UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended December 31, 2009

☐ **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: 1-12718

HEALTH NET, INC.

(Exact Name of Registrant as Specified in Its Charter)

Delaware	**95-4288333**
(State or Other Jurisdiction of Incorporation or Organization)	**(I.R.S. Employer Identification No.)**
21650 Oxnard Street, Woodland Hills, CA	**91367**
(Address of Principal Executive Offices)	**(Zip Code)**

Registrant's Telephone Number, Including Area Code: (818) 676-6000

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, $.001 par value	**New York Stock Exchange, Inc.**
Rights to Purchase Series A Junior Participating Preferred Stock	**New York Stock Exchange, Inc.**

Securities Registered Pursuant to Section 12(g) of the Act: None

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

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

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

☒ Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer (Do not check if a smaller reporting company) ☐ Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting stock held by non-affiliates of the registrant at June 30, 2009 was $1,603,011,760 (which represents 103,087,573 shares of Common Stock held by such non-affiliates multiplied by $15.55, the closing sales price of such stock on the New York Stock Exchange on June 30, 2009).

The number of shares outstanding of the registrant's Common Stock as of February 22, 2010 was 100,190,356 (excluding 44,456,857 shares held as treasury stock).

Documents Incorporated By Reference

Part III of this Form 10-K incorporates by reference certain information from the registrant's definitive proxy statement for the 2010 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission within 120 days after the close of the year ended December 31, 2009.

HEALTH NET, INC.

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PART I

Item 1. Business.

General

We are an integrated managed care organization that delivers managed health care services through health plans and government-sponsored managed care plans. We operate and conduct our businesses through subsidiaries of Health Net, Inc., which is among the nation's largest publicly traded managed health care companies. In this Annual Report on Form 10-K, unless the context otherwise requires, the terms "Company," "Health Net," "we," "us," and "our" refer to Health Net, Inc. and its subsidiaries. Our health plans and government contracts subsidiaries provide health benefits through our health maintenance organizations ("HMOs"), insured preferred provider organizations ("PPOs"), point-of-service ("POS") and indemnity plans to approximately 6.1 million individuals across the country through group, individual, Medicare, (including the Medicare prescription drug benefit commonly referred to as "Part D"), Medicaid, TRICARE and Veterans Affairs programs. Our behavioral health services subsidiary, Managed Health Network, provides behavioral health, substance abuse and employee assistance programs to approximately 6.5 million individuals, including our own health plan members. Our subsidiaries also offer managed health care products related to prescription drugs and offer managed health care product coordination for multi-region employers and administrative services for self-funded benefits programs. In addition, we own health and life insurance companies licensed to sell PPO, POS and indemnity products, as well as auxiliary non-health products such as life and accidental death and dismemberment, dental, vision, behavioral health and disability insurance, including our Medicare Part D Pharmacy coverage under Medicare.

Our executive offices are located at 21650 Oxnard Street, Woodland Hills, California 91367, and our Internet web site address is *www.healthnet.com.*

We make available free of charge on or through our Internet web site, *www.healthnet.com*, our Annual Report on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K and all amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission ("SEC"). Copies of our Corporate Governance Guidelines, Code of Business Conduct and Ethics, Director Independence Standards and charters for the Audit Committee, Compensation Committee, Governance Committee and Finance Committee of our Board of Directors are also available on our Internet web site. We will provide electronic or paper copies free of charge upon request.

Our transfer agent, Wells Fargo, can help you with a variety of shareholder-related services, including change of address, lost stock certificates, transfer of stock to another person and other administrative services. You can write to our transfer agent at: Wells Fargo Shareowner Services, P.O. Box 64854, St. Paul, Minnesota 55164-0854, email stocktransfer@wellsfargo.com, or telephone (800) 468-9716 or (651) 450-4064.

Segment Information

We currently operate within three reportable segments, Northeast Operations, West Operations and Government Contracts, each of which is described below. For additional financial information regarding our reportable segments, see "Results of Operations" in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and Note 14 to our consolidated financial statements included as part of this Annual Report on Form 10-K.

Northeast Operations Segment

On December 11, 2009, we completed the sale (the "Northeast Sale") of all of the outstanding shares of capital stock of our New York, New Jersey, Connecticut and Bermuda subsidiaries that conducted our Northeast

operations (the "Acquired Companies"). The sale was made pursuant to a Stock Purchase Agreement (the "Stock Purchase Agreement"), dated as of July 20, 2009, by and among the Company, Health Net of the Northeast, Inc. ("HNNE"), Oxford Health Plans, LLC ("Buyer") and, solely for the purposes of guaranteeing Buyer's obligations thereunder, UnitedHealth Group Incorporated ("United"). At the closing of the Northeast Sale, affiliates of United also acquired membership renewal rights for certain health care business conducted by our subsidiary, Health Net Life Insurance Company ("HNL"), in the states of Connecticut and New Jersey. We will continue to serve the members of the Acquired Companies under Administrative Services Agreements we entered into with United and certain of its affiliates (the "United Administrative Services Agreements"), until all members are either transitioned to legacy United products or non-renewed. Prior to the Northeast Sale, our Northeast Operations reportable segment included our commercial, Medicare and Medicaid health plans, the operations of our HMOs in Connecticut, New York and New Jersey and our New York insurance company. Following the Northeast Sale, our Northeast Operations reportable segment includes the operations of our businesses that are providing administrative services to United and its affiliates pursuant to the United Administrative Services Agreements. We retained HNL's stand-alone Part D business in Connecticut and New Jersey following the Northeast Sale, and those results of operations are reported in our West Operations reportable segment.

At the closing of the Northeast Sale, United paid to the Company $350 million, consisting of (i) a $60 million minimum payment for the commercial membership of the acquired business and the Medicare and Medicaid businesses of the Acquired Companies, and (ii) $290 million, representing a portion of the adjusted tangible net equity of the Acquired Companies at closing. Under the Stock Purchase Agreement, the Company will receive one-half of the remaining amount of the closing adjusted tangible net equity of the Acquired Companies on the first anniversary of closing and the other half on the second anniversary, estimated to be $160 million subject to certain adjustments. After closing, United could pay us additional consideration as our Northeast commercial members, Medicare and/or Medicaid businesses transition to other United products to the extent such amounts exceed the initial minimum payment of $60 million.

Under the Stock Purchase Agreement, we retain financial responsibility for the profits or losses, subject to specified adjustments, of the Acquired Companies for the period beginning on the closing date and ending on the earlier of (i) the second anniversary of the closing date and (ii) the date that all of the United Administrative Services Agreements are terminated. We expect the United Administrative Services Agreements to be in effect for approximately two years following the closing of the transaction, and anticipate that these profits or losses and the other expenses we incur in performing the administrative services could be significant. After termination of the United Administrative Services Agreements, we have agreed to provide claims servicing to the Acquired Companies for any claims remaining at that time.

Under the Stock Purchase Agreement, we also will be entitled to 50 percent of the profits or losses associated with the Acquired Companies' Medicare business for the year ended December 31, 2010 (subject to a cap of $10 million of profit or loss). In the event that the Acquired Companies renew the Medicare contract for the acquired business for the year ended December 31, 2011, United will be entitled to all of the after-tax profits and losses relating to the business for that year (subject to certain limitations). We have agreed to administer the Medicare business of the Acquired Companies for 2010 and for 2011 (only if the related Medicare contract is not transferred to a non-Acquired Company affiliate of United as of January 1, 2011). We expect to administer the Medicaid business of the Acquired Companies until no later than June 30, 2010, which is the termination date for the related Medicaid contract.

See "Item 7. Management's Discussion and Analysis and Results of Operations—Recent Developments," "Item 1A. Risk Factors—*Under the United Administrative Services Agreements, we are obligated to provide administrative services in connection with the wind-down and run-off of the acquired business, which exposes us to operational and financial risks*" and "Item 1A. Risk Factors—*Under the agreements that govern the Northeast Sale, we have retained responsibility for certain liabilities of the acquired business, which could be substantial*" for additional information regarding the Northeast Sale and our Northeast Operations segment.

West Operations Segment

Our West Operations segment includes the operations of our commercial, Medicare (including Part D) and Medicaid health plans, the operations of our health and life insurance companies and our behavioral health and pharmaceutical services subsidiaries in Arizona, California and Oregon. As of December 31, 2009, we had approximately 2.5 million at-risk members and 0.5 million Medicare stand-alone Part D members in our West Operations segment.

Managed Health Care Operations

We offer a full spectrum of managed health care products and services. Our strategy is to offer to employers and individuals managed health care products and services that, among other things, provide comprehensive coverage and manage health care costs. Our health plans offer members coverage for a wide range of health care services including ambulatory and outpatient physician care, hospital care, pharmacy services, behavioral health and ancillary diagnostic and therapeutic services. Our health plans include a matrix package, which allows members to select their desired coverage from a variety of alternatives. Our principal commercial health care products are as follows:

- *HMO Plans*: Our HMO plans offer comprehensive benefits generally through contracts with participating network physicians, hospitals and other providers. When an individual enrolls in one of our HMO plans, he or she may select a primary care physician ("PCP") from among the physicians participating in our network. PCPs generally are family practitioners, general practitioners or pediatricians who provide necessary preventive and primary medical care, and are generally responsible for coordinating other necessary health care services, including making referrals to participating network specialists. We offer HMO plans with differing benefit designs and varying levels of co-payments that result in different levels of premium rates. In California, participating providers are typically contracted through medical groups. In those cases, enrollees in HMO plans are generally required to secure specialty professional services from physicians in the group, as long as such services are available from group physicians.
- *PPO Plans*: Our PPO plans offer coverage for services received from any health care provider, with benefits generally paid at a higher level when care is received from a participating network provider. Coverage typically is subject to deductibles and co-payments or coinsurance.
- *Indemnity Plans:* Our indemnity plans offer the member the ability to select any health care provider for covered services. Some care management features may be included in these plans, such as inpatient precertification, disease management programs and benefits for preventive services. Coverage typically is subject to deductibles and coinsurance.
- *POS Plans:* Our POS plans blend the characteristics of HMO, PPO and Indemnity plans. Members can have comprehensive HMO-style benefits for services received from participating network providers with lower co-payments (particularly within the medical group), but also have coverage, generally at higher co-payment or coinsurance levels, for services received outside the network.

As of December 31, 2009, with respect to our West Operations Segment, 36% of our commercial members were covered by POS and PPO products, 62% were covered by conventional HMO products and 2% were covered by fee-for-service products, including health plans such as consumer-directed health care plans.

