

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2017

OR

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

For the transition period from _____ to _____
Commission file number: 001-31719



MOLINA HEALTHCARE, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

13-4204626

(I.R.S. Employer Identification No.)

200 Oceangate, Suite 100
Long Beach, California

(Address of principal executive offices)

90802

(Zip Code)

(562) 435-3666

(Registrant's telephone number, including area code)

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

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

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

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Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of the issuer's Common Stock, \$0.001 par value, outstanding as of April 28, 2017, was approximately 57,004,000.

MOLINA HEALTHCARE, INC. FORM 10-Q

FOR THE QUARTERLY PERIOD ENDED March 31, 2017

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FINANCIAL STATEMENTS

MOLINA HEALTHCARE, INC. CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2017	2016
	(In millions, except per-share data) (Unaudited)	
Revenue:		
Premium revenue	\$ 4,648	\$ 3,995
Service revenue	131	140
Premium tax revenue	111	109
Health insurer fee revenue	—	90
Investment income and other revenue	14	9
Total revenue	4,904	4,343
Operating expenses:		
Medical care costs	4,111	3,588
Cost of service revenue	122	127
General and administrative expenses	439	340
Premium tax expenses	111	109
Health insurer fee expenses	—	58
Depreciation and amortization	39	32
Total operating expenses	4,822	4,254
Operating income	82	89
Other (income) expenses, net:		
Interest expense	26	25
Other income, net	(75)	—
Total other (income) expenses, net	(49)	25
Income before income tax expense	131	64
Income tax expense	54	40
Net income	\$ 77	\$ 24
Net income per share:		
Basic	\$ 1.38	\$ 0.44
Diluted	\$ 1.37	\$ 0.43

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended March 31,	
	2017	2016
	(Amounts in millions) (Unaudited)	
Net income	\$ 77	\$ 24
Other comprehensive income:		
Unrealized investment gain	1	9
Less: effect of income taxes	—	3
Other comprehensive income, net of tax	1	6
Comprehensive income	\$ 78	\$ 30

See accompanying notes.

**MOLINA HEALTHCARE, INC.
CONSOLIDATED BALANCE SHEETS**

	March 31, 2017	December 31, 2016
(Amounts in millions, except per-share data)		
(Unaudited)		
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,198	\$ 2,819
Investments	2,056	1,758
Receivables	1,006	974
Income taxes refundable	—	39
Prepaid expenses and other current assets	142	131
Derivative asset	—	267
Total current assets	6,402	5,988
Property, equipment, and capitalized software, net	447	454
Deferred contract costs	89	86
Intangible assets, net	131	140
Goodwill	620	620
Restricted investments	115	110
Deferred income taxes	10	10
Derivative asset	181	—
Other assets	43	41
	\$ 8,038	\$ 7,449
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Medical claims and benefits payable	\$ 1,926	\$ 1,929
Amounts due government agencies	1,575	1,202
Accounts payable and accrued liabilities	438	385
Deferred revenue	461	315
Income taxes payable	21	—
Current portion of long-term debt	1	472
Derivative liability	—	267
Total current liabilities	4,422	4,570
Senior notes	1,455	975
Lease financing obligations	198	198
Deferred income taxes	11	15
Derivative liability	181	—
Other long-term liabilities	44	42
Total liabilities	6,311	5,800
Stockholders' equity:		
Common stock, \$0.001 par value; 150 shares authorized; outstanding: 57 shares at March 31, 2017 and December 31, 2016	—	—
Preferred stock, \$0.001 par value; 20 shares authorized, no shares issued and outstanding	—	—
Additional paid-in capital	841	841
Accumulated other comprehensive loss	(1)	(2)
Retained earnings	887	810
Total stockholders' equity	1,727	1,649
	\$ 8,038	\$ 7,449

See accompanying notes.

MOLINA HEALTHCARE, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended March 31,	
	2017	2016
	(Amounts in millions) (Unaudited)	
Operating activities:		
Net income	\$ 77	\$ 24
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	49	44
Deferred income taxes	(5)	30
Share-based compensation	6	7
Amortization of convertible senior notes and lease financing obligations	8	8
Other, net	3	6
Changes in operating assets and liabilities:		
Receivables	(32)	(266)
Prepaid expenses and other assets	(12)	(202)
Medical claims and benefits payable	(3)	255
Amounts due government agencies	373	181
Accounts payable and accrued liabilities	50	205
Deferred revenue	146	(129)
Income taxes	59	(24)
Net cash provided by operating activities	<u>719</u>	<u>139</u>
Investing activities:		
Purchases of investments	(733)	(611)
Proceeds from sales and maturities of investments	433	348
Purchases of property, equipment and capitalized software	(26)	(46)
Increase in restricted investments	(7)	(4)
Net cash paid in business combinations	—	(2)
Other, net	(6)	1
Net cash used in investing activities	<u>(339)</u>	<u>(314)</u>
Financing activities:		
Proceeds from employee stock plans	1	—
Other, net	(2)	2
Net cash (used in) provided by financing activities	<u>(1)</u>	<u>2</u>
Net increase (decrease) in cash and cash equivalents	379	(173)
Cash and cash equivalents at beginning of period	2,819	2,329
Cash and cash equivalents at end of period	<u>\$ 3,198</u>	<u>\$ 2,156</u>

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

	Three Months Ended March 31,	
	2017	2016
	(Amounts in millions) (Unaudited)	
Supplemental cash flow information:		
Schedule of non-cash investing and financing activities:		
Common stock used for share-based compensation	\$ (6)	\$ (7)
Details of change in fair value of derivatives, net:		
(Loss) gain on 1.125% Call Option	\$ (86)	\$ 3
Gain (loss) on 1.125% Conversion Option	86	(3)
Change in fair value of derivatives, net	\$ —	\$ —
Details of business combinations:		
Fair value of assets acquired	\$ —	\$ (134)
Purchase price amounts accrued/received	—	30
Reversal of amounts advanced to sellers in prior year	—	102
Net cash paid in business combinations	\$ —	\$ (2)

See accompanying notes.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2017

1. Basis of Presentation

Organization and Operations

Molina Healthcare, Inc. provides quality managed health care to people receiving government assistance. We offer cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals, and to assist government agencies in their administration of the Medicaid program. We have three reportable segments. These segments consist of our Health Plans segment, which comprises the vast majority of our operations; our Molina Medicaid Solutions segment; and our Other segment.

The Health Plans segment consists of health plans in 12 states and the Commonwealth of Puerto Rico, and includes our direct delivery business. As of March 31, 2017, these health plans served approximately 4.8 million members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals. This membership includes Affordable Care Act Marketplace (Marketplace) members, most of whom receive government premium subsidies. The health plans are operated by our respective wholly owned subsidiaries in those states, each of which is licensed as a health maintenance organization (HMO). Our direct delivery business consists primarily of the operation of primary care clinics in several states in which we operate.

Our health plans' state Medicaid contracts generally have terms of three to four years. These contracts typically contain renewal options exercisable by the state Medicaid agency, and allow either the state or the health plan to terminate the contract with or without cause. Our health plan subsidiaries have generally been successful in retaining their contracts, but such contracts are subject to risk of loss when a state issues a new request for proposal (RFP) open 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.

In addition to contract renewal, our state Medicaid contracts may be periodically amended to include or exclude certain health benefits (such as pharmacy services, behavioral health services, or long-term care services); populations such as the aged, blind or disabled (ABD); and regions or service areas.

The Molina Medicaid Solutions segment provides support to state government agencies in the administration of their Medicaid programs, including business processing, information technology development and administrative services.

The Other segment includes primarily our Pathways behavioral health and social services provider, and corporate amounts not allocated to other reportable segments.

Health Plans Segment Recent Developments

Proposed Medicare Acquisition. In August 2016, we entered into agreements with each of Aetna Inc. and Humana Inc. to acquire certain membership and assets related to their Medicare Advantage business (the Proposed Medicare Acquisition). The Proposed Medicare Acquisition was subject to closing conditions including the completion of the proposed acquisition of Humana by Aetna (the Aetna-Humana Merger). In January 2017, the U.S. District Court for the District of Columbia granted the request made by the U.S. Department of Justice in its civil antitrust lawsuit against Aetna and Humana, to prohibit the Aetna-Humana Merger. In February 2017, the Proposed Medicare Acquisition was terminated by the parties pursuant to the terms of the transaction. Under the termination agreement, we received an aggregate termination fee of \$75 million from Aetna and Humana in the first quarter of 2017, which was recorded as other income.

New York Health Plan. On August 1, 2016, we closed on our acquisition of the outstanding equity interests of Today's Options of New York, Inc., which now operates as Molina Healthcare of New York, Inc. The purchase price allocation was completed, and the final purchase price adjustments were recorded in the first quarter of 2017. Such adjustments were insignificant, and the final purchase price was \$38 million.

Consolidation and Interim Financial Information

The consolidated financial statements include the accounts of Molina Healthcare, Inc., its subsidiaries, and variable interest entities (VIEs) in which Molina Healthcare, Inc. is considered to be the primary beneficiary. Such VIEs are insignificant to our consolidated financial position and results of operations. In the opinion of management, all adjustments considered necessary for a fair presentation of the results as of the date and for the interim periods presented have been included; such adjustments consist of normal recurring adjustments. All significant intercompany balances and transactions have been eliminated. The consolidated results of operations for the current interim period are not necessarily indicative of the results for the entire year ending December 31, 2017.

The unaudited consolidated interim financial statements have been prepared under the assumption that users of the interim financial data have either read or have access to our audited consolidated financial statements for the fiscal year ended December 31, 2016. Accordingly, certain disclosures that would substantially duplicate the disclosures contained in the December 31, 2016 audited consolidated financial statements have been omitted. These unaudited consolidated interim financial statements should be read in conjunction with our December 31, 2016 audited consolidated financial statements.

2. Significant Accounting Policies

Revenue Recognition – Health Plans Segment

Premium revenue is fixed in advance of the periods covered and, except as described below, is not generally subject to significant accounting estimates. Premium revenues are recognized in the month that members are entitled to receive health care services, and premiums collected in advance are deferred. Certain components of premium revenue are subject to accounting estimates and fall into two broad categories discussed in further detail below: 1) "Contractual Provisions That May Adjust or Limit Revenue or Profit;" and 2) "Quality Incentives."

Contractual Provisions That May Adjust or Limit Revenue or Profit

Medicaid

Medical Cost Floors (Minimums), and Medical Cost Corridors: A portion of our premium revenue may be returned if certain minimum amounts are not spent on defined medical care costs. In the aggregate, we recorded a liability under the terms of such contract provisions of \$262 million and \$272 million at March 31, 2017 and December 31, 2016, respectively, to amounts due government agencies. Approximately \$245 million and \$244 million of the liability accrued at March 31, 2017 and December 31, 2016, respectively, relates to our participation in Medicaid Expansion programs.

In certain circumstances, our health plans may receive additional premiums if amounts spent on medical care costs exceed a defined maximum threshold. Receivables relating to such provisions were insignificant at March 31, 2017 and December 31, 2016.

Profit Sharing and Profit Ceiling: Our contracts with certain states contain profit-sharing or profit ceiling provisions under which we refund amounts to the states if our health plans generate profit above a certain specified percentage. In some cases, we are limited in the amount of administrative costs that we may deduct in calculating the refund, if any. Liabilities for profits in excess of the amount we are allowed to retain under these provisions were insignificant at March 31, 2017 and December 31, 2016.

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

Medicare

Risk Adjustment: Our Medicare premiums are subject to retroactive increase or decrease based on the health status of our Medicare members (measured as a member risk score). We estimate our members' risk scores and the related amount of Medicare revenue that will ultimately be realized for the periods presented based on our knowledge of our members' health status, risk scores and Centers for Medicare & Medicaid Services (CMS) practices. Consolidated balance sheet amounts related to anticipated Medicare risk adjustment premiums and Medicare Part D settlements were insignificant at March 31, 2017 and December 31, 2016.

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Minimum MLR: Additionally, federal regulations have established a minimum annual medical loss ratio (Minimum MLR) of 85% for Medicare. The medical loss ratio represents medical costs as a percentage of premium revenue. Federal regulations define what constitutes medical costs and premium revenue. If the Minimum MLR is not met, we may be required to pay rebates to the federal government. We recognize estimated rebates under the Minimum MLR as an adjustment to premium revenue in our consolidated statements of income.

Marketplace

Premium Stabilization Programs: The Affordable Care Act (ACA) established Marketplace premium stabilization programs effective January 1, 2014. These programs, commonly referred to as the “3R’s,” include a permanent risk adjustment program, a transitional reinsurance program, and a temporary risk corridor program. We record receivables or payables related to the 3R programs and the Minimum MLR when the amounts are reasonably estimable as described below, and, for receivables, when collection is reasonably assured. Our receivables (payables) for each of these programs, as of the dates indicated, were as follows:

	March 31, 2017			December 31, 2016
	Current Benefit Year	Prior Benefit Years	Total	
	(In millions)			
Risk adjustment	\$ (247)	\$ (522)	\$ (769)	\$ (522)
Reinsurance	—	58	58	55
Risk corridor	—	(5)	(5)	(1)
Minimum MLR	(37)	(3)	(40)	(1)

- Risk adjustment: Under this permanent program, our health plans’ composite risk scores are compared with the overall average risk score for the relevant state and market pool. Generally, our health plans will make a risk transfer payment into the pool if their composite risk scores are below the average risk score, and will receive a risk transfer payment from the pool if their composite risk scores are above the average risk score. We estimate our ultimate premium based on insurance policy year-to-date experience, and recognize estimated premiums relating to the risk adjustment program as an adjustment to premium revenue in our consolidated statements of income.
- Reinsurance: This program was designed to provide reimbursement to insurers for high cost members and ended December 31, 2016; we expect to settle the outstanding receivable balance in 2017.
- Risk corridor: This program was intended to limit gains and losses of insurers by comparing allowable costs to a target amount as defined by CMS, and ended December 31, 2016; we expect to settle the outstanding payable balance in 2017.

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

Quality Incentives

At several of our health plans, revenue ranging from approximately 1% to 3% of certain health plan premiums is earned only if certain performance measures are met.

The following table quantifies the quality incentive premium revenue recognized for the periods presented, including the amounts earned in the periods presented and prior periods. Although the reasonably possible effects of a change in estimate related to quality incentive premium revenue as of March 31, 2017 are not known, we have no reason to believe that the adjustments to prior years noted below are not indicative of the potential future changes in our estimates as of March 31, 2017.

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Maximum available quality incentive premium - current period	\$ 38	\$ 40
Amount of quality incentive premium revenue recognized in current period:		
Earned current period	\$ 19	\$ 18
Earned prior periods	5	5
Total	\$ 24	\$ 23
Quality incentive premium revenue recognized as a percentage of total premium revenue	0.5%	0.6%

Income Taxes

The provision for income taxes is determined using an estimated annual effective tax rate, which is generally greater than the U.S. federal statutory rate primarily because of state taxes, nondeductible expenses such as the Health Insurer Fee (HIF), certain compensation, and other general and administrative expenses. The effective tax rate in the first quarter of 2017 decreased significantly, compared with prior year levels, due primarily to the 2017 HIF moratorium.

The effective tax rate may be subject to fluctuations during the year, particularly as a result of the level of pretax earnings, and also as new information is obtained. Such information may affect the assumptions used to estimate the annual effective tax rate, including factors such as the mix of pretax earnings in the various tax jurisdictions in which we operate, valuation allowances against deferred tax assets, the recognition or the reversal of the recognition of tax benefits related to uncertain tax positions, and changes in or the interpretation of tax laws in jurisdictions where we conduct business. We recognize deferred tax assets and liabilities for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities, along with net operating loss and tax credit carryovers.

Premium Deficiency Reserves on Loss Contracts

We assess the profitability of our medical care policies to identify groups of contracts where current operating results or forecasts indicate probable future losses. If anticipated future variable costs exceed anticipated future premiums and investment income, a premium deficiency reserve is recognized. We recorded a premium deficiency reserve of \$30 million as of December 31, 2016 relating to our Marketplace program, which decreased to \$22 million as of March 31, 2017.

Recent Accounting Pronouncements

Goodwill Impairment. In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-04, *Simplifying the Test for Goodwill Impairment*, which eliminates the requirement to calculate the implied fair value of goodwill to measure a goodwill impairment charge. Instead, an impairment charge will be the excess of the carrying amount of the reporting unit, including goodwill, over the fair value of the reporting unit. ASU 2017-04 is effective beginning January 1, 2020; early adoption is permitted for annual and interim goodwill impairment testing dates after January 1, 2017. We intend to early adopt ASU 2017-04 and will apply the provisions of this standard in our interim or annual goodwill impairment tests subsequent to January 1, 2017. We are unable to quantify the impact of adoption to future quarters because the impact of this standard is dependent on the fair value of our reporting units at the time an impairment assessment is performed.

Stock Compensation. In March 2016, the FASB issued ASU 2016-09, *Improvements to Employee Share-Based Payment Accounting*, which amends ASC Topic 718, *Compensation – Stock Compensation*. ASU 2016-09 simplifies several aspects of accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, statutory tax and classification in the statement of cash flows. We adopted ASU 2016-09 in the first quarter of 2017; such adoption did not significantly impact our consolidated financial statements in the first quarter of 2017. In addition, the prior period presentation in the statement of cash flows was not adjusted because such adjustments were insignificant. We are unable to quantify the impact of adoption to future quarters, however, because such impact is dependent on future stock prices which we cannot predict.

Leases. In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*, as modified by ASU 2017-03, *Transition and Open Effective Date Information*. Under ASU 2016-02, an entity will be required to recognize assets and liabilities for the rights and obligations created by leases on the entity's balance sheet for both finance and operating leases. For leases with a term of 12 months or less, an entity can elect to not recognize lease assets and lease liabilities and expense the lease over a straight-line basis for the term of the lease. ASU 2016-02 will require

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new disclosures that depict the amount, timing, and uncertainty of cash flows pertaining to an entity's leases. ASU 2016-02 is effective for us beginning January 1, 2019 and must be adopted using a modified retrospective approach for annual and interim periods beginning after December 15, 2018. Early adoption is permitted. Under this guidance, we will record assets and liabilities relating primarily to our long-term office leases, and are currently evaluating the effect to our consolidated financial statements.

Revenue Recognition. In May 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers (Topic 606)*. We intend to adopt this standard and the related modifications on January 1, 2018, using the modified retrospective approach. Under this approach, the cumulative effect of initially applying the guidance will be reflected as an adjustment to beginning retained earnings.

We have determined that the insurance contracts of our Health Plans segment, which comprises the vast majority of our operations, are excluded from the scope of ASU 2014-09 because the recognition of revenue under these contracts is dictated by other accounting standards governing insurance contracts.

For our Molina Medicaid Solutions segment, we have determined that certain service revenue and cost of service revenue will no longer be deferred and recognized over the service delivery period. Rather, service revenue will be recognized based on the expected cost plus gross margin method, and cost of service revenue will be recognized as incurred. As of March 31, 2017, we expect the cumulative adjustment for historical periods through March 31, 2017, to increase retained earnings by no more than \$50 million. This estimate will be updated in each quarterly and annual report until adoption. We are currently quantifying the effect of adoption in connection with our Other segment.

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

3. Net Income per Share

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

	Three Months Ended March 31,	
	2017	2016
	(In millions, except net income per share)	
Numerator:		
Net income	\$ 77	\$ 24
Denominator:		
Denominator for basic net income per share	56	55
Effect of dilutive securities:		
Share-based compensation	—	1
1.125% Warrants ⁽¹⁾	—	1
Denominator for diluted net income per share	56	57
Net income per share: ⁽²⁾		
Basic	\$ 1.38	\$ 0.44
Diluted	\$ 1.37	\$ 0.43

(1) For more information regarding the 1.125% Warrants, refer to Note 9, "Stockholders' Equity."

(2) Source data for calculations in thousands.

4. Fair Value Measurements

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

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

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

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

Derivative financial instruments include the 1.125% Call Option derivative asset and the 1.125% Conversion Option derivative liability. These derivatives are not actively traded and are valued based on an option pricing model that uses observable and unobservable market data for inputs. Significant market data inputs used to determine fair value as of March 31, 2017 included the price of our common stock, the time to maturity of the derivative instruments, the risk-free interest rate, and the implied volatility of our common stock. As described further in Note 8, "Derivatives," the 1.125% Call Option asset and the 1.125% Conversion Option liability were designed such that changes in their fair values would offset, with minimal impact to the consolidated statements of income. Therefore, the sensitivity of changes in the unobservable inputs to the option pricing model for such instruments is mitigated.

The net changes in fair value of Level 3 financial instruments were insignificant to our results of operations for the three months ended March 31, 2017.

Our financial instruments measured at fair value on a recurring basis at March 31, 2017, were as follows:

	Total	Level 1	Level 2	Level 3
	(In millions)			
Corporate debt securities	\$ 1,353	\$ —	\$ 1,353	\$ —
Government-sponsored enterprise securities (GSEs)	209	209	—	—
U.S. treasury notes	193	193	—	—
Municipal securities	152	—	152	—
Asset-backed securities	110	—	110	—
Certificates of deposit	39	—	39	—
Subtotal - current investments	2,056	402	1,654	—
1.125% Call Option derivative asset	181	—	—	181
Total assets measured at fair value on a recurring basis	<u>\$ 2,237</u>	<u>\$ 402</u>	<u>\$ 1,654</u>	<u>\$ 181</u>
1.125% Conversion Option derivative liability	\$ 181	\$ —	\$ —	\$ 181
Total liabilities measured at fair value on a recurring basis	<u>\$ 181</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 181</u>

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

	Total	Level 1	Level 2	Level 3
	(In millions)			
Corporate debt securities	\$ 1,179	\$ —	\$ 1,179	\$ —
GSEs	231	231	—	—
U.S. treasury notes	84	84	—	—
Municipal securities	142	—	142	—
Asset-backed securities	69	—	69	—
Certificates of deposit	53	—	53	—
Subtotal - current investments	1,758	315	1,443	—
1.125% Call Option derivative asset	267	—	—	267
Total assets measured at fair value on a recurring basis	<u>\$ 2,025</u>	<u>\$ 315</u>	<u>\$ 1,443</u>	<u>\$ 267</u>
1.125% Conversion Option derivative liability	\$ 267	\$ —	\$ —	\$ 267
Total liabilities measured at fair value on a recurring basis	<u>\$ 267</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 267</u>

Fair Value Measurements – Disclosure Only

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

	March 31, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
	(In millions)			
5.375% Notes	\$ 691	\$ 726	\$ 691	\$ 714
1.125% Convertible Notes	477	705	471	792
1.625% Convertible Notes	287	321	284	344
	<u>\$ 1,455</u>	<u>\$ 1,752</u>	<u>\$ 1,446</u>	<u>\$ 1,850</u>

5. Investments

Available-for-Sale Investments

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

	March 31, 2017			
	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
	(In millions)			
Corporate debt securities	\$ 1,354	\$ 1	\$ 2	\$ 1,353
GSEs	210	—	1	209
U.S. treasury notes	193	—	—	193
Municipal securities	153	—	1	152
Asset-backed securities	110	—	—	110
Certificates of deposit	39	—	—	39
	<u>\$ 2,059</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 2,056</u>

	December 31, 2016			
	Amortized Cost	Gross Unrealized		Estimated Fair Value
		Gains	Losses	
(In millions)				
Corporate debt securities	\$ 1,180	\$ 1	\$ 2	\$ 1,179
GSEs	232	—	1	231
U.S. treasury notes	84	—	—	84
Municipal securities	143	—	1	142
Asset-backed securities	69	—	—	69
Certificates of deposit	53	—	—	53
	<u>\$ 1,761</u>	<u>\$ 1</u>	<u>\$ 4</u>	<u>\$ 1,758</u>

The contractual maturities of our investments as of March 31, 2017 are summarized below:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	\$ 1,151	\$ 1,151
Due after one year through five years	872	870
Due after five years through ten years	36	35
	<u>\$ 2,059</u>	<u>\$ 2,056</u>

Gross realized gains and losses from sales of available-for-sale securities are calculated under the specific identification method and are included in investment income. Gross realized investment gains and losses for the three months ended March 31, 2017 and 2016 were insignificant.

We have determined that unrealized losses at March 31, 2017 and December 31, 2016, are temporary in nature, because the change in market value for these securities has resulted from fluctuating interest rates, rather than a deterioration of the credit worthiness of the issuers. So long as we maintain the intent and ability to hold these securities to maturity, we are unlikely to experience losses. In the event that we dispose of these securities before maturity, we expect that realized losses, if any, will be insignificant.

The following table segregates those available-for-sale investments that have been in a continuous loss position for less than 12 months, and those that have been in a loss position for 12 months or more as of March 31, 2017:

	In a Continuous Loss Position for Less than 12 Months			In a Continuous Loss Position for 12 Months or More		
	Estimated Fair Value	Unrealized Losses	Total Number of Positions	Estimated Fair Value	Unrealized Losses	Total Number of Positions
(Dollars in millions)						
Corporate debt securities	\$ 570	\$ 2	341	\$ —	\$ —	—
GSEs	200	1	83	—	—	—
Municipal securities	84	1	101	—	—	—
	<u>\$ 854</u>	<u>\$ 4</u>	<u>525</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

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, 2016:

	In a Continuous Loss Position for Less than 12 Months			In a Continuous Loss Position for 12 Months or More		
	Estimated Fair Value	Unrealized Losses	Total Number of Positions	Estimated Fair Value	Unrealized Losses	Total Number of Positions
(Dollars in millions)						
Corporate debt securities	\$ 542	\$ 2	378	\$ —	\$ —	—
GSEs	198	1	73	—	—	—
Municipal securities	101	1	129	—	—	—
	<u>\$ 841</u>	<u>\$ 4</u>	<u>580</u>	<u>\$ —</u>	<u>\$ —</u>	<u>—</u>

Held-to-Maturity Investments

Pursuant to the regulations governing our Health Plans segment subsidiaries, we maintain statutory deposits and deposits required by government authorities primarily in certificates of deposit and U.S. treasury securities. We also maintain restricted investments as protection against the insolvency of certain capitated providers. The use of these funds is limited as required by regulation in the various states in which we operate, or as needed in the event of 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.

