THIS ARBITRATION PROVISION IS VOLUNTARY.

WE HAVE READ AND UNDERSTAND THE FOREGOING AND AGREE TO SUBMIT DISPUTES ARISING OUT OF THE MATTERS INCLUDED IN THE 'ARBITRATION OF DISPUTES' PROVISION TO NEUTRAL ARBITRATION

/s/ Jeanne R Myerson, President	/s/ John C. Molina, CFO
Seller	Buyer

16. Indemnification. Each party hereby agrees to indemnify, defend, protect and hold harmless the other party from and against any and all claims, demands, liabilities, costs and damages, including without limitation, reasonable attorneys' fees (collectively, "**Claims**") suffered by the other party and resulting from or arising out of all third-party tort claims and similar claims of the type that would typically be insured under a Commercial General Liability Insurance Policy which are based on actions, facts or circumstances existing or occurring during the indemnifying party's ownership of the Property, excluding any Claims related to hazardous substances. In addition to the foregoing, Seller agrees to indemnify, defend, protect and hold harmless Buyer from and against any and all enforcement actions and all fines imposed and/or pursued by: (i) the State Water Resources Control Board, California Regional Water Quality Control Board, the United States Environmental Protection Agency, the County of Los Angeles, the City of Long Beach and/or any other governmental or quasi governmental agency or instrumentality; and/or (ii) any third party, resulting from or arising out of alleged or actual violations of federal, state or local laws, statutes, ordinances or regulations applicable to the collection and/or discharge of water from or through the Discharge System that occurred prior to the Closing. Notwithstanding the foregoing, in no event shall this Section 16 require Seller to be responsible for the costs of installing, operating and/or maintaining a water treatment system at the Property, regardless of whether such a system is determined to be necessary by the applicable regulatory authorities as a result of any pre-Closing violation by Seller. The provisions of this Section 16 shall survive the Closing and conveyance of the Property to Buyer for a period of three (3) years from the date of Closing.

17. Miscellaneous.

17.1 Notice. All notices and any other communications permitted or required under this Agreement must be in writing and will be effective (i) immediately upon delivery in person or by facsimile, provided delivery is made during regular business hours or receipt is acknowledged by a person reasonably believed by the delivering party to be employed by the recipient and that for all facsimiles, good and complete transmission is confirmed by the sending facsimile machine and a copy of the notice is concurrently mailed pursuant to clause (iii) below; or (ii) upon the actual delivery as evidenced by executed receipt of the recipient if delivered by a nationally recognized delivery service for overnight delivery, provided delivery is made during regular business hours or receipt is acknowledged by a person reasonably believed by the delivering party to be employed by the recipient; or (iii) or the date shown on the return receipt if delivered by the United States Postal Service, certified mail, return receipt requested, postage prepaid and with the return receipt returned to the sender marked as delivered, undeliverable or

rejected. In the case of any notices sent pursuant to clauses (ii) or (iii) above, the sender shall also send a copy of such notice by email, which email shall be sent no later than 6:00 p.m. (Pacific Time) on the date such notice is deposited with the delivery service or United States Postal Service. The inability to deliver because of a changed address of which no notice was given, or rejection or other refusal to accept any notice, shall be deemed to be the receipt of the notice as of the first date of such inability to deliver or rejection or refusal to accept. Any notice to be given by any party hereto may be given by the counsel for such party. All notices must be properly addressed and delivered to the parties at the addresses set forth below, or at such other addresses as either party may subsequently designate by written notice given in the manner provided in this Section 17.1:

Seller: **200 Oceangate, LLC**
c/o The Swig Company, LLC
220 Montgomery Street, 20th Floor
San Francisco, CA 94104
Attn: Kennard P. Perry
Telephone: (415) 291-1140
Facsimile: (415) 291-8373
Email: kperry@swigco.com

with copy to: Farella Braun + Martel LLP
235 Montgomery Street
San Francisco, CA 94104
Attn: Anthony D. Ratner
Telephone: (415) 954-4448
Facsimile: (415) 954-4480
Email: tratner@fbm.com

Buyer:

Prior to Closing: Molina Healthcare, Inc.
300 University Avenue, Suite 100
Sacramento, CA 95825
Attn: General Counsel
Telephone: (916) 646-9193 x114663
Facsimile: (916) 646-4572
Email: Jeff.Barlow@Molinahealthcare.com

with copy to: Boutin Jones Inc.
555 Capitol Mall, Suite 1500
Sacramento, CA 95814
Attn: James R. Moore
Telephone: (916) 321-4444
Facsimile: (916) 441-7597
Email: jmoore@boutininc.com

After Closing:	Molina Center LLC 200 Oceangate, Suite 100 Long Beach, CA 90802 Attn: John Molina Telephone: (562) 435-3666 x111128 Facsimile: (562) 495-7770 Email: John.Molina@Molinahealthcare.com
with a copy to:	Molina Healthcare, Inc. 300 University Avenue, Suite 100 Sacramento, CA 95825 Attn: General Counsel Telephone: (916) 646-9193 x114663 Facsimile: (916) 646-4572 Email: Jeff.Barlow@Molinahealthcare.com

17.2 Headings. The headings used herein are for purposes of convenience only and should not be used in construing the provisions hereof.

17.3 Covenant of Further Assurances. The parties hereby agree to execute and deliver such other documents and instruments (including, without limitation, additional escrow instructions in conformity with this Agreement), and to take such other actions, whether before or after Closing, as may reasonably be required and which may be necessary to consummate this transaction and to otherwise effectuate the agreements of the parties hereto; provided that such additional documents, instruments, or actions shall not impose upon the parties any obligations, duties, liabilities or responsibilities which are not expressly provided for in this Agreement.

17.4 Entire Agreement. This document, together with that certain Agreement Regarding Diligence Reports dated January 7, 2011, by and between Buyer and Seller (the "**Diligence Agreement**"), and that certain Notice and Acknowledgement by and between Seller and Molina relating to KPMG and dated January 10, 2011 (the "**KPMG Acknowledgement**"), together represent the final, entire and complete agreement between the parties with respect to the subject matter hereof and supersedes all other prior or contemporaneous agreements, communications or representations, whether oral or written, express or implied, including any letters of intent, including that certain Confidentiality Agreement 200 & 300 Oceangate by and between Molina and Seller. The parties acknowledge and agree that they may not and are not relying on any representation, promise, inducement, or other statement, whether oral or written and by whomever made, that is not contained expressly in this Agreement, the Diligence Agreement or the KPMG Acknowledgement. This Agreement may only be modified by a written instrument signed by representatives authorized to bind both parties. Oral modifications are unenforceable.

17.5 Partial Invalidity. If any term, covenant or condition of this Agreement or its application to any person or circumstances shall be held to be illegal, invalid or unenforceable, the remainder of this Agreement or the application of such term or provisions to other persons or

circumstances shall not be affected, and each term hereof shall be legal, valid and enforceable to the fullest extent permitted by law, unless an essential purpose of this Agreement would be defeated by the loss of the illegal, unenforceable, or invalid provision. In the event of such partial invalidity, the parties shall seek in good faith to agree on replacing any such legally invalid provisions with valid provisions which, in effect, will, from an economic viewpoint, most nearly and fairly approach the effect of the invalid provision and the intent of the parties in entering into this Agreement.

17.6 No Waiver. No consent or waiver by either party to or of any breach or non-performance of any representation, condition, covenant or warranty shall be enforceable unless in a writing signed by the party entitled to enforce performance, and such signed consent or waiver shall not be construed as a consent to or waiver of any other breach or non-performance of the same or any other representation, condition, covenant, or warranty.

17.7 Attorneys' Fees. In the event of any arbitration or litigation between the parties, whether based on contract, tort or other cause of action or involving bankruptcy or similar proceedings, in any way related to this Agreement, the non-prevailing party shall pay to the prevailing party all reasonable attorneys' fees and costs and expenses of any type, without restriction by statute, court rule or otherwise, incurred by the prevailing party in connection with any action or proceeding (including arbitration proceedings, any appeals and the enforcement of any judgment or award), whether or not the dispute is litigated or prosecuted to final judgment. The "prevailing party" shall be determined based upon an assessment of which party's major arguments or positions taken in the action or proceeding could fairly be said to have prevailed (whether by compromise, settlement, abandonment by the other party of its claim or defense, final decision, after any appeals, or otherwise) over the other party's major arguments or positions on major disputed issues.

17.8 Brokers and Finders. Neither party has had any contact or dealings regarding the Property, through any licensed real estate broker or other persons who can claim a right to a commission or finder's fee in connection with this transaction, except for CB Richard Ellis, Inc., representing Seller (the " **Selling Broker**") and McKinney Advisory Group, Inc., representing Buyer (the " **Buying Broker**"). The parties agree that Seller shall pay a brokerage commission to Selling Broker, pursuant to its separate agreement with the Selling Broker. The parties agree that Buyer shall pay any amount owing to Buying Broker pursuant to its separate agreement with the Buying Broker. In the event that any other party claims a commission or finder's fee in this transaction, the party through whom the party makes its claim shall be responsible for said commission or fee and shall indemnify the other against all costs and expenses (including reasonable attorneys' fees) incurred in defending against the same. This indemnification obligation shall survive the Closing or termination of this Agreement.

17.9 Time of the Essence. Time is of the essence of this Agreement.

17.10 Governing Law; Forum. This Agreement is entered into and shall be governed by and construed in accordance with the laws of the State of California (without giving effect to its choice of law principles).

17.11 Interpretation. All parties have been represented by counsel in the preparation and negotiation of this Agreement, and this Agreement shall be construed according to the fair meaning of its language. The rule of construction to the effect that ambiguities are to be resolved against the drafting party shall not be employed in interpreting this Agreement. Unless the context clearly requires otherwise, (i) the plural and singular numbers shall each be deemed to include the other; (ii) the masculine, feminine, and neuter genders shall each be deemed to include the others; (iii) "shall," "will," or "agrees" are mandatory, and "may" is permissive; (iv) "or" is not exclusive; (v) "includes" and "including" are not limiting, absent express language to the contrary; (vi) "days" means calendar days unless specifically provided otherwise; and (vii) "business day" means any day other than Saturday, Sunday, or any day that is an "optional bank holiday" under Section 7.1 of the California Civil Code, whether or not any particular bank is open for business on such optional bank holiday.

17.12 IRS Form 1099-S Designation. In order to comply with information reporting requirements of Section 6045(e) of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations thereunder, the parties agree (i) to execute an IRS Form 1099-S Designation Agreement to designate the Title Company (the "**Designee**") as the party who shall be responsible for reporting the contemplated sale of the Property to the Internal Revenue Service (the " **IRS**") on IRS Form 1099-S; and (ii) to provide the Designee with the information necessary to complete Form 1099-S.

17.13 Third Party Beneficiaries. This Agreement has been made solely for the benefit of the parties hereto and their respective successors and permitted assigns, and nothing in this Agreement is intended to, or shall, confer upon any other person any benefits, rights or remedies under or by reason of this Agreement.

17.14 Compliance With Laws. Each party shall comply with all applicable laws, rules, regulations, orders, consents and permits in the performance of all of their obligations under this Agreement.

17.15 Counterparts. This Agreement may be signed in any number of counterparts with the same effect as if the signatures to each counterpart were upon a single instrument, and is intended to be binding when all parties have delivered their signatures to the other parties. Signatures may be delivered by facsimile transmission or by e-mail in a portable document format (*pdf*). All counterparts shall be deemed an original of this Agreement.

17.16 Exhibits. All Recitals and Exhibits referred to in this Agreement are incorporated herein by reference and shall be deemed part of this Agreement.

17.17 Authority. The individuals executing this Agreement on behalf of Seller and Buyer individually represent and warrant that he or she has been authorized to do so and has the power to bind the party for whom they are signing.

17.18 Exchange Transaction. Buyer agrees upon the request of Seller to cooperate with Seller in closing all or part of this transaction as an exchange pursuant to Internal Revenue Code Section 1031, provided that:

(a) Buyer shall incur no additional expense or liability in connection therewith and shall not be required to make any representations or warranties, incur any personal liabilities or hold title to any property other than the Property;

(b) Seller shall indemnify, protect, defend and hold Buyer harmless from any claims, liabilities, demands, causes of action, judgments, expenses, costs and attorneys' fees in connection with such exchange or which result from Buyer's compliance with this paragraph, which obligation shall survive the Closing or termination of this Agreement; and

(c) The Closing is not extended or delayed by the exchange and the completion of the exchange is not a condition to Seller's obligation to close the Escrow.

17.19 Confidentiality. Buyer and Seller shall each maintain as confidential any and all material or information about the other, the terms of this Agreement, and the Property, and shall not disclose such information to any third party, except, in the case of Buyer, to Buyer's investment bankers, lender or prospective lenders, insurance and reinsurance firms, accountants, attorneys, environmental and other consultants, as may be reasonably required for the consummation of this transaction, as required by law or in connection with any arbitration or litigation between the parties, and except, in the case of Seller, to Seller's existing lender, attorneys, accountants and other professional consultants, as may be reasonably required for the consummation of this transaction, as required by law or in connection with any arbitration or litigation between the parties. Neither party shall issue a press release or other public statement about this Agreement or the transactions contemplated by this Agreement without the other party's prior written consent, unless such release or statement is required by law. Seller acknowledges that Buyer's ultimate parent is a publicly traded company and that Buyer is, therefore, subject to laws and regulations regarding the disclosure and dissemination of business information. Buyer acknowledges that in the event this Agreement terminates for any reason, Seller has the right and the obligation to disclose to subsequent purchasers of the Property the price and material terms of this Agreement, and Buyer agrees that such disclosure is a permitted disclosure under this Section 17.19.

[*Signatures on following page*]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Contract Date.

SELLER:

200 OCEANGATE, LLC,
a Delaware limited liability company

By: 200 Oceangate, Inc.,
a Delaware corporation
its Manager

By: /s/ Jeanne R. Myerson
Jeanne R. Myerson
President

BUYER:

MOLINA CENTER LLC,
a Delaware limited liability company

By: Molina Healthcare, Inc., a Delaware corporation

By: /s/ John C. Molina
Name: John C. Molina
Title: Chief Financial Officer

NOTE: BOTH PARTIES MUST INITIAL THE AGREEMENT AT SECTIONS 3.2 AND 15.

EXHIBIT A

DESCRIPTION OF THE LAND

PARCELS 2 AND 3, AS SHOWN ON PARCEL MAP NO. 5196, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGLES, STATE OF CALIFORNIA, FILED IN BOOK 71 PAGE 14 OF PARCEL MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM, ALL OIL, GAS, HYDROCARBON SUBSTANCES AND MINERALS OF EVERY KIND AND CHARACTER LYING MORE THAN 500 FEET BELOW THE SURface OF SAID LAND, TOGETHER WITH THE RIGHT TO DRILL INTO, THROUGH AND TO USE AND OCCUPY ALL PARTS OF SAID LAND LYING MORE THAN 500 FEET BELOW THE SURFACE THEREOF FOR ANY AND ALL PURPOSES INCIDENTAL TO THE EXPLORATION FOR AND PRODUCTION OF OIL, GAS, HYDROCARBON SUBSTANCES OR MINERALS FROM SAID OR OTHER LANDS, BUT WITHOUT, HOWEVER, ANY RIGHT TO USE EITHER THE SURFACE OF SAID LAND OR ANY PORTION OF SAID LAND WITHIN 500 FEET OF THE SURFACE FOR ANY PURPOSE OR PURPOSES WHATSOEVER AS RESERVED BY VARIOUS DEEDS OF RECORD, AMONG THEM, BEING THE DEED RECORDED JULY 19, 1965 AS INSTRUMENT NO. 885 IN BOOK D2981 PAGE 153 OFFICIAL RECORDS.