We believe we are well positioned for further healthcare reform and a challenging economic environment. Our strategy is to design products that address the growing need for affordable products with predictable costs, low co-payments and limited or no deductibles. Our product portfolios and services include offerings such as:

- Narrow network health plans that address the need for lower cost product offerings and include comprehensive benefits. Our HMO Silver plan in Southern California is an example of this type of product.
- Salud Con Health Net℠, a family of affordable healthcare insurance products targeting the Latino community in Southern California. These products are available in Los Angeles, Orange, San Bernardino, San Diego, Riverside and Ventura counties and were developed by Health Net of

California and Health Net Life Insurance Company to respond to the health care needs of uninsured Latino immigrants and their families. These products include group and individual coverage. The individual health care plans are the first-ever cross-border health care plans made available to individual consumers who purchase benefits directly from insurers.

- Decision Power[SM], a series of programs designed to directly involve patients in their health care decisions.
- Community enrollment and customer service centers in East Los Angeles, California and Modesto, California.

The pricing of our products is designed to reflect the varying costs of health care based on the benefit alternatives in our products. We provide employers and employees the ability to select and enroll in products with greater managed health care and cost containment elements. In general, our HMOs provide comprehensive health care coverage for a fixed fee or premium that does not vary with the extent or frequency of medical services actually received by the member. PPO enrollees obtain their medical care from a panel of contracting providers or choose a non-contracting provider and are reimbursed on a traditional indemnity plan basis after reaching an annual deductible. POS enrollees choose, each time they receive care, from conventional HMO or indemnity-like (in-network and out-of-network) coverage, with payments and/or reimbursement depending on the coverage chosen. We assume both underwriting and administrative expense risk in return for the premium revenue we receive from our HMO, POS and PPO products. We have contractual relationships with health care providers for the delivery of health care to our enrollees in each product category.

In 2009, we continued to focus on adding small group (generally defined as employer groups with 2 to 50 employees) members and, as of December 31, 2009, approximately 30% of our commercial risk enrollment was in small group and individual accounts. The following table contains membership information relating to our commercial large group (generally defined as an employer group with more than 50 employees) members, commercial small group and individual members, Medicare members, Medicaid members, ASO members and Part D members as of December 31, 2009 (our Medicare and Medicaid businesses are discussed below under "—Medicare Products" and "—Medicaid and Related Products"):

Commercial—Large Group	1,000,626(a)
Commercial—Small Group & Individual	439,287(b)
Medicare (Medicare Advantage only)	226,868
Medicaid	857,388
ASO	5,150
Stand-alone PDP	460,216

(a) Includes 698,361 HMO members, 157,568 POS members, 120,922 PPO members, 742 exclusive provider organization members and 23,033 Fee-for-Service members.

(b) Includes 195,200 HMO members, 37,947 POS members, 206,136 PPO members and 4 Fee-for-Service members.

The following table sets forth certain information regarding our employer groups in the commercial managed care operations of our West Operations segment as of December 31, 2009:

Number of Employer Groups	38,287
Largest Employer Group as % of commercial enrollment	8.6%
10 largest Employer Groups as % of commercial enrollment	23.3%

Detailed membership information regarding our Arizona, California and Oregon health plans is set forth below. See "Item 7. Management's Discussion and Analysis and Results of Operations—Health Plan Services Membership" for a discussion on changes in our membership levels during 2009.

Arizona. Our Arizona health plan operations are conducted by our subsidiaries, Health Net of Arizona, Inc. and Health Net Life Insurance Company ("HNL"). Our commercial membership in Arizona was 95,430 as of December 31, 2009. Our Medicare membership in Arizona was 64,718 as of December 31, 2009. We did not have any Medicaid members in Arizona as of December 31, 2009.

California. In California, our health plan operations are conducted by our subsidiaries Health Net of California, Inc. ("HN California"), HNL and Health Net Community Solutions, Inc. HN California, our California HMO, is one of the largest HMOs in California as measured by total membership and has one of the largest provider networks in California. Our commercial membership in California as of December 31, 2009 was 1,226,069. Our Medicare membership in California as of December 31, 2009 was 137,604. Our Medicaid membership in California as of December 31, 2009 was 857,388 members.

Oregon. Our Oregon health plan operations are conducted by Health Net Health Plan of Oregon, Inc. and HNL. Our commercial membership in Oregon was 118,414 as of December 31, 2009. Of these members, approximately 11% are covered under policies issued in Washington state. Our Medicare membership in Oregon was 24,546 as of December 31, 2009. We did not have any Medicaid members in Oregon as of December 31, 2009.

Medicare Products

We offer a wide range of Medicare products, including Medicare Advantage plans with and without prescription drug coverage, Medicare Part D stand-alone prescription drug plans ("PDP"), and Medicare supplement products that supplement traditional fee-for-service Medicare coverage. Our subsidiaries have a number of contracts with the Centers for Medicare & Medicaid Services ("CMS") under the Medicare Advantage and PDP programs authorized under the Medicare Prescription Drug Improvement and Modernization Act of 2003 ("MMA").

Medicare Advantage Products

As of December 31, 2009, we were one of the nation's largest Medicare Advantage contractors based on membership of 232,935 members. We contract with CMS under the Medicare Advantage program to provide Medicare Advantage products directly to Medicare beneficiaries and through employer and union groups. We provide or arrange health care services normally covered by Medicare, plus a broad range of health care services not covered by traditional Medicare, usually in exchange for a fixed monthly premium per member from CMS that varies based on the geographic area in which the member resides, demographic factors of the member such as age, gender and institutionalized status, and the health status of the member. Any additional benefits in our plans are covered by a monthly premium charged to the enrollee or through portions of payments received from CMS that may be allocated to these benefits, per CMS regulations and guidance.

Our portfolio of Medicare Advantage plans focuses on simplicity so that members can sign up and use benefits with minimal paperwork and receive coverage that starts immediately upon enrollment. We also provide Medicare supplemental coverage to 31,692 members through either individual Medicare supplement policies or employer group sponsored coverage, as of December 31, 2009.

We currently offer Medicare Advantage plans in select counties in Arizona, California, Oregon, and Washington. As a result of the Northeast Sale on December 11, 2009, we no longer offer Medicare Advantage products in Connecticut, which resulted in the loss of 52,851 Medicare Advantage members. For additional information regarding the Northeast Sale, see "—Northeast Operations Segment." In addition, we did not renew our contract with CMS to offer Private Fee for Service plans in any state or our regional PPO plan in Arizona for 2010, and we adjusted premium and benefits on our Medicare Advantage plans to address rate reductions from CMS for the 2010 plan year. See "—Government Regulation—Federal Legislation and Regulation—Medicare Legislation" and "Item 1A. Risk Factors—*Our efforts to capitalize on Medicare business opportunities could prove to be unsuccessful*" for additional information regarding our Medicare program.

We also currently offer multiple types of Medicare Advantage Special Needs Plans, including dual eligible Special Needs Plans (designed for low income Medicare beneficiaries) in Arizona and California and chronic condition Special Needs Plans (designed for beneficiaries with chronic obstructive pulmonary disease and congestive heart failure) in California. These plans provide access to additional health care and prescription drug coverage. In early 2010, we implemented the new CMS Model of Care guidelines for our Special Needs Plan members under which every member will receive intense care management based on his or her individual needs. For 2010, we discontinued our hypercholesterolemia chronic condition Special Needs Plans in Arizona, California and Oregon.

Medicare Part D Stand-Alone Prescription Drug Plans

We are also a major participant in the Medicare prescription drug benefit program with 460,216 members across all 50 states (except New York) and the District of Columbia, as of December 31, 2009. We offer PDPs covering basic benefits mandated by Congress, as well as plans providing enhanced coverage with varying degrees of out-of-pocket costs for premiums, deductibles and coinsurance. Our revenues from CMS and the beneficiary are determined from our annual bids submitted to CMS. These revenues also reflect the health status of the beneficiary and risk sharing provisions. As a result of the Northeast Sale, we no longer offer Part D coverage in New York, which resulted in the loss of 12,524 Part D members. For additional information regarding the Northeast Sale, see "—Northeast Operations Segment." We also provide Part D drug coverage through our Medicare Advantage program and Special Needs Plans.

Medicaid and Related Products

We are one of the top ten largest Medicaid HMOs in the United States based on membership. As of December 31, 2009, we had an aggregate of 857,388 members enrolled in Medi-Cal, California's Medicaid program, and other California state health programs. As a result of the Northeast Sale, we lost 54,423 Medicaid members in New Jersey. For additional information regarding the Northeast Sale, see "—Northeast Operations Segment." To enroll in our California Medicaid products, an individual must be eligible for Medicaid benefits in accordance with California's regulatory requirements. The State of California's Department of Health Care Services ("DHCS") pays us a monthly fee for the coverage of our Medicaid members. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations—Health Plan Services Membership" for detailed information regarding our Medicaid enrollment.

Medi-Cal is a public health insurance program which provides health care services for low-income individuals, and is financed by California and the federal government. As of December 31, 2009, we had Medi-Cal operations in ten of California's largest counties: Los Angeles, Fresno, Kern, Orange, Stanislaus, Riverside, Sacramento, San Bernardino, San Diego and Tulare. We are the sole commercial plan contractor with DHCS to provide Medi-Cal services in Los Angeles County, California. As of December 31, 2009, 435,467 of our Medi-Cal members resided in Los Angeles County, California, representing approximately 62% of our Medi-Cal membership and approximately 51% of our membership in all California state health programs. In May 2005, we renewed our contract with DHCS to provide Medi-Cal service in Los Angeles County. The renewed contract was effective April 1, 2006 and had an initial term of two years with three 24-month extension periods. On February 14, 2008, DHCS extended our contract for an initial 24-month extension period ending March 31, 2010. On January 8, 2010, we accepted DHCS' offer to extend our contract for a second 24-month extension period ending March 31, 2012, and we and DHCS are in the process of executing a formal amendment of the contract to this effect.

Our California HMO, HN California, participates in the Children's Health Insurance Program ("CHIP"), which, in California, is known as the Healthy Families program. As of December 31, 2009, there were 153,423 members, including 5,415 Healthy Kids members, in our Healthy Families program. CHIP was designed as a federal/state partnership, similar to Medicaid, with the goal of extending health insurance to children whose families earn too much money to be eligible for Medicaid, but not enough money to purchase private insurance. Monthly premiums are subsidized by the State of California and, as of November 1, 2009, range between $4 and

$24 per child, up to a maximum of $72 for all children in a family enrolled in the Healthy Families Program. California receives two-thirds of the funding for the program from the federal government.