The contractual maturities of our restricted investments, which are designated as held-to-maturity and are carried at amortized cost, which approximates fair value, as of March 31, 2017 are summarized below:

	Amortized Cost	Estimated Fair Value
	(In millions)	
Due in one year or less	\$ 97	\$ 97
Due after one year through five years	18	18
	<u>\$ 115</u>	<u>\$ 115</u>

6. Medical Claims and Benefits Payable

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

	March 31, 2017	December 31, 2016
	(In millions)	
Fee-for-service claims incurred but not paid (IBNP)	\$ 1,425	\$ 1,352
Pharmacy payable	133	112
Capitation payable	36	37
Other	332	428
	<u>\$ 1,926</u>	<u>\$ 1,929</u>

“Other” medical claims and benefits payable include amounts payable to certain providers for which we act as an intermediary on behalf of various government agencies without assuming financial risk. Such receipts and payments do not impact our consolidated statements of income. Non-risk provider payables amounted to \$131 million and \$225 million as of March 31, 2017 and December 31, 2016, respectively.

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

	Three Months Ended March 31,	
	2017	2016
	(Dollars in millions)	
Medical claims and benefits payable, beginning balance	\$ 1,929	\$ 1,685
Components of medical care costs related to:		
Current period	4,253	3,755
Prior periods	(142)	(167)
Total medical care costs	4,111	3,588
Change in non-risk provider payables	(96)	24
Payments for medical care costs related to:		
Current period	2,683	2,241
Prior periods	1,335	1,116
Total paid	4,018	3,357
Medical claims and benefits payable, ending balance	\$ 1,926	\$ 1,940
Benefit from prior period as a percentage of:		
Balance at beginning of period	7.4%	10.0%
Premium revenue, trailing twelve months	0.8%	1.2%
Medical care costs, trailing twelve months	0.9%	1.3%

Reinsurance recoverables of \$67 million and \$61 million as of March 31, 2017 and December 31, 2016, respectively, are included in receivables.

As indicated above, the amounts ultimately paid out on our medical claims and benefits payable liabilities in fiscal years 2017 and 2016 were less than what we had expected when we had established those liabilities. The differences between our original estimates and the amounts ultimately paid out (or now expected to be ultimately paid out) for the most part related to IBNP. While many related factors working in conjunction with one another serve to determine the accuracy of our estimates, we are seldom able to quantify the impact that any single factor has on a change in estimate. In addition, given the variability inherent in the reserving process, we will only be able to identify specific factors if they represent a significant departure from expectations. As a result, we do not expect to be able to fully quantify the impact of individual factors on changes in estimates.

We believe that the most significant uncertainties surrounding our IBNP estimates at March 31, 2017 are as follows:

- In the first quarter of 2017, our Marketplace enrollment across all health plans increased over 500,000 members. Due to limited insight into the cost patterns associated with this large number of new Marketplace members, our liability estimates for these members are subject to more than the usual amount of uncertainty.
- At our Florida health plan, claims receipts increased significantly over the last few months due to an increase in the receipt of secondary claims, many of which are not our liability. These claims, known as COBA (coordination of benefits agreement) claims, will either be denied or will have very small paid amounts. For this reason, claims denial rates, amounts paid per claim and other claims indicators will be impacted, making our liability estimates subject to more than the usual amount of uncertainty.
- At our Illinois health plan, we paid a large number of claims in the first quarter of 2017 that had previously been denied and disputed by providers. This has created some distortion in the payment patterns, making our liability estimates subject to more than the usual amount of uncertainty.

We recognized favorable prior period claims development in the amount of \$142 million for the three months ended March 31, 2017. This amount represents our estimate as of March 31, 2017, of the extent to which our initial estimate of medical claims and benefits payable at December 31, 2016 was more than the amount that will ultimately be paid out in satisfaction of that liability. We believe the overestimation was due primarily to the following factors:

- At our Puerto Rico health plan, we increased the outpatient claims liability at December 31, 2016 due to a significant increase in pharmacy utilization, which typically indicates that outpatient costs will also be increasing. However, our actual outpatient costs were ultimately lower than our estimates.

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- At our California health plan, we increased our claims liability at December 31, 2016 to reflect delays in the processing of paper claims. Subsequent adjudication of those claims has demonstrated that our actual additional claim costs were less than the additional amount we added to the December 31, 2016 liability estimate.
- At our Texas health plan, higher than expected claims recoveries caused our actual costs to be less than expected.

7. Debt

Substantially all of our debt is held at the parent, which is reported in the Other segment. The following table summarizes our outstanding debt obligations and their classification in the accompanying consolidated balance sheets (in millions):

	March 31, 2017	December 31, 2016
Current portion of long-term debt:		
1.125% Convertible Notes, net of unamortized discount	\$ —	\$ 477
Lease financing obligations	1	1
Debt issuance costs	—	(6)
	1	472
Senior notes:		
5.375% Notes	700	700
1.125% Convertible Notes, net of unamortized discount	482	—
1.625% Convertible Notes, net of unamortized premium and discount	289	286
Debt issuance costs	(16)	(11)
	1,455	975
Lease financing obligations	198	198
	\$ 1,654	\$ 1,645

5.375% Notes due 2022

We have outstanding \$700 million aggregate principal amount of senior notes (5.375% Notes) due November 15, 2022, unless earlier redeemed. According to their terms, the guarantees under the 5.375% Notes mirror those of the Credit Facility, defined and described below. See Note 14, "Supplemental Condensed Consolidating Financial Information," for more information on the guarantors.

Credit Facility

In January 2017, we entered into an amended unsecured \$500 million revolving credit facility (Credit Facility), referred to as the First Amendment. As of March 31, 2017, outstanding letters of credit amounting to \$6 million reduced our borrowing capacity under the Credit Facility to \$494 million. The Credit Facility has a term of five years and all amounts outstanding will be due and payable on January 31, 2022. Subject to obtaining commitments from existing or new lenders and satisfaction of other specified conditions, we may increase the Credit Facility to up to \$650 million. As of March 31, 2017, no amounts were outstanding under the Credit Facility.

In addition to increasing amounts available to borrow under the Credit Facility and extending its term, the First Amendment provided that all guarantors immediately prior to January 3, 2017, other than Molina Information Systems, LLC, d/b/a Molina Medicaid Solutions, Molina Pathways, LLC, and Pathways Health and Community Support LLC, were automatically and unconditionally released from their obligations as guarantors of the Credit Facility and the 5.375% Notes.

The Credit Facility contains customary non-financial and financial covenants, including a net leverage ratio and an interest coverage ratio. In February 2017, we entered into a second amendment to the Credit Facility (the Second Amendment) which modified the Credit Facility's definition of the earnings measure used in the financial covenant computations to a) allow us to receive credit for risk corridor payments owed to, but not received or accrued by us during 2016; and b) account for the difference between the amount of actual risk transfer payments made or accrued by us during 2016, and the amount of risk transfer payments that would have been due under the federal

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government's proposed 2018 risk adjustment payment transfer formula. At March 31, 2017, we were in compliance with all financial and non-financial covenants under the Credit Facility.

Convertible Senior Notes

We have outstanding \$550 million aggregate principal amount of 1.125% cash convertible senior notes due January 15, 2020, unless earlier repurchased or converted. We refer to these notes as our 1.125% Convertible Notes. We also have outstanding \$302 million aggregate principal amount of 1.625% convertible senior notes due August 14, 2044, unless earlier repurchased, redeemed, or converted. We refer to these notes as our 1.625% Convertible Notes. The 1.125% Convertible Notes are convertible entirely to cash, and the 1.625% Convertible Notes are convertible partially to cash, each prior to their respective maturity dates under certain circumstances, one of which relates to the closing price of our common stock over a specified period. We refer to this conversion trigger as the stock price trigger.

The stock price trigger for the 1.125% Convertible Notes is \$53.00 per share. The stock price trigger for the 1.625% Convertible Notes is \$75.51 per share. The 1.125% Convertible Notes and the 1.625% Convertible Notes did not meet their respective stock price triggers in the quarter ended March 31, 2017; therefore, they were not convertible and were reported as non-current as of March 31, 2017.

The 1.625% Convertible Notes have a contractual maturity date in 2044; however, on contractually specified dates beginning in August 2018, holders may require us to repurchase some or all of the 1.625% Convertible Notes, or we may redeem any or all of the 1.625% Convertible Notes.

Cross Default Provisions

The terms of our 5.375% Notes and each of the 1.125% and 1.625% Convertible Notes contain cross default provisions with the Credit Facility that are triggered upon an event of default under the Credit Facility, and when borrowings under the Credit Facility equal or exceed certain amounts as defined in the related indentures.

Debt Commitment Letter

In connection with the Proposed Medicare Acquisition, we entered into a debt commitment letter with Barclays Bank PLC (Barclays) in August 2016. Under this debt commitment letter, Barclays agreed to lend us up to \$400 million, subject to satisfaction of certain conditions, including consummation of the Proposed Medicare Acquisition. The debt commitment letter automatically terminated in February 2017 as a result of the termination of the Proposed Medicare Acquisition. The costs associated with the debt commitment letter and its termination were reimbursed as described in Note 1, "Basis of Presentation—Health Plans Segment Recent Developments."

8. Derivatives

The following table summarizes the fair values and the presentation of our derivative financial instruments (defined and discussed individually below) in the consolidated balance sheets:

Balance Sheet Location	March 31,	December 31,	
	2017	2016	
	(In millions)		
Derivative asset:			
1.125% Call Option	Current assets: Derivative asset	\$ —	\$ 267
	Non-current assets: Derivative asset	\$ 181	\$ —
Derivative liability:			
1.125% Conversion Option	Current liabilities: Derivative liability	\$ —	\$ 267
	Non-current liabilities: Derivative liability	\$ 181	\$ —

Our derivative financial instruments do not qualify for hedge treatment; therefore the change in fair value of these instruments is recognized immediately in our consolidated statements of income, and reported in other income, net. Gains and losses for our derivative financial instruments are presented individually in the consolidated statements of cash flows, supplemental cash flow information.

1.125% Notes Call Spread Overlay. Concurrent with the issuance of the 1.125% Convertible Notes in 2013, we entered into privately negotiated hedge transactions (collectively, the 1.125% Call Option) and warrant transactions

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(collectively, the 1.125% Warrants), with certain of the initial purchasers of the 1.125% Convertible Notes (the Counterparties). We refer to these transactions collectively as the Call Spread Overlay. Under the Call Spread Overlay, the cost of the 1.125% Call Option we purchased to cover the cash outlay upon conversion of the 1.125% Convertible Notes was reduced by proceeds from the sale of the 1.125% Warrants. Assuming full performance by the Counterparties (and 1.125% Warrants strike prices in excess of the conversion price of the 1.125% Convertible Notes), these transactions are intended to offset cash payments in excess of the principal amount of the 1.125% Convertible Notes due upon any conversion of such Notes.

1.125% Call Option. The 1.125% Call Option, which is indexed to our common stock, is a derivative asset that requires mark-to-market accounting treatment due to cash settlement features until the 1.125% Call Option settles or expires. For further discussion of the inputs used to determine the fair value of the 1.125% Call Option, refer to Note 4, "Fair Value Measurements."

1.125% Conversion Option. The embedded cash conversion option within the 1.125% Convertible Notes is accounted for separately as a derivative liability, with changes in fair value reported in our consolidated statements of income until the cash conversion option settles or expires. For further discussion of the inputs used to determine the fair value of the 1.125% Conversion Option, refer to Note 4, "Fair Value Measurements."

As of March 31, 2017, the 1.125% Call Option and the 1.125% Conversion Option were classified as a non-current asset and non-current liability, respectively, because the 1.125% Convertible Notes were not convertible as of March 31, 2017, as described in Note 7, "Debt."

9. Stockholders' Equity

Stockholders' equity increased \$78 million during the three months ended March 31, 2017 compared with stockholders' equity at December 31, 2016. The increase was due to net income of \$77 million and \$1 million of other comprehensive income.

1.125% Warrants

In connection with the Call Spread Overlay transaction described in Note 8, "Derivatives," in 2013, we issued 13,490,236 warrants with a strike price of \$53.8475 per share. Under certain circumstances, beginning in April 2020, when the price of our common stock exceeds the strike price of the 1.125% Warrants, we will be obligated to issue shares of our common stock subject to a share delivery cap. The 1.125% Warrants could separately have a dilutive effect to the extent that the market value per share of our common stock exceeds the applicable strike price of the 1.125% Warrants. Refer to Note 3, "Net Income per Share," for dilution information for the periods presented. We will not receive any additional proceeds if the 1.125% Warrants are exercised.

Stock Incentive Plans

In connection with our equity incentive plans and employee stock purchase plan, approximately 246,000 shares of common stock were purchased or vested, net of shares used to settle employees' income tax obligations, during the three months ended March 31, 2017.

As of March 31, 2017, there was \$39 million of total unrecognized compensation expense related to unvested restricted share awards, including those with performance conditions, which we expect to recognize over a remaining weighted-average period of 2.4 years. This unrecognized compensation cost assumes an estimated forfeiture rate of 3.8% for non-executive employees as of March 31, 2017.

Restricted and performance stock activity for the three months ended March 31, 2017 is summarized below:

	Restricted Shares	Performance Shares	Total	Weighted Average Grant Date Fair Value
Unvested balance as of December 31, 2016	577,244	345,656	922,900	\$ 58.15
Granted	351,214	—	351,214	49.51
Vested	(208,425)	(107,320)	(315,745)	51.88
Forfeited	(5,061)	—	(5,061)	63.71
Unvested balance as of March 31, 2017	714,972	238,336	953,308	57.02

The total fair value of restricted awards, including those with performance or market conditions, granted during the three months ended March 31, 2017 and 2016 was \$17 million and \$18 million, respectively. The total fair value of

restricted awards, including those with performance and market conditions, which vested during the three months ended March 31, 2017 and 2016 was \$16 million and \$32 million, respectively.

10. Segment Information

We have three reportable segments. These segments consist of our Health Plans segment, which comprises the vast majority of our operations; our Molina Medicaid Solutions segment; and our Other segment. Our reportable segments are consistent with how we currently manage the business and view the markets we serve.

Gross margin is the appropriate earnings measure for our reportable segments, based on how our chief operating decision maker currently reviews results, assesses performance, and allocates resources.

Gross margin for our Health Plans segment is referred to as "Medical margin," and for our Molina Medicaid Solutions and Other segments, as "Service margin." Medical margin represents the amount earned by the Health Plans segment after medical costs are deducted from premium revenue. The medical care ratio represents medical care costs as a percentage of premium revenue, and is one of the key metrics used to assess the performance of the Health Plans segment. Therefore, the underlying medical margin is the most important measure of earnings reviewed by the chief operating decision maker. The service margin is equal to service revenue minus cost of service revenue.

	Health Plans	Molina Medicaid Solutions	Other	Consolidated
	(In millions)			
Three Months Ended March 31, 2017				
Total revenue ⁽¹⁾	\$ 4,771	\$ 46	\$ 87	\$ 4,904
Gross margin	537	4	5	546
Three Months Ended March 31, 2016				
Total revenue ⁽¹⁾	4,201	52	90	4,343
Gross margin	407	6	7	420
Total Assets				
March 31, 2017	6,586	279	1,173	8,038
December 31, 2016	5,897	267	1,285	7,449

(1) Total revenue consists primarily of premium revenue, premium tax revenue and health insurer fee revenue for the Health Plans segment, and service revenue for the Molina Medicaid Solutions and Other segments. Inter-segment revenue is insignificant.

The following table reconciles gross margin by segment to consolidated income before income tax expense:

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Gross margin:		
Health Plans	\$ 537	\$ 407
Molina Medicaid Solutions	4	6
Other	5	7
Total gross margin	546	420
Add: other operating revenues ⁽¹⁾	125	208
Less: other operating expenses ⁽²⁾	(589)	(539)
Operating income	82	89
Other (income) expenses, net	(49)	25
Income before income tax expense	\$ 131	\$ 64

- (1) Other operating revenues include premium tax revenue, health insurer fee revenue, investment income and other revenue.
- (2) Other operating expenses include general and administrative expenses, premium tax expenses, health insurer fee expenses and depreciation and amortization.

11. Commitments and Contingencies

Regulatory Capital Requirements and Dividend Restrictions

Our health plans, which are operated by our respective wholly owned subsidiaries in those states, are subject to state laws and regulations that, among other things, require the maintenance of minimum levels of statutory capital, as defined by each state. Regulators in some states may also attempt to enforce capital requirements that require the retention of net worth in excess of amounts formally required by statute or regulation. Such statutes, regulations and informal capital requirements also restrict the timing, payment, and amount of dividends and other distributions that may be paid to us as the sole stockholder. To the extent our subsidiaries must comply with these regulations, they may not have the financial flexibility to transfer funds to us. Based on current statutes and regulations, 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 approximately \$1,527 million at March 31, 2017, and \$1,492 million at December 31, 2016. Because of the statutory restrictions that inhibit the ability of our health plans to transfer net assets to us, the amount of retained earnings readily available to pay dividends to our stockholders is generally limited to cash, cash equivalents and investments held by the parent company – Molina Healthcare, Inc. Such cash, cash equivalents and investments amounted to \$273 million and \$264 million as of March 31, 2017 and December 31, 2016, respectively.

The National Association of Insurance Commissioners (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 (RBC) rules which may vary from state to state. All of the states in which our health plans operate, except California, Florida and New York, have adopted these rules. Such requirements, if adopted by California, Florida and New York, may increase the minimum capital required for those states.

As of March 31, 2017, our health plans had aggregate statutory capital and surplus of approximately \$1,722 million compared with the required minimum aggregate statutory capital and surplus of approximately \$1,100 million. All of our health plans were in compliance with the minimum capital requirements at March 31, 2017. We have the ability, and have committed to provide, additional capital to each of our health plans as necessary to ensure compliance with statutory capital and surplus requirements.

Legal Proceedings

The health care and Medicaid-related 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.

Marketplace Risk Corridor Program. On January 19, 2017, we filed suit against the United States of America in the United States Court of Federal Claims, Case Number 1:55-cv-01000-UNJ, on behalf of our health plans seeking recovery from the federal government of approximately \$52 million in Marketplace risk corridor payments for calendar year 2015. Based upon current estimates, we believe our health plans are also owed approximately \$90 million in Marketplace risk corridor payments from the federal government for calendar year 2016, and a further

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nominal amount for calendar year 2014. Our lawsuit seeks recovery of all of these unpaid amounts. We have not recognized revenue, nor have we recorded a receivable, for any amount due from the federal government for unpaid Marketplace risk corridor payments as of March 31, 2017. We have fully recognized all liabilities due to the federal government that we have incurred under the Marketplace risk corridor program, and have paid all amounts due to the federal government as required.

Rodriguez v. Providence Community Corrections. On October 1, 2015, seven individuals, on behalf of themselves and all others similarly situated, filed a complaint in the District Court for the Middle District of Tennessee, Nashville Division, Case No. 3:15-cv-01048 (the Rodriguez Litigation), against Providence Community Corrections, Inc. (now known as Pathways Community Corrections, Inc., or PCC). Rutherford County, Tennessee formerly contracted with PCC for the administration of misdemeanor probation, which involved the collection of court costs and fees from probationers. The complaint alleges, among other things, that PCC illegally assessed fees and surcharges against probationers and made improper threats of arrest and probation revocation if the probationers did not pay such amounts. The plaintiffs in the Rodriguez Litigation seek alleged compensatory, treble, and punitive damages, plus attorneys' fees, for alleged federal and state constitutional violations, as well as alleged violations of the Racketeer Influenced and Corrupt Organization Act. PCC's agreement with Rutherford County terminated effective March 31, 2016. On November 1, 2015, one month after the Rodriguez Litigation commenced, we acquired PCC from The Providence Service Corporation (Providence) pursuant to a membership interest purchase agreement. In September 2016, the parties to the Rodriguez Litigation accepted a mediation proposal for settlement pursuant to which PCC would pay the plaintiffs \$14 million. The parties are in the process of finalizing the settlement agreement. We expect to recover the full amount of the settlement under the indemnification provisions of the membership interest purchase agreement with Providence.

United States of America, ex rel., Anita Silingo v. Mobile Medical Examination Services, Inc., et al. On or around October 14, 2014, Molina Healthcare of California, Molina Healthcare of California Partner Plan, Inc., Mobile Medical Examination Services, Inc. (MedXM), and other health plan defendants were served with a Complaint previously filed under seal in the Central District Court of California by Relator, Anita Silingo, Case No. SACV13-1348-FMO(SHx). The Complaint alleges that MedXM improperly modified medical records and otherwise took inappropriate steps to increase members' risk adjustment scores, and that the defendants, including Molina Healthcare of California and Molina Healthcare of California Partner Plan, Inc., purportedly turned a "blind eye" to these unlawful practices. On October 22, 2015, the Relator filed a third amended complaint, seeking general and compensatory damages, treble damages, civil penalties, plus interest and attorneys' fees. On July 11, 2016, the District Court dismissed with prejudice the third amended complaint, without leave to amend. On September 23, 2016, the plaintiff filed an appeal with the Ninth Circuit Court of Appeals. The plaintiff/appellant's opening brief was filed March 6, 2017, and the defendant/appellee's opening brief is due June 5, 2017.

States' Budgets

From time to time the states in which our health plans operate may experience financial difficulties, which could lead to delays in premium payments. For example, the state of Illinois is operating without a budget for its current fiscal year. As of March 31, 2017, our Illinois health plan served approximately 194,000 members, and recognized premium revenue of approximately \$161 million in the first quarter of 2017. As of April 28, 2017, the state of Illinois owed us approximately \$80 million for certain January, February and March 2017 premiums.

On May 3, 2017, Puerto Rico's financial oversight board filed for a form of bankruptcy in the U.S. District Court in Puerto Rico under Title III of PROMESA. The Title III provision allows for a court debt restructuring process similar to U.S. bankruptcy protection. To the extent such bankruptcy results in our failure to receive payment of amounts due under our Medicaid contract with the Commonwealth or the inability of the Commonwealth to extend our Medicaid contract at the end of its current term, such bankruptcy could have a material adverse effect on our business, financial condition, cash flows, or results of operations. As of March 31, 2017, the plan served approximately 326,000 members and recorded premium revenue of approximately \$183 million in the first quarter of 2017. As of April 28, 2017, the Commonwealth is current with its premium payments.

Employment Agreements and Severance Payments

We entered into amended and restated employment agreements with our former Chief Executive Officer (CEO) and former Chief Financial Officer (CFO) in 2016. On May 2, 2017, their employment was terminated without cause. Under the amended and restated employment agreements, subject to such former executives signing a general waiver and release agreement, they are each entitled to receive 400% of their base salary, a prorated termination bonus (150% of base salary for the former CEO and 125% of base salary for the former CFO), full vesting of equity compensation, and a cash payment for health and welfare benefits.

12. Related Party Transactions

Our California health plan has entered into a provider agreement with Pacific Healthcare IPA (Pacific), which is 50% owned by the brother-in-law of Dr. J. Mario Molina and John C. Molina. Under the terms of this provider agreement, the California health plan pays Pacific for medical care Pacific provides to health plan members. For the three months ended March 31, 2017 and 2016, the amounts paid to Pacific were insignificant.

Refer to Note 13, "Variable Interest Entities (VIEs)," for a discussion of the Joseph M. Molina, M.D. Professional Corporations.

13. Variable Interest Entities (VIEs)

The Joseph M. Molina, M.D. Professional Corporations (JMMPC) were created to further advance our direct delivery business. JMMPC's primary shareholder is Dr. J. Mario Molina, who is a member of our board of directors. Dr. Molina is paid no salary and receives no dividends in connection with his work for, or ownership of, JMMPC. JMMPC provides primary care medical services through its employed physicians and other medical professionals. JMMPC also provides certain specialty referral services to our California health plan members through a contracted provider network. Substantially all of the individuals served by JMMPC are members of our California, Florida, New Mexico, Utah and Washington health plans. These health plans have entered into primary care services agreements with JMMPC, under which the health plans paid \$31 million to JMMPC for health care services provided in each of the quarters ended March 31, 2017 and 2016. JMMPC does not have agreements to provide professional medical services with any other entities.

Separately, the primary care services agreements direct our health plans to either fund JMMPC's operating deficits, or receive JMMPC's operating surpluses, such that JMMPC will derive no profit or loss. Because the MMM services agreements described below mitigate the likelihood of significant operating deficits or surpluses, such payments are generally insignificant.