APN: 7278-003-035 and 7278-003-036

EXHIBIT B

MATERIALS AND DOCUMENTS DELIVERED TO BUYER

Information Provided in 2011

FINANCIAL

1. 7-2010 – 6-2011 RE Tax Invoice 7278 003 035
2. 7-2010 – 6-2011 RE Tax Invoice 7278 003 036
3. 200 Oceangate Balance Sheet as of 08-31-11
4. 2011-08 YTD Operating Statement
5. 2011-08-31 Oceangate Balance Sheet
6. 2011-09-06 200 – 300 Oceangate Rent Roll
7. 2011-09-19 200 Oceangate AR Aging
8. 2011-09-19 200 Oceangate Rent Roll
9. 2010 Escalation Reconciliation – Actual

LEASES

1. 2011-09 Perona B870
2. 2011-09 XO Comm Amendment
3. Crowell Weedon and Co B0800 – Lease 9-9-10

SERVICE CONTRACTS

1. 2011-09 Serv-Wel aka City Rent-A-Bin
2. 2011-09 Trashmaster aka Master Environmental
3. 2011-09 window Washing Able Acq aka UBS

2011-09-14 200 Oceangate First Am Commercial Commitment—Update

Information Provided in 2010

BOMA

10. BOMA Building Square Footage Calculations

Existing Loan Information

1. 2010-9-23-200 Oceangate Loan Abstract
2. Complete Set of Seller's Final Loan Docs

Financial Information

1. 200 and 300 Oceangate Utility Reimbursement Detail For YTD 2010
2. 2009 TAX and Operating Expenses Reconciliation Actuals

Leases

1. 2008-8-11 Molina Acceptance of Premises
2. 2010-11-04 Gunn Jerkens Stor Cancellation notice
3. 2010-11-04 Oasis Car Wash
4. 2010-11-04 United Parcel Service Drop Box Agmt
5. 2010-11-18 Rocket Inter Network Org Lease Basic Lease Information
6. Arco Center—Storage Rent Roll 4-14-2010
7. Arthritis National Research Foundation
8. Brandon and Yarc LLP
9. California Coastal Commission
10. California Coastal Commission (Missing Page 8)
11. California State Lands Commission

12. Children Today Storage Only
13. Conectateya Inc
14. Department of General Services
15. Department of Industrial Relations
16. Department of Veterans Affairs
17. Earth Tech Inc
18. Gunn-Jerkens Inc
19. High Rise Goodies Restaurant Group aka Trimana
20. J. Perez Associates Inc
21. Long Beach Publishing Company aka Press Telegram
22. Medco Health Solutions Inc
23. Michael W. Binning
24. Molina Healthcare Inc
25. Moyer Lynne E
26. MVP Energy LLC
27. Pacific Maritime Association
28. Reidman Dalessi and Dybens
29. Rocket Internetworking Inc
30. Rose Klein and Marias
31. State Lands Commission
32. Trainotti Michael

Amendments to Leases/Exhibits/License Agreements

1. Arthritis National—3rd Amend to Lease 8-25-10
2. California Coastal Com A1000—Exhibit B 10-16-96
3. California Coastal Commission Suite 10th Floor Plan 10-16-96
4. Captivate Network Inc – Letter RE: License Agreement 9-7-10
5. Crowell Weedon and Co B0800 – Lease dated 9-9-10
6. D. Michael Trainotti—3rd Amend to Lease 8-25-10
7. Dept of Industrial Relations B0850—Exhibit B Revised 4-28-00
8. Dept of Industrial Relations B200-300—Exhibit B 5-15-97
9. First Choice Coffee Service Agreement 10-26-10
10. Lease Agreements in File Summary Updated 11-9-10
11. License Agreements Schedule dated 11-10-2010
12. Long Beach Publishing Co—Temp Use Agreement 6-10-10
13. Lynn E Moyer—3rd Amend to lease 10-18-10
14. Michael W. Binning—4th Amend to Lease 8-25-10
15. Riedman Dalessi and Dybens—3rd Amend to Lease 8-25-10
16. Rocket InterNetworking—1st Amend to lease 9-17-2010
17. State Land Com A12—Exhibit A
18. State Lands Com A0900—Exhibit B 5-10-01
19. State Lands Com A1200—Exhibit B 3-1-93
20. State Lands Com A9—Exhibit A
21. US Dept of Vet Affairs—Exhibit D Letter3-21-10
22. Vendor Services Summary Updated 11-9-10

Misc Income

1. 200 Oceangate 2010 Income detail

Operating Statements

1. 200 Oceangate 2010 Income detail (same as above)

2. 2008- 12-31 Operating Statement
3. 2009-12-31 Operating Statement
4. 2010_05_31 200 Oceangate Operating Statement
5. 2010-7-14 Parking Break down by tenant

6. 2010-7-14 Parking Rates
7. 2010-7-8 Parking Invoices June 09—May 10
8. ARCO Parking Revenue June 2009-May 2010

Parking

1. 2010-7-8 Parking Invoices June 09—May 10
2. ARCO Parking Revenue June 2009-May 2010 (same as in the Operating Expense folder)

Rent Roll

1. 2010-8-19 200 and 300 Oceangate Rent Roll

Storage Rent Roll

1. 2010-11-04 Storage Rent Roll Schedule Revised Nov 1

Utility

1. 200 Oceangate Utility Reimbursement Detail for 2010

Leasing Status Update

1. Leasing Update Prepared by CBRE 9-23-2010

New Physical Property Reports

1. Phase 1 Environmental (Prepared by Partner Engineering and Science dated 9-21-2003)
2. Property Condition Assessment Report (Prepared by Property Solutions Incorporated dated 9-2-2003)
3. Structural Report (Prepared by Partner Engineering and Science dated 9-21-2003)

OM Argus

1. 200 & 300 Oceangate ARGUS file as of 8-5-2010

OTHER MISC DOCS

Insurance Certificate

1. Wachovia Bank 200 Oceangate Insurance Certificate dated 8-12-2009

Photographs

1. ARCO Center McConville 3
2. 200 and 300 Oceangate McConville

PHYSICAL INFORMATION

Building Measurement—Stevenson Systems—Individual Space Plans

Various 200 Oceangate Space Plans With the Following Sheet Titles:

1. 200OGA10 Model 1000.pdf
2. 200OGA10 Model 1050.pdf
3. 200OGA10 Model c.pdf
4. 200OGA11 Model 1100.pdf
5. 200OGA11 Model c.pdf
6. 200OGA12 Model 1200.pdf
7. 200OGA12 Model c.pdf
8. 200OGA14 Model 1400.pdf
9. 200OGA14 Model c.pdf
10. 200OGA15 Model 1500.pdf
11. 200OGA15 Model 1550.pdf
12. 200OGA15 Model 1560.pdf
13. 200OGA15 Model 1570.pdf

14. 200OGA15 Model 1580.pdf
15. 200OGA15 Model c.pdf
16. 200OGA2 Model 200.pdf
17. 200OGA2 Model c.pdf
18. 200OGA3 Model 300.pdf
19. 200OGA3 Model c.pdf
20. 200OGA4 Model 400.pdf
21. 200OGA4 Model c.pdf
22. 200OGA5 Model 500.pdf
23. 200OGA5 Model c.pdf
24. 200OGA6 Model 600.pdf
25. 200OGA6 Model c.pdf
26. 200OGA7 Model 700.pdf
27. 200OGA7 Model c.pdf
28. 200OGA8 Model 800.pdf
29. 200OGA8 Model 810.pdf
30. 200OGA8 Model 815.pdf
31. 200OGA8 Model 820.pdf
32. 200OGA8 Model 850.pdf
33. 200OGA8 Model c.pdf
34. 200OGA9 Model 900.pdf
35. 200OGA9 Model c.pdf

Various 300 Oceangate Space Plans With the Following Sheet Titles:

1. 200OGB10 Model 1000.pdf
2. 200OGB10 Model c.pdf
3. 200OGB11 Model 1100.pdf
4. 200OGB11 Model c.pdf
5. 200OGB12 Model 1200.pdf
6. 200OGB12 Model c.pdf
7. 200OGB14 Model 1400.pdf
8. 200OGB14 Model c.pdf
9. 200OGB15 Model 1500.pdf
10. 200OGB15 Model c.pdf
11. 200OGB2 Model 200.pdf
12. 200OGB2 Model c.pdf
13. 200OGB3 Model 300.pdf
14. 200OGB3 Model c.pdf
15. 200OGB4 Model 400.pdf
16. 200OGB4 Model 420.pdf
17. 200OGB4 Model 430.pdf
18. 200OGB4 Model 450.pdf
19. 200OGB4 Model c.pdf
20. 200OGB5 Model 500.pdf
21. 200OGB5 Model c.pdf
22. 200OGB6 Model 600.pdf
23. 200OGB6 Model c.pdf
24. 200OGB7 Model 700.pdf
25. 200OGB7 Model c.pdf
26. 200OGB8 Model 800.pdf

27. 200OGB8 Model 850.pdf
28. 200OGB8 Model c.pdf
29. 200OGB9 Model 900.pdf
30. 200OGB9 Model 910.pdf
31. 200OGB9 Model 930.pdf

32. 200OGB9 Model 950.pdf
33. 200OGB9 Model c.pdf
34. 200OGP Model A100.pdf
35. 200OGP Model B100.pdf
36. 200OGP Model B110.pdf
37. 200OGP Model B130.pdf
38. 200OGP Model B150.pdf
39. 200OGP Model c.pdf

Measurement Reports

1. 200-300 Oceangate—Final Measurement Report Prepared by Stevenson Systems, Inc. dated 2008-11-06
2. 200-300 Oceangate—Final Report Prepared by Stevenson Systems, Inc. dated 2008-11-06

Engineering

1. Engineering Report (Prepared by Property Solutions Incorporated dated 9-2-2003)

Environmental

1. Phase I Environmental (Prepared by Property Solutions Incorporated dated 9-2-2003)

Flood Report

1. Flood Report (Flood Hazard Determination Prepared by Federal Emergency Management Agency dated 10-31-2005)

Leasing Flyers

1. 200 Oceangate_15th Floor.pdf
2. 200 Oceangate_ste 1560.pdf
3. 300 Oceangate_ste 1500.pdf
4. 300 Oceangate_ste 800.pdf

Parking Plans

1. 2010-7-14 Parking Break down by tenant
2. 2010-7-14 Parking Rates
3. Parking Garage Plans Various Sheets P1 P2 P3

Restroom

1. Restroom ADA Work Memo of Completion dated 05-28-2010

Roof

1. 200 and 300 Oceangate Roof Report Prepared by Roofing and Waterproofing Forensics, Inc dated March 2006

Stacking Plan

1. 2010-528 200 Oceangate Stacking Plan
2. 2010-528 300 Oceangate Stacking Plan

PROPERTY FILES

Property Insurance Invoice

1. 200-300 Oceangate Property Insurance Invoice 6-30-09—06-30-10

Property Tax Invoice

1. Property Tax Invoices for the 2008-2009 Tax Period 200 Oceangate-Parcel 035
2. Property Tax Invoices for the 2008-2009 Tax Period 200 Oceangate-Parcel 036
3. Property Tax Invoices for the 2009-2010 Tax Period 200 Oceangate-Parcel 035
4. Property Tax Invoices for the 2009-2010 Tax Period 200 Oceangate-Parcel 036

Service Contracts For the Following Vendors:

1. Able Engineering
2. ABM Janitorial Services-Stone Maintenance
3. American City Pest Control
4. Ampco System Parking
5. ARCO Center Vendor Contracts
6. Arrowhead Mountain Spring Water
7. Associated Group
8. Captivate Network
9. Cogent Communications
10. Direct America
11. Federal Communications Commission FCC
12. Kinemetrics Inc
13. Master Environmental
14. Matsunaga Landscaping
15. Montgomery Technologies
16. Otis Elevator Company Service Contract Effective Oct 1 2010
17. Otis Elevator Company Modernization Contract dated 10-13-2009
18. Otis Elevator Company Pre-Modernization Contract dated 5-25-2004
19. PyroComm
20. Rocket Internetworking Inc
21. Serv-wel Disposal and Recycling
22. Sky Rider Equipment
23. Southland Exterior Bldg Services
24. TCG Los Angeles
25. Telepacific Communications
26. Union Contract Engineering
27. Union Contract Janitorial
28. Union Contract Security
29. United Building Services Able
30. Universal Protection Services
31. XO Communications

Various Utility Bills

1. City of Long Beach Acct 43514504 (Gas and Water)
2. City of Long Beach Acct 850031854 (Fire and Water)
3. Southern California Edison Acct 2-02-360-7070 (Electricity)
4. Southern California Edison Acct 2-24-515-6658 (Electricity)
5. Southern California Edison Acct 2-28-852-0869 (Electricity)

Title Info

1. 2010-08-29 200 Oceangate FirstAm Prelim Title Report
2. 2010-09-09 200 AND 300 Oceangate Updated ALTA Survey

SUPPLEMENTAL DUE DILIGENCE

Depart of Industrial Relations B0850

1. Depart of Industrial Relations B0850 Floor 2 Space Plan Prepared by Interni dated5-15-97
2. Depart of Industrial Relations B0850 Floor 3 Space Plan Prepared by Interni dated5-15-97

Depart of Industrial Relations B200-300

1. Depart of Industrial Relations B200-300 Oceangate 8th Floor dated 4-18-2000 Prepared by DGS

2. Depart of Industrial Relations B200-300 Oceangate 8th Floor dated 4-18-2000 Prepared by DGS Version 2

EXHIBIT C

RENT ROLL

[See attached]

200 OCEANGATE LLC
9/19/2011

Suite		Rent Dates		GRA Square	Monthly	Annual	Monthly	Expense	Monthly	Security	Base Escalation				Options				Future Rent Increases			
Id	Tenant Name	Start	Expire	Footage	Base Rent	Rate PSF	Cost Recovery	Stop	Other Income	Deposit	Cat	Year	Pct	G/U %	Nc	Term	Amount	Lead	Cat	Date	Monthly	AmoiPSF
Vacant Suites																						
715 -A0810	Vacant			2,540																		
715 -A0820	Vacant			2,484																		
715 -A1550	Vacant			8,150																		
715 -A1560	Vacant			1,699																		
715 -A1580	Vacant			1,840																		
715 -B0420	Vacant			3,603																		
715 -B0450	Vacant			8,681																		
715 -B0830	Vacant			1,205																		
715 -B0900	Vacant			2,181																		
715 -B0950	Vacant			2,419																		
715 -B1500	Vacant			16,604																		
715 -Z0101	Vacant			378																		
Occupied Suites																						
715 -A0700	MOLINA HEALTHCARE, INC.	8/1/2006	12/31/2018	16,575	334,144.40	241.9145	16,514.06				ESC	2003	17.9721	95					REN	12/1/2012	344,168.75	27.5522
											TAX	2008	1.2005						REN	12/1/2013	354,493.80	28.3788
																			REN	12/1/2014	365,128.59	29.2302
																			REN	12/1/2015	376,082.45	30.1071
																			REN	12/1/2016	387,364.95	31.0103
																			REN	12/1/2017	398,985.90	31.9406
																			REN	12/1/2018	410,955.45	32.8988
	Additional Space 715 -A0100	7/1/2008		5,518			438.91															
	Additional Space 715 -A0200	8/1/2006		16,306																		
	Additional Space 715 -A0300	8/1/2006		16,575																		
	Additional Space 715 -A0400	8/1/2006		16,575																		
	Additional Space 715 -A0500	8/1/2006		12,568			2,512.57															
	Additional Space 715 -A0530	8/1/2006		2,846			801.07															
	Additional Space 715 A0533	8/1/2006		1,161																		
	Additional Space 715 -A0600	8/1/2006		16,575																		
	Additional Space 715 -A1050	9/1/2006		7,608			1,257.00															