Administrative Services Only Business

We provide ASO products to large employer groups in California. Under these arrangements, we provide claims processing, customer service, medical management, provider network access and other administrative services without assuming the risk for medical costs. We are generally compensated for these services on a fixed per member per month basis.

Indemnity Insurance Products

We offer insured PPO, POS and indemnity products as "stand-alone" products and as part of multiple option products in various markets. These products are offered by our health and life insurance subsidiaries, which are licensed to sell insurance in 49 states and the District of Columbia. Through these subsidiaries, we also offer auxiliary non-health products such as life, accidental death and dismemberment, dental, vision and behavioral health insurance. Our health and life insurance products are provided throughout most of our service areas.

Other Specialty Services and Products

We offer pharmacy benefits, behavioral health, dental and vision products and services (occasionally through strategic relationships with third parties), as well as managed care products related to cost containment for hospitals, health plans and other entities as part of our West Operations segment.

Pharmacy Benefit Management. We provide pharmacy benefit management ("PBM") services to Health Net members through our subsidiary, Health Net Pharmaceutical Services ("HNPS"). HNPS provides integrated PBM services to approximately 2.7 million Health Net members who have pharmacy benefits, including approximately 680,000 Medicare members. In addition, pursuant to the United Administrative Services Agreements entered into as part of the Northeast Sale, we provide PBM services to approximately 450,000 individuals, including approximately 50,000 individuals under Medicare. For additional information regarding the Northeast Sale, see "—Northeast Operations Segment." HNPS manages these benefits in an effort to achieve the highest quality outcomes at the lowest cost for its members. HNPS contracts with national health care providers, vendors, drug manufacturers and pharmacy distribution networks (directly and indirectly through a third party vendor), oversees pharmacy claims and administration, reviews and evaluates new FDA-approved drugs for safety and efficacy and manages data collection efforts to facilitate our health plans' disease management programs.

HNPS focuses its effort on encouraging appropriate use of medications to enhance the overall member outcome while controlling overall cost to the health plan, member and employer. A committee of internal and external physicians and pharmacists selects medications by therapeutic class that offer demonstrable clinical value. A cost effective option is then selected from equivalently effective options.

HNPS provides affiliated and unaffiliated health plans various services including development of benefit designs, cost and trend management, sales and marketing support, and management delivery systems. HNPS outsources certain capital and labor-intensive functions of pharmacy benefit management, such as claims processing, mail order services and pharmacy network services.

Behavioral Health. We administer and arrange for behavioral health benefits and services through our subsidiary, Managed Health Network, Inc., and its subsidiaries (collectively "MHN"). MHN offers behavioral health, substance abuse and employee assistance programs ("EAPs") on an insured and self-funded basis to groups in various states and is included as a standard part of most of our commercial health plans. MHN's benefits and services are also sold in conjunction with other commercial and Medicare products and on a stand-alone basis to unaffiliated health plans (including the northeast health plans covered under the United Admistrative Services Agreements) and employer groups. During 2009, MHN continued to expand its product

portfolio services and client base through enhanced product wellness and behavioral change programs, and workplace and work life services, as part of its EAP solutions. In 2009, MHN continued to implement, administer and monitor the non-medical counseling program for the U.S. Department of Defense ("Department of Defense") under the Military Family Counseling Services program. See "—Government Contracts Segment—Other Department of Defense Contracts" for a description of this contract. MHN also holds contracts with the U.S. Department of State and the U.S. Agency for International Development ("USAID") to provide EAP counseling services tailored for State Department and USAID employees and family members while posted overseas.

MHN's products and services were provided, including pursuant to the United Administrative Services Agreements, to over 6.5 million individuals as of December 31, 2009, with approximately 140,000 individuals under risk-based programs, approximately 2.7 million individuals under self-funded programs and approximately 3.6 million individuals under EAPs, including those who are also covered under other MHN programs. For additional information regarding the Northeast Sale, see "—Northeast Operations Segment." In 2009, MHN's total revenues were $133 million. Of that amount, $67 million represented revenues from business with MHN affiliates and $66 million represented revenues from non-affiliate business.

Dental and Vision. We do not underwrite or administer stand-alone dental or vision products other than the stand-alone dental products that we underwrite in Oregon and Washington. During 2009, we made available to our current and prospective members in Arizona and California private label dental products through a strategic relationship with Dental Benefit Providers**,** Inc. ("DBP") and private label vision products through a strategic relationship with EyeMed Vision Care LLC ("EyeMed"). Those stand-alone dental products were underwritten and administered by DBP and the stand-alone vision products were underwritten by Fidelity Security Life Insurance Company and administered by EyeMed affiliated companies. DBP also administers dental products and coverage we provide to our members in Oregon and Washington. Liberty Dental Plans of California, Inc. serves as the underwriter and administrator for the dental services we provide to our Medi-Cal and Healthy Families program enrollees.

Government Contracts Segment

Our Government Contracts segment includes our TRICARE contract for the North Region and other health care-related government contracts that we administer for the U.S. Department of Defense (the "Department of Defense") and the U.S. Department of Veterans Affairs. Certain components of these contracts are subcontracted to unrelated third parties.

Under government-funded health programs, the government payor typically determines beneficiary fees and provider reimbursement levels. Contracts under these programs are generally subject to frequent change, including changes that may reduce or increase the number of persons enrolled or eligible, the revenue received by us or our administrative or health care costs under such programs. The amount of government receivables set forth in our consolidated financial statements represents our best estimate of the government's liability to us under TRICARE and other federal government contracts. In general, government receivables are estimates and are subject to government audit and negotiation. See "Item 1A. Risk Factors—*A significant reduction in revenues from the government programs in which we participate could have an adverse effect on our business, financial condition or results of operations*."

TRICARE

Our wholly-owned subsidiary, Health Net Federal Services, LLC ("HNFS"), administers a large managed care federal contract with the Department of Defense under the TRICARE program in the North Region. We have been serving the Department of Defense since 1988 under the TRICARE program and its predecessor programs. We believe we have established a solid history of operating performance under our contracts with the Department of Defense. We believe there will be further opportunities to serve the Department of Defense and other governmental organizations, such as the Department of Veterans Affairs, in the future.

Our TRICARE contract for the North Region is one of three regional contracts awarded by the Department of Defense in August 2003 under the TRICARE Program. We commenced providing services under the North Region contract in 2004. The North Region contract is a five-year contract and covers Connecticut, Delaware, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia, Wisconsin and the District of Columbia. In addition, the contract covers a small portion of Tennessee, Missouri and Iowa.

Under the TRICARE contract for the North Region, we provide health care services to approximately 3.1 million Military Health System ("MHS") eligible beneficiaries, including 1.8 million TRICARE eligibles for whom we provide health care and administrative services and 1.3 million other MHS-eligible beneficiaries for whom we provide administrative services only. Eligible beneficiaries in the TRICARE program are able to choose from a variety of program options. They can choose to enroll in TRICARE Prime, which is similar to a conventional HMO plan, or they can select, on a case-by-case basis, to utilize TRICARE Extra, which is similar to a conventional PPO plan, or TRICARE Standard, which is similar to a conventional indemnity plan.

Under TRICARE Prime, enrollees pay an enrollment fee (which is zero for active duty participants and their dependents) and select a primary care physician from a designated provider panel. The primary care physicians are responsible for making referrals to specialists and hospitals. Except for active duty family members, who have no co-payment charges, TRICARE Prime enrollees pay co-payments each time they receive medical services from a civilian provider. TRICARE Prime enrollees may opt, on a case-by-case basis, for a point-of-service option in which they are allowed to self-refer but incur a deductible and a co-payment.

Under TRICARE Extra, eligible beneficiaries may utilize a TRICARE network provider but incur a deductible and co-payment which is greater than the TRICARE Prime co-payment. Under TRICARE Standard, eligible beneficiaries may utilize a TRICARE authorized provider who is not a network provider but pay a higher co-payment than under TRICARE Prime or TRICARE Extra. As of December 31, 2009, there were approximately 1.5 million TRICARE eligibles enrolled in TRICARE Prime under our North Region contract.

The TRICARE contract for the North Region includes a target cost and price for reimbursed health care costs which is negotiated annually during the term of the contract, with underruns and overruns of our target cost borne 80% by the government and 20% by us. In the normal course of contracting with the federal government, we recognize changes in our estimate for the target cost underruns and overruns when the amounts become determinable, supportable and the collectibility is reasonably assured. As a result of changes in the estimate, during the year ended December 31, 2009, we recognized an increase in revenue of $40 million and an increase in cost of $49 million. The administrative price is paid on a monthly basis, one month in arrears and certain components of the administrative price are subject to volume-based adjustments.

We are paid within five business days for each health care claim run under the North Region contract based on paid claims with an annual reconciliation of the risk sharing provision. We are not responsible for providing most pharmaceutical benefits, claims processing for TRICARE and Medicare dual eligibles and certain marketing and education services.

The five-year North Region contract is subject to annual renewals on April 1 of each year at the option of the Department of Defense. In 2007, Congress passed legislation allowing for up to two additional years of extensions for all TRICARE regions, including the North Region contract, at the Department of Defense's option. Subsequent to the passage of this legislation, we negotiated the terms, including administrative prices and health care target costs, of the North Region contract for the following three option periods with the Department of Defense: option period 6 (April 1, 2009 – March 31, 2010), option period 7 (April 1, 2010 – September 30, 2010), and option period 8 (October 1, 2010 – March 31, 2011). We are currently in the sixth option period of health care operations which is scheduled to conclude on March 31, 2010 unless extended by the Department of Defense. The Department of Defense has formally indicated its intent to exercise option periods 7 and 8 under our current contract for the North Region.

We submitted our final proposal to the Department of Defense for the third generation of TRICARE Managed Care Support contracts (referred to as "T3") on January 2, 2009, and on July 13, 2009 we were notified by the Department of Defense that we were not selected to be the Managed Care Support Contractor under the T3 contract for the North Region. On July 20, 2009 we filed a protest with the Government Accountability Office ("GAO") in connection with the T3 award decision made by the TRICARE Management Authority ("TMA") citing a Procurement Integrity Act violation by the Department of Defense in releasing our initial proposed bid price to the public, including through its website. On July 23, 2009, the Department of Defense conducted a debriefing of the proposal evaluation and the basis for the award decision. On July 28, 2009, we filed a second protest with the GAO in connection with the T3 award decision, citing flaws in the proposal evaluation and award decision and other grounds for protest. The filing of our timely protest triggered an automatic suspension of the performance of the T3 North Region contract until the protest was decided by the GAO. This effectively stopped performance on the implementation of the T3 North contract. Also, the Department of Defense has indicated that, if transition work is resumed, the T3 North contractor will be given a ten month transition period prior to the start of health care delivery under the T3 North contract. However, the Department of Defense always has the authority to shorten the transition period to less than ten months.