Our wholly owned subsidiary, Molina Medical Management, Inc. (MMM), has entered into services agreements with JMMPC to provide clinic facilities, clinic administrative support staff, patient scheduling services and medical supplies to JMMPC. The services agreements were designed such that JMMPC will operate at break even, ensuring the availability of quality care and access for our health plan members. The services agreements provide that the administrative fees charged to JMMPC by MMM are reviewed annually to assure the achievement of this goal. For the three months ended March 31, 2017 and 2016, JMMPC paid \$13 million and \$14 million, respectively, to MMM for clinic administrative services.

We have determined that JMMPC is a VIE, and that we are its primary beneficiary. We have reached this conclusion under the power and benefits criterion model according to GAAP. Specifically, we have the power to direct the activities (excluding clinical decisions) that most significantly affect JMMPC's economic performance, and the obligation to absorb losses or right to receive benefits that are potentially significant to the VIE, under the agreements described above. Because we are its primary beneficiary, we have consolidated JMMPC. JMMPC's assets may be used to settle only JMMPC's obligations, and JMMPC's creditors have no recourse to the general credit of Molina Healthcare, Inc. As of March 31, 2017, JMMPC had total assets of \$17 million, and total liabilities of \$17 million. As of December 31, 2016, JMMPC had total assets of \$18 million, and total liabilities of \$18 million.

Our maximum exposure to loss as a result of our involvement with JMMPC is generally limited to the amounts needed to fund JMMPC's ongoing payroll, employee benefits and medical care costs associated with JMMPC's specialty referral activities. We believe that such loss exposures will be insignificant to our consolidated operating results and cash flows for the foreseeable future.

14. Supplemental Condensed Consolidating Financial Information

The 5.375% Notes described in Note 7, "Debt," are fully and unconditionally guaranteed by certain of our 100% owned subsidiaries on a joint and several basis, with certain exceptions considered customary for such guarantees. The 5.375% Notes and the guarantees are effectively subordinated to all of our and our guarantors' existing and future secured debt to the extent of the assets securing such debt. In addition, the 5.375% Notes and the guarantees are structurally subordinated to all indebtedness and other liabilities and preferred stock, if any, of our subsidiaries that do not guarantee the 5.375% Notes.

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As discussed in Note 7, "Debt," the First Amendment to the Credit Facility provided that all guarantors immediately prior to January 3, 2017, other than Molina Information Systems, LLC, d/b/a Molina Medicaid Solutions, Molina Pathways, LLC, and Pathways Health and Community Support LLC, were automatically and unconditionally released from their obligations as guarantors under the Credit Facility and the 5.375% Notes.

The following condensed consolidating financial statements present Molina Healthcare, Inc. (as parent guarantor), the subsidiary guarantors, the subsidiary non-guarantors and eliminations, according to the guarantor structure as assessed at the most recent balance sheet date, March 31, 2017.

CONDENSED CONSOLIDATING STATEMENTS OF INCOME

Three Months Ended March 31, 2017

	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
(In millions)					
Revenue:					
Total revenue	\$ 341	\$ 48	\$ 4,857	\$ (342)	\$ 4,904
Expenses:					
Medical care costs	4	—	4,107	—	4,111
Cost of service revenue	—	42	80	—	122
General and administrative expenses	297	7	477	(342)	439
Premium tax expenses	—	—	111	—	111
Depreciation and amortization	27	—	12	—	39
Total operating expenses	328	49	4,787	(342)	4,822
Operating income (loss)	13	(1)	70	—	82
Interest expense	26	—	—	—	26
Other income, net	(75)	—	—	—	(75)
Income (loss) before income taxes	62	(1)	70	—	131
Income tax expense	31	—	23	—	54
Net income (loss) before equity in earnings of subsidiaries	31	(1)	47	—	77
Equity in net earnings of subsidiaries	46	(2)	—	(44)	—
Net income (loss)	\$ 77	\$ (3)	\$ 47	\$ (44)	\$ 77

Three Months Ended March 31, 2016

	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
(In millions)					
Revenue:					
Total revenue	\$ 251	\$ 52	\$ 4,290	\$ (250)	\$ 4,343
Expenses:					
Medical care costs	12	—	3,576	—	3,588
Cost of service revenue	—	65	62	—	127
General and administrative expenses	217	(15)	388	(250)	340
Premium tax expenses	—	—	109	—	109
Health insurer fee expenses	—	—	58	—	58
Depreciation and amortization	22	2	8	—	32
Total operating expenses	251	52	4,201	(250)	4,254
Operating income	—	—	89	—	89
Interest expense	25	—	—	—	25
(Loss) income before income taxes	(25)	—	89	—	64
Income tax (benefit) expense	(16)	—	56	—	40
Net (loss) income before equity in earnings of subsidiaries	(9)	—	33	—	24
Equity in net earnings of subsidiaries	33	2	—	(35)	—
Net income	\$ 24	\$ 2	\$ 33	\$ (35)	\$ 24

CONDENSED CONSOLIDATING STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended March 31, 2017

	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
(In millions)					
Net income (loss)	\$ 77	\$ (3)	\$ 47	\$ (44)	\$ 77
Other comprehensive income, net of tax	1	—	1	(1)	1
Comprehensive income (loss)	\$ 78	\$ (3)	\$ 48	\$ (45)	\$ 78

Three Months Ended March 31, 2016

	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
(In millions)					
Net income	\$ 24	\$ 2	\$ 33	\$ (35)	\$ 24
Other comprehensive income, net of tax	6	—	5	(5)	6
Comprehensive income	\$ 30	\$ 2	\$ 38	\$ (40)	\$ 30

CONDENSED CONSOLIDATING BALANCE SHEETS
March 31, 2017

	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
(In millions)					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 187	\$ 19	\$ 2,992	\$ —	\$ 3,198
Investments	86	—	1,970	—	2,056
Receivables	2	41	963	—	1,006
Due from (to) affiliates	155	(7)	(148)	—	—
Prepaid expenses and other current assets	53	22	67	—	142
Total current assets	483	75	5,844	—	6,402
Property, equipment, and capitalized software, net	294	47	106	—	447
Deferred contract costs	—	89	—	—	89
Goodwill and intangible assets, net	56	72	623	—	751
Restricted investments	—	—	115	—	115
Investment in subsidiaries, net	2,722	244	—	(2,966)	—
Deferred income taxes	10	—	—	—	10
Derivative asset	181	—	—	—	181
Other assets	50	3	6	(16)	43
	<u>\$ 3,796</u>	<u>\$ 530</u>	<u>\$ 6,694</u>	<u>\$ (2,982)</u>	<u>\$ 8,038</u>

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:					
Medical claims and benefits payable	\$ —	\$ —	\$ 1,926	\$ —	\$ 1,926
Amounts due government agencies	—	—	1,575	—	1,575
Accounts payable and accrued liabilities	187	39	212	—	438
Deferred revenue	—	48	413	—	461
Income taxes payable	17	(7)	11	—	21
Current portion of long-term debt	1	—	—	—	1
Total current liabilities	205	80	4,137	—	4,422
Long-term debt	1,653	—	16	(16)	1,653
Deferred income taxes	8	42	(39)	—	11
Derivative liability	181	—	—	—	181
Other long-term liabilities	22	1	21	—	44
Total liabilities	2,069	123	4,135	(16)	6,311
Total stockholders' equity	1,727	407	2,559	(2,966)	1,727
	<u>\$ 3,796</u>	<u>\$ 530</u>	<u>\$ 6,694</u>	<u>\$ (2,982)</u>	<u>\$ 8,038</u>

December 31, 2016

	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
(In millions)					
ASSETS					
Current assets:					
Cash and cash equivalents	\$ 86	\$ 6	\$ 2,727	\$ —	\$ 2,819
Investments	178	—	1,580	—	1,758
Receivables	2	34	938	—	974
Income tax refundable	17	4	18	—	39
Due from (to) affiliates	104	(5)	(99)	—	—
Prepaid expenses and other current assets	58	30	43	—	131
Derivative asset	267	—	—	—	267
Total current assets	712	69	5,207	—	5,988
Property, equipment, and capitalized software, net	301	46	107	—	454
Deferred contract costs	—	86	—	—	86
Goodwill and intangible assets, net	58	73	629	—	760
Restricted investments	—	—	110	—	110
Investment in subsidiaries, net	2,609	246	—	(2,855)	—
Deferred income taxes	10	—	—	—	10
Other assets	48	3	6	(16)	41
	<u>\$ 3,738</u>	<u>\$ 523</u>	<u>\$ 6,059</u>	<u>\$ (2,871)</u>	<u>\$ 7,449</u>
LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities:					
Medical claims and benefits payable	\$ 1	\$ —	\$ 1,928	\$ —	\$ 1,929
Amounts due government agencies	—	—	1,202	—	1,202
Accounts payable and accrued liabilities	146	34	205	—	385
Deferred revenue	—	40	275	—	315
Current portion of long-term debt	472	—	—	—	472
Derivative liability	267	—	—	—	267
Total current liabilities	886	74	3,610	—	4,570
Long-term debt	1,173	—	16	(16)	1,173
Deferred income taxes	11	39	(35)	—	15
Other long-term liabilities	19	1	22	—	42
Total liabilities	2,089	114	3,613	(16)	5,800
Total stockholders' equity	1,649	409	2,446	(2,855)	1,649
	<u>\$ 3,738</u>	<u>\$ 523</u>	<u>\$ 6,059</u>	<u>\$ (2,871)</u>	<u>\$ 7,449</u>

CONDENSED CONSOLIDATING STATEMENTS OF CASH FLOWS

	Three Months Ended March 31, 2017				
	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In millions)				
Operating activities:					
Net cash provided by operating activities	\$ 144	\$ 21	\$ 554	\$ —	\$ 719
Investing activities:					
Purchases of investments	—	—	(733)	—	(733)
Proceeds from sales and maturities of investments	92	—	341	—	433
Purchases of property, equipment and capitalized software	(18)	(5)	(3)	—	(26)
Increase in restricted investments	—	—	(7)	—	(7)
Capital contributions to/from subsidiaries	(106)	1	105	—	—
Dividends to/from subsidiaries	50	—	(50)	—	—
Change in amounts due to/from affiliates	(60)	2	58	—	—
Other, net	—	(6)	—	—	(6)
Net cash used in investing activities	(42)	(8)	(289)	—	(339)
Financing activities:					
Proceeds from employee stock plans	1	—	—	—	1
Other, net	(2)	—	—	—	(2)
Net cash used in financing activities	(1)	—	—	—	(1)
Net increase in cash and cash equivalents	101	13	265	—	379
Cash and cash equivalents at beginning of period	86	6	2,727	—	2,819
Cash and cash equivalents at end of period	\$ 187	\$ 19	\$ 2,992	\$ —	\$ 3,198

	Three Months Ended March 31, 2016				
	Parent Guarantor	Other Guarantors	Non-Guarantors	Eliminations	Consolidated
	(In millions)				
Operating activities:					
Net cash (used in) provided by operating activities	\$ (38)	\$ 23	\$ 154	\$ —	\$ 139
Investing activities:					
Purchases of investments	(35)	—	(576)	—	(611)
Proceeds from sales and maturities of investments	10	—	338	—	348
Purchases of property, equipment and capitalized software	(28)	(14)	(4)	—	(46)
Increase in restricted investments	—	—	(4)	—	(4)
Net cash paid in business combinations	—	(1)	(1)	—	(2)
Capital contributions to/from subsidiaries	(36)	2	34	—	—
Change in amounts due to/from affiliates	23	(5)	(18)	—	—
Other, net	6	(5)	—	—	1
Net cash used in investing activities	(60)	(23)	(231)	—	(314)
Financing activities:					
Other, net	2	—	—	—	2
Net cash provided by financing activities	2	—	—	—	2
Net decrease in cash and cash equivalents	(96)	—	(77)	—	(173)
Cash and cash equivalents at beginning of period	360	13	1,956	—	2,329
Cash and cash equivalents at end of period	\$ 264	\$ 13	\$ 1,879	\$ —	\$ 2,156

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (MD&A)

FORWARD LOOKING STATEMENTS

This quarterly report on Form 10-Q contains forward-looking statements regarding our business, financial condition, and results of operations within the meaning of Section 27A of the Securities Act of 1933, or Securities Act, and Section 21E of the Securities Exchange Act of 1934, or Securities Exchange Act. We intend such forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995, and we are including this statement for purposes of complying with these safe harbor provisions. All statements, other than statements of historical facts, included in this quarterly report may be deemed to be forward-looking statements for purposes of the Securities Act and the Securities Exchange Act. Without limiting the foregoing, we use the words "anticipate(s)," "believe(s)," "estimate(s)," "expect(s)," "intend(s)," "may," "plan(s)," "project(s)," "will," "would," "could," "should" and similar expressions to identify forward-looking statements, although not all forward-looking statements contain these identifying words. We cannot guarantee that we will actually achieve the plans, intentions, or expectations disclosed in our forward-looking statements and, accordingly, you should not place undue reliance on our forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from the forward-looking statements that we make. You should read these factors and the other cautionary statements as being applicable to all related forward-looking statements wherever they appear in this quarterly report. We caution you that we do not undertake any obligation to update forward-looking statements made by us. Forward-looking statements involve known and unknown risks and uncertainties that may cause our actual results in future periods to differ materially from those projected, estimated, expected, or contemplated. Those known risks and uncertainties include, but are not limited to, the following:

- *the success of our profit improvement and cost-cutting initiatives;*
- *the numerous political and market-based uncertainties associated with the Affordable Care Act (the "ACA") or "Obamacare," including any potential repeal and replacement of the law, amendment of the law, or move to state block grants for Medicaid;*
- *the market dynamics surrounding the ACA Marketplaces, including but not limited to uncertainties associated with risk transfer requirements, the potential for disproportionate enrollment of higher acuity members, the withdrawal of cost sharing subsidies and/or premium tax credits, the adequacy of agreed rates, and potential disruption associated with market withdrawal;*
- *subsequent adjustments to reported premium revenue based upon subsequent developments or new information, including changes to estimated amounts payable or receivable related to Marketplace risk adjustment/risk transfer, risk corridors, and reinsurance;*
- *management of our medical costs, including our ability to reduce over time the high medical costs commonly associated with new patient populations;*
- *our ability to predict with a reasonable degree of accuracy utilization rates, including utilization rates in new plans, geographies, and programs where we have less experience with patient and provider populations, and also including utilization rates associated with seasonal flu patterns or other newly emergent diseases;*
- *significant budget pressures on state governments and their potential inability to maintain current rates, to implement expected rate increases, or to maintain existing benefit packages or membership eligibility thresholds or criteria, including the resolution of the Illinois budget impasse and continued payment of all amounts due to our Illinois health plan;*
- *the success of our efforts to retain existing government contracts, including those in Illinois, Washington, Florida, Texas, and New Mexico, and to obtain new government contracts in connection with state requests for proposals (RFPs) in both existing and new states;*
- *the impact of the recent changes to our executive leadership team;*
- *our ability to manage growth, including maintaining and creating adequate internal systems and controls relating to authorizations, approvals, provider payments, and the overall success of our care management initiatives;*
- *our ability to consummate and realize benefits from acquisitions, and to integrate acquisitions;*

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- *our receipt of adequate premium rates to support increasing pharmacy costs, including costs associated with specialty drugs and costs resulting from formulary changes that allow the option of higher-priced non-generic drugs;*
- *our ability to operate profitably in an environment where the trend in premium rate increases lags behind the trend in increasing medical costs;*
- *the interpretation and implementation of federal or state medical cost expenditure floors, administrative cost and profit ceilings, premium stabilization programs, profit sharing arrangements, and risk adjustment provisions;*
- *our estimates of amounts owed for such cost expenditure floors, administrative cost and profit ceilings, premium stabilization programs, profit-sharing arrangements, and risk adjustment provisions;*
- *the Medicaid expansion cost corridors in California, New Mexico and Washington, and any other retroactive adjustment to revenue where methodologies and procedures are subject to interpretation or dependent upon information about the health status of participants other than Molina members;*
- *the interpretation and implementation of at-risk premium rules and state contract performance requirements regarding the achievement of certain quality measures, and our ability to recognize revenue amounts associated therewith;*
- *cyber-attacks or other privacy or data security incidents resulting in an inadvertent unauthorized disclosure of protected health information;*
- *the success of our health plan in Puerto Rico, including the resolution of the Puerto Rico debt crisis, any impact of Puerto Rico's filing for bankruptcy protection under the PROMESA law, payment of all amounts due under our Medicaid contract, the effect of the PROMESA law, and our efforts to better manage the health care costs of our Puerto Rico health plan;*
- *the success and renewal of our duals demonstration programs in California, Illinois, Michigan, Ohio, South Carolina, and Texas;*
- *the accurate estimation of incurred but not reported or paid medical costs across our health plans;*
- *efforts by states to recoup previously paid and recognized premium amounts;*
- *the continuation and renewal of the government contracts of our health plans, Molina Medicaid Solutions, and Pathways, and the terms under which such contracts are renewed;*
- *complications, member confusion, or enrollment backlogs related to the annual renewal of Medicaid coverage;*
- *government audits and reviews, or potential investigations, and any fine, sanction, enrollment freeze, monitoring program, or premium recovery that may result therefrom;*
- *changes with respect to our provider contracts and the loss of providers;*
- *approval by state regulators of dividends and distributions by our health plan subsidiaries;*
- *changes in funding under our contracts as a result of regulatory changes, programmatic adjustments, or other reforms;*
- *high dollar claims related to catastrophic illness;*
- *the favorable resolution of litigation, arbitration, or administrative proceedings;*
- *the relatively small number of states in which we operate health plans;*
- *the availability of adequate financing on acceptable terms to fund and capitalize our expansion and growth, repay our outstanding indebtedness at maturity and meet our liquidity needs, including the interest expense and other costs associated with such financing;*
- *our failure to comply with the financial or other covenants in our credit agreement or the indentures governing our outstanding notes;*
- *the sufficiency of our funds on hand to pay the amounts due upon conversion or maturity of our outstanding notes;*
- *the failure of a state in which we operate to renew its federal Medicaid waiver;*
- *changes generally affecting the managed care or Medicaid management information systems industries;*
- *increases in government surcharges, taxes, and assessments, including but not limited to the deductibility of certain compensation costs;*
- *newly emergent viruses or widespread epidemics, public catastrophes or terrorist attacks, and associated public alarm; and*
- *increasing competition and consolidation in the Medicaid industry.*

Investors should refer to the section entitled "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016 and the section entitled "Risk Factors" in this Quarterly Report on Form 10-Q, for a discussion of certain risk factors that could materially affect our business, financial condition, cash flows, or results of operations. Given these risks and uncertainties, we can give no assurance that any results or events projected or contemplated by our forward-looking statements will in fact occur.

This document and the following discussion of our financial condition and results of operations should be read in conjunction with the accompanying consolidated financial statements and the notes to those statements appearing elsewhere in this report, and the audited financial statements and Management's Discussion and Analysis appearing in our Annual Report on Form 10-K for the year ended December 31, 2016.

ABOUT MOLINA HEALTHCARE

Molina Healthcare, Inc. provides quality managed health care to people receiving government assistance. We offer cost-effective Medicaid-related solutions to meet the health care needs of low-income families and individuals, and to assist government agencies in their administration of the Medicaid program. We have three reportable segments. These segments consist of our Health Plans segment, which comprises the vast majority of our operations; our Molina Medicaid Solutions segment; and our Other segment.

OUR GOAL IS TO ACHIEVE OUR MISSION WHILE IMPROVING THE FINANCIAL STRENGTH OF OUR ORGANIZATION.

Non-GAAP Financial Measures

We use non-GAAP financial measures as supplemental metrics in evaluating our financial performance, making financing and business decisions, and forecasting and planning for future periods. For these reasons, management believes such measures are useful supplemental measures to investors in comparing our performance to the performance of other public companies in the health care industry. These non-GAAP financial measures should be considered as supplements to, and not as substitutes for or superior to, GAAP measures.

See further information regarding non-GAAP measures in the "Supplemental Information" section of this MD&A, including the reconciliations to U.S. GAAP. Non-GAAP financial measures referred to in this report are designated with an asterisk (*).

How We Assess Performance

We derive our revenues primarily from health insurance premiums, and our primary customers are state Medicaid agencies and the federal government.

One of the key metrics used to assess the performance of our most significant segment, the Health Plans segment, is the medical care ratio, or MCR. The medical care ratio represents medical care costs as a percentage of premium revenue. Therefore, the underlying gross margin, or the amount earned by the Health Plans segment after medical costs are deducted from premium revenue, is the most important measure of earnings reviewed by management.

Gross margin for our Health Plans segment is referred to as "Medical margin," and for our Molina Medicaid Solutions and Other segments, as "Service margin." The service margin is equal to service revenue minus cost of service revenue. Management's discussion and analysis of the changes in the individual components of gross margin, by reportable segment, is presented in the "Reportable Segments" section of this MD&A.

KEY PERFORMANCE INDICATORS

	Three Months Ended March 31,	
	2017	2016
	<i>(Dollar amounts in millions, except per-share amounts)</i>	
Net income	\$ 77	\$ 24
Net income per diluted share	\$ 1.37	\$ 0.43
MCR ⁽¹⁾	88.4%	89.8%
G&A ratio ⁽²⁾	8.9%	7.8%
Premium tax ratio ⁽¹⁾	2.3%	2.6%
Effective tax rate	41.6%	61.7%
Net profit margin ⁽²⁾	1.6%	0.6%
Net profit margin excluding acquisition termination fee ⁽²⁾	0.6%	0.6%
EBITDA*	\$ 203	\$ 126
Adjusted net income*	\$ 83	\$ 29
Adjusted net income per diluted share*	\$ 1.47	\$ 0.51

(1) MCR represents medical care costs as a percentage of premium revenue; premium tax ratio represents premium tax expenses as a percentage of premium revenue plus premium tax revenue.

(2) G&A ratio represents general and administrative expenses as a percentage of total revenue. Net profit margin represents net income as a percentage of total revenue. Net profit margin excluding acquisition termination fee represents net income excluding the acquisition termination fee (net of income taxes at our blended federal and state statutory tax rate of 37%), as a percentage of total revenue.

CONSOLIDATED RESULTS

First Quarter 2017 Compared with First Quarter 2016

Net income per diluted share increased to \$1.37 in the first quarter of 2017 compared with \$0.43 reported for the first quarter of 2016. Adjusted net income per diluted share* increased to \$1.47 in the first quarter of 2017, compared with \$0.51 in the first quarter of 2016. Income before income taxes increased \$67 million to \$131 million in the first quarter of 2017 from \$64 million in the first quarter of 2016.

First quarter financial performance was affected by the following developments. See further discussion of these items below in “Health Plans—Financial Performance by Program,” and “Other Consolidated Information.”

- As previously reported, we received a payment of \$75 million relating to the termination of a proposed Medicare acquisition, which was recorded as other income in the first quarter of 2017.
- The performance of our Marketplace program was consistent with management’s expectations. See below for further discussion regarding Marketplace premium deficiency reserves.
- The performance of our combined Medicaid and Medicare programs was consistent with management’s expectations, with the exception of the unfavorable prior-period development of medical claims liabilities in Illinois discussed below.
- The G&A ratio was 8.9% in the first quarter of 2017, compared with 7.8% in the first quarter of 2016.
- The effective tax rate in the first quarter of 2017, while consistent with our previously announced full year 2017 Outlook, dropped substantially from prior year levels due primarily to the 2017 HIF moratorium.

TRENDS AND UNCERTAINTIES

ACA and the Marketplace

The future of the Affordable Care Act (ACA) and its underlying programs, including the Marketplace, are subject to substantial uncertainty. We are unable to predict with any degree of certainty whether the ACA will be modified or repealed in its entirety, and if it is repealed, what will replace it. Nor are we able to predict when any such changes, if enacted, would become effective.

We continue to advocate for federal policies to stabilize the Marketplace program. We have not committed to operating in the Marketplace in 2018.

Medicaid Contract Re-Procurement

The following table illustrates Health Plans segment Medicaid contracts scheduled for re-procurement in the near term. While we have been notified of the Medicaid regulators' intention to re-procure the contracts, the anticipated award dates and effective dates are management's current best estimates. Such dates are subject to change and, in some cases, not yet known to us. Premium revenue is stated in millions.

State Health Plan	Medicaid Program(s)	Membership as of March 31, 2017	Premium Revenue		Anticipated	
			Three Months Ended March 31, 2017		Award Date	Effective Date
Florida	All	358,000	\$	356	Q1 2018	1/1/2019
Illinois	All	189,000		92	Q3 2017	1/1/2018
New Mexico	All	236,000		297	Q1 2018	1/1/2019
Puerto Rico	All	326,000		183	Unknown	7/1/2018
Texas	ABD	86,000		347	Q4 2017	1/1/2019
Texas	CHIP	26,000		10	Q4 2017	9/1/2018
Washington	All - North Central Region	40,000		24	Q2 2017	1/1/2018

REPORTABLE SEGMENTS

SEGMENT SUMMARY

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Segment gross margin:		
Health Plans medical margin ⁽¹⁾	\$ 537	\$ 407
Molina Medicaid Solutions service margin ⁽²⁾	4	6
Other ⁽²⁾	5	7
Total segment gross margin	546	420
Other operating revenues ⁽³⁾	125	208
Other operating expenses ⁽⁴⁾	(589)	(539)
Operating income	82	89
Other (income) expenses, net	(49)	25
Income before income tax expense	131	64
Income tax expense	54	40
Net income	\$ 77	\$ 24

(1) Represents premium revenue minus medical care costs.

(2) Represents service revenue minus cost of service revenue.

(3) Other operating revenues include premium tax revenue, health insurer fee revenue, investment income and other revenue.