Database: COMPANY_10

RENT ROLL

200 OCEANGATE LLC
9/19/2011

Page: 2
Date: 9/19/2011
Time: 11:55

Suite	Id	Tenant Name	Rent Dates Start	Rent Dates Expire	GRA Square Footage	Monthly Base Rent	Annual Rate PSF	Monthly Cost Recovery	Expense Stop	Monthly Other Income	Security Deposit	Base Escalation Cat	Year	Pct	G/U %	Options Nc	Term	Amount	Lead	Future Rent Increases Cat	Date	Monthly AmoiPSF	
		Additional Space 715 A1100	11/1/2006	12/31/2018	16,541			2,732.95															
		Additional Space 715 A14TH	8/1/2006	12/31/2018	16,575			2,738.57															
		Additional Space 715 AA100	6/1/2007	12/31/2018	9,993			1,651.07															
				Total	155,416	334,144.40		28,646.20		0.00													
715	-A0800	ROCKET INTERNETWORKING, INC.	11/1/2010	2/28/2016	3,784	7,568.00	24.0000	343,16		243.75	9,273.39	ESC	2010	.8222	95					REN	11/1/2011	7,795.04	24.7200
												TAX	2010	.8222						REN	11/1/2012	8,028.89	25.4616
																				REN	11/1/2013	8,269.76	26.2255
																				REN	11/1/2014	8,517.85	27.0122
																				REN	11/1/2015	8,773.39	27.8226
																				SAT	11/1/2011	618.00	1.9598
																				SAT	11/1/2012	636.54	2.0186
																				SAT	11/1/2013	655.64	2.0792
																				SAT	11/1/2014	675.31	2.1416
																				SAT	11/1/2015	695.56	2.2058
715	-A0815	ROSE, KLEIN & MARIAS	12/11/2009	12/31/2011	1,398	1,475.00	12.6609				1,032.70	ESC											
												TAX											
715	-A0830	LYNN E. MOYER, ESQ	3/1/2011	5/31/2016	749	1,460.55	23.4000					ESC	2011	.1624	95	1	60	FMV		REN	3/1/2012	1,504.37	24.1021
												TAX	2011	.1624						REN	3/1/2013	1,549.50	24.8251
																				REN	3/1/2014	1,595.98	25.5698
																				REN	3/1/2015	1,643.86	26.3369
																				REN	3/1/2016	1,693.18	27.1270
715	-A0831	ARTHRITIS NATIONAL RESEARCH	3/1/2011	5/31/2016	584	1,138.80	23.4000					ESC	2011	.1266	95	1	60	FMV		REN	3/1/2012	1,172.96	24.1019
												TAX	2011	.1266						REN	3/1/2013	1,208.15	24.8250
																				REN	3/1/2014	1,244.40	25.5699
																				REN	3/1/2015	1,281.73	26.3369
																				REN	3/1/2016	1,320.18	27.1270
715	-A0840	D. MICHAEL TRAINOTTI	3/1/2011	5/31/2016	777	1,515.15	23.4000					ESC	2011	.1685	95	1	60	FMV		REN	3/1/2012	1,560.60	24.1019
												TAX	2011	.1685						REN	3/1/2013	1,607.42	24.8250
																				REN	3/1/2014	1,655.65	25.5699
																				REN	3/1/2015	1,705.31	26.3368
																				REN	3/1/2016	1,756.47	27.1269
715	-A0845	MICHAEL W. BINNING	3/1/2011	5/31/2016	745	1,452.75	23.4000					ESC	2011	.1615	95	1	60	FMV		REN	3/1/2012	1,496.33	24.1020
												TAX	2011	.1615						REN	3/1/2013	1,541.22	24.8250
																				REN	3/1/2014	1,587.46	25.5698
																				REN	3/1/2015	1,635.08	26.3369
																				REN	3/1/2016	1,684.14	27.1271
715	-A0850	BRUCE A. DYBENS, A PROF LAW	3/1/2011	5/31/2016	3,538	6,899.10	23.4000			500.00		ESC	2011	.767	95	1	60	FMV		REN	3/1/2012	7,106.07	24.1020
												TAX	2011	.767						REN	3/1/2013	7,319.26	24.8251
																				REN	3/1/2014	7,538.83	25.5698
																				REN	3/1/2015	7,765.00	26.3369
																				REN	3/1/2016	7,997.95	27.1270

200 OCEANGATE LLC
9/19/2011

	Suite Id	Tenant Name	Rent Dates Start	Rent Dates Expire	GRA Square Footage	Monthly Base Rent	Annual Rate PSF	Monthly Cost Recovery	Expense Stop	Monthly Other Income	Security Deposit	Base Escalation Cat	Base Escalation Year	Base Escalation Pct	Base Escalation G/U %	Options Nc	Options Term	Options Amount	Options Lead	Future Rent Increases Cat	Future Rent Increases Date	Future Rent Increases Monthly	Future Rent Increases AmoiPSF
715	-A0900	CALIFORNIA STATE LANDS COMM	12/1/2010	11/30/2018	16,599	29,197.35	21.1078					ESC								REN	12/1/2011	30,073.27	21.7410
												TAX								REN	12/1/2012	30,975.46	22.3932
																				REN	12/1/2013	31,904.73	23.0650
																				REN	12/1/2014	34,486.38	24.9314
																				REN	12/1/2015	35,952.05	25.9910
																				REN	12/1/2016	37,480.02	27.0956
																				REN	12/1/2017	39,072.91	28.2472
715	-A1000	CALIFORNIA COASTAL COMMISSION	12/1/2010	11/30/2018	8,950	15,730.14	21.0907					ESC								REN	12/1/2011	16,202.04	21.7234
												TAX								REN	12/1/2012	16,688.10	22.3751
																				REN	12/1/2013	17,188.74	23.0464
																				REN	12/1/2014	18,579.62	24.9112
																				REN	12/1/2015	19,369.25	25.9699
																				REN	12/1/2016	20,192.44	27.0737
																				REN	12/1/2017	21,050.62	28.2243
715	-A12TH	STATE LANDS COMMISSION	12/1/2010	11/30/2018	16,599	29,301.67	21.1832			119.00		ESC								REN	12/1/2011	30,180.71	21.8187
												TAX								REN	12/1/2012	31,086.14	22.4733
																				REN	12/1/2013	32,018.72	23.1475
																				REN	12/1/2014	34,609.60	25.0205
																				REN	12/1/2015	36,080.51	26.0839
																				REN	12/1/2016	37,613.93	27.1924
																				REN	12/1/2017	39,212.52	28.3481
																				STO	1/1/2012	101.00	0.0730
715	-A1500	LISA BRANDON, CFLS	2/1/2011	1/31/2016	2,918	5,690.10	23.4000				5,903.52	ESC	2011	.6326	95					REN	2/1/2012	5,860.80	24.1020
												TAX	2011	.6326						REN	2/1/2013	6,036.63	24.8251
																				REN	2/1/2014	6,217.73	25.5698
																				REN	2/1/2015	6,404.26	26.3369
715	-A1570	MVP ENERGY, LLC	3/1/2010	2/28/2015	1,992	3,795.76	22.8660	180.89			3,779.10	ESC	2010	.4334	95	1	60	FMV		REN	3/1/2012	3,909.63	23.5520
												TAX	2010	.4334						REN	9/1/2012	0.00	0.0000
																				REN	10/1/2012	3,909.63	23.5520
																				REN	3/1/2013	4,026.92	24.2586
																				REN	3/1/2014	4,147.73	24.9863
715	-B0100	HIGH RISE GOODES RESTAURANT	7/7/2005	7/31/2015	3,497	4,327.01	14.8482	664.11		25.00	4,500.09	ESC	2005	.761	95	1	60	FMV		REN	7/7/2013	4,500.09	15.4421
												TAX	2005	.761									
715	-B0130	GUNN JERKENS, INC.	6/1/2006	12/31/2011	3,562	7,302.10	24.6000	676.33		290.00	5,178.00	ESC	2005	.775	95	1	60			REN	10/15/2011	7,480.20	25.2000
												TAX	2005	.775									
715	-B0150	LONG BEACH PUBLISHING COMPANY	9/1/2008	10/31/2021	6,456	45,729.59	20.9345	4,329.87		285.00		ESC	2006	5.7015	95	1	120	FMV		REN	10/13/2011	47,101.48	21.5625
												TAX	2006	5.7015						REN	10/13/2012	48,514.52	22.2094
																				REN	10/13/2013	49,969.96	22.8757
																				REN	10/13/2014	51,469.06	23.5619
																				REN	10/13/2015	53,013.13	24.2688
																				REN	10/13/2016	0.00	0.0000
																				REN	1/13/2017	54,603.52	24.9968

Database: COMPANY_10

RENT ROLL

Date: 9/19/2011
Time: 11:55

200 OCEANGATE LLC
9/19/2011

Suite Id	Tenant Name	Rent Dates Start	Rent Dates Expire	GRA Square Footage	Monthly Base Rent	Annual Rate PSF	Monthly Cost Recovey	Expense Stop	Monthly Other Income	Security Deposit	Base Escalation Cat	Base Escalation Year	Base Escalation Pct	Base Escalation G/U %	Options Nc	Options Term	Options Amount	Options Lead	Future Rent Increases Cat	Future Rent Increases Date	Future Rent Increases Monthly	Future Rent Increases AmoiPSF
																			REN	10/13/2017	56,241.63	25.7468
																			REN	10/13/2018	57,928.88	26.5192
																			REN	10/13/2019	59,666.75	27.3147
																			REN	10/13/2020	61,456.75	28.1342
																			REN	10/13/2021	63,300.45	28.9782
	Additional Space 715 -B0110	9/1/2008	10/31/2021	1,224																		
	Additional Space 715 -B0430	9/1/2008	10/31/2021	1,953																		
	Additional Space 715 -B1400	9/1/2008	10/31/2021	16,580																		
			Total	26,213	45,729.59		4,329.87		285.00													
715 -B0200	DEPT OF INDUSTRIAL RELATIONS	12/1/2010	11/302018	16,334	57,688.53	21.0203					ESC								REN	12/1/2011	59,419.19	21.6509
											TAX								REN	12/1/2012	61,201.76	22.3005
																			REN	12/1/2013	63,037.82	22.9695
																			REN	12/1/2014	68,138.68	24.8281
																			REN	12/1/2015	71,034.58	25.8833
																			REN	12/1/2016	74,053.55	26.9833
																			REN	12/1/2017	77,200.82	28.1301
	Additional Space 715 -B0300	12/1/2010	11/30/2018	16,599																		
			Total	32,933	57,688.53		0.00		0.00													
715 -B0400	MANAGEMENT OFFICE	2/8/2003	12/31/2011	2,359							ESC											
											TAX											
715 -B0700	DEPT OF VETERANS AFFAIRS	8/1/2010	7/31/2015	16,599	36,401.61	26.3160									1	60	PSF		REN	8/1/2012	37,976.69	27.4547
																			REN	8/1/2013	39,584.08	28.6167
																			REN	8/1/2014	41,224.75	29.8028
715 -B0800	CROWELL, WEEDON & CO.	1/12/2011	6/30/2021	6,818	13,636.00	24.0000			90.00		ESC	2011	1.4781	95	1	60	FMV		ANT	2/1/2012	180.00	0.3168
											TAX	2011	1.4781						REN	1/12/2012	14,045.08	24.7200
																			REN	1/12/2013	14,466.43	25.4616
																			REN	1/12/2014	14,900.43	26.2255
																			REN	1/12/2015	15,347.44	27.0122
																			REN	1/12/2016	15,807.86	27.8226
																			REN	1/12/2017	16,282.10	28.6573
																			REN	1/12/2018	16,770.56	29.5170
																			REN	1/12/2019	17,273.68	30.4025
																			REN	1/12/2020	17,791.89	31.3146
																			REN	1/12/2021	18,325.64	32.2540
715 -B0850	DEPT.OF INDUSTRIAL RELATIONs	12/1/2010	11/30/2018	7,737	13,013.82	20.1843					ESC								REN	12/1/2011	13,404.24	20.7898
											TAX								REN	12/1/2012	13,806.36	21.4135
																			REN	12/1/2013	14,220.56	22.0559
																			REN	12/1/2014	15,371.25	23.8406
																			REN	12/1/2015	16,024.53	24.8539
																			REN	12/1/2016	16,705.57	25.9102

	Suite Id	Tenant Name	Rent Dates Start	Rent Dates Expire	GRA Square Footage	Monthly Base Rent	Annual Rate PSF	Monthly Cost Recovey	Expense Stop	Monthly Other Income	Security Deposit	Base Escalation Cat	Year	Pct	G/U %	Options Nc	Term	Amount	Lead	Future Rent Increases Cat	Date	Monthly	AmoiPSF
																				REN	12/1/2017	17,415.56	27.0113
715	-B0870	PERONA, LANGER, BECK, SERBIN &	8/15/2011	11/30/2016	838						5,974.56	ESC	2011	.182	95					REN	12/15/2011	1,717.90	24.6000
												TAX	2011	.182	95					REN	8/15/2012	1,769.44	25.3380
																				REN	8/15/2013	1,822.52	26.0981
																				REN	8/15/2014	1,877.20	26.8811
																				REN	8/15/2015	1,933.51	27.6875
																				REN	8/15/2016	1,991.52	28.5182
																				REN	12/1/2016	3,485.16	49.9068
715	-B0910	J.PEREZ ASSOCIATES, INC.	7/1/2008	8/31/2013	6,516	15,508.08	28.5600	518.42		557.00	16,094.52	ESC	2008	1.418	95	1	60	FMV		REN	9/1/2012	16,094.52	29.6400
												TAX	2008	1.418									
715	-B1100	AECOM TECHNICAL SERVICES	12/15/2003	12/31/2013	16,580	150,727.50	25.2000	17,346.19			300,000.00	ESC	2004	15.6156	95								
												TAX	2004	15.6156									
		Additional Space 715 -B0500	12/15/2003	12/31/2013	16,575																		
		Additional Space 715 -B0600	12/15/2003	12/31/2013	16,575																		
		Additional Space 715 -B0930	12/15/2003	12/31/2013	3,115																		
		Additional Space 715 -B0980	12/15/2003	12/31/2013	2,350																		
		Additional Space 715 -B1000	12/15/2003	12/31/2013	16,580																		
				Total	71,775	150,727.50		17,346.19		0.00													
715	-B1200	PACIFIC MARITIME ASSOCIATION	11/1/2008	10/31/2018	16,580	36,938.42	26.7347	1,319.83				ESC	2008	3.61	95					REN	11/1/2011	38,046.57	27.5367
												TAX	2008	3.61						REN	11/1/2012	39,187.97	28.3628
																				REN	11/1/2013	40,363.60	29.2137
																				REN	11/1/2014	41,574.51	30.0901
																				REN	11/1/2015	42,821.75	30.9928
																				REN	11/1/2016	44,106.40	31.9226
																				REN	3/1/2018	45,429.59	32.8803
715	-CAPDE	APB CAR WASH & DETAILING SPEC	8/15/2011	12/31/2011	1	350.00	4,200.0000				700.00												
715	-CCUPS	UNITED PARCEL SERVICE, INC.	2/22/2011	2/1/2012	1																		
715	-CDIRE	DEPT OF INDUSTRIAL RELATIONS	1/12/2010	11/30/2018	1																		
715	-CTCLA	TCG LOS ANGELES, INC.	1/20/2010	1/19/2015	1											1	60	FMV	365.00	SAT	1/20/2012	324.48	3,893.71
																				SAT	1/20/2013	337.46	4,049.50
																				SAT	1/20/2014	350.96	4,211.50
715	-CXOCO	XO COMMUNICATIONS, INC.	12/28/2010	12/31/2011	1											1	60						
		Totals:	Occupied Sqft:	88.77%	409,481	820,991.43		54,025.00		2,109.75	352,435.88												
			Vacant Sqft:	11.23%	51,784	(12 Units)																	
			Total Sqft:		461,265	(63 Units)																	

Suite		Rent Dates		GRA Square	Monthly	Annual	Monthly	Expense	Monthly	Security	Base Escalation				Options				Future Rent Increases		
Id	Tenant Name	Start	Expire	Footage	Base Rent	Rate PSF	Cost Recovey	Stop	Other Income	Deposit	Cat	Year	Pct	G/U %	Nc	Term	Amount	Lead	Cat	Date	Monthly AmoiPSF
	Total 200 OCEANGATE LLC:	Occupied Sqft:	88.77%	409,481	820,991.43		54,025.00		2,109.75	352,435.88											
		Vacant Sqft:	11.23%	51,784	(12 Units)																
		Total Sqft:		461,265	(63 Units)																
	Grand Total:	Occupied Sqft:	88.77%	409,481	820,991.43		54,025.00		2,109.75	352,435.88											
		Vacant Sqft:	11.23%	51,784	(12 Units)																
		Total Sqft:		461,265	(63 Units)																

200 OCEANGATE LLC **Date 9/19/11**

Exhibit C —License Agreements

Licensee	Commencement Date	Expiration Date	Monthly Rental Revenue	Termination	Comments
Captivate Network	11/30/2000	11/29/2015	Variable	Licensor can terminate with 30 days written notice.	7% of ad revenue. One 5 year option remaining.
Direct America	11/30/2006	MTM	Variable	Mutual Option: 30 days written notice	License fee is 10% net profit
UPS	2/2/2011	2/1/2012	$ 22.92 [1]	n/a	
Rocket Internetworking	11/1/2010	2/28/2016	$ 600	Licensor can terminate with 30 days written notice with sale of the building. Licensee can terminate with 30 days written notice if unable to obtain a permit	
TCG (AT&T)	1/20/2010	1/19/2015	$ 312	30 days written notice if licensee is unable to obtain a permit	One 5 year option remaining.
XO Communications [2]	12/29/2000	12/31/2011	$ 455.00	Mutual Option: 15 days written notice if either party is in default	

Notes:

1 — This is paid annually at a rate of $275 a year.