On October 13, 2009, the GAO rendered a decision denying our July 20, 2009 protest, and on November 4, 2009, the GAO rendered a decision upholding our July 28, 2009 protest. The GAO sustained our July 28, 2009 protest on six grounds, including the appearance of impropriety based on an unfair competitive advantage stemming from the T3 contract awardee's use of a former high-level government employee in preparing its proposal and such individual's access to non-public proprietary information concerning our incumbent contract.

The GAO recommended that TMA conduct a new evaluation of the award of the T3 contract. With respect to the alleged unfair competitive advantage, GAO recommended that the contracting officer perform a thorough review regarding the scope of the former TMA employee's access to non-public proprietary information and source selection sensitive information, which could have afforded the T3 contract awardee a competitive advantage in the preparation of its T-3 proposal. The GAO recommended that the contracting officer determine which actions, if any, should be taken to address the appearance of impropriety stemming from that individual's participation in the preparation of the T3 contract awardee's T-3 proposal. Regarding the other issues upon which the protest was sustained, the GAO recommended that TMA re-evaluate the proposals consistent with the opinion and make a new source selection decision.

On December 18, 2009, TMA sent a letter to the GAO indicating that it accepted the GAO's recommendations and would take the requested corrective action. Specifically, TMA stated that it would prepare appropriate corrective action to address the flaws identified in the GAO decision, but only after the Department of Defense completed its review of the unfair competitive advantage issue and actions, if any, necessary to address the appearance of impropriety. The Department of Defense did not provide a timeline for concluding its review.

At this time, we are not able to determine what specific actions the Department of Defense will take in response to recommendations by the GAO, nor can we determine whether or not the protest decision by the GAO will have any effect upon the ultimate outcome of the contract award.

For additional information regarding our TRICARE contract for the North Region and the T3 North Region contract, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1A. Risk Factors—*A significant reduction in revenues from the government programs in which we participate could have an adverse effect on our business, financial condition or results of operations*."

Other Department of Defense Contracts

In 2007, MHN was awarded a five-year contract, the Military Family & Life Consultant Program ("MFLC"), to develop, administer and monitor the non-medical counseling program for service members. Services under the MFLC began on April 1, 2007 and will end in 2012, subject to an early termination provision

which is based on a funding ceiling of approximately $542.5 million over the term of the contract. The funding ceiling was recently raised by $242.5 million over its originally estimated limit of $300 million. The program is designed to deliver short-term situational problem solving counseling, primarily with regard to stress factors inherent in the military lifestyle.

The services provided under these subcontracts are not TRICARE benefits and are provided independently from the services provided under our TRICARE contract for the North Region. Revenues for the MFLC subcontract for the year ended December 31, 2009 were $210.4 million and were $353.7 million since the contract's inception.

Veterans Affairs

During 2009, HNFS administered eight contracts with the U.S. Department of Veterans Affairs to manage community-based outpatient clinics in eight states. HNFS also supported 21 other contracts with the U.S. Department of Veterans Affairs supporting 154 Veterans Affairs medical centers for claims repricing and audit services. Total revenues for our Veterans Affairs business were approximately $29 million for the year ended December 31, 2009. These revenues are derived from service fees received and have no insurance risk associated with them. MHN is a subcontractor in a program under the U.S. Department of Veterans Affairs, requiring MHN to make proactive outbound calls to returning veterans, perform assessments and make referrals to Veterans Affairs facilities.

Provider Relationships

We maintain a network of qualified physicians, hospitals and other health care providers in each of the states in which we offer network based managed care products and services.

Physician Relationships

The following table sets forth the number of primary care and specialist physicians contracted either directly with our HMOs or through our contracted participating physician groups ("PPGs") as of December 31, 2009:

Primary Care Physicians (includes both HMO and PPO physicians)	35,652
Specialist Physicians (includes both HMO and PPO physicians)	134,837
Total	170,489

Under our California HMO and POS plans, all members are required to select a PPG and generally also a primary care physician from within that group. In our other plans, including all of our plans outside of California, members may be required to select a primary care physician from the broader HMO network panel of primary care physicians. The primary care physicians and PPGs assume overall responsibility for the care of members. Medical care provided directly by such physicians includes the treatment of illnesses not requiring referral, and may include physical examinations, routine immunizations, maternity and childcare, and other preventive health services. The primary care physicians and PPGs are responsible for making referrals (approved by the HMO's or PPG's medical director as required under the terms of our various plans) to specialists and hospitals. Certain of our HMOs offer enrollees "open access" plans under which members are not required to secure prior authorization for access to network physicians in certain specialty areas, or "open panels" under which members may access any physician in the network, or network physicians in certain specialties, without first consulting their primary care physician.

PPG and physician contracts are generally for a period of at least one year and are automatically renewable unless terminated, with certain requirements for maintenance of good professional standing and compliance with our quality, utilization and administrative procedures. In California, PPGs generally receive a monthly "capitation" fee for every member assigned to it. Under a capitation fee arrangement, we pay a provider group a

fixed amount per member on a regular basis and the provider group accepts the risk of the frequency and cost of member utilization of professional services. The capitation fee represents payment in full for all medical and ancillary services specified in the provider agreements. In these capitation fee arrangements, in cases where the capitated PPG cannot provide the health care services needed, such PPGs generally contract with specialists and other ancillary service providers to furnish the requisite services under capitation agreements or negotiated fee schedules with specialists. Outside of California, most of our HMOs reimburse physicians according to a discounted fee-for-service schedule, although several have capitation arrangements with certain providers and provider groups in their market areas. A provider group's financial instability or failure to pay secondary providers for services rendered could lead secondary providers to demand payment from us, even though we have made our regular capitated payments to the provider group. Depending on state law, we could be liable for such claims.

In our PPO plans, members are not required to select a primary care physician and generally do not require prior authorization for specialty care. For services provided under our PPO products and the out-of-network benefits of our POS products, we ordinarily reimburse physicians pursuant to discounted fee-for-service arrangements.

HNFS maintains a network of qualified physicians, facilities, and ancillary providers in the prime service areas of our TRICARE contract for the North Region. Services are provided on a fee-for-service basis. As of December 31, 2009, HNFS had 135,141 physicians, 2,492 facilities, and 13,190 ancillary providers in its TRICARE network.

Our behavioral health subsidiary, MHN, maintains a provider network comprised of approximately 46,526 psychiatrists, psychologists and other clinical categories of providers nationwide. Substantially all of these providers are contracted with MHN on an individual or small practice group basis and are paid on a discounted fee-for-service basis. Members who wish to access certain behavioral health services contact MHN and are referred to contracted providers for evaluation or treatment services. Generally, authorization for such services is for a limited number of appointments and must be renewed by MHN based on medical necessity. If a member needs inpatient services, MHN maintains a network of approximately 1,435 facilities.

In addition to the physicians that are in our networks, we have also entered into agreements with various third parties that have networks of physicians contracted to them ("Third Party Networks"). In general, under a Third Party Network arrangement, Health Net is licensed by the third party to access its network providers and pay the claims of these physicians pursuant to the pricing terms of their contracts with the Third Party Network.

Hospital Relationships

Our health plan subsidiaries arrange for hospital care primarily through contracts with selected hospitals in their service areas. These hospital contracts generally have multi-year terms or annual terms with automatic renewals and provide for payments on a variety of bases, including capitation, per diem rates, case rates and discounted fee-for-service schedules.

Covered hospital-based care for our members is comprehensive. It includes the services of hospital-based physicians, nurses and other hospital personnel, room and board, intensive care, laboratory and x-ray services, diagnostic imaging and generally all other services normally provided by acute-care hospitals. Our nurses and medical directors are involved in a wide variety of medical management activities on behalf of our HMO and, to a somewhat lesser extent, PPO members. These activities can include discharge planning and case management, which often involves the coordination of community support services, including visiting nurses, physical therapy, durable medical equipment and home intravenous therapy.

Ancillary and Other Provider Relationships

Our health plan subsidiaries arrange for ancillary and other provider services, such as ambulance, laboratory, radiology, home health, chiropractic and acupuncture primarily through contracts with selected providers in their service areas. These contracts generally have multi-year terms or annual terms with automatic renewals and provide for payments on a variety of bases, including capitation, per diem rates, case rates and discounted fee-for-service schedules. In certain cases, these provider services are included in contracts our health plan subsidiaries have with PPGs and hospitals.

See "Item 1A. Risk Factors—*If we are unable to maintain good relations with the physicians, hospitals and other providers that we contract with, our profitability could be adversely affected*" for additional information on the risks associated with our provider relationships.

Additional Information Concerning Our Business

Competition

We operate in a highly competitive environment in an industry currently subject to significant changes from business consolidations, new strategic alliances, legislative reform and market pressures brought about by a better informed and better organized customer base. Our health plans face substantial competition from for-profit and nonprofit HMOs, PPOs, self-funded plans (including self-insured employers and union trust funds), Blue Cross/Blue Shield plans, and traditional indemnity insurance carriers, some of which have substantially larger enrollments and greater financial resources than we do. The development and growth of companies offering Internet-based connections between health care professionals, employers and members, along with a variety of services, could also create additional competitors. We believe that the principal competitive features affecting our ability to retain and increase membership include the range and prices of benefit plans offered, size and quality of provider network, quality of service, responsiveness to user demands, financial stability, comprehensiveness of coverage, diversity of product offerings, and market presence and reputation. The relative importance of each of these factors and the identity of our key competitors vary by market. Over the past several years, a health plan's ability to interact with employers, members and other third parties (including health care professionals) via the Internet has become a more important competitive factor. To that end, we continue to make technology investments to enhance our electronic interactions with third parties. We believe that we compete effectively against other health care industry participants in our West Operations segment.

Our primary competitors in California are Kaiser Permanente, Anthem Blue Cross of California, UnitedHealth Group, Inc. and Blue Shield of California. Together, these four plans and Health Net account for a majority of the insured market in California. Kaiser is the largest HMO in California based on number of enrollees and Anthem Blue Cross of California is the largest PPO provider in California based on number of enrollees. There are also a number of small, regional-based health plans that compete with Health Net in California, mainly in the small business group market segment. In addition, two of the major national managed care companies, Aetna, Inc. and CIGNA Corp., are active in California. Their respective commercial full-risk market share is not as significant as our primary competitors in California and we believe that each remains in California primarily to serve their national, self-funded accounts' California employees.