(4) Other operating expenses include general and administrative expenses, premium tax expenses, health insurer fee expenses and depreciation and amortization.

HEALTH PLANS

The Health Plans segment consists of health plans in 12 states and the Commonwealth of Puerto Rico, and includes our direct delivery business. As of March 31, 2017, these health plans served approximately 4.8 million

members eligible for Medicaid, Medicare, and other government-sponsored health care programs for low-income families and individuals. This membership includes Affordable Care Act Marketplace (Marketplace) members, most of whom receive government premium subsidies.

RECENT DEVELOPMENTS

Refer to Notes to Consolidated Financial Statements, Note 1, “Basis of Presentation” and Note 11, “Commitments and Contingencies—Employment Agreements and Severance Payments.”

BUSINESS OVERVIEW

Health Plans Membership

The following tables set forth our Health Plans membership as of the dates indicated:

	March 31, 2017	December 31, 2016	March 31, 2016
Ending Membership by Program:			
Temporary Assistance for Needy Families (TANF) and Children’s Health Insurance Program (CHIP)	2,548,000	2,536,000	2,485,000
Marketplace	1,035,000	526,000	630,000
Medicaid Expansion	684,000	673,000	632,000
Aged, Blind or Disabled (ABD)	401,000	396,000	380,000
Medicare-Medicaid Plan (MMP) – Integrated ⁽¹⁾	55,000	51,000	50,000
Medicare Special Needs Plans (Medicare)	43,000	45,000	43,000
	<u>4,766,000</u>	<u>4,227,000</u>	<u>4,220,000</u>
Ending Membership by Health Plan:			
California	765,000	683,000	676,000
Florida	711,000	553,000	576,000
Illinois	194,000	195,000	206,000
Michigan	417,000	391,000	399,000
New Mexico	270,000	254,000	246,000
New York ⁽²⁾	34,000	35,000	—
Ohio	351,000	332,000	336,000
Puerto Rico	326,000	330,000	339,000
South Carolina	111,000	109,000	102,000
Texas	493,000	337,000	380,000
Utah	172,000	146,000	151,000
Washington	785,000	736,000	672,000
Wisconsin	137,000	126,000	137,000
	<u>4,766,000</u>	<u>4,227,000</u>	<u>4,220,000</u>

(1) MMP members receive both Medicaid and Medicare coverage from Molina Healthcare.

(2) The New York health plan was acquired on August 1, 2016.

Premiums by Program

The amount of the premiums paid to our health plans may vary substantially between states and among various government programs. The following table sets forth the ranges of premiums paid to our state health plans by program on a per member per month (PMPM) basis, for the three months ended March 31, 2017. The "Consolidated" column represents the weighted-average amounts for our total membership by program.

	PMPM Premiums		
	Low	High	Consolidated
TANF and CHIP	\$ 120.00	\$ 320.00	\$ 180.00
Marketplace	150.00	450.00	260.00
Medicaid Expansion	310.00	520.00	400.00
ABD	360.00	1,510.00	1,010.00
MMP – Integrated	1,100.00	3,240.00	2,090.00
Medicare	840.00	1,200.00	1,070.00

FINANCIAL OVERVIEW

In the first quarter of 2017, premium revenue increased by approximately 16%, or \$653 million, when compared with the first quarter of 2016. Member months grew by 14% while revenue PMPM increased by 2%.

Medical care costs as a percent of premium revenue decreased to 88.4% in the first quarter of 2017 from 89.8% in the first quarter of 2016. Medical margin increased 32% in the first quarter of 2017 over the first quarter of 2016.

FINANCIAL PERFORMANCE BY PROGRAM

The following tables summarize member months, premium revenue, medical care costs, medical care ratio and medical margin by program for the periods indicated (PMPM amounts are in whole dollars; member months and other dollar amounts are in millions):

	Three Months Ended March 31, 2017						
	Member Months ⁽¹⁾	Premium Revenue		Medical Care Costs		MCR ⁽²⁾	Medical Margin
		Total	PMPM	Total	PMPM		
TANF and CHIP	7.7	\$ 1,402	\$ 182.69	\$ 1,304	\$ 170.02	93.1%	\$ 98
Medicaid Expansion	2.0	817	398.70	689	336.51	84.4	128
ABD	1.2	1,196	1,006.84	1,130	951.32	94.5	66
Total Medicaid	10.9	3,415	312.98	3,123	286.35	91.5	292
MMP	0.2	344	2,088.96	307	1,859.41	89.0	37
Medicare	0.1	138	1,068.20	117	902.67	84.5	21
Total Medicare	0.3	482	1,640.63	424	1,439.20	87.7	58
Excluding Marketplace	11.2	3,897	347.84	3,547	316.62	91.0	350
Marketplace	2.9	751	262.16	564	196.72	75.0	187
	14.1	\$ 4,648	\$ 330.39	\$ 4,111	\$ 292.20	88.4%	\$ 537

Three Months Ended March 31, 2016

	Member Months ⁽¹⁾	Premium Revenue		Medical Care Costs		MCR ⁽²⁾	Medical Margin
		Total	PMPM	Total	PMPM		
TANF and CHIP	7.4	\$ 1,324	\$ 178.47	\$ 1,198	\$ 161.46	90.5%	\$ 126
Medicaid Expansion	1.9	679	365.11	574	308.30	84.4	105
ABD	1.2	1,112	961.49	1,041	899.79	93.6	71
Total Medicaid	10.5	3,115	298.51	2,813	269.42	90.3	302
MMP	0.1	340	2,220.68	317	2,070.23	93.2	23
Medicare	0.1	131	1,029.10	124	980.49	95.3	7
Total Medicare	0.2	471	1,681.57	441	1,577.21	93.8	30
Excluding Marketplace	10.7	3,586	334.62	3,254	303.59	90.7	332
Marketplace	1.6	409	251.85	334	205.86	81.7	75
	12.3	\$ 3,995	\$ 323.73	\$ 3,588	\$ 290.74	89.8%	\$ 407

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

(2) "MCR" represents medical costs as a percentage of premium revenue.

Medicaid: TANF/CHIP, Medicaid Expansion and ABD

The medical care ratios of the combined TANF/CHIP, Medicaid Expansion and ABD programs increased to 91.5% in the first quarter of 2017 from 90.3% in the first quarter of 2016. The medical care ratios of these programs for the first quarters of both 2017 and 2016 were affected by out-of-period items. During the first quarter of 2017, we recognized approximately \$20 million of medical costs at the Illinois health plan related to dates of service in 2016. During the first quarter of 2016, we recognized approximately \$18 million of revenue at the Florida health plan related to dates of service in 2015. Absent these items, the MCR for the combined Medicaid programs was approximately 91% for the first quarters of both 2017 and 2016. Although increases in the utilization of services by these members were modest between the first quarter of 2016 and 2017, pharmacy costs increased.

MMP and Medicare

The medical care ratio for these programs, in the aggregate, decreased in the first quarter of 2017 when compared to the first quarter of 2016, partially as a result of lower hospital utilization.

Marketplace

Member months increased 77% in the first quarter of 2017, when compared with the first quarter of 2016, as a result of membership growth primarily in California, Florida and Texas. The medical care ratios of the Marketplace program for the first quarters of both 2017 and 2016 were affected by out-of-period items. In the first quarter of 2017, we recognized a decrease to medical expense of \$8 million as a result of a reduction to the premium deficiency reserve established for the Marketplace program at December 31, 2016. The reserve, which was \$30 million at December 31, 2016, decreased to \$22 million as of March 31, 2017. In the first quarter of 2016, we recognized out-of-period items that reduced medical margin by \$30 million. Absent these items, the medical care ratio for the Marketplace program was approximately 76% for the first quarters of both 2017 and 2016.

FINANCIAL PERFORMANCE BY STATE

The following tables summarize member months, premium revenue, medical care costs, medical care ratio, and medical margin by state health plan for the periods indicated (PMPM amounts are in whole dollars; member months and other dollar amounts are in millions):

Three Months Ended March 31, 2017

	Member Months	Premium Revenue		Medical Care Costs		MCR	Medical Margin
		Total	PMPM	Total	PMPM		
California	2.2	\$ 644	\$ 286.92	\$ 510	\$ 227.19	79.2%	\$ 134
Florida	2.1	656	316.86	558	269.33	85.0	98
Illinois	0.6	161	276.58	180	310.08	112.1	(19)
Michigan	1.3	393	316.80	339	273.36	86.3	54
New Mexico	0.8	330	406.90	318	392.72	96.5	12
New York ⁽¹⁾	0.1	46	441.19	42	409.63	92.8	4
Ohio	1.1	541	516.00	479	457.14	88.6	62
Puerto Rico	1.0	183	186.51	165	168.18	90.2	18
South Carolina	0.3	105	317.07	98	293.34	92.5	7
Texas	1.4	684	486.96	602	428.55	88.0	82
Utah	0.5	134	264.73	123	242.57	91.6	11
Washington	2.3	642	274.74	581	248.40	90.4	61
Wisconsin	0.4	127	311.30	108	264.53	85.0	19
Other ⁽²⁾	—	2	—	8	—	—	(6)
	14.1	\$ 4,648	\$ 330.39	\$ 4,111	\$ 292.20	88.4%	\$ 537

Three Months Ended March 31, 2016

	Member Months	Premium Revenue		Medical Care Costs		MCR	Medical Margin
		Total	PMPM	Total	PMPM		
California	2.0	\$ 541	\$ 273.42	\$ 469	\$ 236.92	86.7%	\$ 72
Florida	1.6	489	295.42	413	249.45	84.4	76
Illinois	0.6	149	267.10	132	236.76	88.6	17
Michigan	1.2	387	320.14	347	287.34	89.8	40
New Mexico	0.7	336	449.52	296	394.77	87.8	40
New York ⁽¹⁾	—	—	—	—	—	—	—
Ohio	1.0	488	489.14	449	450.11	92.0	39
Puerto Rico	1.0	181	176.85	174	170.43	96.4	7
South Carolina	0.3	84	275.97	67	220.78	80.0	17
Texas	1.1	620	580.81	575	538.91	92.8	45
Utah	0.4	114	264.62	102	235.88	89.1	12
Washington	2.0	506	255.41	458	231.18	90.5	48
Wisconsin	0.4	97	250.36	92	238.01	95.1	5
Other ⁽²⁾	—	3	—	14	—	—	(11)
	12.3	\$ 3,995	\$ 323.73	\$ 3,588	\$ 290.74	89.8%	\$ 407

(1) The New York health plan was acquired on August 1, 2016.

(2) "Other" medical care costs include primarily medically related administrative costs of the parent company, and direct delivery costs.

MEDICAL CARE COSTS BY TYPE

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

	Three Months Ended March 31,					
	2017			2016		
	Amount	PMPM	% of Total	Amount	PMPM	% of Total
Fee for service	\$ 3,086	\$ 219.32	75.1%	\$ 2,737	\$ 221.77	76.3%
Pharmacy	616	43.76	15.0	525	42.53	14.6
Capitation	324	23.06	7.9	295	23.87	8.2
Direct delivery	22	1.58	0.5	16	1.34	0.5
Other	63	4.48	1.5	15	1.23	0.4
	<u>\$ 4,111</u>	<u>\$ 292.20</u>	<u>100.0%</u>	<u>\$ 3,588</u>	<u>\$ 290.74</u>	<u>100.0%</u>

PREMIUM TAXES

The premium tax ratio (premium tax expense as a percentage of premium revenue plus premium tax revenue) was 2.3% in the first quarter of 2017 compared with 2.6% in the first quarter of 2016. This decline was primarily due to the temporary suspension of a Michigan HMO use tax effective January 1, 2017 which was partially offset by a higher California premium tax rate effective July 1, 2016, and significant revenue growth at our Florida health plan, which operates in a state with no premium tax.

HEALTH INSURER FEE (HIF) REVENUE AND EXPENSES

The Consolidated Appropriations Act of 2016 provided for a HIF moratorium in 2017. Therefore, there are no HIF revenues or expenses in 2017.

MOLINA MEDICAID SOLUTIONS

The Molina Medicaid Solutions segment provides support to state government agencies in the administration of their Medicaid programs, including business processing, information technology development and administrative services.

FINANCIAL OVERVIEW

The Molina Medicaid Solutions segment service margin for the three months ended March 31, 2017 and 2016 was insignificant.

OTHER

The Other segment includes primarily our Pathways behavioral health and social services provider, and corporate amounts not allocated to other reportable segments.

Substantially all of Pathways' revenue is derived from contracts with state or local government agencies and government intermediaries, the majority of which are negotiated fee-for-service arrangements. A significant number of these contracts allow the payer to terminate the contract immediately with or without cause.

FINANCIAL OVERVIEW

The Other segment service margin for the three months ended March 31, 2017 and 2016 was insignificant.

OTHER CONSOLIDATED INFORMATION

GENERAL AND ADMINISTRATIVE EXPENSES

The G&A ratio was 8.9% in the first quarter of 2017, compared with 7.8% in the first quarter of 2016. The G&A ratio increased over 2016 primarily due to: 1) increased investment in systems and infrastructure; 2) employee bonuses recorded in 2017 but not in 2016; 3) costs associated with increased Marketplace enrollment in 2017; and 4) the reduction to revenue as a result of the 2017 Health Insurer Fee (HIF) moratorium. We expect our 2017 G&A ratio to be negatively impacted by the severance payments due to our former chief executive officer and former chief financial officer. See Notes to Consolidated Financial Statements, Note 11, "Commitments and Contingencies—Employment Agreements and Severance Payments."

DEPRECIATION AND AMORTIZATION

Depreciation and amortization, as a percentage of total revenue, was 0.8% in the first quarter of 2017 and 2016.

INTEREST EXPENSE

Interest expense was \$26 million for the first quarter of 2017, compared with \$25 million for the first quarter of 2016. Interest expense includes non-cash interest expense relating primarily to the amortization of the discount on convertible senior notes, which amounted to \$8 million for both the three months ended March 31, 2017 and 2016.

OTHER INCOME, NET

As described in Notes to Consolidated Financial Statements, Note 1, "Basis of Presentation," in February 2017, the Proposed Medicare Acquisition was terminated by the parties pursuant to the terms of the transaction. Under the termination agreement, we received an aggregate termination fee of \$75 million.

INCOME TAXES

The provision for income taxes was recorded at an effective rate of 41.6% for the first quarter of 2017, compared with 61.7% for the first quarter of 2016. The significant decline in the effective tax rate was primarily a result of 2017 HIF moratorium as described above in "Health Plans—Health Insurer Fee (HIF) Revenue and Expenses." Management expects the effective tax rate to be approximately 42% for all of 2017.

LIQUIDITY AND FINANCIAL CONDITION

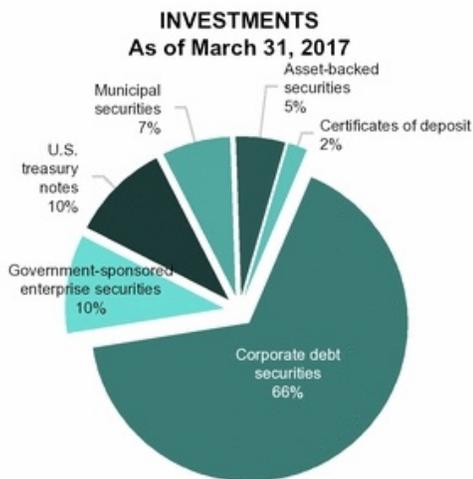
INTRODUCTION

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

A majority of the assets held by our Health Plans segment regulated subsidiaries is in the form of cash, cash equivalents, and investments. After considering expected cash flows from operating activities, we generally invest cash of regulated subsidiaries that exceeds our expected short-term obligations in longer term, investment-grade, and marketable debt securities to improve our overall investment return. These investments are made pursuant to board-approved investment policies that conform to applicable state laws and regulations.

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Our investments are classified as current assets, except for our restricted investments, which are classified as non-current assets, and which are not included in the totals below. Our restricted investments are invested principally in certificates of deposit and U.S. treasury securities. We have the ability to hold our restricted investments until maturity.



Investment income increased to \$10 million for the three months ended March 31, 2017, compared with \$8 million for the three months ended March 31, 2016, primarily due to the increase in invested assets.

MARKET RISK

Our earnings and financial position are exposed to financial market risk relating changes in interest rates, and the resulting impact on investment income and interest expense.

Substantially all of our investments and restricted investments are subject to interest rate risk and will decrease in value if market interest rates increase. Assuming a hypothetical and immediate 1% increase in market interest rates at March 31, 2017, the fair value of our fixed income investments would decrease by approximately \$22 million. Declines in interest rates over time will reduce our investment income.

For further information on fair value measurements and our investment portfolio, please refer to Note 4, "Fair Value Measurements," and Note 5, "Investments."

Borrowings under our Credit Facility bear interest based, at our election, on a base rate or an adjusted London Interbank Offered Rate (LIBOR), plus in each case the applicable margin. As of March 31, 2017, no amounts were outstanding under the Credit Facility.

LIQUIDITY

A condensed schedule of cash flows to facilitate our discussion of liquidity follows:

	Three Months Ended March 31,		
	2017	2016	Change
	(In millions)		
Net cash provided by operating activities	\$ 719	\$ 139	\$ 580
Net cash used in investing activities	(339)	(314)	(25)
Net cash (used in) provided by financing activities	(1)	2	(3)
Net increase (decrease) in cash and cash equivalents	\$ 379	\$ (173)	\$ 552

Operating Activities

Cash provided by operating activities increased \$580 million in the three months ended March 31, 2017 compared with the three months ended March 31, 2016, primarily due to the following:

Receivables and deferred revenue. In 2017, the aggregate change in receivables and deferred revenue increased cash flows from operations by \$509 million. Cash flows from operations in each quarter were impacted by the timing premium revenues receipts. In general, state or federal payors may delay our premium payments, which we record as a receivable, or they may prepay the following month's premium payment, which we record as deferred revenue. We typically receive capitation payments monthly; however, state or federal payors may decide to adjust their payment schedules which could positively or negatively impact our reported cash flows from operating activities in a any given period. In the current quarter, the year-over-year effect of the timing of premiums received at our Florida, Michigan, Ohio, Texas and Washington health plans positively impacted our cash flows from operating activities.

Medical claims and benefits payable. In 2017, the change in medical claims and benefits payable reduced cash flows from operations by \$258 million. Reserves for incurred but not paid claims (IBNP) grew at a faster rate in the first quarter of 2016 than in the first quarter of 2017. In addition to the change in IBNP, provider payables, including pass-through amounts, declined in the first quarter of 2017 compared with the first quarter of 2016 primarily due to the timing of payments.

Amounts due government agencies. In 2017, the change in amounts due government agencies increased cash flows from operations by \$192 million, due primarily to additional accruals for ACA Marketplace risk transfer payments.

Investing Activities

Net cash used in investing activities increased \$25 million in the three months ended March 31, 2017 compared with the three months ended March 31, 2016, primarily due to higher purchases of investments, net of sales and maturities, in the current year.

Financing Activities

There was no significant year over year change in financing activities.

FINANCIAL CONDITION

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

On a consolidated basis, at March 31, 2017, our working capital was \$1,980 million, compared with \$1,418 million at December 31, 2016. At March 31, 2017, our cash and investments amounted to \$5,371 million, compared with \$4,689 million at December 31, 2016.

Debt Ratings. Our 5.375% Notes are rated "BB" by Standard & Poor's, and "Ba3" by Moody's Investor Service, Inc. A significant downgrade in our ratings could adversely affect our borrowing capacity and costs.

FUTURE SOURCES AND USES OF LIQUIDITY

Sources

Our Health Plans segment regulated subsidiaries generate significant cash flows from premium revenue, which we generally receive a short time before we pay for the related health care services. Such cash flows are our primary source of liquidity. Thus, any future decline in our profitability may have a negative impact on our liquidity.

Dividends from Subsidiaries. When available and as permitted by applicable regulations, cash in excess of the capital needs of our regulated health plans is generally paid in the form of dividends to our unregulated parent company to be used for general corporate purposes. In the three months ended March 31, 2017, we received \$50 million in dividends from our regulated health plan subsidiaries. In the three months ended March 31, 2016, we did not receive dividends from our subsidiaries. See further discussion in Note 11, "Commitments and Contingencies—Regulatory Capital Requirements and Dividend Restrictions."

Credit Facility. Refer to Note 7, "Debt," for a detailed discussion of our Credit Facility.

Shelf Registration Statement. We have a shelf registration statement on file with the Securities and Exchange Commission to register an unlimited amount of any combination of debt or equity securities in one or more offerings. Specific information regarding the terms and securities being offered will be provided at the time of an offering. Proceeds from future offerings are expected to be used for general corporate purposes, including, but not limited to, the repayment of debt, investments in or extensions of credit to our subsidiaries and the financing of possible acquisitions or business expansion.

Uses

Regulatory Capital Requirements and Dividend Restrictions. For more information on our regulatory capital requirements and dividend restrictions, refer to Note 11, "Commitments and Contingencies."

Acquisitions. In the year ended December 31, 2016, we paid \$48 million for businesses or assets acquired in business combinations. Consistent with our business strategy, we will continue to evaluate acquisition opportunities.

States' Budgets. From time to time the states in which our health plans operate may experience financial difficulties, which could lead to delays in premium payments. For example, the state of Illinois is operating without a budget for its current fiscal year. As of March 31, 2017, our Illinois health plan served approximately 194,000 members, and recognized premium revenue of approximately \$161 million in the first quarter of 2017. As of April 28, 2017, the state of Illinois owed us approximately \$80 million for certain January, February and March 2017 premiums.

On May 3, 2017, Puerto Rico's financial oversight board filed for a form of bankruptcy in the U.S. District Court in Puerto Rico under Title III of PROMESA. The Title III provision allows for a court debt restructuring process similar to U.S. bankruptcy protection. To the extent such bankruptcy results in our failure to receive payment of amounts due under our Medicaid contract with the Commonwealth or the inability of the Commonwealth to extend our Medicaid contract at the end of its current term, such bankruptcy could have a material adverse effect on our business, financial condition, cash flows, or results of operations. As of March 31, 2017, the plan served approximately 326,000 members and recorded premium revenue of approximately \$183 million in the first quarter of 2017. As of April 28, 2017, the Commonwealth is current with its premium payments.

CONTRACTUAL OBLIGATIONS

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2016, was disclosed in our 2016 Annual Report on Form 10-K. There were no material changes to this previously filed information outside the ordinary course of business during the three months ended March 31, 2017. For further discussion and maturities of our long-term debt, refer to Note 7, "Debt."

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.

CRITICAL ACCOUNTING ESTIMATES

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 critical accounting estimates relate to:

- *Health Plans segment medical claims and benefits payable.* Refer to Notes to Consolidated Financial Statements, Note 6, "Medical Claims and Benefits Payable," for a table that presents the components of the change in medical claims and benefits payable, and for additional information regarding the factors used to determine our changes in estimates for all periods presented in the accompanying consolidated financial statements. Other than the discussion as noted above, there have been no significant changes during the three months ended March 31, 2017, to our disclosure reported in "Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2016.
- *Health Plans segment contractual provisions that may adjust or limit revenue or profit.* For a discussion of this topic, including amounts recorded in our consolidated financial statements, refer to Notes to Consolidated Financial Statements, Note 2, "Significant Accounting Policies."
- *Health Plans segment quality incentives.* For a discussion of this topic, including amounts recorded in our consolidated financial statements, refer to Notes to Consolidated Financial Statements, Note 2, "Significant Accounting Policies."
- *Molina Medicaid Solutions segment revenue and cost recognition.* There have been no significant changes during the three months ended March 31, 2017, to our disclosure reported in "Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2016.
- *Goodwill and intangible assets, net.* There have been no significant changes during the three months ended March 31, 2017, to our disclosure reported in "Critical Accounting Estimates" in our Annual Report on Form 10-K for the year ended December 31, 2016.

SUPPLEMENTAL INFORMATION

FINANCIAL MEASURES THAT SUPPLEMENT U.S. GAAP (NON-GAAP FINANCIAL MEASURES)

We use these non-GAAP financial measures as supplemental metrics in evaluating our financial performance, making financing and business decisions, and forecasting and planning for future periods. For these reasons, management believes such measures are useful supplemental measures to investors in comparing our performance to the performance of other public companies in the health care industry.

EBITDA*

We believe that earnings before interest, taxes, depreciation and amortization (EBITDA*) is helpful in assessing our ability to meet the cash demands of our operating units.

	Three Months Ended March 31,	
	2017	2016
	(In millions)	
Net income	\$ 77	\$ 24
Adjustments:		
Depreciation, and amortization of intangible assets and capitalized software	46	37
Interest expense	26	25
Income tax expense	54	40
EBITDA*	\$ 203	\$ 126

ADJUSTED NET INCOME* AND ADJUSTED NET INCOME PER SHARE*

We believe that adjusted net income* and adjusted net income per diluted share* are helpful in assessing our financial performance exclusive of the non-cash impact of the amortization of purchased intangibles. The following table reconciles net income, which we believe to be the most comparable GAAP measure, to adjusted net income*.

	Three Months Ended March 31,			
	2017		2016	
	(In millions, except diluted per-share amounts)			
Net income	\$ 77	\$ 1.37	\$ 24	\$ 0.43
Adjustment:				
Amortization of intangible assets	9	0.16	7	0.13
Income tax effect ⁽¹⁾	(3)	(0.06)	(2)	(0.05)
Amortization of intangible assets, net of tax effect	6	0.10	5	0.08
Adjusted net income*	\$ 83	\$ 1.47	\$ 29	\$ 0.51

(1) Income tax effect of adjustments calculated at the blended federal and state statutory tax rate of 37%.

CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures: Our management, with the participation of our interim chief executive officer and our chief financial officer, has concluded, based upon its evaluation as of the end of the period covered by this report, that the Company's "disclosure controls and procedures" (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")), were not effective at the reasonable assurance level because of the material weakness in our internal control over financial reporting described below. Notwithstanding the material weakness described below, management has concluded that our consolidated financial statements included in this interim report on Form 10-Q are fairly stated in all material respects in accordance with U.S. generally accepted accounting principles (GAAP) for each of the periods presented herein.

Existence of a Material Weakness in Internal Control as of December 31, 2016

As disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016, our management assessed the effectiveness of our internal control over financial reporting as of December 31, 2016, based on the framework set forth in *Internal Control-Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). A material weakness is a deficiency, or a combination of deficiencies, in internal control over financial reporting, such that there is a reasonable possibility that a material misstatement of the annual or interim financial statements will not be prevented or detected on a timely basis.

We determined that a material weakness existed in our internal control over financial reporting relating to the operation of an element of our process for calculating the amount owed to California by our California health plan. More specifically, a Medicaid Expansion contract amendment executed in the fourth quarter of 2016 changed the medical loss ratio corridor formula and such amendment was not initially considered in determining the liability. As a result, we understated net income by \$44 million for the year ended December 31, 2016, which was material to our consolidated results for the year ended December 31, 2016. This amount was corrected prior to the issuance of our consolidated financial statements as of and for the year ended December 31, 2016.

Because of this material weakness, management concluded that we did not maintain effective internal control over financial reporting as of December 31, 2016, based on criteria described in *Internal Control - Integrated Framework* (2013) issued by COSO.

Remediation Plan for Material Weakness

We are executing the remediation plan developed to address the material weakness reported as of December 31, 2016. The remediation efforts we have implemented include the development of robust protocols to ensure that the control, relating to the review of a contractual amendment affecting the computation of the Medicaid Expansion medical loss ratio corridor for our California health plan, is operating as designed. We believe these measures will remediate the material weakness identified above and will strengthen our internal control over financial reporting for the computation of our California Medicaid Expansion medical loss ratio corridor. We currently are targeting to complete the implementation of the control enhancements during 2017. We will test the ongoing operating effectiveness of the control enhancements subsequent to implementation, and consider the material weakness remediated after the applicable remedial control enhancements operate effectively for a sufficient period of time. If the remedial measures described above are insufficient to address the material weakness described above, or are not implemented timely, or additional deficiencies arise in the future, material misstatements in our interim or annual financial statements may occur in the future and could have the effects described in "Risk Factors" in our Annual Report on Form 10-K for the year ended December 31, 2016.

Changes in Internal Control Over Financial Reporting: Except as described above, management did not identify any change in our internal control over financial reporting during the fiscal quarter ended March 31, 2017 that has materially affected, or is reasonably likely to materially affect, our internal controls over financial reporting.

LEGAL PROCEEDINGS

For information regarding legal proceedings, see Notes to Consolidated Financial Statements, Note 11, "Commitments and Contingencies."

RISK FACTORS

Certain risk factors may have a material adverse effect on our business, financial condition, cash flows, or results of operations, and you should carefully consider them. In addition to the other information set forth in this report, you should carefully consider the risk factors discussed in "Risk Factors," in our Annual Report on Form 10-K for the year ended December 31, 2016. The risk factors described herein, and in our 2016 Annual Report on Form 10-K, are not the only risks facing our Company. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial may also materially adversely affect our business, financial condition, cash flows, or results of operations.

The recent changes to our executive leadership team could prove disruptive to our operations and have adverse consequences for our business and operating results.

We recently had significant changes to our executive leadership team, and more changes could occur. On May 2, 2017, we announced the termination without cause of Joseph M. Molina, our President and Chief Executive Officer, and John C. Molina, our Chief Financial Officer, and the appointment of Joseph W. White as Chief Financial Officer and interim President and Chief Executive Officer. We expect that Dr. Molina and Mr. Molina will continue to serve as members of our board of directors.

Although the Board of Directors is conducting a search for a new President and Chief Executive Officer, there can be no assurance that we will be successful in identifying and retaining a suitable President and Chief Executive Officer in a timely fashion, or at all. It may also be more difficult for us to recruit and retain other managerial employees until a permanent President and Chief Executive Officer has been appointed. The recent changes to our executive leadership team could create uncertainty in the market and among our employees, business partners, and the various states with which we contract, and could make it more difficult for us to implement, or could delay the implementation of, our strategic initiatives, all of which could have a material adverse effect on our business, prospects, financial condition and operating results.

Puerto Rico's recent filing for bankruptcy may negatively impact the Commonwealth's ability to pay the amounts due under our Medicaid contract, which may negatively impact our business, financial condition, cash flows, or results of operations.

On May 3, 2017, Puerto Rico's financial oversight board filed for a form of bankruptcy in the U.S. District Court in Puerto Rico under Title III of PROMESA. The Title III provision allows for a court debt restructuring process similar to U.S. bankruptcy protection. To the extent such bankruptcy results in our failure to receive payment of amounts due under our Medicaid contract with the Commonwealth or the inability of the Commonwealth to extend our Medicaid contract at the end of its current term, such bankruptcy could have a material adverse effect on our business, financial condition, cash flows, or results of operations.

UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

ISSUER PURCHASES OF EQUITY SECURITIES

Purchases of common stock made by us, or on our behalf during the quarter ended March 31, 2017, including shares withheld by us to satisfy our employees' income tax obligations, are set forth below:

	Total Number of Shares Purchased ⁽¹⁾	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares Authorized to Be Purchased Under the Plans or Programs
January 1 - January 31	14,147	\$ 58.47	—	\$ —
February 1 - February 28	511	\$ 57.42	—	\$ —
March 1 - March 31	114,777	\$ 49.10	—	\$ —
Total	<u>129,435</u>	\$ 50.16	<u>—</u>	<u>\$ —</u>

- (1) During the three months ended March 31, 2017, we withheld 129,435 shares of common stock under our 2011 Equity Incentive Plan to settle employee income tax obligations.

INDEX TO EXHIBITS

<u>Exhibit No.</u>	<u>Title</u>
<u>10.1</u>	<u>Molina Healthcare, Inc. Change in Control Severance Plan (2017)</u>
<u>10.2</u>	<u>2011 Equity Incentive Plan - Form of Stock Option Agreement (Director)</u>
<u>10.3</u>	<u>2011 Equity Incentive Plan - Form of Restricted Stock Award Agreement (Employee)</u>
<u>10.4</u>	<u>2011 Equity Incentive Plan - Form of Performance Unit Award Agreement 1 (Executive Officer)</u>
<u>10.5</u>	<u>2011 Equity Incentive Plan - Form of Performance Unit Award Agreement 2 (Executive Officer)</u>
<u>31.1</u>	<u>Certification of Interim Chief Executive Officer and Chief Financial Officer pursuant to Rules 13a-14(a)/15d-14(a) under the Securities Exchange Act of 1934, as amended.</u>
<u>32.1</u>	<u>Certification of Interim Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>
101.INS	XBRL Taxonomy Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

MOLINA HEALTHCARE, INC.
(Registrant)

Dated: May 4, 2017

/s/ JOSEPH W. WHITE

Joseph W. White
Interim Chief Executive Officer
(Principal Executive Officer)

Dated: May 4, 2017

/s/ JOSEPH W. WHITE

Joseph W. White
Chief Financial Officer and Treasurer
(Principal Financial Officer)

MOLINA HEALTHCARE, INC.

CHANGE IN CONTROL SEVERANCE PLAN

I. INTRODUCTION

Molina Healthcare, Inc. considers the maintenance of a sound management to be essential to protecting and enhancing the best interests of the Company and its stockholders. Thus, the Company recognizes that the possibility of a Change in Control may exist from time to time, and that this possibility, and the uncertainty and questions it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders. Accordingly, the Company has determined that appropriate steps should be taken to encourage the continued attention and dedication of members of the Company's management to their assigned duties without the distraction which may arise from the possibility of a Change in Control.

This Change in Control Severance Plan (this "Plan") shall be effective as of May 3, 2017 (the "Effective Date"). This Plan does not alter the status of Participants as at-will employees of the Company. Just as Participants remain free to leave the employ of the Company at any time, so too does the Company retain its right to terminate the employment of Participants without notice, at any time, for any reason.

However, the Company believes that, both prior to and at the time a Change in Control is anticipated or occurring, it is necessary to have the continued attention and dedication of Participants to their assigned duties without distraction, and this Plan is intended as an inducement for Participants' willingness to continue to serve as employees of the Company (subject, however, to either party's right to terminate such employment at any time). Therefore, should a Participant still be an employee of the Company at the time of a Change in Control, the Company agrees that such Participant shall receive the severance benefits hereinafter set forth in the event the Participant's employment with the Company terminates under the circumstances described below.

II. DEFINITIONS

As used herein the following words and phrases shall have the following respective meanings unless the context clearly indicates otherwise.

- (a) Affiliate. Any entity which controls, is controlled by, or is under common control with the Company.
- (b) Annual Base Salary. The Participant's annual base salary paid or payable, including any base salary that is subject to deferral, to the Participant by the Company or any of its Affiliates at the rate in effect (or required to be in effect before any diminution that is a basis of the Participant's

termination for Good Reason) on the Date of Termination or immediately prior to the Change in Control if the Participant's annual base salary was higher at such time.

(c) Annual Bonus. The Participant's fiscal year target bonus opportunity.

(d) Applicable Multiple.

(i) With respect to any Participant who is at or above the level of Senior Vice President, two (2).

(ii) With respect to any Participant who is at or above the level of Vice President, but below the level of Senior Vice President, one (1).

(iii) With respect to any Participant, other than a Participant identified in clause (i) or (ii) of this Section 2(d), one (1).

(e) Board. The Board of Directors of the Company.

(f) Cause. With respect to any Participant:

(i) the Participant's willful engaging in illegal conduct or gross misconduct which is materially and demonstrably injurious to the Company;

(ii) the Participant's material violation of any policy or code of conduct of the Company or any of its Affiliates, and failure to correct (if possible) following notification of such violation;

(iii) the Participant's unauthorized use or disclosure of confidential information or trade secrets;

(iv) the Participant's engaging in competition with the Company;

(v) any material breach by the Participant of his or her fiduciary duty to the Company; or

(vi) the willful and continued failure of the Participant to perform substantially the Participant's duties with the Company or one of its Affiliates to the extent, degree and level of performance as expected of the Participant (other than any such failure resulting from incapacity due to physical or mental illness), after a written demand for substantial performance is delivered to the Participant by the Board or the Chief Executive Officer of the Company which specifically identifies the manner in which the Board or Chief Executive Officer believes that the Participant has not substantially performed the Participant's duties.

(g) Change in Control. The occurrence of any of the following events after the Effective Date:

(i) the acquisition (other than by an Excluded Person), directly or indirectly, in one or more transactions, by any person or by any group of persons, within the meaning of Section 13(d) or 14(d) of the Exchange Act, of beneficial ownership (within the meaning of Rule 13d-3 of the Exchange Act) of more than fifty percent (50%) of either the outstanding shares of common stock or the combined voting power of the Company's outstanding voting securities entitled to vote generally, whether or not the acquisition was previously approved by the existing directors, other than an acquisition that complies with clause (x) of paragraph (ii);

(ii) consummation of a reorganization, merger, or consolidation of the Company or the sale or other disposition of all or substantially all of the Company's assets unless, (x) immediately following such event, all or substantially all of the stockholders of the Company immediately prior to such event own, directly or indirectly, more than fifty percent (50%) of the then outstanding voting securities of the resulting company (including without limitation, a corporation which as a result of such event owns the Company or all or substantially all of the Company's assets either directly or indirectly through one or more subsidiaries);

(iii) the complete liquidation or dissolution of the Company; or

(iv) a change in the composition of a majority of the directors on the Company's Board within twelve (12) months if not approved by a majority of the pre-existing directors.

A transaction shall not constitute a Change in Control if its sole purpose is to change the state of the Company's incorporation or to create a holding company that will be owned in substantially the same proportions by the persons who held the Company's securities immediately before such transaction.

(h) Code. The Internal Revenue Code of 1986, as amended from time to time.

(i) Committee. The Compensation Committee of the Board.

(j) Company. Molina Healthcare, Inc., a Delaware corporation, and any successor thereto.

(k) Date of Termination. The Date of Termination shall mean:

(i) except in the case of the Participant's termination of employment by reason of death or Disability, the date of receipt of the Notice of Termination by the Company or the Participant, as the case may be, or such later date specified in the Notice of Termination, as the case may be;

(ii) if the Participant's employment is terminated by reason of death, the date of death; or

(iii) if the Participant's employment is terminated by reason of Disability, the thirtieth (30th) day after receipt of such Notice of Termination by the Participant.

Notwithstanding the foregoing, in no event shall the Date of Termination occur until the Participant experiences a "separation from service" within the meaning of Section 409A, and the date on which such separation from service takes place shall be the "Date of Termination."

(l) Disability. A condition such that the Participant by reason of physical or mental disability becomes unable to perform Participant's normal duties for more than one-hundred eighty (180) days in the aggregate (excluding infrequent or temporary absence due to ordinary transitory illness) during any twelve (12)-month period.

(m) Effective Date. The Effective Date shall be as defined in the introductory section hereof.

(n) Employee. Any full-time, regular employee of the Company or any of its Subsidiaries whose employment is not the subject of a collective bargaining agreement, including any such employees who may be on a leave of absence approved by the Company or any of its Subsidiaries, respectively.

(o) ERISA. The Employee Retirement Income Security Act of 1974, as amended from time to time.

(p) Exchange Act. The Securities Exchange Act of 1934.

(q) Excluded Person. "Excluded Person" means:

(i) any person described in and satisfying the conditions of Rule 13d-1(b)(1) under the Exchange Act;

(ii) the Company;

(iii) an employee benefit plan (or related trust) sponsored or maintained by the Company or its successor; or

(iv) any person who is the beneficial owner (as defined in Rule 13d-3 under the Exchange Act) of more than fifteen percent (15%) of the common stock of the Company on the Effective Date (or any affiliate, successor, heir, descendant, or related party of or to such person).

(r) Good Reason. The occurrence of any one (1) or more of the following, without the express written consent of the Participant:

(i) the Participant's position, authority, duties or responsibilities are materially diminished from those in effect during the ninety (90)-day period immediately preceding a Change in Control (whether or not occurring solely as a result of the Company ceasing to be a publicly traded entity);

(ii) a material reduction in the Participant's (x) Annual Base Salary or (y) total annual compensation opportunity, from such total annual compensation opportunity as in effect during the ninety (90)-day period immediately prior to the Change in Control, or as the same may be increased from time to time;

(iii) the Company requires the Participant regularly to perform such Participant's duties of employment beyond a fifty (50) mile radius from the location of the Participant's employment immediately prior to the Change in Control; or

(iv) a material breach by the Company of the terms of a Participant's written employment agreement.

In order to invoke a termination of employment for Good Reason, the Participant shall provide a Notice of Termination pursuant to Section 7.4 to the Company's Chief Legal Officer of the existence of one or more of the conditions described in clauses (i) through (iv) within ninety (90) days following the initial existence of such condition or conditions, specifying in reasonable detail the conditions constituting Good Reason (hereinafter, "Notice of Good Reason"), and the Company shall have thirty (30) days following receipt of such written notice (the "Cure Period") during which it may remedy the condition. In the event that the Company fails to remedy the condition constituting Good Reason during the applicable Cure Period, the effective date of the Participant's Termination of Employment shall be as specified in such notice, but in no event later than thirty (30) days thereafter. The Participant's mental or physical incapacity following the occurrence of an event described above in clauses (i) through (iv) shall not affect the Participant's ability to terminate employment for Good Reason and the Participant's death following delivery of a Notice of Good Reason shall not affect the Participant's estate's entitlement to Separation Benefits provided hereunder.

(s) Notice of Termination.

(i) In the case of the Company, a written notice that (x) indicates the basis under the Plan for termination and (y) to the extent applicable, sets forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Participant's employment under the Plan, as indicated. The failure by the Company to set forth in the Notice of Termination any fact or circumstance that contributes to a showing of Good Reason or Cause shall not waive any right of the Company hereunder or preclude the Company, respectively, from asserting such fact or circumstance in enforcing the Company's respective rights hereunder.

(ii) In the case of a Participant, a notice from a Participant to the Company that shall indicate the specific termination provision or provisions of the Plan relied upon and shall set forth in reasonable detail the facts and in the case of a Notice of Termination for Good Reason, the circumstances claimed to provide a basis for termination for Good Reason. Such Notice of Termination for Good Reason must be given no later than ninety (90) days from the initial existence of the condition and shall provide for a date of termination not less than thirty (30) nor more than sixty (60) days after the date such Notice of Termination for Good Reason is delivered to and acknowledged by the General Counsel of the Company.

(t) Participant. An individual who qualifies to participate in this Plan pursuant to Section 3.1.

(u) Qualifying Termination. At any time following a Change in Control and prior to the second (2nd) anniversary of the Change in Control, the Participant's employment with the Company or any of its Subsidiaries is terminated (i) involuntarily for any reason other than Cause, death, or Disability; or (ii) by the Participant for Good Reason.

(v) Section 409A. Section 409A of the Code, and the rules and regulations issued thereunder.

(w) Separation Benefits. The benefits described in Section 4.2 that are provided to qualifying Participants under the Plan.

(x) Subsidiary. Any corporation, limited liability company, or any other entity in which the Company, directly or indirectly, holds a majority of the voting power of such corporation's, limited liability company's, or such other entity's outstanding equity interests.

III. ELIGIBILITY

3.1 Participation. Each Employee (a) who has a position of Vice President or above, or (b) who has a position lower than Vice President, but has been designated in writing as a Participant by the Committee or the Board, shall be a Participant in this Plan. Notwithstanding the foregoing, if a Participant who is eligible to participate in this Plan has entered into an agreement with the Company that provides for benefits in the event of a termination of employment following a Change in Control, such Participant shall be entitled to receive Separation Benefits (or any other benefits under the Plan) only to the extent that such Separation Benefits are in addition to or in excess of the benefits provided under such Participant's agreement with the Company.

3.2 Duration of Participation. The Committee may remove an Employee as a Participant by providing written notice of removal to such Employee; provided that no such removal shall be effective (a) during the one (1) year period following a Change in Control, (b) if effectuated in connection with a potential Change in Control or (c) at such time as the Participant is entitled to

payment of a Separation Benefit or any other amounts payable under the Plan. In addition, a Participant shall cease to be a Participant in the Plan as a result of an amendment or termination of the Plan complying with Article VI of the Plan, or when the Participant ceases to be an Employee or no longer qualifies as a Participant under Section 3.1, unless, at the time the Participant ceases to be an Employee or no longer qualifies as a Participant under Section 3.1, such Participant is entitled to payment of a Separation Benefit or any other amounts payable under the Plan or there has been an event or occurrence constituting Good Reason that would enable the Participant to terminate employment and receive a Separation Benefit. A Participant entitled to payment of a Separation Benefit or any other amounts payable under the Plan shall remain a Participant in the Plan until the full amount of the Separation Benefit and any other amounts payable under the Plan have been paid to the Participant.

IV. SEPARATION BENEFITS

4.1 Terminations of Employment which Give Rise to Separation Benefits under this Plan. Provided that a Participant is in compliance with the terms of this Plan and satisfies all conditions herein, such Participant shall be entitled to Separation Benefits as set forth in Section 4.2 below if the Participant experiences a Qualifying Termination. For purposes of this Plan, any purported termination by the Company or by the Participant shall be communicated by written Notice of Termination to the other in accordance with Section 7.4 hereof and, to the extent applicable, Section 2(s) hereof.

4.2 Separation Benefits.

(a) If a Participant experiences a Qualifying Termination, then the Company shall pay to the Participant, in a lump sum in cash on the sixtieth (60th) day after the Date of Termination, subject to the Participant's compliance with Section 4.2(e) below, the aggregate of the following amounts which benefits, except as provided in Section 7.3 below, shall be in addition to any other benefits to which the Participant is entitled other than by reason of this Plan:

(i) unpaid salary with respect to any paid time off accrued but not taken as of the Date of Termination;

(ii) accrued but unpaid salary through the Date of Termination;

(iii) any earned but unpaid annual incentive bonuses from the fiscal year immediately preceding the year in which the Date of Termination occurs (unless (x) such annual incentive bonus is "nonqualified deferred compensation" within the meaning of Section 409A, in which case such bonus shall be paid at the time that bonuses with respect to such fiscal year are or otherwise would be paid in accordance with the terms of the applicable plan or (y) the Participant has made an irrevocable election under any deferred compensation arrangement subject to

Section 409A to defer any portion of such annual incentive bonuses, in which case any such deferred bonuses shall be paid in accordance with such election);

(iv) an amount equal to the Applicable Multiple times the Participant's Annual Base Salary; and

(v) an amount equal to the Participant's Annual Bonus for the year in which the Participant's employment is terminated based on the number of entire months of such year that have elapsed through the date of the Participant's termination of employment as a fraction of twelve (12).

(b) If the Participant's employment is terminated under circumstances which entitle the Participant to Separation Benefits under this Section 4.2, for a period of twenty-four (24) months following the Date of Termination (the "Benefit Continuation Period"), the Company shall provide the Participant and the Participant's eligible dependents with extended continued health care, dental, and life insurance benefits under the Company's health care, dental and life insurance benefits programs ("Extended Health Coverage"), provided that the Participant complies with all terms and conditions of the applicable plans, including paying an amount equal to the applicable COBRA premiums contributions, based on the coverage elected by the Participant; and provided, further, that, if the Participant becomes reemployed with another employer and becomes eligible to receive health care, dental or life insurance benefits under another employer provided plan, such Extended Health Coverage shall cease. The Company shall pay to Participant an amount equal to the difference between the cost for Extended Health Coverage and the amount the Participant would be required to pay for such coverage as an active employee. Such payment shall be subject to applicable tax withholding. Following the end of the Benefit Continuation Period, the Participant shall be eligible for continued medical and dental coverage as required by Section 4980B of the Code or other applicable law, as if the Participant's employment with the Company had terminated as of the end of such Benefit Continuation Period.

(c) If the Participant is entitled to Separation Benefits under this Plan and notwithstanding anything to the contrary in any equity incentive, stock option, stock appreciation right (SAR), performance units, phantom stock awards, or deferred compensation plan or retirement plan or agreements, then (i) the Participant shall become immediately fully vested in all of the Participant's outstanding restricted stock, stock options, SARs, warrants, performance units, phantom stock, deferred compensation, retirement, or similar plans or agreements of the Company, and (ii) the Participant (or his personal representative if applicable) shall be permitted to exercise any of the Participant's vested stock options/SARs until the earlier of: (i) one (1) year after the Participant's termination of employment, and (ii) the term of such unexercised stock options, warrants, or SARs.

(d) Except as provided in Section 4.2(b), the Participant shall not be required to mitigate the amount of any payment provided for in this Section 4.2 by seeking other employment or otherwise, nor shall the amount of any payment or benefit provided for in this Section 4.2 be reduced by any compensation earned by the Participant as the result of employment by another employer or by retirement benefits paid by the Company after the Date of Termination, or otherwise, or by any set-off, counterclaim, recoupment, or other claim, right or action the Company may have against the Participant or others.

(e) All payments and benefits provided under this Section 4.2 are conditioned on the Participant's continuing compliance with this Plan and the Company's policies. All payments and benefits are also conditioned on, and in consideration for, the following actions being completed no later than sixty (60) days following the Participant's termination of employment: the Participant's execution (and effectiveness) of a release of claims and covenant not to sue substantially in the form provided in Exhibit A, any revocation period required by law has run, and the Participant has not revoked the release of claims and covenant not to sue. In the event a Participant fails to return such release within such time period, or revokes the release, the Participant shall forfeit his benefits hereunder. In the event that the period for consideration or revocation overlaps two (2) tax years, any payment due hereunder shall not commence until the later tax year.

4.3 Limitation on Payments.

(a) Anything in this Plan to the contrary notwithstanding, in the event it shall be determined that any payment or distribution made, or benefit provided, by the Company to or for the benefit of the Participant under this Plan or any other agreement between the Company and the Participant or plan of the Company would constitute a "parachute payment" as defined in Section 280G of the Code, then the benefits payable pursuant to this Plan shall be reduced so that the aggregate present value of all payments in the nature of compensation to (or for the benefit of) the Participant which are contingent on a change of control (as defined in Section 280G(b)(2) (A) of the Code) is One Dollar (\$1.00) less than the amount which the Participant could receive without being considered to have received any parachute payment (the amount of this reduction in the benefits payable is referred to herein as the "Excess Amount"). The determination of the amount of any reduction required by this Section 4.3(a) shall be made by a nationally recognized tax counsel selected by the Company, and such determination shall be conclusive and binding on the parties hereto.

(b) Notwithstanding the provisions of Section 4.3(a), if it is established, pursuant to a final determination of a court or an Internal Revenue Service proceeding which has been finally and conclusively resolved, that an Excess Amount was received by the Participant from the Company, then such Excess Amount shall be deemed for all purposes to be a loan to the

Participant made on the date the Participant received the Excess Amount and the Participant shall be obligated to repay such Excess Amount to the Company on demand (but no less than ten (10) days after written demand is received by the Participant) together with interest on the Excess Amount at the "Applicable Federal Rate" (as defined in Section 1274(d) of the Code) from the date of the Participant's receipt of such Excess Amount until the date of such repayment.