2 — XO Communications has not indicated a desire to renew.

200 OCEANGATE LLC **Date 9/19/11**

Aged Delinquencies & Prepayments — Exhibit C

A Negative Number Represents a Prepaid balance.

Tenant		Amount	Current	30 Days	60 Days	90 Days	120 Days
Molina Health Care		$ 7,982.88	$ 7,982.88	$ —	$ —	$ —	$ —
Conectateya, Inc	1	$ 5,291.21		$ —	$ —	$ —	$5,291.21
Perona, Langer, Beck & Serbin	2	$ (1,717.90)	$ (1,717.90)	$ —	$ —	$ —	$ —
Department of Industrial Relations	3	$ 87,269.20	$ 87,269.20	$ —	$ —	$ —	$ —
Department of Veterans Affairs	3	$ 40,401.61	$ 40,401.61	$ —	$ —	$ —	$ —
AECOM		$(68,661.21)	$(68,661.21)	$ —	$ —	$ —	$ —
California Costal Commission	3	$ 15,730.14	$ 15,730.14	$ —	$ —	$ —	$ —
California State Lands	3	$ 29,197.35	$ 29,197.35	$ —	$ —	$ —	$ —
Rocket Internetworking		$ 15,336.21	$ 12,707.43		$2,628.78		
XO Communications		$ (2,680.48)	$ (2,680.48)	$ —	$ —	$ —	$ —
High Rise Goodies		$ 5,738.78	$ 5,738.78	$ —	$ —	$ —	$ —
Total		**$ 133,887.79**	**$ 125,967.80**	**$ —**	**$ 2,628.78**	**$ —**	**$ 5,291.21**

Notes:

1 — This tenant is no longer in occupancy at the building

2 — Perona, Langer, Bech & Serbin is a new tenants to building has prepaid rent.

3 — The State and Federal Government pays their rent in arrears.

EXHIBIT D

FORM OF TENANT ESTOPPEL

TO: MOLINA CENTER, LLC [Lender]

Re: Suite , , (the "**Premises**")

This estoppel certificate is delivered by the undersigned ("**Tenant**") to MOLINA CENTER LLC, a Delaware limited liability company ("**Buyer**") in connection with its contemplated purchase of certain real property commonly known as 200 & 300 Oceangate, Long Beach, California (the "**Property**") from 200 Oceangate, LLC, a Delaware limited liability company ("**Landlord**") and to ("**Lender**") in connection with its making of a loan to Buyer to finance Buyer's purchase of the Property, which loan will be secured by a deed of trust (the "**Deed of Trust**") on the Property. Tenant hereby certifies the following information on which Buyer may rely in connection with its purchase of the Property, Lender may rely in connection with its making a loan secured by the Property, and Landlord may rely in connection with its sale of the Property to Buyer:

1. The undersigned is the tenant in possession of the Premises under a written lease with Landlord, dated , , **[as amended by]**, which lease **[as amended]** (the "**Lease**") is in full force and effect and each provision of which is binding on Tenant in accordance with its terms. The Lease has not been modified or amended in writing or orally or by course of conduct, except as specifically set forth above, and contains the entire understanding and agreement between Tenant and Landlord concerning the Premises. A true, complete and accurate copy of the Lease is attached hereto as Exhibit A.

2. The Premises consist of approximately **[net rentable]** or **[gross]** square feet of **[office]** **[retail]** space.

3. The term of the Lease commenced on and terminates on .

4. Current monthly base rent under the Lease is . **[Percentage rent of is due [annually or quarterly]]**. Base rent has been paid through the period ending . The Lease provides for the monthly rent to increase as follows: . As of the date hereof, Tenant has no existing right to free rent, partial rent, rent rebate, credit for improvements, rent abatement, or other rental concessions or any right to payments from Landlord to Tenant except as follows: .

5. The Lease requires Tenant to pay its pro rata share of increases in real estate taxes and operating expenses for the Property and appurtenant property over the **[base year real estate taxes and operating expenses of $]** or **[expense stop of $]**. Tenant's pro rata share of increases in common area operating expenses is

. For the calendar year , Tenant is obligated to pay monthly estimated amounts for real estate tax and operating expense increases of $, and has paid such estimates through the period ending . Tenant is owed no refund of real estate taxes or operating expense payments made for prior calendar years.

6. Tenant has no option to extend or to renew the term of the Lease, except as follows: .

7. The Lease contains no right of first refusal or offer to lease additional space, option to expand, option to terminate the Lease, or right of first refusal or offer or option to purchase the Property or any interest therein, except as follows: .

8. The actual cash amount of the security deposit currently held by Landlord is $. Landlord holds no other funds or deposits of cash or property for Tenant's account.

9. Tenant is not, and to the best of Tenant's knowledge Landlord is not, in default under any provision of the Lease nor has any event occurred which with the passage of time or giving of notice, or both, would constitute a default on the part of Tenant or Landlord, both parties having fully performed the obligations required to be performed by each party thereunder through the date hereof. Tenant asserts no claim of default against Landlord or any other person or offset or defense against the payment of rent or other charges payable by Tenant or the performance of any other obligations by Tenant under the Lease.

10. The Premises have been delivered to Tenant in accordance with the terms of the Lease, Tenant has accepted the Premises, and Landlord has fully completed all construction and improvements to the Premises required to be completed by Landlord under the Lease. Landlord has fulfilled all obligations to finance or provide an allowance or reimbursement for improvements to the Premises.

11. The Lease entitles Tenant to the **[non-exclusive]** or **[exclusive]** use of parking spaces at the Property.

12. Tenant has not assigned its rights under the Lease or sublet any portion of the Premises, or entered into any licenses or other agreements permitting occupancy of any portion of the Premises by any person or company other than Tenant. Tenant is in occupancy of the Premises.

13. Tenant has not (i) made a general assignment for the benefit of creditors, (ii) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by Tenant's creditors, (iii) suffered the appointment of a receiver to take possession of all or substantially all of Tenant's assets, (iv) suffered the attachment or other judicial seizure of all, or substantially all, of Tenant's assets or (v) admitted in writing its inability to pay its debts as they come due and no such proceeding is contemplated by Tenant or pending.

14. All insurance required of Tenant under the Lease has been obtained by Tenant and all premiums have been paid.

15. Tenant has not assigned, hypothecated, granted a security interest or pledged its interest in the Lease to any person or entity.

16. Tenant's current address for Notices is:

____

____

____

17. Since taking possession of the Premises, Tenant has not received any written notice that the Premises or Tenant's use of the Premises violates any applicable law, regulation, ordinance or directive of any governmental authority or agency or insurance company, which violation has not been cured.

18. Since taking possession of the Premises, Tenant has not stored, generated, manufactured, refined, treated, transported, disposed or in any way used materials which are considered hazardous substances or wastes under applicable environmental laws and regulations (including, without limitation, petroleum or petroleum by-products) at the Premises or on any other part of the Property, except for de minimus quantities incidental to the cleaning or operation of Tenant's business.

19. Tenant is not identified on the list of specially designated nationals and blocked persons subject to financial sanctions that is maintained by the U.S. Treasury Department, Office of Foreign Assets Control (http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf) and any other similar list maintained by the Office of Foreign Assets Control pursuant to any authorizing United States law, regulation or Executive Order of the President of the United States ("OFAC List") nor is Tenant subject to trade embargo or economic sanctions pursuant to any authorizing United States law, regulation or Executive Order of the President of the United States.

20. Tenant understands that a condition of the Loan may require Lender's consent to any future amendment, waiver, expansion or renewal (except for expansion or renewal rights currently permitted to Tenant by the express terms of the Lease), and no modification, waiver, expansion or renewal made without Lender's written consent will be enforceable.

21. Tenant understands that a condition of the Loan may prohibit Landlord from accepting Tenant's rent more than 30 days prior to its due date, and no payment of rent by Tenant more than 30 days in advance will be binding on Lender.

Tenant agrees for a period of thirty (30) days from the date hereof to notify Landlord, Buyer and Lender in writing of any changes to the statements made by Tenant in this certificate promptly upon Tenant's learning of each such change.

The statements made herein shall be binding upon us, our successors and assigns, and shall inure to your benefit and the benefit of your successors and assigns. The officers executing this letter have been duly empowered to do so on behalf of the undersigned.

Dated:____________________

Very truly yours,

By: ______________________________

Name: ______________________________

Its: ______________________________

EXHIBIT E

SERVICE CONTRACTS

[See attached]

200 Oceangate

VENDOR CONTRACTS

Exhibit E — Assumed Contracts

	Company Name	Phone	Contract Start	Contract End	Cancellation	Renewal
1	**Able Engineering** 3300 W. Macarthur Blvd Santa Ana, CA 92704		11/1/2007	M-M	30 days written	N/A
2	**ABM Janitorial/Stone Maint** 5200 S. Eastern Avenue Los Angeles, CA 90040	(323) 727-7497	2/8/1999	M-M	Anytime	N/A
3	**American City Pest Con.** 614 W. 184th Street Gardena, CA 90248 (310) 346-1175 cell	(800) 842-3181	6/1/1999	M-M	30 days written	N/A
4	**Ampco System Parking** 165 Technology Dr. West Irvine, CA 92618	(949) 226-9760	12/1/1998	M-M	30 days written	N/A
5	**Arrowhead (Nestle)** 13109 S. Budlong Avenue Gardena, CA 90247 local office	(800) 950-9393	2/7/2006	M-M	30 days written	Automatic 12 months unless 30 days notice to terminate

200 Oceangate
VENDOR CONTRACTS

	Company Name	Phone	Contract Start	Contract End	Cancellation	Renewal
6	**Associated Group** I610 E. McFadden Ave Santa Ana, CA 92705	(714) 558-6100	10/1/1998	M-M	30 days written	N/A
7	**Cogent Communications** 1015 31st St. NW Washington, DC 20007	(212) 625-4769	7/21/2008	7/20/2010	30 days written	Automatic 12 months unless 30 day notice to terminate
8	**First Choice Coffee Services** 7373 Flores Street Downey, CA 90242	(562) 940-9401	10/26/2010	10/25/2012	30 days written	N/A
9	**Kinemetrics Systems** 222 Vista Avenue Pasadena, CA 91107	(626) 795-2220	10/1/2001	12/31/2010	30 days written	Not noted
10	**Master Environmental** (formerly Trashmaster) 17890 Castleton Street, Ste 311 City of Industry, CA 91748	(626) 839-5551	3/5/1993	3/4/2013	verbal 30 day	Automatic 2 yr
11	**Matsunaga Landscape** 13262 Cromwell Drive Tustin, CA 92780	(714) 541-0823	1/1/2004	M-M	30 day written	N/A

200 Oceangate
VENDOR CONTRACTS

	Company Name	Phone	Contract Start	Contract End	Cancellation	Renewal
12	**Montgomery Technologies, LLC** 88 Keamy Street, 4th Floor San Francisco, Ca 94108	(866) 824-8362	1/1/2008	12/31/2012	30 days written for cause @n/c no cause @50% of the product of all License Revn times 3. Cancellable on sale of bldg/with 30 days	None
13	**Otis Elevator** 5 Year Serv Contract 711 E. Ball Rd, Ste 200 Anaheim, CA 92805 BRC# SAN391-400 Cont# SAN5081	(714) 563-7108	10/1/2010	9/30/2015	30 days written	
14	**PyroComm** 15531 Container Lane Huntington Bch, 92649	(714) 902-8000	1/1/2010	12/31/2011	30 days written	N/A
15	**Sky Rider Equipment** 1180 N. Blue Gum street Anaheim, CA 92806	(714) 632-6890	11/1/2009	10/31/2010	30 days written	M-M
16	**United Building Services (Able)** 3300 MacArthur Blvd. Santa Ana, CA 92704 (Janitorial)	(714) 434-9494	10/1/2003	9/30/2011	30 days written	Automatic 1 yr

	Company Name	Phone	Contract Start	Contract End	Cancellation	Renewal
17	**United Building Services (Able)** 3300 MacArthur Blvd. Santa Ana, CA 92704 (Window cleaning)	(714) 434-9494	8/22/2011	8/21/2012	30 days written	M-M
18	**Universal Protection Serv.** 340 Golden Shore, Suite 100 Long Beach, CA 90802	(562) 981-5700	11/1/2003	M-M	30 days written/ registered mail	N/A

200 Oceangate
VENDOR CONTRACTS

Exhibit E-1 — Non-Terminatable Contracts

	Company Name	Phone	Contract Start	Contract End	Cancellation	Renewal
1	**Master Environmental** (formerly Trashmaster) 17890 Castleton Street, Ste 311 City of Industry, CA 91748	(626) 839-5551	3/5/1993	3/4/2011	Not noted	2 Years Automatic
2	**Serv-wel Disposal & Recycling** 901 S. Maple Avenue Moritebello, CA 90640	(323) 726-4056	4/1/2005	3/31/2011	90 days certified anytime before end of term	Automatic 2 Years
3	**Telepacific (formerly Mpower)** 9166 Anaheim Place Suite 100 Rancho Cucamonga, CA 91730	(909) 945-8421	5/27/2004	5/26/2012	90 days written anytime before end of term	Automatic 2 Years --

EXHIBIT F

GRANT DEED

RECORDING REQUESTED BY
AND WHEN RECORDED MAIL TO:

____
____
____
____

Space Above this Line for Recorder's Use

APN: 7278-003-035 and 7278-003-036

DOCUMENTARY TRANSFER TAX:
$ SEE SEPARATE STATEMENT

☐ computed on the full value of the interest or property conveyed; or

☐ computed on the full value less value of liens or encumbrances

GRANT DEED

THIS GRANT DEED is made and entered into this day of , 20 , by 200 OCEANGATE, LLC, a Delaware limited liability company ("**Grantor**"), in favor of MOLINA CENTER, LLC, a Delaware limited liability company (" **Grantee**").

W I T N E S S E T H :

For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, GRANTOR hereby GRANTS to Grantee that certain real property in the County of Los Angeles, California (the " **Property**") more particularly described as follows:

> LEGAL DESCRIPTION IS ATTACHED HERETO AS EXHIBIT A AND INCORPORATED HEREIN BY THIS REFERENCE.

The foregoing grant is expressly subject to all matters of record as of the date hereof and those certain unrecorded matters identified and described in Exhibit B attached hereto and incorporated herein by this reference.

EXECUTED as of the day and year set forth above.

GRANTOR:

200 OCEANGATE, LLC,
a Delaware limited liability company

By: 200 Oceangate, Inc.
a Delaware corporation
its Manager

By: ______________________________
Jeanne R. Myerson
President

[ALL SIGNATURES TO BE ACKNOWLEDGED]

CALIFORNIA ALL-PURPOSE ACKNOWLEDGEMENT

File No:
APN No:

STATE OF **California**)SS
COUNTY OF ____________)

On ____________ before me, ____________ , 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 paragraph is true and correct.

WITNESS my hand and official seal.

Signature ____________

This area for official notarial seal.

OPTIONAL SECTION
CAPACITY CLAIMED BY SIGNER

Though statute does not require the Notary to fill in the data below, doing so may prove invaluable to persons relying on the documents.

- ☐ INDIVIDUAL
- ☐ CORPORATE OFFICER(S) TITLE(S)
- ☐ PARTNER(S) ☐ LIMITED ☐ GENERAL
- ☐ ATTORNEY-IN-FACT
- ☐ TRUSTEE(S)
- ☐ GUARDIAN/CONSERVATOR
- ☐ OTHER

SIGNER IS REPRESENTING:

Name of Person or Entity ____________ Name of Person or Entity ____________

OPTIONAL SECTION

Though the data requested here is not required by law, it could prevent fraudulent reattachment of this form.