Our largest competitor in Arizona is UnitedHealth Group, Inc. Our Arizona HMO also competes with Blue Cross Blue Shield of Arizona, CIGNA, Aetna and Humana Inc. Our Oregon health plan competes primarily with Kaiser, UnitedHealth Group, Providence, Regence Blue Cross/Blue Shield, PacificSource, Lifewise and ODS Health Plans, Inc.

Marketing and Sales

We market our products and services to individuals and employer groups through inside sales staff, independent brokers, agents and consultants and through the Internet. For our group health business, we market

our products and services utilizing a three-step process. We first market to potential employer groups, group insurance brokers and consultants. We then provide information directly to employees once the employer has selected our health coverage. Finally, we engage members and employers in marketing for member and group retention. For our small group business, members are enrolled by their employer based on the plan chosen by the employer. In general, once selected by a large employer group, we solicit enrollees from the employee base directly. During "open enrollment" periods when employees are permitted to change health care programs, we use a variety of techniques to attract new enrollees and retain existing members, including, without limitation, direct mail, work day and health fair presentations and telemarketing. Our sales efforts are supported by our marketing division, which engages in product research and development, multicultural marketing, advertising and communications, and member education and retention programs.

Premiums for each employer group are generally contracted on a yearly basis and are payable monthly. We consider numerous factors in setting our monthly premiums, including employer group needs and anticipated health care utilization rates as forecasted by us based on the demographic composition of, and our prior experience in, our service areas. Premiums are also affected by applicable state and federal law and regulations that may directly or indirectly affect premium setting. For example, California law prohibits experience rating of small group accounts (taking the group's past health care utilization and costs into consideration). Mandated benefits (requiring the coverage of certain benefits as a matter of law, whether desired by the group or not) also affect premiums. For example, in California and elsewhere, mental health parity laws have generally broadened mental health benefits under health insurance policies offered by us and other carriers.

In some of our markets we sell individual policies, which are generally sold through independent brokers and agents. In some states (including California) and for certain products, carriers are allowed to individually underwrite these policies (*i.e.* select applicants to whom coverage will be provided and others who are denied), although in other states there may be a requirement of guaranteed issue with respect to certain lines of business that restricts the carrier's discretion. In guaranteed issue states, exclusions for preexisting conditions are generally permitted. In California, current law and regulations allow carriers to individually underwrite policies sold to individual and families, as well as large groups, but small group policies may not be underwritten. The completion of customary underwriting procedures may be a prerequisite to the carrier's exercise of any cancellation or rescission right with respect to an issued policy, and the public interest in this practice has caused and may continue to cause additional legislation, regulation and the development of case law which may further restrict carriers in this regard.

We believe that the importance of the ultimate health care consumer (or member) in the health care product purchasing process is likely to increase in the future, particularly in light of advances in technology and online resources. Accordingly, we are focusing our marketing strategies on the development of distinct brand identities and innovative product service offerings that will appeal to potential health plan members. For example, Decision Power℠ is a series of programs designed to more directly involve patients in their health care decisions. These programs allow our members to access information and consult with health coaches as they are making decisions regarding health care issues. As more employers begin to offer consumer directed health plans such as Health Savings Accounts ("HSAs") and Health Reimbursement Accounts ("HRAs"), we believe consumers need to be able to learn, plan and make complex decisions regarding their health care. Our website combines access to current Health Net and vendor content and tools.

Information Technology

In 2009, we continued our multi-year effort to consolidate claim processes across the enterprise, improve enterprise data analytics and consolidate service centers and associated staff. We also completed significant IT applications and infrastructure outsourcing work that has enabled us to improve claim turnaround times, auto adjudication rates, electronic data interchange and internet capabilities.

The transition to the outsourced IT operating model was also the first phase of our three-phased plan designed to enhance our IT service delivery, increase our agility and improve our decision making capability. We have initiated the second phase of our IT systems improvement strategy, technology optimization, to simplify

and improve our technology environment, and to provide technology renewal for desktops, networks, and servers. In 2009, we made significant progress in improving our technology platform by renewing technology and initiating the transition of our data center operations to a third-party vendor. We expect to complete the move of our data center operations to our third party vendor in early 2010. Technology renewal and optimization initiatives will continue throughout 2010. Additionally, we will begin work in 2010 on the third phase of our IT strategy, a multi-year effort to evolve and advance our business process and business service focused systems, and to modernize our information systems, applications and enterprise architecture. This work will support industry imperatives, position us for potential health care reform, improve our overall ability to respond to changes in the marketplace, and make it easier to do business with us. However, there are risks associated with these efforts, including the risks associated with moving our data center operations to a third-party vendor. See "Item 1A. Risk Factors—*If we fail to effectively maintain our management information systems, it could adversely affect our business*" and "—*We are subject to risks associated with outsourcing services and functions to third parties*."

Medical Management

We believe that managing health care costs is an essential function for a managed care company. Among the medical management techniques we utilize to contain the growth of health care costs are pre-authorization or certification for outpatient and inpatient hospitalizations and a concurrent review of active inpatient hospital stays and discharge planning. We believe that this authorization process reduces inappropriate use of medical resources and achieves efficiencies in referring cases to the most appropriate providers. We also contract with third parties to manage certain conditions such as neonatal intensive care unit admissions and stays, as well as chronic conditions such as asthma, diabetes and congestive heart failure. These techniques are widely used in the managed care industry and are accepted practices in the medical profession.

Accreditation

We pursue accreditation for certain of our health plans from the National Committee for Quality Assurance ("NCQA") and the Utilization Review Accreditation Commission ("URAC"). NCQA and URAC are independent, non-profit organizations that review and accredit HMOs and other healthcare organizations. HMOs that comply with review requirements and quality standards receive accreditation. The commercial lines of business of our Arizona and California HMO subsidiaries have both received NCQA accreditation with a score of "excellent," which is the highest score NCQA awards. HN California's Medicare and Medicaid lines of business also received NCQA accreditation with a score of "excellent." Our MHN subsidiary has received URAC accreditation.

Government Regulation

Our business is subject to comprehensive federal regulation and state regulation in the jurisdictions in which we do business. These laws and regulations govern how we conduct our businesses and result in additional requirements, restrictions and costs to us. We believe we are in compliance in all material respects with all current state and federal laws and regulations applicable to our businesses. Certain of these laws and regulations are discussed below.

Federal Legislation and Regulation

Medicare Legislation and Regulation. Comprehensive legislation, including the MMA and the Medicare Improvements for Patients and Providers Act of 2008 ("MIPPA"), governs our Medicare program. In addition, our Medicare contracts and our provision of administrative services pursuant to the United Administrative Services Agreements are subject to regulation by CMS. CMS has the right to audit Medicare contractors and the health care providers and administrative contractors who provide certain services on their behalf to determine the quality of care being rendered and the degree of compliance with CMS' contracts and regulations.

In response to MIPPA, CMS promulgated regulations governing the marketing and sale of Medicare Advantage and PDP products. These regulations prohibit certain marketing activities by contracted and in-house sales producers, including outbound calling, and place new requirements on amounts and duration of compensation payable to contracted producers. We could be subject to monetary and other sanctions by CMS for a contracted or in-house sales producer's violation of these regulations.

In late 2008, CMS performed a routine audit of certain of our Medicare Advantage, Private Fee For Service and PDP products and found deficiencies in many of the business areas included in the review. On August 6, 2009, CMS accepted our corrective action plan relating to the 2008 audit. In December 2009, CMS performed a focused audit to assess our implementation of the corrective action plan. We received CMS' report on the focused audit and related corrective action request on January 11, 2010 and submitted our corrective action plan to CMS for review and approval on February 26, 2010. CMS found deficiencies in many of the business areas included in the review, including several repeat findings from previous audits, which were submitted to CMS Central Office for review.

On January 7, 2010, we were notified by CMS that, due to certain pharmacy claims processing errors, none of our stand-alone PDP plans would be considered "available" for the purposes of the process through which CMS randomly assigns low-income subsidy ("LIS") eligible Medicare beneficiaries not otherwise enrolled in PDP plans into stand-alone PDP plans, effective February 1, 2010. In its notice to us, CMS indicated that it would work with us to develop a corrective action plan in this regard, but at this time, we have not received a corrective action request from CMS.

See "Item 1A. Risk Factors—*Federal and state audits, review and investigations of us and our subsidiaries could have a material adverse effect on our operations*" for description of the risks associated with the CMS audit and the suspension of our auto-enrollment for LIS beneficiaries.

Medicaid and Related Legislation. Federal law has also implemented other health programs that are partially funded by the federal government, such as the Medicaid program (known as Medi-Cal in California) and CHIP (known as Healthy Families in California). Our Medi-Cal program is regulated and administered by the California Department of Health Care Services and Healthy Families is regulated by the Managed Risk Medical Insurance Board. Our provision of administrative services to United and certain of its affiliates pursuant to the United Administrative Services Agreements is subject to regulation by the New Jersey Department of Human Services and Division of Medical Assistance and Health Services. Federal funding remains critical to the viability of these programs, particularly in light of California's state budget deficits. Federal law permits the federal government to oversee and, in some cases, to enact, regulations and other requirements that must be followed by California. Medicaid is administered at the federal level by CMS; CHIP is administered by the Health Resources and Services Administration, another arm of the Department of Health and Human Services.

Privacy Regulations. The use, disclosure and maintenance of individually identifiable health information and other data by our businesses is regulated by various laws at the federal, state and local level. These laws and regulations are changed frequently by legislation or administrative interpretation. Most of those laws are derived from Health Insurance Portability and Accountability Act of 1996 ("HIPAA") and the privacy provisions in the federal Gramm-Leach-Bliley Financial Modernization Act of 1999 (the "Gramm-Leach-Bliley Act"), although there are an increasing number of state laws that require notification to individuals and regulatory authorities in the event of a security breach and that specifically regulate the use and disclosure of social security numbers.