V. SUCCESSOR TO COMPANY

This Plan shall inure to the benefit of and be binding upon the Company and its successors. The Company shall require any corporation, entity, individual, or other person who is the successor (whether direct or indirect by purchase, merger, consolidation, reorganization or otherwise) to all or substantially all the business and/or assets of the Company to expressly assume and agree to perform, by a written agreement in form and in substance satisfactory to the Company, all of the obligations of the Company under this Plan. It is a condition of this Plan, and all rights of each person eligible to receive benefits under this Plan shall be subject hereto, that no right or interest of any such person in this Plan shall be assignable or transferable in whole or in part, except by operation of law, including, but not by way of limitation, lawful execution, levy, garnishment, attachment, pledge, bankruptcy, alimony, child support or qualified domestic relations order.

VI. DURATION, AMENDMENT AND TERMINATION

6.1 Duration. Unless earlier terminated pursuant to Section 6.2, if a Change in Control has not occurred, this Plan shall expire three (3) years from the Effective Date; provided, that upon each annual anniversary of the Effective Date (each such annual anniversary a "Renewal Date"), the Plan shall be extended for an additional year, unless pursuant to a resolution adopted by the Board prior to the Renewal Date the Company determines not to so extend the Plan. If a Change in Control occurs while this Plan is in effect, this Plan shall continue in full force and effect for at least one (1) year following such Change in Control, and shall not terminate or expire until after all Participants who become entitled to any payments or benefits hereunder shall have received such payments and benefits in full.

6.2 Amendment or Termination. The Company reserves the right to amend, modify, suspend or terminate the Plan at any time by action of a majority of the Board; provided that no such amendment, modification, suspension or termination that has the effect of reducing or diminishing the right of any Participant shall be effective without the written consent of such Participant for a period of one (1) year following the Change in Control if adopted after a Change in Control or in anticipation of a Change in Control. Any amendment, modification, suspension or termination of this Plan adopted after a Change in Control or in anticipation of a Change in Control shall not affect the right of any Participant to payments or benefits to be paid or provided as a result of events that occur prior to the second anniversary of the Change in Control.

6.3 Procedure for Extension, Amendment or Termination. Any extension, amendment or termination of this Plan by the Board in accordance with this Article VI shall be made by action of the Board in accordance with the Company's charter documents and applicable law.

VII. MISCELLANEOUS

7.1 Default in Payment. Any payment not made within ten (10) days after it is due in accordance with this Plan shall thereafter bear interest, compounded annually, at the U.S. prime rate from time to time then in effect.

7.2 No Assignment. No interest of any Participant or spouse of any Participant or any other beneficiary under this Plan, or any right to receive payment hereunder, shall be subject in any manner to sale, transfer, assignment, pledge, attachment, garnishment, or other alienation or encumbrance of any kind, nor may such interest or right to receive a payment or distribution be taken, voluntarily or involuntarily, for the satisfaction of the obligations or debts of, or other claims against, a Participant or spouse of a Participant or other beneficiary, including for alimony.

7.3 Effect on Other Plans, Agreements and Benefits. Except to the extent expressly set forth herein, any benefit or compensation to which a Participant is entitled under any agreement between the Participant and the Company or any of its Subsidiaries or under any plan maintained by the Company or any of its Subsidiaries in which the Participant participates or participated shall not be modified or lessened in any way, but shall be payable according to the terms of the applicable plan or agreement. Notwithstanding the foregoing, any benefits received by a Participant pursuant to this Plan shall be in lieu of any severance benefits to which the Participant would otherwise be entitled under any general severance policy or other severance plan maintained by the Company and, upon consummation of a Change in Control, Participants in this Plan shall in no event be entitled to participate in any such severance policy or other severance plan maintained by the Company.

7.4 Notice. For the purpose of this Plan, notices and all other communications provided for in this Plan shall be in writing and shall be deemed to have been duly given when actually delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed to the Company's Chief Legal Officer at the Company's corporate headquarters address, and to the Participant (at the last address of the Participant on the Company's books and records).

7.5 Employment Status. This Plan does not constitute a contract of employment or impose on the Participant or the Company any obligation for the Participant to remain an Employee or change the status of the Participant's employment or the policies of the Company and its Affiliates regarding termination of employment, nor does it alter or exterminate the agreement that employment is at-will.

7.6 Nondisparagement; Confidentiality. On the Effective Date and thereafter, the Participant agrees that the Participant will not disparage the Company or its directors, officers, employees, affiliates, subsidiaries, predecessors, successors or assigns in any written or oral communications to any third party. The Participant further agrees that he/she will not direct anyone to make any disparaging oral or written remarks to any third parties. During the Participant's employment and following the Participant's termination of employment for any reason, the Participant agrees to not use or disclose the confidential information or trade secrets of the Company.

7.7 Nonsolicitation. During the Participant's employment with Company and for twelve (12) months after the Participant's termination of employment and payment of the Severance Benefits hereunder, the Participant shall not, directly or indirectly, either as an individual or as an employee, agent, consultant, advisor, independent contractor, general partner, officer, director, stockholder, investor, lender, or in any other capacity whatsoever, of any person, firm, corporation, or partnership, (i) induce or attempt to induce, or hire, any person who at the time of such inducement or hire is an employee of the Company (or who was, within six (6) months prior to such inducement or hire, an employee) to perform work or service for any other person or entity other than the Company, or (ii) through the use of confidential information or trade secrets, solicit customers, suppliers, or clients of the Company to reduce or discontinue their business with the Company or to engage in business with any competing entity.

7.8 Plan Administration. This Plan shall be administered by the Committee; provided that in the event of an impending Change in Control, the Committee may appoint a person (or persons) independent of the third-party effectuating the Change in Control to be the Committee effective upon the occurrence of a Change in Control and such Committee shall not be removed or modified following a Change in Control, other than at its own initiative (the "Independent Committee"). Except as otherwise provided in this Plan, the decision of the Committee (including the Independent Committee) upon all matters within the scope of its authority shall be conclusive and binding on all parties, provided that in the event that no Independent Committee is appointed, any determination by the Committee of whether "Cause" or "Good Reason" exists shall be subject to de novo review.

7.9 Unfunded Plan Status. This Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation for a select group of management or highly compensated employees, within the meaning of Section 401 of ERISA. All payments pursuant to the Plan shall be made from the general funds of the Company and no special or separate fund shall be established or other segregation of assets made to assure payment. No Participant or other person shall have under any circumstances any interest in any particular property or assets of the Company as a result of participating in the Plan. Notwithstanding the foregoing, the Company may (but shall not be obligated to) create one (1) or more grantor trusts, the assets of

which are subject to the claims of the Company's creditors, to assist it in accumulating funds to pay its obligations under the Plan.

7.10 Withholding Taxes. All payments made under this Plan shall be subject to reduction to reflect taxes required to be withheld by law.

7.11 Validity and Severability. The invalidity or unenforceability of any provision of this Plan shall not affect the validity or enforceability of any other provision of this Plan, which shall remain in full force and effect, and any prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

7.12 Section 409A.

(a) General. This Plan is intended to be exempt from the requirements of Section 409A and shall in all respects be administered in accordance with the "short-term deferral" exception in the regulations promulgated under Section 409A. In no event may the Participant, directly or indirectly, designate the calendar year of any payment under this Plan.

(b) In-Kind Benefits and Reimbursements. Notwithstanding anything to the contrary in this Plan, all reimbursements and in-kind benefits provided under this Plan shall be made or provided in accordance with the requirements of the regulations promulgated under Section 409A, including, where applicable, the requirement that (i) any reimbursement is for expenses incurred during the Participant's lifetime (or during a shorter period of time specified in this Plan); (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during a calendar year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other calendar year, except, if such benefits consist of the reimbursement of expenses referred to in Section 105(b) of the Code, a maximum, if provided under the terms of the plan providing such medical benefit, may be imposed on the amount of such reimbursements over some or all of the period in which such benefit is to be provided to the Participant as described in Treasury Regulation Section 1.409A-3(i)(1)(iv)(B); (iii) the reimbursement of an eligible expense will be made no later than the last day of the calendar year following the year in which the expense is incurred, provided that the Participant shall have submitted an invoice for such fees and expenses at least ten (10) days before the end of the calendar year next following the calendar year in which such fees and expenses were incurred; and (iv) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit.

(c) Delay of Payments. Notwithstanding any other provision of this Plan to the contrary, if the Participant is considered a "specified employee" for purposes of Section 409A (as determined by the Company in accordance with Section 409A), any payment that constitutes nonqualified deferred compensation within the meaning of Section 409A that is otherwise due to the Participant under this Plan during the six-month period following the Participant's separation

from service (as determined in accordance with Section 409A) on account of the Participant's separation from service shall be accumulated and paid to the Participant on the first (1st) business day after the date that is six (6) months following the Participant's separation from service (the "Delayed Payment Date"). The Participant shall be entitled to interest (at the applicable rate in effect for the month in which the separation from service occurs) on any cash payments so delayed from the scheduled date of payment to the Delayed Payment Date. If the Participant dies during the postponement period, the amounts and entitlements delayed on account of Section 409A shall be paid to the personal representative of the Participant's estate on the first to occur of the Delayed Payment Date or thirty (30) days after the date of the Participant's death.

7.13 Governing Law. The validity, interpretation, construction and performance of this Plan shall in all respects be governed by the laws of Delaware, without reference to principles of conflict of law, except to the extent pre-empted by federal law.

EXHIBIT A

Form of Release of Claims and Covenant Not To Sue

In consideration of the payments and other benefits that Molina Healthcare, Inc., a Delaware corporation (the “Company”), is providing to _____ (“Employee”) under the Company’s Change in Control Severance Plan, the Employee, on his/her own behalf and on behalf of Employee’s representatives, agents, heirs and assigns, waives, releases, discharges and promises never to assert any and all claims, demands, actions, costs, rights, liabilities, damages or obligations of every kind and nature, whether known or unknown, suspected or unsuspected that Employee ever had, now have or might have as of the date of Employee’s termination of employment with the Company against the Company or its predecessors, parent, affiliates, subsidiaries, stockholders, owners, directors, officers, employees, agents, attorneys, insurers, successors, or assigns (including all such persons or entities that have a current and/or former relationship with the Company) for any claims arising from or related to Employee’s employment with the Company, its parent or any of its affiliates and subsidiaries and the termination of that employment.

These released claims also specifically include, but are not limited to, any claims arising under any federal, state and local statutory or common law, such as (as amended and as applicable) Title VII of the Civil Rights Act, the Age Discrimination in Employment Act, the Americans With Disabilities Act, the Employee Retirement Income Security Act, the Family Medical Leave Act, the Equal Pay Act, the Fair Labor Standards Act, the Industrial Welfare Commission’s Orders, the California Fair Employment and Housing Act, the California Constitution, the California Government Code, the California Labor Code and any other federal, state or local constitution, law, regulation or ordinance governing the terms and conditions of employment or the termination of employment, and the law of contract and tort and any claim for attorneys’ fees.

Furthermore, the Employee acknowledges that this waiver and release is knowing and voluntary and that the consideration given for this waiver and release is in addition to anything of value to which Employee was already entitled. Employee acknowledges that there may exist facts or claims in addition to or different from those which are now known or believed by Employee to exist. Nonetheless, this Agreement extends to all claims of every nature and kind whatsoever, whether known or unknown, suspected or unsuspected, past or present. Employee also expressly waives the provisions of California Civil Code section 1542, which provides: “A general release does not extend to claims which the creditor does not know or suspect to exist in his/her favor at the time of executing the release, which if known by him/her must have materially affected his/her settlement with the debtor.” With respect to the claims released in the preceding sentences, the Employee will not initiate or maintain any legal action or proceeding of any kind against the Company or its predecessors, parent, affiliates, subsidiaries, stockholders, owners, directors, officers, employees, agents, successors, or assigns (including all such persons or entities that have a current or former relationship with the Company), for the purpose of obtaining any personal relief, nor assist or participate in any such proceedings, including any proceedings brought by any third parties (except as otherwise required or permitted by law). The Employee further acknowledges that he/she has been advised by this writing that:

he/she should consult with an attorney prior to executing this release;

he/she has at least [twenty-one (21) or forty-five (45) days, as required under applicable law] within which to consider this release;

he/she has up to seven (7) days following the execution of this release by the parties to revoke the release; and

this release shall not be effective until such seven (7) day revocation period has expired.

Employee agrees that the release set forth above shall be and remain in effect in all respects as a complete general release as to the matters released.

EMPLOYEE

[Name]

Date:

MOLINA HEALTHCARE, INC.

Notice of Grant of Stock Option

_____ (the "Participant") has been granted an option (the "Option") to purchase certain shares of Molina Healthcare, Inc. common stock, par value \$0.001 per share (the "Stock"), pursuant to the Molina Healthcare, Inc. 2011 Equity Incentive Plan (the "Plan"). For purposes of this Option and the Stock Option Agreement incorporated herein by reference (the "Option Agreement"), the following terms shall have the following meanings:

Grant Date: _____, ____

Number of Option Shares: _____ shares of Stock

Exercise Price (per share): \$_____

Expiration Date: _____, ____

Tax Status of Option: _____

Vested Shares: Except as provided in the Option Agreement and provided that the Participant's Service has not terminated prior to any applicable date set forth below, the number of Vested Shares as of each date set forth below shall be:

<u>Vesting Date</u>	<u>Vested Shares</u>
Initial Vesting Date: _____, ____	_____
Plus: On each of the [second] and [third] anniversary of the Grant Date thereafter until all Option Shares are Vested Shares	_____

By their signatures below, the Company and the Participant each agree that the Option is governed by this Notice and by the provisions of the Plan and the Option Agreement, both of which are attached to and made a part of this document. The Participant acknowledges receipt of a copy of the Plan and the Option Agreement, represents that the Participant has read and is familiar with their provisions and hereby accepts the Option subject to all of their terms and conditions. This Notice may be executed in two or more counterparts, each of which shall be deemed an original, but all of which shall constitute one and the same document.

MOLINA HEALTHCARE, INC.

PARTICIPANT

[Name]
[Title]

[Name]

ATTACHMENTS: Molina Healthcare, Inc. 2011 Equity Incentive Plan, as amended through the Grant Date, and Stock Option Agreement

**Stock Option Agreement Under the
Molina Healthcare, Inc. 2011 Equity Incentive Plan**

Pursuant to the Molina Healthcare, Inc. 2011 Equity Incentive Plan (the "Plan"), Molina Healthcare, Inc., a Delaware corporation (together with its successors, the "Company"), hereby grants to the Participant named in the Notice of Grant of Stock Option attached hereto (the "Notice") an option to purchase on such dates as specified herein, all or any part of the number of shares of Stock indicated in the Notice (the "Option Shares," and such shares once issued shall be referred to as the "Issued Shares," each as adjusted pursuant to Section 5 hereof), at the Exercise Price specified in the Notice, subject to the terms and conditions set forth in this Stock Option Agreement, the Notice and the Plan. All capitalized terms used herein and not otherwise defined shall have the respective meanings set forth in the Notice and the Plan (as applicable).

If this Option is designated as an Incentive Stock Option in the Notice, this Option is intended to qualify as an "*incentive stock option*" as defined in Section 422(b) of the Code. To the extent that any portion of this Option does not so qualify as an Incentive Stock Option or, if this Option is designated as a Non-Qualified Stock Option in the Notice, it shall be deemed a Non-Qualified Stock Option. The Participant should consult with the Participant's own tax advisor regarding the tax effects of this Option (and any requirements necessary to obtain favorable income tax treatment under Section 422 of the Code, including, but not limited to, the holding period requirements).

1. Vesting and Exercisability.

(a) No portion of this Option may be exercised until such portion shall have vested.

(b) Except as set forth below, this Option shall be exercisable at any time on and after the Initial Vesting Date and prior to the Expiration Date or earlier termination of the Option as provided herein and in the Plan, in an amount not to exceed the number of Vested Shares (determined at the time of exercise) less the number of shares previously acquired upon exercise of this Option. In no event shall this Option be exercisable for more than the Number of Option Shares.

(c) In the event that the Participant's Service terminates, this Option may thereafter be exercised, to the extent it was vested and exercisable on the date of such termination, until the date specified in Section 1(d) hereof. Any portion of this Option that is not vested on the date of termination of the Service shall immediately expire and be null and void.

(d) Subject to the provisions of Section 6 hereof, once any portion of this Option becomes vested and exercisable, it shall continue to be exercisable by the Participant or his or her representatives and legatees as contemplated herein at any time or times prior to the earliest of: (i) the date which is: (A) twelve (12) months following the date on which the Participant's Service terminates due to death or Disability, or (B) three (3) months following the date on which the Participant's Service terminates if the termination is due to any other reason, or (ii) the Expiration Date; provided that, if the Participant's Service is terminated for "*Cause*" (as hereinafter defined), this Option shall terminate immediately and be null and void effective as of the date of the action

or inaction by the Participant that provided the Company “Cause” to terminate his or her employment. For purposes hereof, “Cause” shall mean, unless otherwise defined in Participant’s employment agreement: (i) any material breach by the Participant of any agreement to which the Participant and the Company (or any Subsidiary Corporation) are parties, including, but not limited to, any agreement containing covenants not to compete and covenants relating to the protection of confidential information and proprietary rights of the Company (or any Subsidiary Corporation), which breach is not cured pursuant to the terms of such agreements, (ii) any act (other than retirement) or omission to act by the Participant which would reasonably be likely to have the effect of injuring the reputation, business or business relationships of the Company (or any Subsidiary Corporation) or on the Participant’s ability to perform services for the Company (or any Subsidiary Corporation), (iii) the Participant’s conviction (including any pleas of guilty or nolo contendere) of any crime (other than ordinary traffic violations) which impairs the Participant’s ability to perform his or her duties, (iv) any material misconduct or willful and deliberate non-performance of duties by the Participant in connection with the business or affairs of the Company (or any Subsidiary Corporation), (v) the Participant’s theft, dishonesty, misrepresentation or falsification of the Company’s (or any Subsidiary Corporation’s) documents or records, (vi) the Participant’s improper use or disclosure of the Company’s (or any Subsidiary Corporation’s) confidential or proprietary information, or (vii) the Participant’s use of the facilities or premises of the Company (or any Subsidiary Corporation) to conduct unlawful or unauthorized activities or transactions.

(e) If designated as an Incentive Stock Option in the Notice, the Participant understands that in order to obtain the benefits of an incentive stock option under Section 422 of the Code, subject to any amendments thereof, no sale or other disposition may be made of Issued Shares within the one (1)-year period after the day of issuance of such Issued Shares to him or her (i.e., the exercise date), nor within the two (2)-year period after the grant of this Option and further that this Option must be exercised, if and to the extent permitted hereunder, within three (3) months after termination of employment (or twelve (12) months in the case of Disability). If the Participant disposes of any such Issued Shares (whether by sale, gift, transfer or otherwise) within either of these periods, he or she agrees to notify the Company within thirty (30) days after such disposition. The Participant also agrees to provide the Company with any information concerning any such dispositions required by the Company for tax purposes. Further, to the extent that the aggregate Fair Market Value (determined as of the time that the applicable option is granted) of the shares of Stock with respect to which all Incentive Stock Options held by the Participant are exercisable for the first time during any calendar year (under all option plans of the Company, its Parent and/or its Subsidiaries) exceeds one hundred thousand dollars (\$100,000), such Incentive Stock Options shall constitute Non-Qualified Stock Options. For purposes of this Section 1(e), Incentive Stock Options shall be taken into account in the order in which they were granted. If pursuant to the above, an Incentive Stock Option is treated as an Incentive Stock Option in part and a Non-Qualified Stock Option in part, the Participant may designate which portion of the Stock Option the Participant is exercising. In the absence of such designation, the Participant shall be deemed to have exercised the Incentive Stock Option portion of the Stock Option first.

2. Exercise of Option.

(a) The Participant may exercise this Option only by delivering an Option exercise notice (an “*Exercise Notice*”) in substantially the form of Appendix A attached hereto to the Company’s General Counsel or, if none, the Chief Executive Officer, indicating his or her election to purchase some or all of the Option Shares which have vested at the time of delivery of such Exercise Notice (which amount shall be specified in the Exercise Notice), accompanied by payment in full of the aggregate Exercise Price; provided that, such exercise shall in no event be effective before receipt by such officer of the Exercise Notice and the aggregate Exercise Price. Payment of the aggregate Exercise Price for the Option Shares elected to be purchased by the Participant may be made by one or more of the following methods:

(i) in cash, by certified or bank check, or other instrument acceptable to the Committee in U.S. funds payable to the order of the Company in an amount equal to the aggregate Exercise Price of such Option Shares;

(ii) if permitted by the Committee in its sole and absolute discretion, (y) through the delivery (or attestation to ownership) of shares of Stock with an aggregate Fair Market Value (as of the date such shares are delivered or attested to) equal to the aggregate Exercise Price and that have been purchased by the Participant on the open market or that have been held by the Participant for at least six (6) months and are not subject to restrictions under any plan of the Company, or (z) by the Participant delivering to the Company a properly executed Exercise Notice together with irrevocable instructions to a broker to promptly deliver to the Company cash or a check payable and acceptable to the Company in an amount equal to the aggregate Exercise Price; provided that, in the event the Participant chooses such payment procedure, the Participant and the broker shall comply with such procedures and enter into such agreements of indemnity and other agreements as the Committee shall prescribe as a condition of such payment procedure; or

(iii) a combination of the payment methods set forth in clauses (i) and (ii) above.

(b) Certificates for the Option Shares so purchased will be issued and delivered to the Participant upon compliance to the satisfaction of the Committee with all requirements under applicable laws, regulations or rules in connection with such issuance. Until the Participant shall have complied with the requirements hereof and of the Plan, including the withholding requirements set forth in Section 7 hereof, the Company shall be under no obligation to issue the Option Shares. The determination of the Committee as to such compliance shall be final and binding on the Participant. The Participant shall not be deemed to be the holder of, or to have any of the rights of a holder with respect to, any Issued Shares unless and until this Option shall have been exercised pursuant to the terms hereof and the Company shall have issued and delivered such Issued Shares to the Participant (as evidenced by an appropriate entry on the books of the Company or of a duly authorized transfer agent of the Company.) Thereupon, the Participant shall have full dividend and other ownership rights with respect to such Issued Shares, subject to the terms of this Option Agreement and the Plan.

(c) The Company shall not be required to issue fractional shares upon the exercise of this Option.

3. Subject to Plan.

This Option is subject to all of the terms and conditions set forth in the Plan. Notwithstanding anything in this Option Agreement or the Notice to the contrary, to the extent of any conflict between the terms of the Plan, this Option Agreement and the Notice, the terms of the Plan shall control.

4. Transferability.

This Option is personal to the Participant and is not transferable by the Participant in any manner other than by will or by the laws of descent and distribution; provided that, if this Option is designated as a Non-Qualified Stock Option, this Option may also be transferred by the Participant, without consideration for the transfer, to members of his or her immediate family, to trusts for the benefit of such family members, to partnerships in which such family members are the only partners or to limited liability companies in which such family members are the only members (each a "Permitted Transferee"); provided that, the transferee agrees in writing with the Company to be bound by all of the terms and conditions of the Plan and this Option Agreement. This Option may be exercised during the Participant's lifetime only by the Participant (or by the Participant's legal representative or guardian in the event of the Participant's incapacity) or by a Permitted Transferee pursuant to this Section 4. The Participant may elect to designate a beneficiary by providing written notice of the name of such beneficiary to the Company and may revoke or change such designation at any time by filing written notice of revocation or change with the Company. Any such beneficiary may exercise the Participant's Option in the event of the Participant's death to the extent permitted herein. If the Participant does not designate a beneficiary or if the designated beneficiary predeceases the Participant, the executor of the Participant may exercise this Option to the extent permitted herein in the event of the Participant's death.

5. Adjustment Upon Changes in Capitalization.

If, as a result of any reorganization, recapitalization, reclassification, stock dividend, stock split, reverse stock split or other similar change in the Company's capital stock, the outstanding shares of Stock are increased or decreased or are exchanged for a different number or kind of shares or other securities of the Company, or additional shares or new or different shares or other securities of the Company or other non-cash assets are distributed with respect to such shares of Stock or other securities, or, if, as a result of any merger, consolidation or sale of all or substantially all of the assets of the Company, the outstanding shares of Stock are converted into or exchanged for a different number or kind of shares or other securities of the Company or any successor entity (or parent or subsidiary thereof), the Committee in its sole discretion shall make an appropriate or proportionate adjustment in the number and kind of shares or other securities subject to this Option and the Exercise Price, without changing the aggregate Exercise Price (i.e., the Exercise Price multiplied by the number of shares or other securities subject to this Option shall be the same both before and after any adjustment pursuant to this Section 5); provided that, the adjusted Exercise Price may not be less than the par value of the Stock. After any such adjustment, all references

herein to Stock or common stock shall be deemed to refer to the security that is subject to acquisition upon exercise of this Option. The adjustment by the Committee shall be final, binding and conclusive. No fractional shares of Stock shall be issued under the Plan resulting from any such adjustment, but the Committee in its discretion may either make a cash payment in lieu of fractional shares or round any resulting fractional share down to the nearest whole number.