THIS CERTIFICATE MUST BE ATTACHED TO THE DOCUMENT DESCRIBED BELOW

TITLE OR TYPE OF DOCUMENT: ____________
NUMBER OF PAGES ____________ DATE OF DOCUMENT
SIGNER(S) OTHER THAN NAMED ABOVE ____________

EXHIBIT A TO GRANT DEED

DESCRIPTION OF PROPERTY

PARCELS 2 AND 3, AS SHOWN ON PARCEL MAP NO. 5196, IN THE CITY OF LONG BEACH, COUNTY OF LOS ANGLES, STATE OF CALIFORNIA, FILED IN BOOK 71 PAGE 14 OF PARCEL MAPS, IN THE OFFICE OF THE COUNTY RECORDER OF SAID COUNTY.

EXCEPT THEREFROM, ALL OIL, GAS, HYDROCARBON SUBSTANCES AND MINERALS OF EVERY KIND AND CHARACTER LYING MORE THAN 500 FEET BELOW THE SURface OF SAID LAND, TOGETHER WITH THE RIGHT TO DRILL INTO, THROUGH AND TO USE AND OCCUPY ALL PARTS OF SAID LAND LYING MORE THAN 500 FEET BELOW THE SURFACE THEREOF FOR ANY AND ALL PURPOSES INCIDENTAL TO THE EXPLORATION FOR AND PRODUCTION OF OIL, GAS, HYDROCARBON SUBSTANCES OR MINERALS FROM SAID OR OTHER LANDS, BUT WITHOUT, HOWEVER, ANY RIGHT TO USE EITHER THE SURFACE OF SAID LAND OR ANY PORTION OF SAID LAND WITHIN 500 FEET OF THE SURFACE FOR ANY PURPOSE OR PURPOSES WHATSOEVER AS RESERVED BY VARIOUS DEEDS OF RECORD, AMONG THEM, BEING THE DEED RECORDED JULY 19, 1965 AS INSTRUMENT NO. 885 IN BOOK D2981 PAGE 153 OFFICIAL RECORDS.

APN: 7278-003-035 and 7278-003-036

EXHIBIT B TO GRANT DEED

OFF-RECORD MATTERS

1. All matters which a correct survey of the Property would disclose.
2. All matters which could be ascertained by a physical inspection of the Property.
3. A lien for non-delinquent taxes for real property and personal property, and any non-delinquent general or special assessments against the Property.
4. Zoning ordinances and regulations and any other laws, ordinances or governmental regulations restricting, regulating or relating to the use, occupancy or enjoyment of the Property.

EXHIBIT G

BILL OF SALE AND GENERAL ASSIGNMENT

THIS BILL OF SALE AND GENERAL ASSIGNMENT ("**Assignment**") is executed as of the day of , 20 , by 200 OCEANGATE, LLC, a Delaware limited liability company ("**Seller**") in favor of MOLINA CENTER LLC, a Delaware limited liability company ("**Buyer**").

RECITALS

A. Reference is made to certain real property and the improvements thereon commonly known as 200 & 300 Oceangate, Long Beach, California, which real property is more thoroughly described in attached Schedule I (the "**Property**"). Concurrently herewith, Seller is selling to Buyer and Buyer is purchasing from Seller all of Seller's interest in the Property pursuant to that certain Purchase Agreement dated as of , 2011, between Seller and Buyer, providing for the sale of the Property (the "**Purchase Agreement**"). Initially capitalized terms used herein but not otherwise defined herein shall have the meanings given them in the Purchase Agreement; and

B. In connection with the sale of the Property to Buyer, Seller desires to assign and transfer to Buyer all of Seller's interest in the Leases, Service Contracts, Personal Property, Approvals and Warranties.

IN CONSIDERATION OF THE FOREGOING, and for other good and valuable consideration, Seller agrees as follows:

1. Seller hereby grants, conveys, assigns and transfers to Buyer all of Seller's rights, title and interest in the leases referenced on Schedule II hereto and the service, utility, management, maintenance and other contracts or agreements listed on Schedule III hereto.

2. Concurrently herewith, Seller has assigned and delivered to Buyer the security deposits listed on Schedule II hereto.

3. Subject to the terms of the Purchase Agreement, including the representations, warranties and covenants by Seller therein and the waivers, releases and covenants by Buyer therein, Buyer hereby assumes all of Seller's obligations under the leases referenced on Schedule II hereto, acknowledges receipt of all of the security deposits listed on Schedule II hereto, and assumes all of Seller's obligations under the service, utility, management, maintenance and other contracts or agreements listed on Schedule III hereto.

4. Seller hereby grants, transfers and conveys to Buyer all of Seller's interest in:

(a) all personal property described on Schedule IV hereto; and

(b) all transferable or assignable certificate(s) of occupancy, building or equipment permits, consents, authorizations, variances, waivers, licenses, permits, certificates and approvals from any governmental or quasi-governmental authority with respect to the Land or the Improvements, and all transferable or assignable warranties, representations, guaranties, and miscellaneous rights relating to the ownership, development, use and operation of the Land and Improvements.

5. Buyer acknowledges and agrees that the Leases, Service Contracts, Personal Property, Approvals and Warranties assigned, transferred and conveyed hereby are being assigned, transferred, and conveyed "AS IS, WHERE IS" subject to, and in accordance with, the terms of Section 8 of the Purchase Agreement.

6. Any disputes under this Assignment shall be arbitrated in accordance with the provisions of Section 15 of the Purchase Agreement. In the event of any arbitration or litigation between the parties, whether based on contract, tort or other cause of action or involving bankruptcy or similar proceedings, in any way related to this Agreement, the non-prevailing party shall pay to the prevailing party all reasonable attorneys' fees and costs and expenses of any type, without restriction by statute, court rule or otherwise, incurred by the prevailing party in connection with any action or proceeding (including arbitration proceedings, any appeals and the enforcement of any judgment or award), whether or not the dispute is litigated or prosecuted to final judgment. The "prevailing party" shall be determined based upon an assessment of which party's major arguments or positions taken in the action or proceeding could fairly be said to have prevailed (whether by compromise, settlement, abandonment by the other party of its claim or defense, final decision, after any appeals, or otherwise) over the other party's major arguments or positions on major disputed issues.

7. The terms of this Assignment shall bind and inure to the benefit of the parties hereto and their respective heirs, legal representatives, successors and assigns.

8. The parties agree to execute such other documents and perform such other acts as may be necessary or desirable to carry out the purposes of this Assignment. This Assignment may be signed in any number of counterparts with the same effect as if the signatures to each counterpart were upon a single instrument. All counterparts shall be deemed an original of this Assignment.

IN WITNESS WHEREOF, the parties have executed this Assignment as of the date and year first above written.

SELLER:	BUYER:
200 OCEANGATE, LLC, a Delaware limited liability company	MOLINA CENTER LLC, a Delaware limited liability company
By: 200 Oceangate, Inc. a Delaware corporation its Manager	By: Molina Healthcare, Inc., a Delaware corporation
By: ____________________	By: ____________________
Jeanne R. Myerson	Name: ____________________
President	Title: ____________________

SCHEDULE I TO BILL OF SALE AND GENERAL ASSIGNMENT

DESCRIPTION OF THE PROPERTY

SCHEDULE II TO BILL OF SALE AND GENERAL ASSIGNMENT

LIST OF LEASES AND SECURITY DEPOSITS

SCHEDULE III TO BILL OF SALE AND GENERAL ASSIGNMENT

LIST OF SERVICE CONTRACTS

SCHEDULE IV TO BILL OF SALE AND GENERAL ASSIGNMENT

ITEMIZATION OF PERSONAL PROPERTY

EXHIBIT H

FIRPTA AFFIDAVIT

Section 1445 of the Internal Revenue Code provides that a buyer of a U.S. real property interest must withhold tax if the seller is a foreign person. To inform MOLINA CENTER LLC, a Delaware limited liability company (the " **Buyer**"), that withholding tax is not required upon the disposition of a U.S. real property interest by 200 OCEANGATE, LLC, a Delaware limited liability company (the " **Seller**"), the undersigned hereby certifies the following on behalf of Seller:

1. Seller is not a foreign corporation, foreign partnership, foreign trust or foreign estate (as those terms are defined in the Internal Revenue Code and Income Tax Regulations);

2. Seller's U.S. employer identification number is ; and

3. Seller's office address is: 220 Montgomery Street, 20th Floor
San Francisco, CA 94104

4. I, understand that this certification may be disclosed to the Internal Revenue Service by the Buyer and that any false statement I have made here could be punished by fine, imprisonment or both.

Under penalties of perjury, I declare that I have examined this certification and to the best of my knowledge and belief it is true, correct and complete, and I further declare that I have authority to sign this document on behalf of Seller.

Dated: January , 201

By: ______________________________________
(Individual Signatory)

Name: ____________________________________
Title: Authorized Representative for Seller

EXHIBIT I

FORM OF NOTICE TO TENANTS

(tenant's name and address)

____

____

Re: Purchase of the building located at 200 & 300 Oceangate, Long Beach, California (" **Property**"), by Molina Center LLC, a Delaware limited liability company ("**New Owner**")

Dear Sir or Madam:

We hereby notify you that we have sold the Property, in which you are a tenant, and assigned your lease to New Owner, effective as of . New Owner will be your landlord effective immediately.

Prior to such sale, we were holding a security deposit from you under your lease in the amount of $, which amount has been transferred to New Owner.

From this date forward you are authorized and directed to make any payment due to the landlord under your lease to New Owner, which should be delivered to its managing agent, , at the following address: . Your checks should be made payable to New Owner.

New Owner and are looking forward to working with you.

200 OCEANGATE, LLC,
a Delaware limited liability company

By: 200 Oceangate, Inc.
a Delaware corporation
its Manager

By: __________________________
Jeanne R. Myerson
President

Date: __________________________

EXHIBIT J

FORM OF OWNER'S AFFIDAVIT

OWNER'S AFFIDAVIT

The undersigned first being duly sworn, deposes and says:

1. That they are the owner of the certain real property in the State of California, described in your Commitment for Title Insurance or Preliminary Title Report No.

2. That the land is improved by a:

   ( ) Office Building

   ( ) Commercial Building

   ( ) Industrial Building

   ( ) Other:

3. First American Title Insurance Company (referred to as "First American") has been requested to issue a form of policy of title insurance showing as an exception to title in Schedule B therein all existing leases affecting the real property referred to above and described in the Commitment/Preliminary Title Report issued in connection with this transaction.

   In addition to any other requirements it may have, First American has requested that the undersigned provide it with a certified list of all of the lessees under existing leases.

   Therefore, in response to such request made by First American, the undersigned hereby declares that, to its knowledge, the rent roll attached hereto as Exhibit A, represents all of the lessees under all subsisting leases affecting the subject property.

   The undersigned also declares that to its knowledge, no leases contain provisions for either options to purchase or the rights of first refusal to purchase, or both, other than: the lease with Molina Healthcare, Inc.

4. That there have been no repairs, work of improvements or materials furnished to the premises by or on behalf of Grantor within 90 days, except:

   (Insert Info. or Specify "NONE", as applicable.)

   That the work of improvement, if any:

   ( ) Started on ( ) Was completed on

   ( ) Will be completed on

5. That there are no unpaid bills for labor or material because of any improvements made by or on behalf of Grantor to the above premises, except:

(Insert Info. or Specify "NONE", as applicable.)

6. That the undersigned has not received any supplemental tax bill which is unpaid.

7. That this Affidavit is given for the purpose of inducing First American Title Insurance Company and its Agents, Offices and Subsidiaries to issue its Policy(ies) of Title Insurance which may provide coverage as to the items mentioned above and that the statements made herein are true and correct to my/our own knowledge.

8. The undersigned acknowledge that they have read the foregoing and fully understand the legal aspects of any misrepresentation and/or untrue statements made herein and indemnify and hold harmless First American Title Insurance against liability occasioned by reason of reliance upon the statements made herein.

9. Grantor has not and will not, for the period commencing on the business day prior to close of escrow, at 7:30 a.m. through the recording of the Deed transferring title to the Property to the Grantee (such period is called the "Gap Period"), encumber, cause any defect to appear in the title to the Property or make any conveyance of all or any part of the Property except for the documents executed in favor of, or at the request of Grantee. Grantor agrees to hold harmless and indemnify First American Title Insurance Company ("Title Company") against all reasonable costs, expenses and attorneys' fees suffered or incurred by Title Company as a result of the failure of Grantor, upon receipt of written notice from the Title Company, to promptly remove, bond or otherwise dispose of any such encumbrance, defect or conveyance that may arise or be filed against the Property as a result of any act or omission of the Grantor during the Gap Period.

Date: ____________________________

200 OCEANGATE, LLC,
a Delaware limited liability company

By: 200 Oceangate, Inc.
a Delaware corporation
its Manager

By: ____________________________
Jeanne R. Myerson
President

RENT ROLL—EXHIBIT A

( ) None

( ) Tenants based only on month-to-month rental agreements

( ) Leases as described below or attached hereto

EXHIBIT K

BUYER’S INSURANCE

[See attached]

OP ID: C2

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 09/22/11

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER		
United Agencies, Inc. (F) CA License #0252636 P.O. Box 9 Downey, CA 90241-0009	562-373-9351 562-373-9356	CONTACT NAME: PHONE (A/C, No, Ext): FAX (A/C, No): E-MAIL ADDRESS: PRODUCER CUSTOMER ID #: MOLINA1

INSURED	INSURER(S) AFFORDING COVERAGE	NAIC #
Molina Center, LLC Molina Healthcare, Inc. Molina Healthcare of Ca., Inc. 200 Oceangate, Suite 100 Long Beach, CA 90802	INSURER A : Continental Casualty Co.	
	INSURER B : American Cas Co of Reading PA	
	INSURER C :	
	INSURER D :	
	INSURER E :	
	INSURER F :	

COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY X COMMERCIAL GENERAL LIABILITY CLAIMS-MADE X OCCUR X Contractual Liab GEN'L AGGREGATE LIMIT APPLIES PER: X POLICY PRO-JECT LOC			TCP2072786000	01/01/11	01/01/12	EACH OCCURRENCE	$ 1,000,000
							DAMAGE TO RENTED PREMISES (Ea occurrence)	$ 100,000
							MED EXP (Any one person)	$ 10,000
							PERSONAL & ADV INJURY	$ 1,000,000
							GENERAL AGGREGATE	$ 2,000,000
							PRODUCTS - COMP/OP AGG	$ 2,000,000
								$
B	AUTOMOBILE LIABILITY ANY AUTO ALL OWNED AUTOS SCHEDULED AUTOS X HIRED AUTOS X NON-OWNED AUTOS			BUA2068803489	01/01/11	01/01/12	COMBINED SINGLE LIMIT (Ea accident)	$ 1,000,000
							BODILY INJURY (Per person)	$
							BODILY INJURY (Per accident)	$
							PROPERTY DAMAGE (Per accident)	$
								$
								$
A	UMBRELLA LIAB X OCCUR EXCESS LIAB CLAIMS-MADE DEDUCTIBLE X RETENTION $ 10,000			L4024356224	01/01/11	01/01/12	EACH OCCURRENCE	$ 25,000,000
							AGGREGATE	$ 25,000,000
								$
								$
	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY Y/N ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH) If yes, describe under DESCRIPTION OF OPERATIONS below	N/A					WC STATU-TORY LIMITS / OTH-ER	
							E.L. EACH ACCIDENT	$
							E.L. DISEASE - EA EMPLOYEE	$
							E.L. DISEASE - POLICY LIMIT	$

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)
*10 Days notice of cancellation for non-payment of premium.
Additional Insured/Landlords as pertains to 200-300 Oceangate, Long Beach, CA

CERTIFICATE HOLDER	CANCELLATION
ARCO001 Arco Center (see notepad) 300 Oceangate, Suite 400 Long Beach, CA 90802	SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS. AUTHORIZED REPRESENTATIVE

© 1988-2009 ACORD CORPORATION. All rights reserved.