HIPAA and the implementing regulations that have been adopted in connection therewith impose obligations for group health plans and issuers of health insurance coverage (such as health insurers and health maintenance organizations) relating to the privacy and security of protected health information including electronically transmitted protected health information (collectively, "PHI"). The regulations, which relate to the privacy and security of PHI, require health plans, health care clearinghouses and providers to:

- comply with various requirements and restrictions related to the use, storage and disclosure of PHI,

- adopt rigorous internal procedures to protect PHI,
- create policies related to the privacy of PHI,
- enter into specific written agreements with business associates to whom PHI is disclosed, and
- notify individuals and regulatory authorities if PHI is compromised.

The regulations also establish significant criminal penalties and civil sanctions for non-compliance. Recent developments in this area include the Health Information Technology for Economic and Clinical Health (HITECH) Act, which became fully effective in February, 2010. The HITECH Act expands the HIPAA rules for security and privacy safeguards, including improved enforcement, additional limitations on use and disclosure of PHI and additional potential penalties for non-compliance. See "Item 1A. Risk Factors—*If we fail to comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality, our reputation and business operations could be materially adversely affected*" for additional information on a recent information security breach.

The Gramm-Leach-Bliley Act generally requires insurers to provide customers with notice regarding how their personal health and financial information is used and the opportunity to "opt out" of certain disclosures before the insurer shares non-public personal information with a non-affiliated third party. Like HIPAA, this law sets a "floor" standard, allowing states to adopt more stringent requirements governing privacy protection.

ERISA. Most employee benefit plans are regulated by the federal government under the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). Employment-based health coverage is such an employee benefit plan. ERISA is administered, in large part, by the U.S. Department of Labor ("DOL"). ERISA contains disclosure requirements for documents that define the benefits and coverage. It also contains a provision that causes federal law to preempt state law in the regulation and governance of certain benefit plans and employer groups, including the availability of legal remedies under state law.

Other Federal Regulations. We must comply with, and are affected by, laws and regulations relating to the award, administration and performance of U.S. Government contracts. Government contract laws and regulations affect how we do business with our customers and, in some instances, impose added costs on our business. A violation of specific laws and regulations could result in the imposition of fines and penalties or the termination of our contracts or debarment from bidding on contracts.

State Laws and Regulations

Our West Operations HMOs, insurance companies and behavioral health plan are subject to extensive state regulation. Set forth below are the principal regulatory agencies that govern these health plans and insurance companies.

Company	Regulatory Agency
Arizona HMO	Arizona Department of Insurance
California HMO	California Department of Managed Health Care
Oregon HMO	Oregon Department of Consumer and Business Services
Health Net Life Insurance Company (Arizona and California PPO)	California Department of Insurance generally, and the Department of Insurance of each state in which it does business
MHN	California Department of Managed Health Care, New York Department of Insurance

Additionally, the administrative services that we provide to United and certain of its affiliates as part of our Northeast Operations are subject to state laws and regulations. The Connecticut Department of Insurance, the New Jersey Department of Banking and Insurance, the New Jersey Department of Human Services and Division of Medical Assistance and Health Services (for Medicaid only), the New York Department of Insurance and the New York Department of Health are the principal state regulatory agencies that govern our provision of administrative services in the Northeast pursuant to the United Administrative Services Agreements. For additional information about our Northeast Operations segment, see "—Northeast Operations Segment."

Insurance and HMO laws impose a number of financial requirements and restrictions on our regulated subsidiaries, which vary from state to state. They generally include certain minimum capital and deposit and/or reserve requirements, restrictions on dividends and other distributions to the parent corporations and affiliated corporations. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Statutory Capital Requirements." These financial requirements are subject to change, which may require us to commit additional capital to certain regulated subsidiaries or may limit our ability to move capital through dividends and other distributions.

While there are state-by-state variations, HMO regulation generally is extremely comprehensive. Among the areas regulated by these HMO regulatory agencies are:

- Adequacy of financial resources, network of health care providers and administrative operations;
- Sales and enrollment requirements, disclosure documents and notice requirements;
- Product offerings, including the scope of mandatory benefits and required offerings of benefits that are optional coverages;
- Procedures for member grievance resolution and medical necessity determinations;
- Accessibility of providers, handling of provider claims (including out-of-network claims) and adherence to timely and accurate payment and appeal rules; and
- Linguistic and cultural accessibility standards, governance requirements and reporting requirements.

PPO regulation also varies by state, and while these regulations generally cover all or most of the subject areas referred to above, the regulation of PPO products and carriers tends to be less intensive than regulation of HMOs.

Variations in state regulation also arise in connection with the intensity of government oversight. Variations include: the need to file or have affirmatively approved certain proposals before use or implementation by the health plan; the degree of review and comment by the regulatory agency; the amount and type of reporting by the health plan to the regulatory agency; the extent and frequency of audit or other examination; and the authority and extent of investigative activity, enforcement action, corrective action authority, and penalties and fines.

Our regulated subsidiaries are also subject to legal restrictions on our ability to price some of our products. Some products may be subject to regulatory approval of premium levels. Generally, insurance and HMO laws require premiums to be established at amounts reasonably related to our costs.

Pending Federal and State Legislation

There are a number of other legislative initiatives and proposed regulations currently pending or previously proposed at the federal and state levels which could increase regulation of, and costs incurred by, the health care industry. For example, the United States Senate and House of Representatives recently passed separate bills relating to health care reform. These bills have not yet been reconciled with each other or signed into law. These measures and other initiatives, if enacted, could have significant adverse effects on our operations. See "Item 1A. Risk Factors—*Potential health care reform legislation being considered by Congress may adversely affect us*"

and "*—Changes to federal and state legislation and regulations affecting the managed health care industry could adversely affect us*." We cannot predict the outcome of any of the pending legislative or regulatory proposals, nor the extent to which we may be affected by the enactment of any such legislation or regulation.

Intellectual Property

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

Employees

As of December 31, 2009, Health Net, Inc. and its subsidiaries employed 8,719 persons on a full-time basis and 203 persons on a part-time or temporary basis. These employees perform a variety of functions, including, among other things, provision of administrative services for employers, providers and members; negotiation of agreements with physician groups, hospitals, pharmacies and other health care providers; handling of claims for payment of hospital and other services; and provision of data processing services. Our employees are not unionized and we have not experienced any work stoppages since our inception. We consider our relations with our employees to be very good.

Dependence Upon Customers

The federal government is the only customer of our Government Contracts segment, with premiums and fees accounting for 100% of our Government Contracts revenue. See "Item 1A. Risk Factors—*A significant reduction in revenues from the government programs in which we participate could have an adverse effect on our business, financial condition or results of operations*." In addition, the federal government is a significant customer of our West Operations segment as a result of our contract with CMS for coverage of Medicare-eligible individuals, including Part D prescription plans, state agencies for federally-subsidized Medicaid and CHIP programs, and coverage of federal employees under the Federal Employees Health Benefits Program. Medicare premiums accounted for 23% of our total premium revenue in 2009.

Shareholder Rights Plan

On July 27, 2006, our Board of Directors adopted a shareholder rights plan pursuant to a Rights Agreement with Wells Fargo Bank, N.A. (the "Rights Agent"), dated as of July 27, 2006 (the "Rights Agreement").

In connection with the Rights Agreement, on July 27, 2006, our Board of Directors declared a dividend distribution of one right (a "Right") for each outstanding share of Common Stock to stockholders of record at the close of business on August 7, 2006 (the "Record Date"). Our Board of Directors also authorized the issuance of one Right for each share of Common Stock issued after the Record Date and prior to the earliest of the Distribution Date (as defined below) the redemption of the Rights and the expiration of the Rights and, in certain circumstances, after the Distribution Date. Subject to certain exceptions and adjustment as provided in the Rights Agreement, each Right entitles the registered holder to purchase from us one one-thousandth ($1/1000^{th}$) of a share of Series A Junior Participating Preferred Stock, par value of $0.001 per share, at a purchase price of $170.00 per Right (the "Purchase Price"). The terms of the Rights are set forth in the Rights Agreement.

Rights will attach to all common stock certificates representing shares then outstanding and no separate Rights certificates will be distributed. Subject to certain exceptions contained in the Rights Agreement, the Rights will separate from the Common Stock on the date that is 10 business days following (i) any person, together with its affiliates and associates (an Acquiring Person), becoming the beneficial owner of 15% or more of the outstanding common stock, (ii) the commencement of a tender or exchange offer that would result in any

person, together with its affiliates and associates, becoming the beneficial owner of 15% or more of the outstanding common stock or (iii) the determination by the Board of Directors that a person, together with its affiliates and associates, has become the beneficial owner of 10% or more of the common stock and that such person is an "Adverse Person," as defined in the Rights Agreement (the earliest of such dates being called the "Distribution Date"). The Rights Agreement provides that certain passive institutional investors that beneficially own less than 20% of the outstanding shares of our common stock shall not be deemed to be Acquiring Persons.

The Rights will first become exercisable on the Distribution Date and will expire at the close of business on July 31, 2016 unless such date is extended or the Rights are earlier redeemed by us as described below.

Subject to certain exceptions contained in the Rights Agreement, in the event that any person shall become an Acquiring Person or be declared to be an Adverse Person, then the Rights will "flip-in" and entitle each holder of a Right, other than any Acquiring Person or Adverse Person and such person's affiliates and associates, to purchase, upon exercise at the then-current exercise price of such Right, that number of shares of common stock having a market value of two times such exercise price.

In addition, and subject to certain exceptions contained in the Rights Agreement, in the event that we are acquired in a merger or other business combination in which the common stock does not remain outstanding or is changed or 50% of the assets, cash flow or earning power of the Company is sold or otherwise transferred to any other person, the Rights will "flip-over" and entitle each holder of a Right, other than an Acquiring Person or an Adverse Person and such person's affiliates and associates, to purchase, upon exercise at the then current exercise price of such Right, such number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times such exercise price.

We may redeem the Rights at any time until the earlier of (i) 10 days following the date that any Acquiring Person becomes the beneficial owner of 15% or more of the outstanding common stock and (ii) the date the Rights expire at a price of $.01 per Right. In addition, at any time after a person becomes an Acquiring Person or is determined to be and Adverse Person and prior to such person becoming (together with such person's affiliates and associates) the beneficial owner of 50% or more of the outstanding Common Stock, at the election of our Board of Directors, the outstanding Rights (other than those beneficially owned by an Acquiring Person, Adverse Person or an affiliate or associate of an Acquiring Person or Adverse Person) may be exchanged, in whole or in part, for shares of Common Stock, or shares of preferred stock of the Company having essentially the same value or economic rights as such shares.

Potential Acquisitions and Divestitures

We continue to evaluate the profitability realized or likely to be realized by our existing businesses and operations. From time to time we review, from a strategic standpoint, potential acquisitions and divestitures in light of our core businesses and growth strategies. See "Item 1A. Risk Factors—*Acquisitions, divestitures and other significant transactions may adversely affect our business*."