6. Certain Transactions.

Upon the effectiveness of a Change in Control (as defined in the Plan), unless provision is made in connection with the Change in Control for the assumption of a Participant's outstanding Award granted hereunder, or the substitution of such Award with a new Award of the successor entity or parent thereof, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise and/or repurchase prices, as provided in Section 4.2 of the Plan (the "Assumption"), such Award shall terminate and, if such Award is a Stock Option, the Participant shall be permitted to exercise such Stock Option to the extent that it is then vested and exercisable (after giving effect to the acceleration of vesting provided for in connection with the Change in Control, if any) for a period of at least ten (10) days prior to the date of such termination; provided that, the exercise of the portion of such Stock Option that becomes vested and exercisable in connection with the Change in Control, if any, shall be subject to and conditioned upon the effectiveness of the Change in Control. In addition, if no Awards are assumed or substituted for in an Assumption, this Plan shall terminate upon the effectiveness of such Change in Control. In the Committee's sole and absolute discretion, Award agreements may contain additional terms and conditions, not inconsistent with the foregoing, that will apply in the event a Change in Control occurs.

7. Withholding Taxes.

(a) Payment by Participant. The Participant shall, no later than the date as of which the exercise of this Option (or, if applicable, the issuance, in whole or in part, of any Issued Shares, the operation of any law, regulation or rule providing for the imputation of interest related to this Option or the lapsing of any restriction with respect to any Issued Shares) gives rise to taxable income and subjects the Company to a tax withholding obligation, authorize the Company to withhold from payroll and any other amounts payable to the Participant or pay to the Company or make arrangements satisfactory to the Committee for payment of any federal, state, foreign and local taxes required by law to be withheld with respect to such income.

(b) Payment in Stock. Subject to approval by the Committee, the Participant may elect to have the minimum tax withholding obligation satisfied, in whole or in part, by: (i) authorizing the Company to withhold from shares of Stock to be issued a number of shares of Stock with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due, or (ii) transferring to the Company shares of Stock owned by the Participant with an aggregate Fair Market Value (as of the date the withholding is effected) that would satisfy the withholding amount due. The Fair Market Value of any shares of Stock withheld or tendered to satisfy any such tax withholding obligation shall not exceed the amount determined by the applicable minimum statutory withholding rates.

8. Compliance with Legal Requirements.

The grant of this Option and the issuance of shares of Stock upon exercise of this Option shall be subject to compliance with all applicable requirements of federal, state and foreign law with respect to such securities. This Option may not be exercised if the issuance of shares of Stock upon exercise would constitute a violation of any applicable federal, state or foreign securities laws or other law or regulations or the requirements of any stock exchange or market system upon which the Stock may then be listed. In addition, this Option may not be exercised unless: (a) a registration statement under the Act shall at the time of exercise of this Option be in effect with respect to the shares issuable upon exercise, or (b) the shares issuable upon exercise of this Option may be issued in accordance with the terms of an applicable exemption from the registration requirements of the Act. The inability of the Company to obtain from any regulatory body having jurisdiction the authority, if any, deemed by the Company's legal counsel to be necessary to the lawful issuance and sale of any shares hereunder shall relieve the Company of any liability in respect of the failure to issue or sell such shares as to which such requisite authority shall not have been obtained. As a condition to the exercise of this Option, the Company may require the Participant to satisfy any qualifications that may be necessary or appropriate, to evidence compliance with any applicable law or regulation and to make any representation or warranty with respect thereto as may be requested by the Company.

9. Lock-up Provision.

The Participant and each Permitted Transferee agrees that, if the Company proposes to offer for sale any shares of Stock pursuant to a secondary offering and if requested by the Company and any underwriter engaged by the Company for a reasonable period of time specified by the Company or such underwriter following the effective date of the registration statement filed with respect to such offering, the Participant will not, directly or indirectly, offer, sell, pledge, contract to sell (including any short sale), grant any option to purchase, or otherwise dispose of any securities of the Company held by him or her (except for any securities sold pursuant to such registration statement) or enter into any "*Hedging Transaction*" (as defined below) relating to any securities of the Company held by him or her (including, without limitation, pursuant to Rule 144 under the Act or any successor or similar exemptive rule hereinafter in effect). Notwithstanding the foregoing, such period of time shall not exceed ninety (90) days. For purposes of this Section 9 "*Hedging Transaction*" means any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Stock.

10. Personal Data.

By signing the Notice, the Participant acknowledges and understands that in order to perform its requirements under this Option and the Plan, the Company may process personal data about the Participant, which may or may not be sensitive personal data. Such data includes, but is not limited to, the information provided in this Option, the Notice and any other correspondence received in connection with this Option and any changes thereto, other appropriate personal and financial data about the Participant and information about the Participant's participation in the Plan,

including the timing and extent to which this Option is exercised from time to time. Further, the Participant hereby authorizes the Company to process any such personal data, whether or not sensitive, and to transfer any such personal data outside the country in which Participant works or is employed, including to the United States. Participant acknowledges that the legal persons for whom the Participant's personal data are intended include the Company and any of its Subsidiaries, the outside plan administrator as selected by the Company from time to time and any other person or entity that the Company may find appropriate in its administration of the Plan. The Company hereby informs the Participant of his or her right to access and correction of his or her personal data by contacting the Company's local Human Resources representative.

11. Non-Solicitation.

By signing the Notice, the Participant acknowledges and agrees that during the period of Participant's Service with the Company (or any Subsidiary Corporation), and for a period of one (1) year after termination of Participant's Service for any reason, with or without Cause, Participant shall not directly or indirectly, either alone or in concert with others, solicit, entice, or encourage the hiring of any employee of the Company (or any Subsidiary Corporation) unless such person was involuntarily terminated or laid off by the Company (or any Subsidiary Corporation).

12. Confidentiality.

By signing the Notice, the Participant agrees to keep and maintain in strict confidence all confidential and proprietary information of the Company (or any Subsidiary Corporation) during and after the term of employment by the Company, and to never directly or indirectly make known, divulge, reveal, furnish, make available, or use any confidential information (except in the course of regular authorized duties on behalf of the Company or any Subsidiary Corporation). Participant's obligations of confidentiality hereunder shall survive termination of Participant's Service regardless of any actual or alleged breach by the Company (or any Subsidiary Corporation) in connection with such termination, until and unless any such confidential information shall have become, through no fault of Participant, generally known to the public or unless Participant is required by law to make disclosure (after giving the Company or any Subsidiary Corporation notice and an opportunity to contest such requirement). Participant's obligations under this Section are in addition to and not in limitation or preemption of all other obligations of confidentiality which Participant has to the Company under general legal or equitable principles. All documents and other property including or reflecting confidential information furnished to Participant by the Company or otherwise acquired or developed by the Company shall at all times be the property of the Company (or any Subsidiary Corporation). Upon termination of employment, Participant shall return to the Company (or any Subsidiary Corporation) any such documents or other property (including copies, summaries, or analyses of the foregoing) of the Company (or any Subsidiary Corporation) which are in Participant's possession, custody, or control.

13. Miscellaneous Provisions.

(a) Administration. All questions of interpretation concerning this Option Agreement shall be determined by the Committee. All determinations by the Committee shall be final and binding upon all persons having an interest in this Option.

(b) Employment Rights. The grant of this Option does not confer upon the Participant any right to continued Service with the Company or any Subsidiary Corporation or interfere in any way with the right of the Company or any Subsidiary Corporation to terminate the Participant's Service at any time. Payments you receive pursuant to this Option Agreement shall not be considered to be part of your compensation for purposes of determining benefits under any other employee benefit plan or arrangement provided by the Company or any subsidiary or affiliate thereto.

(c) Equitable Relief. The parties hereto agree and declare that legal remedies may be inadequate to enforce the provisions of this Option Agreement and that equitable relief, including specific performance and injunctive relief, may be used to enforce the provisions of this Option Agreement.

(d) Change and Modifications. The Committee may terminate or amend the Plan or this Option at any time; provided, that, except as provided in Section 3(c) of the Plan in connection with a Change in Control, no such termination or amendment may adversely affect this Option without the consent of the Participant unless such termination or amendment is necessary to comply with any applicable law, rule or regulation or, to the extent that this Option is designated as an Incentive Stock Option, is required to enable this Option to continue to qualify as an Incentive Stock Option.

(e) Governing Law. This Option Agreement shall be governed by and construed in accordance with the laws of the State of California without regard to conflict of laws principles thereof.

(f) Headings. The headings used herein are intended only for convenience in finding the subject matter and do not constitute part of the text of this Option Agreement and shall not be considered in the interpretation of this Option Agreement.

(g) Integrated Agreement. This Option Agreement, the Notice and the Plan constitute the entire understanding and agreement between the Participant and the Company with respect to the subject matter contained herein and supersedes any prior agreements, understandings, restrictions, representations or warranties among the Participant and the Company with respect to such subject matter except as provided for herein. To the extent contemplated herein, the provisions of this Option Agreement shall survive any exercise of this Option and shall remain in full force and effect.

(h) Saving Clause. If any provision of this Option Agreement shall be determined to be illegal or unenforceable, such determination shall in no manner affect the legality or enforceability of any other provision hereof.

(i) Notices. All notices, requests, consents and other communications shall be in writing and be deemed given when delivered personally, by telex or facsimile transmission, or two (2) days after deposit in the mail if mailed by first class registered or certified mail, postage prepaid, or one (1) business day after deposit with a nationally recognized overnight carrier. Notices

to the Company or the Participant shall be addressed to such address or addresses as may have been furnished by such party in writing to the other.

(j) Benefit and Binding Effect. This Option Agreement shall be binding upon and shall inure to the benefit of the parties hereto, their respective successors, permitted assigns, and legal representatives. The Company has the right to assign this Option Agreement and such assignee shall become entitled to all the rights of the Company hereunder to the extent of such assignment.

Appendix A
STOCK OPTION EXERCISE NOTICE

Molina Healthcare, Inc.
300 University Ave., Suite 100
Sacramento, California 95825
Fax: 916-646-4572

Date: _____

Pursuant to the terms of the Notice of Grant of Stock Option dated _____, ___ and the Stock Option Agreement granted pursuant to the Molina Healthcare, Inc. 2011 Equity Incentive Plan and entered into by Molina Healthcare, Inc. and _____ (the Participant) on such date, I hereby exercise such Option by including herein or arranging for payment in the amount of \$ _____ representing the aggregate exercise price for _____ shares of Molina Healthcare, Inc. common stock, all of which have vested in accordance with the Notice of Grant of Stock Option. I hereby authorize withholding or otherwise will make adequate provision for federal, state, and local tax withholding obligations of the Company, if any, that arise in connection with the Option.

I acknowledge that the shares are being acquired in accordance with and subject to the terms, provisions and conditions of the Plan, the Notice of Grant of Stock Option and the Option Agreement, copies of which I have received and carefully read and understand, to all of which I hereby expressly assent.

Unless I otherwise direct you to deliver to me a physical share certificate, the electronic delivery instructions for the exercised shares are as follows:

Brokerage Firm: _____

DTC Participant Number: _____

Account Number: _____

Contact Name: _____

Contact Email Address: _____

Phone Number: _____

I hereby represent that I am purchasing the shares of common stock for my own account and not with a view to any sale or distribution thereof.

Sincerely yours,

Name:

**Molina Healthcare, Inc. 2011 Equity Incentive Plan
Restricted Stock Award Agreement**

This RESTRICTED STOCK AWARD AGREEMENT (the "Agreement") effective as of _____, _____ is between Molina Healthcare, Inc., a Delaware corporation (the "Company"), and _____, an employee of the Company or one of its Affiliates (the "Grantee"), pursuant to and subject to the terms and conditions of the Molina Healthcare, Inc. 2011 Equity Incentive Plan (the "Plan"). The Company desires to award to the Grantee a number of shares of the Company's common stock, par value \$.001 per share (the "Common Stock"), subject to certain restrictions as provided in this Agreement, in order to carry out the purpose of the Plan. The purpose of this Agreement is to evidence the terms and conditions of an award of restricted stock granted to the Grantee under the Plan.

Accordingly, for good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the Company and the Grantee hereby agree as follows:

Section 1. Award of Restricted Stock.

Effective as of _____, _____ (the "Effective Date"), the Company grants to the Grantee a restricted stock award of _____ shares of Common Stock (the "Shares"), subject to the terms and conditions set forth in this Agreement and in accordance with the terms of the Plan (the "Restricted Stock Award").

Section 2. Rights with Respect to the Shares.

(a) **Stockholder Rights.** With respect to the Shares, the Grantee shall be entitled at all times on and after the date of issuance of the Shares to exercise the rights of a stockholder of Common Stock of the Company, including the right to vote the Shares and the right to receive dividends on the Shares as provided in Section 2(b) hereof, unless and until the Shares are forfeited pursuant to Section 3 hereof. However, the Shares shall be nontransferable and subject to a risk of forfeiture to the Company at all times prior to the dates on which such Shares become vested, and the restrictions with respect to the Shares lapse, in accordance with Section 3 of this Agreement.

(b) **Dividends.** As a condition to receiving the Shares under the Plan, the Grantee hereby agrees to defer the receipt of dividends paid on the Shares. Cash dividends or other cash distributions paid with respect to the Shares prior to the date or dates the Shares vest shall be subject to the same restrictions, terms, and conditions as the Shares to which they relate, shall be promptly deposited with the Secretary of the Company or a custodian designated by the Secretary, and shall be forfeited in the event that the Shares with respect to which the dividends were paid are forfeited.

(c) **Issuance of Shares.** The Company shall cause the Shares to be issued in the Grantee's name or in a nominee name on the Grantee's behalf, either by book-entry registration or issuance of a stock certificate or certificates evidencing the Shares, which certificate or certificates shall be held by the Secretary of the Company or the stock transfer agent or brokerage service selected by the Secretary of the Company to provide such services for the Plan. The Shares shall be restricted from transfer and shall be subject to an appropriate stop-transfer order. If any certificate is issued, the certificate shall bear an appropriate legend referring to the restrictions applicable to the Shares. The Grantee hereby agrees to the retention by the Company of the Shares and, if a stock certificate is issued, the Grantee agrees to execute and deliver to the Company a blank stock power with respect to the Shares as a condition to the receipt of this Restricted Stock Award. After any Shares vest pursuant to Section 3 hereof, and following payment of the applicable withholding taxes pursuant to Section 6 of this Agreement, the Company shall promptly cause to be issued a certificate or certificates, registered in the Grantee's name, evidencing such vested whole Shares (less any Shares withheld to pay withholding taxes) and shall cause such certificate or certificates to be delivered to

the Grantee free of the legend and the stop-transfer order referenced above. The Company will not deliver any fractional Share but will pay, in lieu thereof, the Fair Market Value of such fractional Share at the time certificates evidencing the Shares are delivered to the Grantee.

Section 3. Vesting; Forfeiture.

(a) Vesting. Subject to the terms and conditions of this Agreement, one-fourth (1/4th) of the Shares shall vest, and the restrictions with respect to the Shares shall lapse, on each of the first, second, third, and fourth anniversaries of the Effective Date if the Grantee remains continuously employed by the Company or an Affiliate of the Company until such respective vesting dates.

(b) Forfeiture. If the Grantee ceases to be employed by the Company and all Affiliates of the Company for any reason prior to the vesting of the Shares pursuant to Section 3(a) hereof, Grantee's rights to all of the unvested Shares shall be immediately and irrevocably forfeited, including the right to vote such Shares and the right to receive dividends on such Shares.

(c) No Early Vesting. Unless otherwise determined by the Committee in its sole discretion, in no event will any of the Shares vest prior to their respective vesting dates set forth in Section 3(a) hereof.

Section 4. Restrictions on Transfer.

Until the Shares vest pursuant to Section 3 hereof, neither the Shares, nor any right with respect to the Shares under this Agreement, may be sold, assigned, transferred, pledged, hypothecated (by operation of law or otherwise) or otherwise conveyed or encumbered and shall not be subject to execution, attachment or similar process. Any attempted sale, assignment, transfer, pledge, hypothecation or other conveyance or encumbrance shall be void and unenforceable against the Company or any Affiliate of the Company.

Section 5. Distributions and Adjustments.

(a) If any Shares vest subsequent to any change in the number or character of the Common Stock of the Company through any stock dividend or other distribution, recapitalization, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase or exchange of shares or other securities of the Company, issuance of warrants or other rights to purchase shares of Common Stock or other securities of the Company or other similar corporate transaction or event such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available under this Agreement, then the Committee shall, in such manner as it may deem equitable, in its sole discretion, adjust any or all of the number and type of such Shares.

(b) Any additional shares of Common Stock of the Company, any other securities of the Company and any other property distributed with respect to the Shares prior to the date or dates the Shares vest shall be subject to the same restrictions, terms and conditions as the Shares to which they relate and shall be promptly deposited with the Secretary of the Company or a custodian designated by the Secretary.

Section 6. Taxes.

(a) The Grantee acknowledges that the Grantee will consult with the Grantee's personal tax adviser regarding the income tax consequences of the grant of the Shares, payment of dividends on the Shares, the vesting of the Shares and any other matters related to this Agreement. In order to comply with all applicable federal, state, local or foreign income tax laws or regulations, the Company may take such action as it deems appropriate to ensure that all applicable federal, state, local or foreign payroll, withholding, income or other taxes, which are the Grantee's sole and absolute responsibility, are withheld or collected from the Grantee.

(b) In accordance with the terms of the Plan, and such rules as may be adopted by the Committee administering the Plan, the Grantee may elect to satisfy tax withholding obligations arising from the receipt of, or the lapse of restrictions relating to, the Shares by (i) delivering cash, check, bank draft, money order or wire transfer payable to the order of the Company, (ii) having the Company withhold a portion of the Shares otherwise to be delivered having a Fair Market Value equal to the amount of such taxes, or (iii) delivering to the Company shares of Common Stock having a Fair Market Value equal to the amount of such taxes. The Company will not deliver any fractional Share but will pay, in lieu thereof, the Fair Market Value of such fractional Share. The Grantee's election must be made on or before the date that the amount of tax to be withheld is determined. If the Grantee does not make an election, the Company will withhold a portion of the Shares otherwise to be delivered having a Fair Market Value equal to the amount of such taxes.

Section 7. Non-Solicitation.

The Grantee acknowledges and agrees that during the period of Grantee's employment by the Company (or any Subsidiary), and for a period of one (1) year after termination of Grantee's Service Relationship for any reason, with or without Cause, Grantee shall not directly or indirectly, either alone or in concert with others, solicit, entice, or encourage the hiring of any employee of the Company (or any Subsidiary) unless such person was involuntarily terminated or laid off by the Company (or any Subsidiary).

Section 8. Confidentiality.

The Grantee agrees to keep and maintain in strict confidence all confidential and proprietary information of the Company (or any Subsidiary) during and after the term of employment by the Company, and to never directly or indirectly make known, divulge, reveal, furnish, make available, or use any confidential information (except in the course of regular authorized duties on behalf of the Company or any Subsidiary). Grantee's obligations of confidentiality hereunder shall survive termination of employment regardless of any actual or alleged breach by the Company (or any Subsidiary) in connection with such termination, until and unless any such confidential information shall have become, through no fault of Grantee, generally known to the public or unless Grantee is required by law to make disclosure (after giving the Company or any Subsidiary notice and an opportunity to contest such requirement). Grantee's obligations under this Section are in addition to and not in limitation or preemption of all other obligations of confidentiality which Grantee has to the Company under general legal or equitable principles. All documents and other property including or reflecting confidential information furnished to Grantee by the Company or otherwise acquired or developed by the Company shall at all times be the property of the Company (or any Subsidiary). Upon termination of employment, Grantee shall return to the Company (or any Subsidiary) any such documents or other property (including copies, summaries, or analyses of the foregoing) of the Company (or any Subsidiary) which are in Grantee's possession, custody, or control.

Section 9. Definitions.

Terms not defined in this Agreement shall have the meanings given to them in the Plan.

Section 10. Governing Law.

The internal law, and not the law of conflicts, of the State of California will govern all questions concerning the validity, construction and effect of this Agreement.

Section 11. Plan Provisions.

This Agreement is made under and subject to the provisions of the Plan, and all of the provisions of the Plan are also provisions of this Agreement. If there is a difference or conflict between the provisions of this Agreement and the provisions of the Plan, the provisions of the Plan will govern. By accepting this

Restricted Stock Award, the Grantee confirms that the Grantee has received a copy of the Plan and represents that the Grantee is familiar with the terms and provisions thereof, and hereby accepts this Restricted Stock Award subject to all the terms and provisions of the Plan.

Section 12. No Rights to Continue Service or Employment.

Nothing herein shall be construed as giving the Grantee the right to continue in the employ or to provide services to the Company or any Affiliate, whether as an employee or as a consultant or otherwise, or interfere with or restrict in any way the right of the Company or any Affiliate to discharge the Grantee, whether as an employee or consultant or otherwise, at any time, with or without cause. In addition, the Company or any Affiliate may discharge the Grantee free from any liability or claim under this Agreement.

Section 13. Entire Agreement.

This Agreement together with the Plan supersede any and all other prior understandings and agreements, either oral or in writing, between the parties with respect to the subject matter hereof and constitute the sole and only agreements between the parties with respect to said subject matter. All prior negotiations and agreements between the parties with respect to the subject matter hereof are merged into this Agreement. Each party to this Agreement acknowledges that no representations, inducements, promises or agreements, orally or otherwise, have been made by any party or by anyone acting on behalf of any party, which are not embodied in this Agreement or the Plan and that any agreement, statement or promise that is not contained in this Agreement or the Plan shall not be valid or binding or of any force or effect.

Section 14. Modification.

No change or modification of this Agreement shall be valid or binding upon the parties unless the change or modification is in writing and signed by the parties. Notwithstanding the preceding sentence, the Plan, this Agreement and the Restricted Stock Award may be amended, altered, suspended, discontinued or terminated to the extent permitted by the Plan.

Section 15. Shares Subject to Agreement.

The Shares shall be subject to the terms and conditions of this Agreement. Except as otherwise provided in Section 5, no adjustment shall be made for dividends or other rights for which the record date is prior to the issuance of the Shares. The Company shall not be required to deliver any Shares until the requirements of any federal or state securities or other laws, rules or regulations (including the rules of any securities exchange) as may be determined by the Committee to be applicable are satisfied.

Section 16. Severability.

In the event that any provision that is contained in the Plan or this Agreement is or becomes or is deemed to be invalid, illegal or unenforceable in any jurisdiction or would disqualify the Plan or this Agreement for any reason and under any law as deemed applicable by the Committee, the invalid, illegal or unenforceable provision shall be construed or deemed amended to conform to applicable laws, or if it cannot be so construed or deemed amended without, in the determination of the Committee, materially altering the purpose or intent of the Plan or this Agreement, such provision shall be stricken as to such jurisdiction or Shares, and the remainder of the Plan or this Agreement shall remain in full force and effect.

Section 17. Headings.

Headings are given to the sections and subsections of this Agreement solely as a convenience to facilitate reference. Such headings shall not be deemed in any way material or relevant to the construction or interpretation of this Agreement or any provision hereof.

Section 18. Grantee's Acknowledgments.

The Grantee hereby agrees to accept as binding, conclusive and final all decisions or interpretations of the Committee or the Board of Directors of the Company, as appropriate, upon any questions arising under the Plan or this Agreement. Any determination in this connection by the Company, including the Board of Directors of the Company or the Committee, shall be final, binding and conclusive. The obligations of the Company and the rights of the Grantee are subject to all applicable laws, rules and regulations.

Section 19. Parties Bound.

The terms, provisions and agreements that are contained in this Agreement shall apply to, be binding upon, and inure to the benefit of the parties and their respective heirs, executors, administrators, legal representatives and permitted successors and assigns, subject to the limitation on assignment expressly set forth herein. This Agreement shall have no force or effect unless it is duly executed and delivered by the Company.

Section 20. Counterparts.

This Agreement may be executed in counterparts, each of which shall constitute an original, but both of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

IN WITNESS WHEREOF, each of the parties has executed this Agreement, in the case of the Company by its duly authorized officer, effective as of the day and year first above written.

MOLINA HEALTHCARE, INC.

By: _____
[Name]

Its: [Title]

**MOLINA HEALTHCARE, INC.
2011 EQUITY INCENTIVE PLAN**

PERFORMANCE STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated _____, ____, by and between MOLINA HEALTHCARE, INC., a Delaware corporation (the “**Corporation**”), and _____ (the “**Participant**”), evidences the award of Performance Units (the “**Award**”) granted by the Corporation to the Participant as to the number of Performance Units first set forth below.

Total Number of Performance Units:¹ _____ **Award Date:** _____

Performance Periods for the respective installment of the Award:

[insert performance period applicable to each installment of the award, and number of performance units with respect to each installment]

Vesting^{1,2} The Award shall vest and become nonforfeitable as provided in Section 2 of the attached Terms and Conditions of Performance Unit Award (the “**Terms**”).

The Award is granted under the MOLINA HEALTHCARE, INC. 2011 EQUITY INCENTIVE PLAN AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 1, 2017 (the “**Plan**”) and subject to the Terms attached to this Agreement (incorporated herein by this reference) and to the Plan. The grant of the Award is conditioned on the approval of the proposal in the 2017 proxy statement to amend and restate the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan, and the Prospectus for the Plan.