ACORD 25 (2009/09)

The ACORD name and logo are registered marks of ACORD

NOTEPAD:	HOLDER CODE ARCO001 INSURED'S NAME Molina Center, LLC	MOLINA1 OP ID: C2	PAGE 2 DATE 09/22/11

200 Oceangate LLC, The Swig Company and Wachovia Bank

EXHIBIT L

SELLER'S INSURANCE

[See attached]

CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY): 6/28/2011

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER

Frank Crystal & Co of CA, Inc.
License #OB64537
575 Market Street
San Francisco CA 94105-2852

CONTACT NAME: Roger E. Lintlop
PHONE (A/C, No, Ext): 415-946-7500
FAX (A/C, No): 415-946-7550
E-MAIL ADDRESS: lintlopr@fcrystal.com

INSURER(S) AFFORDING COVERAGE	NAIC #
INSURER A : Travelers Property & Casualty Co.	36161
INSURER B : Twin City Fire Ins. Co.	29459
INSURER C : Federal Insurance Company	20281
INSURER D : Fireman's Fund Insurance Co.	21873
INSURER E :	
INSURER F :	

INSURED SWIGCO1

200 Oceangate, LLC & The Swig Company, LLC
220 Montgomery Street, 20th Floor
San Francisco, CA 94104

COVERAGES **CERTIFICATE NUMBER:** 950121856 **REVISION NUMBER:**

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS	
A	GENERAL LIABILITY			6606449N977TIL11	6/30/2011	6/30/2012	EACH OCCURRENCE	$1,000,000
	X COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence)	$1,000,000
	CLAIMS-MADE X OCCUR						MED EXP (Any one person)	$10,000
							PERSONAL & ADV INJURY	$1,000,000
							GENERAL AGGREGATE	$2,000,000
	GEN'L AGGREGATE LIMIT APPLIES PER:						PRODUCTS - COMP/OP AGG	$2,000,000
	POLICY PRO-JECT LOC							$
A	AUTOMOBILE LIABILITY			BA2A69695411CAG	6/30/2011	6/30/2012	COMBINED SINGLE LIMIT (Ea accident)	$1,000,000
	ANY AUTO						BODILY INJURY (Per person)	$
	ALL OWNED AUTOS; SCHEDULED AUTOS						BODILY INJURY (Per accident)	$
	X HIRED AUTOS; X NON-OWNED AUTOS						PROPERTY DAMAGE (Per accident)	$
								$
D C	UMBRELLA LIAB X OCCUR			SHX00024131534 79879828	6/30/2011 6/30/2011	6/30/2012 6/30/2012	EACH OCCURRENCE	$50,000,000
	EXCESS LIAB CLAIMS-MADE						AGGREGATE	$50,000,000
	DED RETENTION $						Excess of $50M	$50,000,000
B	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY			57WECLU2259	1/1/2011	1/1/2012	X WC STATU-TORY LIMITS OTH-ER	
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? Y/N: N (Mandatory in NH)	N/A					E.L. EACH ACCIDENT	$1,000,000
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L. DISEASE - EA EMPLOYEE	$1,000,000
							E.L. DISEASE - POLICY LIMIT	$1,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)

Arco Center- 200-300 Oceangate Avenue, Long Beach, CA 90802

CERTIFICATE HOLDER

For Information Only

.
.
. . .

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

AUTHORIZED REPRESENTATIVE

Frank Crystal & Co of California, Inc.

© 1988-2010 ACORD CORPORATION. All rights reserved.

ACORD 25 (2010/05)

The ACORD name and logo are registered marks of ACORD

EVIDENCE OF COMMERCIAL PROPERTY INSURANCE

DATE (MM/DD/YYYY): 9/20/2011

THIS EVIDENCE OF COMMERCIAL PROPERTY INSURANCE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE ADDITIONAL INTEREST NAMED BELOW. THIS EVIDENCE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES BELOW. THIS EVIDENCE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE ADDITIONAL INTEREST.

PRODUCER NAME, CONTACT PERSON AND ADDRESS — PHONE (A/C, No, Ext): 415-946-7500 Frank Crystal & Co of CA, Inc. License #0B64537 575 Market Street San Francisco, CA 94105	COMPANY NAME AND ADDRESS — NAIC NO: 36137 The Travelers P.O. Box 3556 Orlando FL 32802
FAX (A/C, No): 415-946-7550 — E-MAIL ADDRESS: lintlopr@fcrystal.com	IF MULTIPLE COMPANIES, COMPLETE SEPARATE FORM FOR EACH
CODE: — SUB CODE: AGENCY CUSTOMER ID #:	POLICY TYPE
NAMED INSURED AND ADDRESS 200 Oceangate, LLC & The Swig Company, LLC 220 Montgomery St. 20th Floor San Francisco CA 94104	LOAN NUMBER — POLICY NUMBER: KTJCMB4265M13A11 EFFECTIVE DATE: 6/30/2011 — EXPIRATION DATE: 6/30/2012 — ☐ CONTINUED UNTIL TERMINATED IF CHECKED
ADDITIONAL NAMED INSURED(S)	THIS REPLACES PRIOR EVIDENCE DATED:

PROPERTY INFORMATION (Use REMARKS on page 2, if more space is required) ☐ BUILDING OR ☐ BUSINESS PERSONAL PROPERTY

LOCATION/DESCRIPTION
RE: 200-300 Oceangate Ave., Long Beach, CA 90802.

THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS EVIDENCE OF PROPERTY INSURANCE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

COVERAGE INFORMATION PERILS INSURED: BASIC ☐ BROAD ☐ SPECIAL X

COMMERCIAL PROPERTY COVERAGE AMOUNT OF INSURANCE: $ 500,000,000 — DED: 25,000

	YES	NO	N/A	
☐ BUSINESS INCOME ☐ RENTAL VALUE	X			If YES, LIMIT: 97,723,000 — ☐ Actual Loss Sustained; # of months:
BLANKET COVERAGE	X			If YES, indicate value(s) reported on property identified above: $
TERRORISM COVERAGE	X			Attach Disclosure Notice / DEC
IS THERE A TERRORISM-SPECIFIC EXCLUSION?		X		
IS DOMESTIC TERRORISM EXCLUDED?	X			
LIMITED FUNGUS COVERAGE		X		If YES, LIMIT: — DED:
FUNGUS EXCLUSION (If "YES", specify organization's form used)		X		
REPLACEMENT COST	X			
AGREED VALUE	X			
COINSURANCE		X		If YES, %
EQUIPMENT BREAKDOWN (If Applicable)	X			If YES, LIMIT: Included — DED: 25,000
ORDINANCE OR LAW - Coverage for loss to undamaged portion of bldg	X			
- Demolition Costs	X			If YES, LIMIT: 10,000,000 — DED:
- Incr. Cost of Construction	X			If YES, LIMIT: 10,000,000 — DED:
EARTH MOVEMENT (If Applicable)		X		If YES, LIMIT: — DED:
FLOOD (If Applicable)		X		If YES, LIMIT: — DED:
WIND / HAIL (If Subject to Different Provisions)		X		If YES, LIMIT: — DED:
PERMISSION TO WAIVE SUBROGATION IN FAVOR OF MORTGAGE HOLDER PRIOR TO LOSS	X			

CANCELLATION

SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.

ADDITIONAL INTEREST

☐ MORTGAGEE ☐ CONTRACT OF SALE ☐ LENDERS LOSS PAYABLE	LENDER SERVICING AGENT NAME AND ADDRESS
NAME AND ADDRESS For Information Only c/o The Swig Company, LLC 220 Montgomery St., 20th Floor San Francisco CA 94104	AUTHORIZED REPRESENTATIVE: Frank Crystal & Co of California, Inc

© 2003-2009 ACORD CORPORATION. All rights reserved.
The ACORD name and logo are registered marks of ACORD

EVIDENCE OF COMMERCIAL PROPERTY INSURANCE REMARKS - Including Special Conditions (Use only if more space is required)

Exhibit 10.22

FIRST AMENDMENT TO PURCHASE AGREEMENT

THIS FIRST AMENDMENT TO PURCHASE AGREEMENT ("First Amendment"), dated November 10, 2011, and is made by and between 200 OCEANGATE, LLC, a Delaware limited liability company ("Seller"), and MOLINA CENTER LLC, a Delaware limited liability company (" Buyer").

Recitals

A. Seller and Buyer entered into that certain Purchase Agreement dated October 11, 2011 (the " Purchase Agreement"), whereby, upon the terms and conditions set forth therein, Seller agreed to sell and Buyer agreed to buy the Property and those associated rights and interest described in the Purchase Agreement.

B. On October 24, 2011, the California Regional Water Quality Control Board (Los Angeles Region) (" Water Board") issued a General NPDES Permit in connection with the operation of the Discharge System at the Property, a copy of which is attached hereto as Exhibit A (the "Permit").

C. Seller and Buyer now desire to amend the Purchase Agreement as set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereto agree that the Purchase Agreement is hereby amended as follows:

1. Additional Buyer Closing Conditions. In addition to the conditions to Closing for the benefit of Buyer set forth elsewhere in the Purchase Agreement, Buyer's obligation to purchase the Property is conditioned upon the satisfaction of each of the following conditions, each of which is for the exclusive benefit of Buyer. Buyer may, at any time or times before the Closing, waive one or more of the following conditions, but only in writing and any such waiver will not affect its rights and remedies with respect to any remaining conditions:

(i) The Permit shall be in full force and effect, shall be in the form attached hereto as Exhibit A (without modification or amendment), and Seller shall be in full compliance with the terms of the Permit.

(ii) Seller shall have submitted to the California Regional Water Quality Control Board—Los Angeles Region an NPDES Permit Transfer Form (Form No. R4-WRS #1) with respect to the Permit in the form attached as Exhibit B. If the California Regional Water Quality Control Board—Los Angeles Region (or its staff) requests any additional submissions with respect to such Permit Transfer Form prior to Closing, Seller shall provide such additional submissions.

(iii) All effluent sampling required to be performed prior to the date of Closing, pursuant to the Water Board's monitoring and reporting program prescribed by the Permit, shall have been collected and analyzed, and all such data shall have been delivered to Buyer for Buyer's review not less than three (3) business days prior to the Closing.

(iv) Discharge System effluent sampling data and analysis disclosed to Buyer after Buyer's delivery of the Approval Notice shall: (A) confirm that the effluent discharge is in full compliance with the terms and conditions of the Permit; and (B) be acceptable to Buyer in Buyer's commercially reasonable discretion.

(v) Neither the Water Board nor any other governmental or quasi-governmental agency or instrumentality shall have given any indication (either oral or written) to Seller or its consultants that: (A) the imposition of treatment and/or improvement requirements is being considered in connection with or in any way related to the operation of the Discharge System; and/or (B) any amendment, modification or revision to the Permit is being considered. If Seller or its consultants receive any indication (either oral or written) of the matters contemplated in (A) and/or (B) above, such information shall be immediately disclosed to Buyer in writing.

(vi) No claim, administrative action, enforcement action, order, or demand shall have been filed, threatened or initiated in any way related to the operation of the Discharge System, and there shall have been no challenge or threatened challenge to the Permit terms and/or conditions.

(vii) The installation of the flow meter and related improvements (collectively, "Flow Meter") necessary to comply with the Permit's continuous total waste flow monitoring requirement shall have been completed in accordance with applicable laws at Seller's expense, the Flow Meter shall be fully operational and in good working order and condition, and the Flow Meter shall be acceptable to Buyer in Buyer's commercially reasonable discretion. Buyer hereby acknowledges that installation of an Endress+Hauser Prosonic Flow Clamp On 91W Ultrasonic Flow Measuring System is acceptable. If this condition is not satisfied on or before the Closing Date, the Closing Date shall be extended until the date three (3) business days after the date this condition is satisfied or waived, provided that the Closing Date shall not be extended beyond the Outside Closing Date. If this condition has not been satisfied and Buyer elects to waive this condition, Buyer shall receive a credit at Closing in an amount equal to the cost that Seller would have otherwise incurred in connection with the installation or completion of the installation of the Flow Meter and the fact that the Flow Meter has not been installed shall not constitute a failure of the condition set forth in Section 1(i) above. If Buyer desires to so waive such condition, it shall do so not less than three (3) business days prior to the then scheduled Closing Date.

(viii) The United States of America, Department of Veterans Affairs (the "VA") shall not have given any indication (either oral or written) to Seller or its employees that the VA is not prepared to approve the assignment to Buyer of the VA's lease affecting the Property. Any demand of concessions by the VA shall be deemed to be an indication that the VA is not prepared to approve the assignment to Buyer of the VA's lease. If Seller or its employees receive any indication (either oral or written) that the VA is not prepared to approve the assignment to Buyer of the VA's lease, such information shall be immediately disclosed to Buyer in writing.

2. Closing Leasing Credit. No Closing Leasing Credit shall be due Buyer at Closing.

3. Purchase Price Reduction. Section 2 of the Purchase Agreement is amended and restated in its entirety as follows:

2. Purchase Price. The purchase price for the Property is Eighty-One Million Dollars ($81,000,000.00) (" **Purchase Price**") and shall be paid in cash by Buyer at the Closing (as defined in Section 10.1 below).

4. Notice Address for Seller. The notice address for Seller in section 17.1 of the Purchase Agreement is hereby deleted in its entirety, and replaced with the following:

Seller: 200 Oceangate, LLC
c/o The Swig Company, LLC
220 Montgomery Street, 20th Floor
San Francisco, CA 94104
Attn: Kennard P. Perry
Telephone: (415) 291-1140
Facsimile: (415) 291-1101
Email: kperry@swigco.com

with copy to: Farella Braun + Martel LLP
235 Montgomery Street
San Francisco, CA 94104
Attn: Anthony D. Ratner
Telephone: (415) 954-4448
Facsimile: (415) 954-4480
Email: tratner@fbm.com

5. Post-Closing Document Delivery. Following the Closing, Seller shall, at Buyer's request, coordinate and cooperate with Buyer in connect with the delivery and transfer to Buyer of all Documents (including, without limitation, electronic data, files and documents). This provision is in addition to, and not intended to limit, the delivery obligations of Seller in section 10.3 of the Purchase Agreement. The obligations set forth in this provision sale survive the Closing.

6. Miscellaneous. This First Amendment may be executed in counterparts, including facsimile counterparts or scanned and emailed counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument. Capitalized terms used in this First Amendment shall have the meanings set forth in the Purchase Agreement, except as otherwise defined herein. Except as specifically set forth herein, the Purchase Agreement shall be unmodified, and shall remain in full force and effect.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this First Amendment as of the date first listed above.

SELLER:

200 OCEANGATE, LLC,
a Delaware limited liability company

By: 200 Oceangate, Inc.,
a Delaware corporation
its Manager

By: /s/ Jeanne R. Myerson
Jeanne R. Myerson
President

BUYER:

MOLINA CENTER LLC,
a Delaware limited liability company

By: Molina Healthcare, Inc., a Delaware corporation

By: /s/ John C. Molina
Name: John C. Molina
Title: Chief Financial Officer

California Regional Water Quality Control Board
Los Angeles Region

320 West Fourth Street, Suite 200, Los Angeles, California 90013
(213) 576-6600 • FAX (213) 576-6640
http://www.waterboards.ca.gov/losangeles

Matthew Rodriquez
Secretary for Environmental Protection

Edmund G. Brown Jr.
Governor

October 24, 2011

Mr. Kennard P. Perry, Chief Financial Officer
200 Oceangate, LLC
c/o The Swig Company LLC
220 Montgomery Street, 20th Floor
San Francisco, CA 94104

CERTIFIED MAIL
RETURN RECEIPT REQUESTED
7000 0860 0006 4858 9272

Dear Mr. Perry:

COVERAGE UNDER GENERAL NATIONAL POLLUTANT DISCHARGE ELIMINATION SYSTEM AND WASTE DISCHARGE REQUIREMENTS—200 OCEANGATE LLC., ARCO CENTER, 300 OCEANGATE BLVD., LONG BEACH, CALIFORNIA (NPDES NO. CAG994004, CI–9766)

We have completed our review of your application for a permit to discharge groundwater under the National Pollutant Discharge Elimination System (NPDES).

Based on the information provided, the proposed discharge of groundwater from the above-referenced facility meets the conditions to be regulated under Order No. R4-2008-0032, *General National Pollutant Discharge Elimination System and Waste Discharge Requirements for Discharges of Groundwater from Construction and Project Dewatering to Surface Waters in Coastal Watersheds of Los Angeles and Ventura Counties*, adopted by this Board on June 5, 2008.