Item 1A. Risk Factors

Cautionary Statements

The following discussion, as well as other portions of this Annual Report on Form 10-K, contain "forward-looking statements" within the meaning of Section 21E of the Exchange Act, and Section 27A of the Securities Act of 1933, as amended, regarding our business, financial condition and results of operations. 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. These forward-looking statements involve a number of risks and uncertainties. All statements, other than statements of historical information provided or incorporated by

reference herein, may be deemed to be forward-looking statements. Without limiting the foregoing, the words "believes," "anticipates," "plans," "expects," "may," "should," "could," "estimate" and "intend" and other similar expressions are intended to identify forward-looking statements. Actual results could differ materially due to, among other things, costs, fees and expenses related to the post-closing administrative services to be provided under the United Administrative Services Agreements entered into in connection with the Northeast Sale; potential termination of the United Administrative Services Agreements by the service recipients should we breach such agreements or fail to perform all or a material part of the services required thereunder; any liabilities of our Northeast operations that were incurred prior to the closing of the Northeast Sale as well as those liabilities incurred through the winding-up and running-out period of the Northeast operations; potential termination of our TRICARE North operations; potential health care reform; rising health care costs; continued recessionary economic conditions or a further decline in the economy; negative prior period claims reserve developments; trends in medical care ratios; unexpected utilization patterns or unexpectedly severe or widespread illnesses; membership declines; rate cuts affecting our Medicare or Medicaid businesses; litigation costs; regulatory issues; operational issues; investment portfolio impairment charges; volatility in the financial markets; and general business and market conditions. Additional factors that could cause our actual results to differ materially from those reflected in forward-looking statements include, but are not limited to, the factors set forth below and the risks discussed in our other filings from time to time with the SEC.

Any or all forward-looking statements in this Annual Report on Form 10-K and in any other public filings or statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many of the factors discussed below will be important in determining future results. These factors should be considered in conjunction with any discussion of operations or results by us or our representatives, including any forward-looking discussion, as well as comments contained in press releases, presentations to securities analysts or investors or other communications by us. You should not place undue reliance on any forward-looking statements, which reflect management's analysis, judgment, belief or expectation only as of the date thereof. Except as may be required by law, we do not undertake to address or update forward-looking statements.

Potential health care reform legislation being considered by Congress may adversely affect us.

The issue of affordable health insurance and the challenge of covering the uninsured have generated significant amounts of public attention. The United States Senate and House of Representatives passed separate health care reform bills in late 2009. These bills have not yet been reconciled or signed into law. In addition, certain members of Congress have proposed a single-payer health care system, a government health insurance option to compete with private plans and other expanded public health care measures. It is possible that any final health care reform legislation could include one or more of the following elements, some of which would change the dynamics of the health care industry:

- Requirement that health plans pay significantly higher taxes, including a special assessment or annual operating fee for health insurance providers to fund the legislation;
- An excise tax on high cost employer-provider health coverage to fund the legislation;
- Regulation of the individual coverage market by restricting or mandating premium levels or mandating coverage for individuals with pre-existing medical conditions, restricting our underwriting discretion, or restricting our ability to rescind coverage based on a member's misrepresentations and omissions;
- Require prior regulatory approval of premium rate increases, or other requirements that would limit the ability of health plans and insurers to vary premiums and/or accurately price based on assessments of underlying risk;
- Elimination of certain caps on health care coverage;
- A health care exchange to facilitate uninsured individuals' access to health care coverage from private companies; and

- Other steps to expand access to health insurance in a manner that significantly restricts a health insurer or health plan's ability to effectively manage risk and limits insurance company profitability, including by regulating the medical cost ratio.

We do not currently know what the ultimate outcome of the reconciliation process or the legislation will be. Any health care reform may be phased in over a number of years, but, if enacted and depending on the provisions contained in any final legislation, could have a material adverse impact on our business, cash flows, financial condition or results of operations.

Changes to federal and state legislation and regulations affecting the managed health care industry could adversely affect us.

The United States Congress and state legislatures and federal and state regulatory agencies frequently consider legislative proposals and regulatory initiatives that, if enacted, could materially affect the managed health care industry and the regulatory environment and could have material adverse effects on our operations, including subjecting us to additional restrictions on our business operations, regulatory compliance costs and litigation risk. Such measures have proposed, among other things, to:

- Restrict or eliminate health insurers and health plans in the marketplace;
- Reduce government funding of government-sponsored health programs in which we participate, like Medicare Advantage;
- Mandate certain benefits and administrative or other services that could increase the cost of healthcare or administrative services, or restrict our right to manage the member's care through authorization requirements, requirements of medical necessity, or formularies for covered pharmaceuticals;
- Restrict a health insurer or health plan's profitability or require health plans to pay significantly higher taxes;
- Restrict our ability to contract with and manage access to providers and provider groups, enhance certain provider payments or appeal rights, or restrict our ability to select and terminate providers; and
- Mandate certain grievance and appeal rights for our members or providers, including establishment of third-party reviews of certain care decisions.

In addition to the managed care reform legislation being considered by Congress, governors and state legislatures are considering various proposals to cover the uninsured in states where we conduct business, including California. Proposals under consideration at both the state and federal levels include, but are not limited to, restructuring the health insurance market to mandate coverage, imposing various taxes and fees on insurance companies and on insurance coverage and arrangements, guaranteeing insurance in the individual market, merging individual and small group markets, mandating minimum medical care ratios, placing a cap on premiums, requiring prior regulatory approval of premium rate increases or otherwise expanding access to health insurance in a manner that could limit the profitability or marketability of our health benefits or managed care products.

From time to time, Congress also has considered various forms of managed care reform legislation which, if adopted, could fundamentally change the treatment of coverage decisions under ERISA. Additionally, there is legislative interest in modifying ERISA's preemptive effect on state laws and litigants' ability to seek damages beyond the benefits offered under their health plans. If adopted, such limitations could permit greater state regulation of our operations, could increase our liability exposure and could expand the scope of damages available to litigants.

We cannot predict the outcome of the legislative and regulatory proposals described above or any other such legislative or regulatory proposals, nor the extent to which we may be affected by the enactment of any such legislation or regulations. Such legislation or regulation, including measures that would cause us to change our

current manner of operation or increase our exposure to liability, could have a material adverse effect on our business, cash flows, results of operations, financial condition and ability to compete in our industry.

Our profitability will depend, in part, on our ability to accurately predict and control health care costs.

A substantial majority of the revenue we receive is used to pay the costs of health care services and supplies delivered to our members. The total amount of health care costs we incur is affected by the number and type of individual services provided and the cost of each service. Our future profitability will depend, in part, on our ability to accurately predict health care costs and to manage future health care utilization and costs through underwriting criteria, utilization management, product design and negotiation of favorable professional and hospital contracts. Periodic renegotiations of hospital and other provider contracts, coupled with continued consolidation of physician, hospital and other provider groups, may result in increased health care costs or limit our ability to negotiate favorable rates. Changes in utilization rates; demographic characteristics; the regulatory environment, including proposed restrictions on our ability to implement changes in premium rates; health care practices; inflation; new technologies; clusters of high-cost cases; continued consolidation of physician, hospital and other provider groups and numerous other factors affecting health care costs may adversely affect our ability to predict and control health care costs as well as our financial condition, results of operations and cash flows. In addition, a large scale public health epidemic could affect our ability to control health care costs. See "*—Large-scale public health epidemics and/or terrorist activity could cause us to incur unexpected health care and other costs and could materially and adversely affect our business, financial condition and results of operations.*"

For several years, one of the fastest increasing categories of our health care costs has been the cost of hospital-based products and services. Factors underlying the increase in hospital costs include, but are not limited to, the underfunding of public programs, such as Medicaid and Medicare and the constant pressure that places on rates from commercial health plans, growing rates of uninsured individuals, new technology, state initiated mandates, alleged abuse of hospital chargemasters, an aging population and, under certain circumstances, relatively low levels of hospital competition caused by market concentration. Another significant category of our health care costs is costs of pharmaceutical products and services. Factors affecting our pharmaceutical costs include, but are not limited to, the price of drugs, utilization of new and existing drugs and changes in discounts.

As a measure of the impact of medical costs on our financial results, relatively small differences between predicted and actual medical costs as a percentage of premium revenues can result in significant changes in our financial results. For example, if medical costs increased by 1% without a proportional change in related revenues for our health plan products, our annual net earnings for 2009 would have been reduced by approximately $107 million. The inability to forecast and manage our health care costs could have a material adverse effect on our business, financial condition or results of operations.

We face competitive pressure to contain premium prices.

In addition to the challenge of controlling health care costs, we face competitive pressure to contain premium prices. While health plans compete on the basis of many factors, including service and the quality and depth of provider networks, price will continue to be a significant basis of competition. Our premium revenue is set in advance of the actual delivery of services, and, in certain circumstances, before contracting with providers. While we attempt to take into account our estimate of expected health care costs over the premium period in setting the premiums we charge or bid, factors such as competition, new or changed regulations and other circumstances may limit our ability to fully base premiums on estimated costs. In addition, many factors may, and often do, cause actual health care costs to exceed those costs estimated and reflected in premiums or bids. These factors may include increased utilization of services, increased cost of individual services, catastrophes, epidemics, unanticipated seasonality, new mandated benefits or other regulatory changes, and insured population characteristics. In addition, several states are considering legislative proposals to require prior regulatory approval of premium rate increases. Our financial condition or results of operations could be adversely affected

by significant disparities between the premium increases of our health plans and those of our major competitors or by limitations on our ability to increase or maintain our premium levels.

In 2009, we continued to see decreases in our total commercial membership as we sought to improve margins. Any future increase in premiums could result in the loss of members. Additionally, there is always the possibility that adverse risk selection could occur when members who utilize higher levels of health care services compared with the insured population as a whole choose to remain with our health plans rather than risk moving to another plan. This could cause health care costs to be higher than anticipated and therefore cause our financial results to fall short of expectations.

In the various states in which we do business, premium prices are also constrained by state laws and regulations which restrict the spread between premiums and benefits, such as laws and regulations that require a minimum loss ratio of a certain percentage. These laws and regulations not only restrict our ability to raise our premiums but also create competitive pressure from some of our competitors who may have lower health care costs than we have and therefore price their premiums at relatively low levels in relation to our cost of care.