The Participant acknowledges and agrees that the Corporation may deliver, by electronic mail, the use of the Internet, including through the website of the agent appointed by the Committee to administer the Plan, the Corporation intranet web pages or otherwise, any information concerning the Corporation, this Award, the Plan, and any information required by the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

PARTICIPANT

MOLINA HEALTHCARE, INC.
a Delaware corporation

[Name]

By: _____
[Name, Title]

¹ Subject to adjustment under Section 4.2 of the Plan.

² Subject to early termination under Section 10.7 of the Plan.

TERMS AND CONDITIONS OF PERFORMANCE UNIT AWARD

1. Performance Units.

Each Performance Unit constitutes an unfunded and unsecured promise of the Corporation to deliver up to two shares of the Corporation's common stock to the Participant (subject to adjustment as provided in Section 4.2 of the Plan) pursuant to the terms of this Agreement, subject to the vesting provisions in Exhibit A. The Performance Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Performance Units vest pursuant to Section 2. The Performance Units shall not be treated as property or as a trust fund of any kind.

2. Vesting.

Subject to Section 7, the installments of the Award shall vest and become nonforfeitable at the vesting percentage levels set forth in Exhibit A, based on the achievement of the Performance Goals established by the Committee and set forth on Exhibit A attached hereto for the respective Performance Periods. In the event that the respective performance condition with respect to each installment of the Award is achieved, the respective installment of the Award shall become unconditionally due. Subject to Section 7, any Performance Units subject to the Award that do not vest in accordance with Exhibit A shall terminate as of the last day of the respective Performance Period.

3. Continuance of Service.

Except as otherwise expressly provided in Section 7 below, the vesting schedule requires continued Service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement; and Service for only a portion of any vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of Participant's Service as provided in Section 7 below or under the Plan for such vesting period (or for any later vesting period).

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation, affects the contractual obligations pursuant to any employment or service commitment agreement if Participant is party to such agreement, or in the absence of such agreement affects Participant's status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary Corporation, interferes in any way with the right of the Corporation or any Subsidiary Corporation at any time to terminate Participant's Service, or affects the right of the Corporation or any Subsidiary Corporation to increase or decrease the Participant's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.

4. Limitations on Rights Associated with Performance Units.

The Participant shall have no rights as a stockholder of the Corporation, no dividend rights and no voting rights with respect to the Performance Units and any shares of Common Stock underlying or issuable in respect of such Performance Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5. Restrictions on Transfer.

Unless otherwise determined by the Committee, neither the Award, nor any interest therein may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

6. Conversion of Performance Units; Issuance of Common Stock.

On or as soon as administratively practicable following the last day of the respective Performance Period, and in any event, no later than March 15 of the year following the year in which the vesting event occurs (which payment schedule is intended to comply with the “short-term deferral” exemption from the application of Section 409A of the Code), unless such payment is deferred in accordance with the terms and conditions of the Corporation’s non-qualified compensation deferral plans, the Corporation shall deliver to the Participant the respective number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) for the respective installment of the Performance Units (if any) that vest in accordance with Section 2, unless such Performance Units terminate prior to the given vesting date pursuant to Section 7. The Corporation’s obligation to deliver shares of Common Stock with respect to any vested Performance Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Performance Units deliver to the Corporation any representations or other documents or assurances required pursuant to Section 14 of the Plan. The Participant shall have no further rights with respect to any Performance Units that are paid or that are terminated pursuant to Section 7.

7. Effect of Change in Control or Termination of Employment.

7.1 Effect of Change in Control. In the event of a Change in Control, if, within two years following a Change in Control, the Participant’s Service is terminated by the Corporation without Cause or the Participant terminates his employment for Good Reason, then the Performance Units shall become immediately 100% vested and the Corporation shall deliver to the Participant one share of Common Stock for each Performance Unit that vested as result of such termination.

7.2 Effect of Termination of Participant’s Service. If the Participant’s Service ceases the following rules shall apply (the last day that the Participant’s Service is referred to as the Participant’s “**Severance Date**”):

- other than as expressly provided below in this Section 7.2, the Participant’s Performance Units, to the extent unvested on the Severance Date, shall terminate as of the Severance Date;
- in the event the Participant’s Service is terminated by the Corporation without Cause or is terminated by the Participant for Good Reason, the vesting of the Performance Units shall be accelerated, and the Corporation shall deliver to the Participant one share of Common Stock for each Performance Unit that vested as result of such termination.

For purposes of this Agreement, the following terms shall have the following respective meanings.

“*Cause*” shall have the meaning given to such term in the Employment Agreement.

“*Employment Agreement*” shall mean the Second Amended and Restated Employment Agreement made as of _____, _____ between the Participant and the Corporation, as may be amended from time to time.

“*Good Reason*” shall have the meaning given to such term in the Employment Agreement.

If any unvested Performance Units are terminated hereunder, such Performance Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant’s beneficiary or personal representative, as the case may be.

8. Adjustments Upon Specified Events.

The Committee may accelerate payment and vesting of the Performance Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Corporation’s

stock contemplated by Section 4.2 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in the number of Performance Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. Furthermore, the Committee shall adjust the performance measures and performance goals referenced in Exhibit A hereof to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect (1) any material change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation of the Corporation, (2) any change in accounting policies or practices, (3) the effects of any special charges to the Corporation's earnings, or (4) any other similar special circumstances.

9. Tax Withholding.

Subject to Section 16 of the Plan and such rules and procedures as the Committee may impose, upon any distribution of shares of Common Stock in respect of the Award, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then Fair Market Value, to satisfy any withholding obligations of the Corporation or its Subsidiary Corporations with respect to such distribution of shares at the minimum applicable withholding rates; provided, however, that the foregoing provision shall not apply in the event that the Participant has, subject to the approval of the Committee, made other provision in advance of the date of such distribution for the satisfaction of such withholding obligations. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Award, the Corporation (or a Subsidiary Corporation) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

10. Notices.

Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Corporation, shall be deemed to have been duly given by the Corporation when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

11. Plan.

The Award and all rights of the Participant under this Agreement are subject to, and the Participant agrees to be bound by, all of the terms and conditions of the provisions of the Plan, incorporated herein by reference. In the event of a conflict or inconsistency between the terms and conditions of this Agreement and of the Plan, the terms and conditions of the Plan shall govern. The Participant acknowledges having read and understood the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Committee so conferred by appropriate action of the Committee under the Plan after the date hereof.

12. Construction; Section 409A.

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. Notwithstanding any provision of this Agreement to the contrary, if the Participant is a "specified employee" as defined in Code Section 409A and, as a result of that status, any portion of the payments under this Agreement

would otherwise be subject to taxation pursuant to Code Section 409A, the Participant shall not be entitled to any payments upon a termination of his Service until the earlier of (i) the date which is six (6) months after his termination of Service for any reason other than death, or (ii) the date of the Participant's death; provided the first such payment thereafter shall include all amounts that would have been paid earlier but for such six (6) month delay. The Corporation and the Participant agree to act reasonably and to cooperate to amend or modify this Agreement to the extent reasonably necessary to avoid the imposition of the tax under Code Section 409A.

13. Entire Agreement; Applicability of Other Agreements.

This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 17 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof. Notwithstanding the foregoing, if the Participant is subject to a written employment, change in control or similar agreement with the Corporation that is in effect as of the Participant's Severance Date and the Participant would be entitled under the express provisions of such agreement to greater rights with respect to accelerated vesting of the Award in connection with the termination of the Participant's employment in the circumstances, the provisions of such agreement shall control with respect to such vesting rights, and the corresponding provisions of this Agreement shall not apply.

14. Limitation on Participant's Rights.

Participation in this Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Corporation as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Corporation (or applicable Subsidiary Corporation) with respect to amounts credited and benefits payable in cash, if any, with respect to the Performance Units, and rights no greater than the right to receive the Common Stock (or equivalent value) as a general unsecured creditor with respect to Performance Units, as and when payable thereunder.

15. Forfeiture and Corporation's Right to Recover Fair Market Value of Shares Received Pursuant to Performance Units.

If, at any time, the Board or the Committee, as the case may be, in its sole discretion determines that any action or omission by Participant constituted (a) wrongdoing that contributed to (i) any material misstatement in or omission from any report or statement filed by the Corporation with the U.S. Securities and Exchange Commission or (ii) a statement, certification, cost report, claim for payment, or other filing made under Medicare or Medicaid that was false, fraudulent, or for an item or service not provided as claimed, (b) intentional or gross misconduct, (c) a breach of a fiduciary duty to the Corporation or a Subsidiary Corporation, (d) fraud or (e) non-compliance with the Corporation's Code of Business Conduct and Ethics, policies or procedures to the material detriment of the Corporation, then in each such case, commencing with the first fiscal year of the Corporation during which such action or omission occurred, Participant shall forfeit (without any payment therefore) up to 100% of any Performance Units that have not been vested or settled and shall repay to the Corporation, upon notice to Participant by the Corporation, up to 100% of the Fair Market Value of the shares of Common Stock at the time such shares were delivered to the Participant pursuant to the Performance Units during and after such fiscal year. The Board or the Committee, as the case may be, shall determine in its sole discretion the date of occurrence of such action or omission, the percentage of the Performance Units that shall be forfeited and the percentage of the Fair Market Value of the shares of Common Stock delivered pursuant to the Performance Units that must be repaid to the Corporation.

16. Counterparts.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

17. Section Headings.

The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

18. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California without regard to conflict of law principles thereunder.

EXHIBIT A
PERFORMANCE GOALS

[INSERT APPLICABLE PERFORMANCE GOALS.]

**MOLINA HEALTHCARE, INC.
2011 EQUITY INCENTIVE PLAN**

PERFORMANCE STOCK UNIT AWARD AGREEMENT

THIS PERFORMANCE STOCK UNIT AWARD AGREEMENT (this “**Agreement**”) dated _____, _____, by and between MOLINA HEALTHCARE, INC., a Delaware corporation (the “**Corporation**”), and _____ (the “**Participant**”), evidences the award of Performance Units (the “**Award**”) granted by the Corporation to the Participant as to the number of Performance Units first set forth below.

Total Number of Performance Units: _____ **Award Date:** _____

Performance Periods for the respective installment of the Award:

[insert performance period applicable to each installment of the award, and number of performance units with respect to each installment]

Vesting^{1,2} The Award shall vest and become nonforfeitable as provided in Section 2 of the attached Terms and Conditions of Performance Unit Award (the “**Terms**”).

The Award is granted under the MOLINA HEALTHCARE, INC. 2011 EQUITY INCENTIVE PLAN AMENDED AND RESTATED EFFECTIVE AS OF JANUARY 1, 2017 (the “**Plan**”) and subject to the Terms attached to this Agreement (incorporated herein by this reference) and to the Plan. The grant of the Award is conditioned on the approval of the proposal in the 2017 proxy statement to amend and restate the Plan. The Award has been granted to the Participant in addition to, and not in lieu of, any other form of compensation otherwise payable or to be paid to the Participant. Capitalized terms are defined in the Plan if not defined herein. The parties agree to the terms of the Award set forth herein. The Participant acknowledges receipt of a copy of the Terms, the Plan, and the Prospectus for the Plan.

The Participant acknowledges and agrees that the Corporation may deliver, by electronic mail, the use of the Internet, including through the website of the agent appointed by the Committee to administer the Plan, the Corporation intranet web pages or otherwise, any information concerning the Corporation, this Award, the Plan, and any information required by the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

PARTICIPANT

MOLINA HEALTHCARE, INC.
a Delaware corporation

[Name]

By: _____
[Name], [Title]

¹ Subject to adjustment under Section 4.2 of the Plan.

² Subject to early termination under Section 10.7 of the Plan.

TERMS AND CONDITIONS OF PERFORMANCE UNIT AWARD

1. Performance Units.

Each Performance Unit constitutes an unfunded and unsecured promise of the Corporation to deliver up to two shares of the Corporation's common stock to the Participant (subject to adjustment as provided in Section 4.2 of the Plan) pursuant to the terms of this Agreement, subject to the vesting provisions in Exhibit A. The Performance Units shall be used solely as a device for the determination of the payment to eventually be made to the Participant if such Performance Units vest pursuant to Section 2. The Performance Units shall not be treated as property or as a trust fund of any kind.

2. Vesting.

Subject to Section 7, the installments of the Award shall vest and become nonforfeitable at the vesting percentage levels set forth in Exhibit A, based on the achievement of the Performance Goals established by the Committee and set forth on Exhibit A attached hereto for the respective Performance Periods. In the event that the respective performance condition with respect to each installment of the Award is achieved, the respective installment of the Award shall become unconditionally due. Subject to Section 7, any Performance Units subject to the Award that do not vest in accordance with Exhibit A shall terminate as of the last day of the respective Performance Period.

3. Continuance of Service.

Except as otherwise expressly provided in Section 7 below, the vesting schedule requires continued Service through each applicable vesting date as a condition to the vesting of the applicable installment of the Award and the rights and benefits under this Agreement; and Service for only a portion of any vesting period, even if a substantial portion, will not entitle the Participant to any proportionate vesting or avoid or mitigate a termination of rights and benefits upon or following a termination of Participant's Service as provided in Section 7 below or under the Plan for such vesting period (or for any later vesting period).

Nothing contained in this Agreement or the Plan constitutes an employment or service commitment by the Corporation, affects the contractual obligations pursuant to any employment or service commitment agreement if Participant is party to such agreement, or in the absence of such agreement affects Participant's status as an employee at will who is subject to termination without cause, confers upon the Participant any right to remain employed by or in service to the Corporation or any Subsidiary Corporation, interferes in any way with the right of the Corporation or any Subsidiary Corporation at any time to terminate Participant's Service, or affects the right of the Corporation or any Subsidiary Corporation to increase or decrease the Participant's other compensation or benefits. Nothing in this paragraph, however, is intended to adversely affect any independent contractual right of the Participant without his consent thereto.

4. Limitations on Rights Associated with Performance Units.

The Participant shall have no rights as a stockholder of the Corporation, no dividend rights and no voting rights with respect to the Performance Units and any shares of Common Stock underlying or issuable in respect of such Performance Units until such shares of Common Stock are actually issued to and held of record by the Participant. No adjustments will be made for dividends or other rights of a holder for which the record date is prior to the date of issuance of the stock certificate.

5. Restrictions on Transfer.

Unless otherwise determined by the Committee, neither the Award, nor any interest therein may be sold, assigned, transferred, pledged or otherwise disposed of, alienated or encumbered, either voluntarily or involuntarily. The transfer restrictions in the preceding sentence shall not apply to (a) transfers to the Corporation, or (b) transfers by will or the laws of descent and distribution.

6. Conversion of Performance Units; Issuance of Common Stock.

On or as soon as administratively practicable following the last day of the respective Performance Period, and in any event, no later than March 15 of the year following the year in which the vesting event occurs (which payment schedule is intended to comply with the “short-term deferral” exemption from the application of Section 409A of the Code), unless such payment is deferred in accordance with the terms and conditions of the Corporation’s non-qualified compensation deferral plans, the Corporation shall deliver to the Participant the respective number of shares of Common Stock (either by delivering one or more certificates for such shares or by entering such shares in book entry form, as determined by the Corporation in its discretion) for the respective installment of the Performance Units (if any) that vest in accordance with Section 2, unless such Performance Units terminate prior to the given vesting date pursuant to Section 7. The Corporation’s obligation to deliver shares of Common Stock with respect to any vested Performance Units is subject to the condition precedent that the Participant or other person entitled under the Plan to receive any shares with respect to the vested Performance Units deliver to the Corporation any representations or other documents or assurances required pursuant to Section 14 of the Plan. The Participant shall have no further rights with respect to any Performance Units that are paid or that are terminated pursuant to Section 7.

7. Effect of Change in Control or Termination of Employment.

7.1 Effect of Change in Control. In the event of a Change in Control, if, within twelve (12) months following a Change in Control, the Participant’s Service is terminated by the Corporation without Cause or the Participant terminates his employment for Good Reason, then the Performance Units shall become immediately 100% vested and the Corporation shall deliver to the Participant one share of Common Stock for each Performance Unit that vested as result of such termination.

7.2 Effect of Termination of Participant’s Service. If the Participant’s Service ceases for any reason (the last day that the Participant’s Service is referred to as the Participant’s “**Severance Date**”), the Participant’s Performance Units, to the extent unvested on the Severance Date, shall terminate and be forfeited as of the Severance Date.

For purposes of this Agreement, the following terms shall have the following respective meanings.

“*Cause*” shall have the meaning given to such term in the Employment Agreement.

“*Employment Agreement*” shall mean the Employment Agreement made as of _____, _____, between the Participant and the Corporation, as may be amended from time to time.

“*Good Reason*” shall have the meaning given to such term in the Employment Agreement.

If any unvested Performance Units are terminated hereunder, such Performance Units shall automatically terminate and be cancelled as of the applicable termination date without payment of any consideration by the Corporation and without any other action by the Participant, or the Participant’s beneficiary or personal representative, as the case may be.

8. Adjustments Upon Specified Events.

The Committee may accelerate payment and vesting of the Performance Units in such circumstances as it, in its sole discretion, may determine. In addition, upon the occurrence of certain events relating to the Corporation’s stock contemplated by Section 4.2 of the Plan (including, without limitation, an extraordinary cash dividend on such stock), the Committee shall make adjustments in the number of Performance Units then outstanding and the number and kind of securities that may be issued in respect of the Award. No such adjustment shall be made with respect to any ordinary cash dividend paid on the Common Stock. Furthermore, the Committee shall adjust the performance measures and performance goals referenced in Exhibit A hereof to the extent (if any) it determines that the adjustment is necessary or advisable to preserve the intended incentives and benefits to reflect (1) any material

change in corporate capitalization, any material corporate transaction (such as a reorganization, combination, separation, merger, acquisition, or any combination of the foregoing), or any complete or partial liquidation of the Corporation, (2) any change in accounting policies or practices, (3) the effects of any special charges to the Corporation's earnings, or (4) any other similar special circumstances.

9. Tax Withholding.

Subject to Section 16 of the Plan and such rules and procedures as the Committee may impose, upon any distribution of shares of Common Stock in respect of the Award, the Corporation shall automatically reduce the number of shares to be delivered by (or otherwise reacquire) the appropriate number of whole shares, valued at their then Fair Market Value, to satisfy any withholding obligations of the Corporation or its Subsidiary Corporations with respect to such distribution of shares at the minimum applicable withholding rates; provided, however, that the foregoing provision shall not apply in the event that the Participant has, subject to the approval of the Committee, made other provision in advance of the date of such distribution for the satisfaction of such withholding obligations. In the event that the Corporation cannot legally satisfy such withholding obligations by such reduction of shares, or in the event of a cash payment or any other withholding event in respect of the Award, the Corporation (or a Subsidiary Corporation) shall be entitled to require a cash payment by or on behalf of the Participant and/or to deduct from other compensation payable to the Participant any sums required by federal, state or local tax law to be withheld with respect to such distribution or payment.

10. Notices.

Any notice to be given under the terms of this Agreement shall be in writing and addressed to the Corporation at its principal office to the attention of the Secretary, and to the Participant at the Participant's last address reflected on the Corporation's records, or at such other address as either party may hereafter designate in writing to the other. Any such notice shall be given only when received, but if the Participant is no longer an employee of the Corporation, shall be deemed to have been duly given by the Corporation when enclosed in a properly sealed envelope addressed as aforesaid, registered or certified, and deposited (postage and registry or certification fee prepaid) in a post office or branch post office regularly maintained by the United States Government.

11. Plan.

The Award and all rights of the Participant under this Agreement are subject to, and the Participant agrees to be bound by, all of the terms and conditions of the provisions of the Plan, incorporated herein by reference. In the event of a conflict or inconsistency between the terms and conditions of this Agreement and of the Plan, the terms and conditions of the Plan shall govern. The Participant acknowledges having read and understood the Plan, the Prospectus for the Plan, and this Agreement. Unless otherwise expressly provided in other sections of this Agreement, provisions of the Plan that confer discretionary authority on the Committee do not (and shall not be deemed to) create any rights in the Participant unless such rights are expressly set forth herein or are otherwise in the sole discretion of the Committee so conferred by appropriate action of the Committee under the Plan after the date hereof.

12. Construction; Section 409A.

It is intended that the terms of the Award will not result in the imposition of any tax liability pursuant to Section 409A of the Code. This Agreement shall be construed and interpreted consistent with that intent. Notwithstanding any provision of this Agreement to the contrary, if the Participant is a "specified employee" as defined in Code Section 409A and, as a result of that status, any portion of the payments under this Agreement would otherwise be subject to taxation pursuant to Code Section 409A, the Participant shall not be entitled to any payments upon a termination of his Service until the earlier of (i) the date which is six (6) months after his termination of Service for any reason other than death, or (ii) the date of the Participant's death; provided the first such payment thereafter shall include all amounts that would have been paid earlier but for such six (6) month delay. The Corporation and the Participant agree to act reasonably and to cooperate to amend or modify this Agreement to the extent reasonably necessary to avoid the imposition of the tax under Code Section 409A.

13. Entire Agreement; Applicability of Other Agreements.

This Agreement and the Plan together constitute the entire agreement and supersede all prior understandings and agreements, written or oral, of the parties hereto with respect to the subject matter hereof. The Plan and this Agreement may be amended pursuant to Section 17 of the Plan. Such amendment must be in writing and signed by the Corporation. The Corporation may, however, unilaterally waive any provision hereof in writing to the extent such waiver does not adversely affect the interests of the Participant hereunder, but no such waiver shall operate as or be construed to be a subsequent waiver of the same provision or a waiver of any other provision hereof. Notwithstanding the foregoing, if the Participant is subject to a written employment, change in control or similar agreement with the Corporation that is in effect as of the Participant's Severance Date and the Participant would be entitled under the express provisions of such agreement to greater rights with respect to accelerated vesting of the Award in connection with the termination of the Participant's employment in the circumstances, the provisions of such agreement shall control with respect to such vesting rights, and the corresponding provisions of this Agreement shall not apply.

14. Limitation on Participant's Rights.

Participation in this Plan confers no rights or interests other than as herein provided. This Agreement creates only a contractual obligation on the part of the Corporation as to amounts payable and shall not be construed as creating a trust. Neither the Plan nor any underlying program, in and of itself, has any assets. The Participant shall have only the rights of a general unsecured creditor of the Corporation (or applicable Subsidiary Corporation) with respect to amounts credited and benefits payable in cash, if any, with respect to the Performance Units, and rights no greater than the right to receive the Common Stock (or equivalent value) as a general unsecured creditor with respect to Performance Units, as and when payable thereunder.

15. Forfeiture and Corporation's Right to Recover Fair Market Value of Shares Received Pursuant to Performance Units.

If, at any time, the Board or the Committee, as the case may be, in its sole discretion determines that any action or omission by Participant constituted (a) wrongdoing that contributed to (i) any material misstatement in or omission from any report or statement filed by the Corporation with the U.S. Securities and Exchange Commission or (ii) a statement, certification, cost report, claim for payment, or other filing made under Medicare or Medicaid that was false, fraudulent, or for an item or service not provided as claimed, (b) intentional or gross misconduct, (c) a breach of a fiduciary duty to the Corporation or a Subsidiary Corporation, (d) fraud or (e) non-compliance with the Corporation's Code of Business Conduct and Ethics, policies or procedures to the material detriment of the Corporation, then in each such case, commencing with the first fiscal year of the Corporation during which such action or omission occurred, Participant shall forfeit (without any payment therefore) up to 100% of any Performance Units that have not been vested or settled and shall repay to the Corporation, upon notice to Participant by the Corporation, up to 100% of the Fair Market Value of the shares of Common Stock at the time such shares were delivered to the Participant pursuant to the Performance Units during and after such fiscal year. The Board or the Committee, as the case may be, shall determine in its sole discretion the date of occurrence of such action or omission, the percentage of the Performance Units that shall be forfeited and the percentage of the Fair Market Value of the shares of Common Stock delivered pursuant to the Performance Units that must be repaid to the Corporation.

16. Counterparts.

This Agreement may be executed simultaneously in any number of counterparts, each of which shall be deemed an original but all of which together shall constitute one and the same instrument.

17. Section Headings.

The section headings of this Agreement are for convenience of reference only and shall not be deemed to alter or affect any provision hereof.

18. Governing Law.

This Agreement shall be governed by and construed and enforced in accordance with the laws of the State of California without regard to conflict of law principles thereunder.

EXHIBIT A
PERFORMANCE GOALS

[INSERT APPLICABLE PERFORMANCE GOALS.]

**CERTIFICATION PURSUANT TO
RULES 13a-14(a)/15d-14(a)
UNDER THE SECURITIES EXCHANGE
ACT OF 1934, AS AMENDED**

I, Joseph W. White, certify that:

1. I have reviewed the annual report on Form 10-Q for the period ended March 31, 2017 of Molina Healthcare, Inc.;
2. Based on my knowledge, the report does not contain any untrue statement of a material fact or omit to state a material fact necessary in order 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 the report;
3. Based on my knowledge, the financial statements, and other financial information included in the 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 the report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended), and internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Securities Exchange Act of 1934, as amended), for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my 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 my 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 the report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by the report based on such evaluation; and
 - (d) Disclosed in the 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. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and to 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 financial 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.

Dated: May 4, 2017

/s/ Joseph W. White

Joseph W. White
Interim Chief Executive Officer
Chief Financial Officer

**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 report of Molina Healthcare, Inc. (the "Company") on Form 10-Q for the period ended March 31, 2017 (the "Report"), I, Joseph W. White, Interim Chief Executive Officer and 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.

Dated: May 4, 2017

/s/ Joseph W. White

Joseph W. White
Interim Chief Executive Officer
Chief Financial Officer