Enclosed are your Waste Discharge Requirements, which also serve as your NPDES permit, consisting of Order No. R4-2008-0032 and Monitoring and Reporting Program No. CI-9761. The discharge limitations in Part V.1.Table 1 of Order No. R4-2008-0032 for the specific constituents listed on the Table with the enclosed Fact Sheet are applicable to your discharge. The groundwater discharge flows into the Pacific Ocean. Therefore, discharge limitations in Attachment B of the Order No. R4-2008-0032 are not applicable to your discharge. Prior to starting discharge, a representative sample of the effluent shall be obtained and analyzed to determine compliance with the discharge limitations.

The Monitoring and Reporting Program requires you to implement the monitoring program on the effective date of coverage under this permit. All monitoring reports should be sent to the Regional Board, ATTN: Information Technology Unit. When submitting monitoring or technical reports to the Regional Board per these requirements, please include a reference to "Compliance File No. CI-9766 and NPDES No. CAG994004", which will assure that the reports are directed to the appropriate file and staff. Also, please do not combine other reports with your monitoring reports. Submit each type of report as a separate document.

To avoid paying future annual fees, please submit written request for termination of your enrollment under the general permit in a separate letter, when your project has been completed and the permit is no longer needed.

We are sending a copy of Order No. R4-2008-0032 only to the applicant. For those on the mailing list, please refer to the Board Order sent to you previously or download a copy of the Order from our website at *http://www.waterboards.ca.gov/losangeles/board_decisions.*

If you have any questions, please contact Namiraj Jain at (213) 620-6003.

Sincerely,

Samuel Unger
Executive Officer

Enclosures:

Order No. R4-2008-0032, General NPDES Permit No. CAG994004
Fact Sheet
Monitoring and Reporting Program No. CI-9766

cc: Environmental Protection Agency, Region 9, Permit Section (WTR-5)
State Water Resources Control Board, NPDES_Wastewater@waterboards.ca.gov
U.S. Army Corps of Engineers
NOAA, National Marine Fisheries Service
Department of Interior, U.S. Fish and Wildlife Service
California Department of Fish and Game, Marine Resources, Region 5
Los Angeles County Department of Public Works, Flood Control and Drainage
Los Angeles County Department of Environmental Program
Jae Kim, Tetratech

/nj

STATE OF CALIFORNIA
CALIFORNIA REGIONAL WATER QUALITY CONTROL BOARD
LOS ANGELES REGION
320 West 4th Street, Suite 200, Los Angeles, California 90013

FACT SHEET
WASTE DISCHARGE REQUIREMENTS
FOR

200 OCEANGATE LLC
ARCO CENTER, LONG BEACH
(ORDER NO. R4-2008-0032)
NPDES NO. CAG994004, SERIES NO.100
CI-9766

FACILITY ADDRESS
300 Oceangate Blvd.
Long Beach, CA 90802

FACILITY MAILING ADDRESS
220 Montgomery Street
San Francisco, CA 94104

PROJECT DESCRIPTION:

200 Oceangate LLC (Discharger) proposes to discharge seepage groundwater from the subbasement parking structure located at the above referenced facility. Groundwater dewatering is necessary to protect the integrity of the building structure from rising groundwater. Reasonable Potential Analysis (RPA) of water quality data submitted indicated concentrations for arsenic and nickel at the cusp of their respective screening levels. Therefore, effluent limitations for these parameters are not appropriate. However, long term monitoring for these parameters are necessary to ensure that the concentrations for these parameters remain insignificant. The site location map is shown in Figure 1.

VOLUME AND DESCRIPTION OF DISCHARGE:

Up to 50,000 gallons per day (gpd) of groundwater will be discharged from the project to the nearby storm drain system at Discharge Point M-001(Latitude: 33°45'56.9"Longitude:118° 11'59.9"). The discharge flows into the Pacific Ocean, waters of United States.

APPLICABLE EFFLUENT LIMITATIONS

Based on the information provided in the NPDES Application Supplemental Requirements, the following constituents listed in the Table below have been determined to show reasonable potential to exist in the discharge. The discharge flows to Pacific Ocean therefore the discharge limitations in Attachment B of Order No. R4-2008-0032 are not applicable to your discharge.

This Table lists the specific constituents and effluent limitations applicable to the discharge.

Constituents	Units	Discharge Limitations	
		Daily Maximum	Monthly Average
Total Suspended Solids	mg/L	150	50
Turbidity	NTU	150	50
BOD_5 20°C	mg/L	30	20
Oil and Grease	mg/L	15	10
Settleable Solids	ml/L	0.3	0.1
Sulfides	mg/L	1.0	---
Phenols	mg/L	1.0	---
Residual Chlorine	mg/L	0.1	---
Methylene Blue Active Substances (MBAS)	mg/L	0.5	---

FREQUENCY OF DISCHARGE:

The discharge of groundwater will be intermittent and last for life of the project.

REUSE OF WATER:

In the vicinity of the project site there are no other feasible reuse options, therefore the groundwater will be discharged to the storm drain in compliance with the requirements of the attached Order.

Source: © 2011 National Geographic Society, i-cubed

N

0 1,000 2,000
Feet

Kennedy/Jenks Consultants
Arco Center
200 & 300 Oceangate
Long Beach, CA 90802

Subject Property Vicinity Map

K/J 1183015*00
July 2011
Figure 1

Figure 1. Site Location Map

STATE OF CALIFORNIA
CALIFORNIA REGIONAL WATER QUALITY CONTROL BOARD
LOS ANGELES REGION

MONITORING AND REPORTING PROGRAM NO. CI-9766
FOR
DISCHARGES OF GROUDWATER FROM CONSTRUCTION AND PROJECT DEWATERING TO SURFACE WATERS
IN
COASTAL WATERSHEDS OF LOS ANGELES AND VENTURA COUNTIES

(GENERAL NPDES PERMIT NO. CAG994004, SERIES NO.100)

This Order was adopted by the Regional Water Board on:	June 5, 2008
This Order shall become effective on:	October 24, 2011
This Order shall expire on:	June 5, 2013
The U.S. Environmental Protection Agency (USEPA) and the Regional Water Board have classified this discharge as a minor discharge.	

Ordered By: [signature]
Samuel Unger
Executive Officer

Date: October 24, 2011

TABLE OF CONTENTS

ATTACHMENT E - Monitoring and Reporting Program (MRP)

Table of Contents 1
I. General Monitoring Provisions 2
II. Monitoring Locations 5
III. Effluent Monitoring Requirements 6
IV. Whole Effluent Toxicity Testing Requirements 6
A. Definition of Toxicity 6
Acute Toxicity 6
B. Acute Toxicity Effluent Monitoring Program 7
C. Reporting 7
V. Land Discharge Monitoring Requirements 8
VI. Reclamation Monitoring Requirements 8
VIII. Other Monitoring Requirements 8
IX. Reporting Requirements 9
A. General Monitoring and Reporting Requirements 9
B. Self Monitoring Reports (SMRs) 9
C. Notification 11
D. Monitoring Frequencies Adjustment 12
E. Discharge Monitoring Reports (DMRS) 12

LIST OF TABLES

Table 1. Monitoring Location 5
Table 2. Monitoring Constituents 6
Table 3. Monitoring Periods and Reporting Schedule 10

Attachment E – Monitoring and Reporting Program (MRP)

The Code of Federal Regulations section 122.48 requires that all NPDES permits specify monitoring and reporting requirements. Water Code Sections 13267 and 13383 also authorize the Regional Water Quality Control Board (Regional Water Board) to require technical and monitoring reports. This MRP establishes monitoring and reporting requirements, which implement the federal and California regulations.

I. GENERAL MONITORING PROVISIONS

A. An effluent sampling station shall be established for Discharge Point M-001 and shall be located where representative samples of that effluent can be obtained. Provisions shall be made to enable visual inspections before discharge. In the event of presence of oil sheen, debris, and/or other objectionable materials or odors, discharge shall not commence until compliance with the requirements is demonstrated. All visual observations shall be included in the monitoring report.

B. This Regional Board shall be notified in writing of any change in the sampling stations once established or in the methods for determining the quantities of pollutants in the individual waste streams.

C. Effluent samples shall be taken downstream of any addition to treatment works and prior to mixing with the receiving waters.

D. Pollutants shall be analyzed using the analytical methods described in 40 CFR §§136.3, 136.4, and 136.5 (revised March 12, 2007); or, where no methods are specified for a given pollutant, by methods approved by this Regional Water Board or the State Water Board.

E. Laboratories analyzing effluent samples and receiving water samples shall be certified by the California Department of Public Health Environmental Laboratory Accreditation Program (ELAP) or approved by the Executive Officer and must include QA/QC data in their reports. A copy of the laboratory certification shall be provided each time a new certification and/or renewal of the certification is obtained from ELAP.

F. For any analyses performed for which no procedure is specified in the USEPA guidelines or in the MRP, the constituent or parameter analyzed and the method or procedure used must be specified in the monitoring report.

G. Each monitoring report must affirm in writing that "all analyses were conducted at a laboratory certified for such analyses by the Department of Public Health or approved by the Executive Officer and in accordance with current USEPA guideline procedures or as specified in this Monitoring and Reporting Program".

H. The monitoring reports shall specify the analytical method used, the MDL, and the ML for each pollutant. For the purpose of reporting compliance with numerical limitations, performance goals, and receiving water limitations, analytical data shall be reported by one of the following methods, as appropriate:

1. An actual numerical value for sample results greater than or equal to the ML; or

2. "DNQ" if results are greater than or equal to the laboratory's MDL but less than the ML; or,

3. "ND" for sample results less than the laboratory's MDL with the MDL indicated for the analytical method used.

Analytical data reported as "less than" for the purpose of reporting compliance with permit limitations shall be the same or lower than the permit limit(s) established for the given parameter.

Current MLs (Attachment G) are those published by the State Water Resources Control Board in the *Policy for the Implementation of Toxics Standards for Inland Surface Waters, Enclosed Bays, and Estuaries of California*, March 2, 2000.

I. Where possible, the MLs employed for effluent analyses shall be lower than the permit limitations established for a given parameter. If the ML value is not below the effluent limitation, then the lowest ML value and its associated analytical method shall be selected for compliance purposes. At least once a year, the Discharger shall submit a list of the analytical methods employed for each test and associated laboratory QA/QC procedures.

The Regional Water Board, in consultation with the State Water Board Quality Assurance Program, shall establish a ML that is not contained in Attachment G to be included in the Discharger's permit in any of the following situations:

1. When the pollutant under consideration is not included in Attachment G;

2. When the Discharger and Regional Water Board agree to include in the permit a test method that is more sensitive than that specified in 40 CFR Part 136 (revised March 12, 2007);

3. When the Discharger agrees to use an ML that is lower than that listed in Attachment G;

4. When the Discharger demonstrates that the calibration standard matrix is sufficiently different from that used to establish the ML in Attachment G, and proposes an appropriate ML for their matrix; or,

5. When the Discharger uses a method whose quantification practices are not consistent with the definition of an ML. Examples of such methods are the USEPA-approved method 1613 for dioxins and furans, method 1624 for volatile organic substances, and method 1625 for semi-volatile organic substances. In such cases, the Discharger, the Regional Water Board, and the State Water Board shall agree on a lowest quantifiable limit and that limit will substitute for the ML for reporting and compliance determination purposes.

J. Water/wastewater samples must be analyzed within allowable holding time limits as specified in 40 CFR §136.3. All QA/QC items must be run on the same dates the samples were actually analyzed, and the results shall be reported in the Regional Water Board format, when it becomes available, and submitted with the laboratory reports. Proper chain of custody procedures must be followed, and a copy of the chain of custody shall be submitted with the report.

K. All analyses shall be accompanied by the chain of custody, including but not limited to date and time of sampling, sample identification, and name of person who performed sampling, date of analysis, name of person who performed analysis, QA/QC data, method detection limits, analytical methods, copy of laboratory certification, and a perjury statement executed by the person responsible for the laboratory.

L. The Discharger shall calibrate and perform maintenance procedures on all monitoring instruments and to insure accuracy of measurements, or shall insure that both equipment activities will be conducted.

M. The analytical laboratory shall have an acceptable written quality assurance (QA) plan for laboratory analyses. The annual monitoring report shall also summarize the QA activities for the previous year. Duplicate chemical analyses must be conducted on a minimum of ten percent (10%) of the samples, or at least one sample per sampling period, whichever is greater. A similar frequency shall be maintained for analyzing spiked samples.

N. When requested by the Regional Water Board or USEPA, the Discharger will participate in the NPDES discharge monitoring report QA performance study. The Discharger must have a success rate equal to or greater than 80%.

O. For parameters that both monthly average and daily maximum limitations are specified and the monitoring frequency is less than four times a month, the following shall apply. If an analytical result is greater than the monthly average limitation, the Discharger shall collect four additional samples at approximately equal intervals during the month, until compliance with the monthly average limitation has been demonstrated. All five analytical results shall be reported in the monitoring report for that month, or 45 days after results for the additional samples were received, whichever is later. In the event of noncompliance with a monthly average effluent limitation, the sampling frequency for that constituent shall be increased to weekly and shall continue at this level until compliance with the monthly average effluent limitation has been demonstrated. The Discharger shall provide for the approval of the Executive Officer a program to ensure future compliance with the monthly average limitation.

P. In the event wastes are transported to a different disposal site during the report period, the following shall be reported in the monitoring report:

1. Types of wastes and quantity of each type;

2. Name and address for each hauler of wastes (or method of transport if other than by hauling); and

3. Location of the final point(s) of disposal for each type of waste.

If no wastes are transported off-site during the reporting period, a statement to that effect shall be submitted.

Q. Each monitoring report shall state whether or not there was any change in the discharge as described in the Order during the reporting period.

All monitoring reports shall include the discharge limitations in the Order, tabulated analytical data, the chain of custody form, and the laboratory report (including but not limited to date and time of sampling, date of analyses, method of analysis and detection limits).

R. Sample collection requirements (as appropriate)

1. Daily samples shall be collected each day.
2. Weekly samples shall be collected on a representative day of each week.
3. Monthly samples shall be collected on a representative day of each month.
4. Quarterly samples shall be collected in February, May, August, and November.
5. Semi-annual samples shall be collected in May and November.
6. Annual samples shall be collected in November.

S. Before commencing a new discharge, a representative sample of the effluent shall be collected and analyzed for toxicity and for all the constituents listed in Fact Sheet, and the test results must meet all applicable limitations of Order No. R4-2008-0032.

II. MONITORING LOCATIONS

The Discharger shall establish the following monitoring locations to demonstrate compliance with the effluent limitations, discharge specifications, and other requirements in this Order:

Table 1. Monitoring Location

Discharge Point Name	Monitoring Location Name	Monitoring Location Description
Discharge Point 1	M-001	Wastewater effluent before contact with the receiving water and/or dilution by any other water or waste.
Discharge Point 2	M-002	If more than one discharge point is authorized under the General Permit, compliance monitoring locations shall be named M-002, M-003, etc. and shall be located so as to allow collection of wastewater effluent before contact with receiving water and/or dilution by any other water or waste.

III. EFFLUENT MONITORING REQUIREMENTS

A. The Discharger shall monitor the effluent at Discharge Point M-001 as follows.

Table 2. Monitoring Constituents

Constituent	Unit	Type of Sample	Minimum Frequency of Analysis
Total Waste Flow	gal/day	totalizer	continuously[1]
pH	pH unit	grab	monthly
Temperature	°F	grab	monthly
Total Suspended Solids	mg/L	grab	monthly
Turbidity	NTU	grab	monthly
BOD_5 20°C	mg/L	grab	monthly
Oil and Grease	mg/L	grab	monthly
Settleable Solids	ml/L	grab	monthly
Sulfides	mg/L	grab	monthly
Phenols	mg/L	grab	monthly
Total Residual Chlorine	mg/L	grab	monthly
Methylene Blue Active Substances (MBAS)	mg/L	grab	monthly
Arsenic	µg/L	grab	monthly[2]
Nickel	µg/L	grab	monthly[2]
Acute Toxicity	% survival	grab	annually

1 Record the monthly total flow and report the calculated daily average flow and monthly flow in the quarterly and annual reports, as appropriate.

2 Monthly for four quarters. If concentrations remain below significant levels, the monitoring frequency will be reduced to quarterly or could be eliminated with the approval of the Executive Officer of this Regional Board.

IV. WHOLE EFFLUENT TOXICITY TESTING REQUIREMENTS

A. Definition of Toxicity

Acute Toxicity

The MRP requires an annual test for acute toxicity which measures primarily lethal effects that occur over a 96-hour period. Acute toxicity shall be measured in percent survival measured in undiluted (100%) effluent.

B. Acute Toxicity Effluent Monitoring Program

1. The Discharger shall conduct acute toxicity tests on effluent grab samples by methods specified in 40 CFR Part 136 which cites USEPA's *Methods for Measuring the Acute Toxicity of Effluents and Receiving Waters to Freshwater and Marine Organisms*, Fifth Edition, October 2002, USEPA, Office of Water, Washington D.C. (EPA/821-R-02-012) or a more recent edition to ensure compliance in 100 % effluent.

2. The fathead minnow, *Pimephales promelas*, shall be used as the test species for fresh water discharges and the topsmelt, *Atherinops affinis*, shall be used as the test species for brackish effluent. The method for topsmelt is found in USEPA's *Short-term Method for Estimating the Chronic Toxicity of Effluents and Receiving Waters to West Coast Marine and Estuarine Organisms*, First Edition, August 1995 (EPA/600/R-95/136), or a more recent edition.

3. In lieu of conducting the standard acute toxicity testing with the fathead minnow, the Discharger may elect to report the results or endpoint from the first 48 hours of the chronic toxicity test as the results of the acute toxicity test.

4. Accelerated Toxicity Monitoring: If the results of the toxicity test yield a survival of less than 90%, then the frequency of analyses shall increase to monthly until at least three test results have been obtained and full compliance with effluent limitations has been demonstrated, after which the frequency of analyses shall revert to annually. Results of toxicity tests shall be included in the first monitoring report following sampling.

5. Effluent samples shall be collected after all treatment processes and before discharge to the receiving water.

C. Reporting

1. The Discharger shall submit a full report of the toxicity test results, including any accelerated testing conducted during the month as required by this permit. Test results shall be reported as % survival for acute toxicity test results with the self monitoring reports (SMR) for the month in which the test is conducted.

2. If an initial investigation indicates the source of toxicity and accelerated testing is unnecessary, then those results also shall be submitted with the SMR for the period in which the investigation occurred.

   a. The full report shall be submitted on or before the end of the month in which the SMR is submitted.

   b. The full report shall consist of (1) the results; (2) the dates of sample collection and initiation of each toxicity test; (3) the acute toxicity average limit.

3. Test results for toxicity tests also shall be reported according to the appropriate manual chapter on Report Preparation and shall be attached to the SMR. Routine reporting shall include, at a minimum, as applicable, for each test:

   a. Sample date(s);

   b. Test initiation date;

   c. Test species;

   d. End point values for each dilution (e.g., number of young, growth rate, percent survival);

   e. Any applicable charts; and,

   f. Available water quality measurements for each test (e.g., pH, D.O., temperature, conductivity, hardness, salinity, ammonia).

4. The Discharger shall provide a compliance summary, which includes a summary table of toxicity data from all samples collected during that year.

   The Discharger shall notify by telephone or electronically, this Regional Water Board of any toxicity exceedance of the limit or trigger within 24 hours of receipt of the results followed by a written report within 14 calendar days of receipt of the results. The verbal or electronic notification shall include the exceedance and the plan the Discharger has taken or will take to investigate and correct the cause(s) of toxicity. It may also include a status report on any actions required by the permit, with a schedule for actions not yet completed. If no actions have been taken, the reasons shall be given.

V. LAND DISCHARGE MONITORING REQUIREMENTS

Not Applicable.

VI. RECLAMATION MONITORING REQUIREMENTS

Not Applicable.

VII. RECEIVING WATER MONITORING REQUIREMENTS – SURFACE WATER AND GROUNDWATER

Not Applicable.

VIII. OTHER MONITORING REQUIREMENTS

Not Applicable.

IX. REPORTING REQUIREMENTS

A. General Monitoring and Reporting Requirements

1. The Discharger shall comply with all Standard Provisions (Attachment D) related to monitoring, reporting, and recordkeeping.

2. If there is no discharge during any reporting period, the report shall so state.

3. Each monitoring report shall contain a separate section titled "Summary of Non-Compliance" which discusses the compliance record and corrective actions taken or planned that may be needed to bring the discharge into full compliance with waste discharge requirements. This section shall clearly list all non-compliance with waste discharge requirements, as well as all excursions of effluent limitations.

4. The Discharger shall inform the Regional Water Board well in advance of any proposed construction activity that could potentially affect compliance with applicable requirements.

B. Self Monitoring Reports (SMRs)

1. At any time during the term of this permit, the State or Regional Water Board may notify the Discharger to electronically submit Self-Monitoring Reports (SMRs) using the State Water Board's California Integrated Water Quality System (CIWQS) Program Web site (http://www.waterboards.ca.gov/ciwqs/index.html). Until such notification is given, the Discharger shall submit hard copy SMRs. The CIWQS Web site will provide additional directions for SMR submittal in the event there will be service interruption for electronic submittal.

2. The Discharger shall report in the SMR the results for all monitoring specified in this MRP. The Discharger shall submit SMRs including the results of all required monitoring using USEPA-approved test methods or other test methods specified in this Order. If the Discharger monitors any pollutant more frequently than required by this Order, the results of this monitoring shall be included in the calculations and reporting of the data submitted in the SMR.

3. Monitoring periods and reporting for all required monitoring shall be completed according to the following schedule:

Table 3. Monitoring Periods and Reporting Schedule

Sampling Frequency	Monitoring Period Begins On	Monitoring Period	SMR Due Date
Continuous	October 24, 2011	All	Submit with quarterly SMR
Weekly	Sunday following permit effective date or on permit effective date if on a Sunday	Sunday through Saturday	Submit with quarterly SMR
Monthly	First day of calendar month following permit effective date or on permit effective date if that date is first day of the month	1st day of calendar month through last day of calendar month	Submit with quarterly SMR
Quarterly	Closest of January 1, April 1, July 1, or October 1	January 1 through March 31. April 1 through June 30. July 1 through September 30. October 1 through December 31	45 days from the end of the monitoring period
Annually	January 1	January 1 through December 31	45 days from the end of the monitoring period

4. Reporting Protocols. The Discharger shall report with each sample result the applicable Reporting Level (RL) and the current Method Detection Limit (MDL), as determined by the procedure in Part 136.

The Discharger shall report the results of analytical determinations for the presence of chemical constituents in a sample using the following reporting protocols:

a. Sample results greater than or equal to the RL shall be reported as measured by the laboratory (i.e., the measured chemical concentration in the sample).

b. Sample results less than the RL, but greater than or equal to the laboratory's MDL, shall be reported as "Detected, but Not Quantified," or DNQ. The estimated chemical concentration of the sample shall also be reported.

For the purposes of data collection, the laboratory shall write the estimated chemical concentration next to DNQ as well as the words "Estimated Concentration" (may be shortened to "Est. Conc."). The laboratory may, if such information is available, include numerical estimates of the data quality for the reported result. Numerical estimates of data quality may be percent accuracy (± a percentage of the reported value), numerical ranges (low to high), or any other means considered appropriate by the laboratory.

c. Sample results less than the laboratory's MDL shall be reported as "Not Detected," or ND.

d. Dischargers are to instruct laboratories to establish calibration standards so that the ML value (or its equivalent if there is differential treatment of samples relative to calibration standards) is the lowest calibration standard. At no time is the Discharger to use analytical data derived from *extrapolation* beyond the lowest point of the calibration curve.

5. The Discharger shall submit SMRs in accordance with the following requirements:

   a. The Discharger shall arrange all reported data in a tabular format. The data shall be summarized to clearly illustrate whether the facility is operating in compliance with interim and/or final effluent limitations. The Discharger is not required to duplicate the submittal of data that is entered in a tabular format within CIWQS. When electronic submittal of data is required and CIWQS does not provide for entry into a tabular format within the system, the Discharger shall electronically submit the data in a tabular format as an attachment.

   b. The Discharger shall attach a cover letter to the SMR. The information contained in the cover letter shall clearly identify violations of the WDRs; discuss corrective actions taken or planned; and the proposed time schedule for corrective actions. Identified violations must include a description of the requirement that was violated and a description of the violation.

   c. SMRs must be submitted to the Regional Water Board, signed and certified as required by the Standard Provisions (Attachment D), to the address listed below:

C. Notification

1. The Discharger shall notify the Executive Officer in writing prior to discharge of any chemical that may be toxic to aquatic life. Such notification shall include:

   a. Name and general composition of the chemical,

   b. Frequency of use,

   c. Quantities to be used,

   d. Proposed discharge concentrations, and,

   e. EPA registration number, if applicable.

   No discharge of such chemical shall be made prior to obtaining the Executive Officer's approval.

2. The Discharger shall notify the Regional Board via telephone and/or fax within 24 hours of noticing an exceedance above the effluent limits in Order No. R4-2009-0068. The Discharger shall provide to the Regional Board within 14 days of observing the exceedance a detailed statement of the actions undertaken or proposed that will bring the discharge into full compliance with the requirements and submit a timetable for correction.

D. Monitoring Frequencies Adjustment

Monitoring frequencies may be adjusted by the Executive Officer to a less frequent basis if the Discharger requests same and the request is backed by statistical trends of monitoring data submitted.

E. Discharge Monitoring Reports (DMRS)

1. At any time during the term of this permit, the State or Regional Water Board may notify the Discharger to electronically submit SMRs that will satisfy federal requirements for submittal of Discharge Monitoring Reports (DMRs). Until such notification is given, the Discharger shall submit SMRs in accordance with the requirements described below.

2. SMRs must be signed and certified as required by the standard provisions (Attachment D). The Discharge shall submit the original SMR to the address listed below:

   California Regional Water Quality Control Board
   Los Angeles Region
   320 W. 4th Street, Suite 200
   Los Angeles, CA 90013
   Attention: Information and Technology Unit.

EXHIBIT B

NPDES Permit Transfer Form (Form No. R4-WRS #1)

Matthew Rodriquez
Secretary for Environmental Protection

California Regional Water Quality Control Board
Los Angeles Region

320 W. 4th Street, Suite 200, Los Angeles, California 90013
(213) 576-6600 • FAX (213) 576-6640
http://www.waterboards.ca.gov/losangeles

Edmund G. Brown Jr.
Governor

NPDES PERMIT TRANSFER REQUEST FORM

NPDES Permit No. ____________________ CI No. ________

Facility Location: ____
Street Address City Zip

I hereby request the transfer of the above-referenced NPDES permit, including the transfer of responsibility, coverage, and liability for such permit, in accordance with the following:

TRANSFER FROM:	**TRANSFER TO:**
Facility Name	New Facility Name
Owner	New Owner
Operator	New Operator

TRANSFER EFFECTIVE DATE: ____________________

Signature of Former Owner/Authorized Representative	Title
Name of Former Owner/Authorized Representative	Date

I understand that I am responsible for compliance with the above-referenced NPDES permit. I certify that:

1. I have reviewed the NPDES permit;
2. The facility construction and nature/amount of discharges from the facility have not substantially changed: and
3. I will notify the Board of any material change in the facility and/or of the discharge, or any future change in the facility owner or operator.

Signature of New Owner/Authorized Representative	Company name, if appropriate	
Name of New Owner/Authorized Representative	Telephone No.	Date
Title	Email	

Mailing Address: ____
Street Address City State Zip

Name of Facility Contact Person	Telephone No.	Email

Facility Contact Mailing Address: ____
Street Address City State Zip

Form No. R4-WRS #1 9/2/11

California Environmental Protection Agency

Recycled Paper

Exhibit 10.23

SECOND AMENDMENT TO PURCHASE AGREEMENT

THIS SECOND AMENDMENT TO PURCHASE AGREEMENT ("Second Amendment"), dated November 30, 2011, and is made by and between 200 OCEANGATE, LLC, a Delaware limited liability company ("Seller"), and MOLINA CENTER LLC, a Delaware limited liability company ("Buyer").

Recitals

A. Seller and Buyer entered into that certain Purchase Agreement dated October 11, 2011, as amended by that certain First Amendment to Purchase Agreement dated November 10, 2011 (the "First Amendment"), and as further amended by that certain Closing Date extension notice dated November 22, 2011 (collectively, the "Purchase Agreement"), whereby, upon the terms and conditions set forth therein, Seller agreed to sell and Buyer agreed to buy the Property and those associated rights and interest described in the Purchase Agreement.

B. Seller and Buyer now desire to amend the Purchase Agreement as set forth below.

NOW, THEREFORE, for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, and intending to be legally bound, the parties hereto agree that the Purchase Agreement is hereby amended as follows:

1. Closing Date. The first full sentence of section 10.1 of the Purchase Agreement is amended and restated in its entirety as follows:

"The consummation of the purchase and sale of the Property (the " **Closing**") shall be held at the offices of the Title Company (or at such other location as the parties may agree) on December 7, 2011 (the "**Closing Date**"), which may be extended in accordance with the terms of this Section 10.1, Section 11.2, and Section 1(vii) of the First Amendment, but in any event shall not be later than January 13, 2012 (the " **Outside Closing Date**")."

2. Miscellaneous. This Second Amendment may be executed in counterparts, including facsimile counterparts or scanned and emailed counterparts, each of which shall be deemed an original, and all of which taken together shall constitute one and the same instrument. Capitalized terms used in this Second Amendment shall have the meanings set forth in the Purchase Agreement, except as otherwise defined herein. Except as specifically set forth herein, the Purchase Agreement shall be unmodified, and shall remain in full force and effect.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS WHEREOF, the parties have executed this Second Amendment as of the date first listed above.

SELLER: 200 OCEANGATE, LLC, a Delaware limited liability company

By: Pacific Towers Associates, a California limited partnership, its sole member

By: SIC – Long Beach, a California limited partnership, its general partner

By: SwigCo, Inc., a California corporation, its general partner

By: /s/ Jeanne R. Myerson
Jeanne R. Myerson,
President & Chief Executive Officer

BUYER: MOLINA CENTER LLC,
a Delaware limited liability company

By: Molina Healthcare, Inc., a Delaware corporation

By: /s/ John C. Molina
Name: John C. Molina
Title: Chief Financial Officer

Second Amendment to Agreement of Purchase and Sale
200 & 300 Oceangate, Long Beach, California
Signature Page

Exhibit 12.1

Molina Healthcare, Inc.

Computation of Ratio of Earnings to Fixed Charges

	Year Ended December 31, 2011				
	2011	2010	2009	2008	2007
			(Dollars in thousands)		
Earnings:					
Income before income taxes	$ 64,654	$ 89,492	$ 38,157	$ 94,324	$ 92,722
Add fixed charges:					
Interest expense, including amortization of debt discount and expense	15,519	15,509	13,777	13,231	5,605
Estimated interest portion of rental expense	2,542	4,524	5,181	4,370	3,988
Total fixed charges	18,061	20,033	18,958	17,601	9,593
Total earnings available for fixed charges	$ 82,715	$ 109,525	$ 57,115	$ 111,925	$ 102,315
Fixed charges from above:	$ 18,061	$ 20,033	$ 18,958	$ 17,601	$ 9,593
Ratio of Earnings to Fixed Charges	4.6	5.6	3.0	6.4	10.7
Total rent expense	$ 23,110	$ 25,134	$ 20,723	$ 17,481	$ 18,127
Interest factor	11%	18%	25%	25%	22%
Interest component of rental expense	$ 2,542	$ 4,524	$ 5,181	$ 4,370	$ 3,988

Exhibit 21.1

LIST OF SUBSIDIARIES

Name	Jurisdiction of Incorporation
Alliance for Community Health L.L.C, dba Molina Healthcare of Missouri	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 Georgia, Inc.	Georgia
Molina Healthcare of Illinois, Inc.	Illinois
Molina Healthcare of Michigan, Inc.	Michigan
Molina Healthcare of New Mexico, Inc.	New Mexico
Molina Healthcare of New Mexico Medical Clinics, 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
Molina Pathways, LLC	Delaware

+ Wholly owned subsidiary of Molina Healthcare of New Mexico, Inc.

* 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 the Registration Statements (Forms S-8, No. 333-108317, No. 333-138552, No. 333-153246, No. 333-170571, and No. 333-174912) 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, of our reports dated February 29, 2012, 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, 2011.

/s/ ERNST & YOUNG LLP

Los Angeles, California
February 29, 2012

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, 2011, 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 29, 2012

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, 2011, 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 29, 2012

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, 2011, 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 29, 2012

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, 2011, 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 29, 2012

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.