As a result of the Northeast Sale, our business is regionally concentrated. In the event our TRICARE North operations are discontinued, our business could become more regionally concentrated.

As a result of the Northeast Sale, our business operations are now concentrated in the states of California, Arizona and Oregon, and all of our Medicaid operations are in the state of California. Due to this concentration in a small number of states, in particular, California, we are exposed to the risk of a deterioration in our financial results if our health plans in these states, in particular, California, experience significant losses. In addition, our financial results could be adversely affected by economic conditions in these states. If the economic conditions in the state of California or in the other states in which we operate continue to deteriorate, we may experience reductions in existing and new business, which could have a material adverse effect on our business, financial condition and results of operations. In addition, if reimbursement payments from a state are significantly delayed, our results of operations could be adversely affected. Losses of accounts or deterioration in margins in any one of the states in which we operate could have an adverse effect on our financial condition or results of operations. See "*—A significant reduction in revenues from the government programs in which we participate could have an adverse effect on our business, financial condition or results of operations*."

In July 2009, we were notified by the Department of Defense that we were not selected to by the managed care support contractor under the new T3 North Region contract. Our protest of this decision was upheld by the GAO, and the Department of Defense will undertake a re-evaluation of the bids as a result of the protest decision. At this time, we are unable to determine whether the re-evaluation will have any effect upon the ultimate outcome of the contract award. See "Item 1. Business —Segment Information—Government Contracts Segment—TRICARE" for the details regarding the status of the T3 North Region contract award. If our TRICARE North operations are concluded, the regional concentration of our remaining business will increase significantly, further increasing our exposure to a deterioration in our financial results if our operations in these states experience significant losses.

Our inability to estimate and maintain appropriate levels of reserves for claims may adversely affect our business, financial condition or results of operations.

Our reserves for claims are estimates of incurred costs based on various assumptions. The accuracy of these estimates may be affected by external forces such as changes in the rate of inflation, the regulatory environment, the judicious administration of claims, medical costs and other factors. Included in the reserves for claims are estimates for the costs of services that have been incurred but not reported and for claims received but not processed. These estimates are continually monitored and reviewed and, as settlements are made or estimates adjusted, differences are reflected in current operations. Given the uncertainties inherent in such estimates, the actual liability could differ significantly from the amounts reserved. If our actual liability is lower than estimated,

it could mean that we set premium prices too high, which could result in a loss of membership. If our actual liability for claims payments is higher than estimated, it could have a negative impact on our profitability per enrolled member and, subsequently, our earnings per share in any particular quarter or annual period.

Our businesses are subject to significant government regulation, which increases our cost of doing business and could adversely affect our ability to grow our businesses.

Our businesses are subject to extensive federal and state laws and regulations, including, but not limited to, financial requirements, licensing requirements, enrollment requirements and periodic examinations by governmental agencies. These laws and regulations are generally intended to benefit and protect providers and health plan members rather than stockholders of managed health care companies such as Health Net. The laws and rules governing our business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering these regulations to interpret them and to impose substantial fines when they believe violations have occurred. Regulatory agencies have imposed substantial fines against us in the past, and may impose substantial fines against us in the future if they determine that we have not complied with applicable laws and regulations. Existing or future laws and rules could force us to change how we do business and may restrict our revenue and/or enrollment growth, and/or increase our health care and administrative costs, and/or increase our exposure to liability with respect to members, providers or others. See "*—Potential health care reform legislation being considered by Congress may adversely affect us*" and "*—Changes to federal and state legislation and regulations affecting the managed health care industry could adversely affect us.*" Further, individual associates may violate these laws and rules, notwithstanding our internal policies and compliance programs. See "*—If we fail to comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality, our reputation and business operations could be materially adversely affected.*"

Our HMO and insurance subsidiaries are subject to regulations relating to cash reserves, minimum net worth, premium rates, approval of policy language and benefits, appeals and grievances with respect to benefit determinations, provider contracting, utilization management, issuance and termination of policies, claims payment practices and a wide variety of other regulations relating to the development and operation of health plans. There can be no assurance that we will be able to continue to obtain or maintain required governmental approvals or licenses, or that regulatory changes will not have a material adverse effect on us. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Statutory Capital Requirements" for additional information.

As a government contractor, we are subject to U.S. government oversight. The government may ask about and investigate our business practices and audit our compliance with applicable rules and regulations. Depending on the results of those audits and investigations, the government could make claims against us. Under government procurement regulations and practices, a negative determination resulting from such claims could result in a contractor being fined, debarred and/or suspended from being able to bid on, or be awarded, new government contracts for a period of time. In addition, we are subject to state and federal false claims laws that generally prohibit the submission of false claims for reimbursement or payment to government agencies. Courts have imposed substantial fines and penalties against companies found to have violated these laws. We are also exposed to other risks associated with U.S. government contracting, including dependence upon Congressional appropriation and allotment of funds. In addition, delays in obtaining, or failure to obtain or maintain, governmental approvals, or moratoria imposed by regulatory authorities, could adversely affect our revenue or the number of our members, increase costs or adversely affect our ability to bring new products to market as forecasted.

Medicare programs represent a significant portion of our business and are subject to risk.

Medicare programs represent a significant portion of our business, accounting for approximately 31% of our total premium revenue in our West Operations reportable segment in 2009 and an expected 30% in 2010. Over

the last several years, we have significantly expanded our Medicare health plans and restructured our Medicare program management team and operations to enhance our ability to pursue business opportunities presented by the MMA and the Medicare program generally.

The current administration has made it clear that the reduction of Medicare expenditures is an important part of health reform. If the cost and complexity of any changes to the Medicare program exceed our expectations or prevent effective program implementation; if the government alters or further reduces funding of Medicare programs; if we fail to design and maintain programs that are attractive to Medicare participants; if CMS suspends our ability to market, or enroll members in, our Medicare products; or if we are not successful in winning contract renewals or new contracts under the MMA's competitive bidding process, our current Medicare business and our ability to expand our Medicare operations could be materially and adversely affected, and we may not be able to realize any return on our investments in Medicare initiatives. See "*—Federal and state audits, review and investigations of us and our subsidiaries could have a material adverse effect on our operations*" for information on our recent CMS audit and details on the recent suspension of our auto-enrollment for LIS beneficiaries.

There are specific risks associated with our provision of Medicare Part D prescription drug benefits under the MMA. These risks include potential uncollectibility of receivables, inadequacy of pricing assumptions, inability to receive and process information and increased pharmaceutical costs, as well as the underlying seasonality of this business, and extended settlement periods for claims submissions. In addition, in connection with our participation in the Medicare Advantage and Part D programs, we regularly record revenues associated with the risk adjustment reimbursement mechanism employed by CMS. This mechanism is designed to appropriately reimburse health plans for the relative health care cost risk of its Medicare enrollees. Because the recorded revenue is based on our best estimate at the time, the actual payment we receive from CMS for risk adjustment reimbursement settlements may be significantly greater or less than the amounts we initially recognize on our financial statements.

A significant reduction in revenues from the government programs in which we participate could have an adverse effect on our business, financial condition or results of operations.

Approximately 51% of our 2009 total revenues relate to federal, state and local government health care coverage programs, such as Medicare, Medicaid and TRICARE. All of the revenues in our Government Contracts segment come from the federal government. Under government-funded health programs, the government payor typically determines premium and reimbursement levels. If the government payor reduces premium or reimbursement levels or increases them by less than our costs increase, and we are unable to make offsetting adjustments through supplemental premiums and changes in benefit plans, we could be adversely affected. The amount of government receivables set forth in our consolidated financial statements represents our best estimate of the government's liability to us under TRICARE and other federal government contracts. In general, government receivables are estimates and subject to government audit and negotiation. In addition, inherent in government contracts are an uncertainty of and vulnerability to disagreements with the government. Final amounts we ultimately receive under government contracts may be significantly greater or less than the amounts we initially recognize on our financial statements.

Contracts under our government programs are generally subject to frequent change, including changes that may reduce the number of persons enrolled or eligible, reduce the revenue received by us or increase our administrative or health care costs under such programs. Changes of this nature could have a material adverse effect on our business, financial condition or results of operations. Changes to government health care coverage programs in the future may also affect our willingness to participate in these programs.

After the Northeast Sale, our Medicaid operations are solely in the state of California. California is currently experiencing an unprecedented budget deficit, and the Governor of California has proposed significant spending cuts for services as part of the 2010 and 2011 budget, some of which could result in reductions in enrollment in

or reimbursement from the Medi-Cal and Healthy Families programs. Any enrollment freeze or additional significant reduction in payments received in connection with Medi-Cal, the Healthy Families program or similar programs could adversely affect our business, financial condition or results of operations, particularly as our Medi-Cal membership increases due to current economic conditions. In addition, California could impose requirements on the Medi-Cal program that make continued operations not feasible.

Health care operations under our TRICARE North contract are scheduled to conclude on March 31, 2010, unless extended by the Department of Defense. We have been formally notified by the Department of Defense that it intends to exercise two additional option periods under our current North Region contract which, if both were exercised, would extend our existing TRICARE contract through March 31, 2011. We were not selected to be the managed care support contractor under the T3 contract for the North Region and protested that decision. See "Item 1. Business—Segment Information—Government Contracts Segment—TRICARE" for additional information regarding the T3 contract for the North Region. The filing of our protest triggered an automatic suspension of the performance of the T3 North contract which had the effect of stalling the transition implementation of the T3 North contract. The Department of Defense has indicated that if transition work is resumed, the contractor will be given a ten month transition period prior to the start of health care delivery under the contract.

There can be no assurance that the Department of Defense will exercise both option periods under our current TRICARE contract or that it will not shorten the transition period to the new contract to less than ten months. If the additional option periods under the current contract are not exercised or the transition period under the new contract is shortened, our results of operations could be adversely affected. In addition, if we are not awarded the T3 North contract following the re-evaluation of the bids, we may be forced to wind-down our TRICARE operations after our existing contract concludes. The winding-down process could result in the need to incur a significant impairment charge due to severance and other costs incurred to terminate the operations that are in excess of transition-out payments received from the Department of Defense. The loss of the TRICARE business could have an adverse effect on our financial condition or results of operations.

Federal and state audits, review and investigations of us and our subsidiaries could have a material adverse effect on our operations and financial condition.

We have been and, in some cases, currently are, involved in various federal and state governmental audits, reviews and investigations. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments and others pertaining to financial performance, market conduct and regulatory compliance issues. From time to time, CMS audits the risk adjustment scores that we apply to our Medicare members. For additional detail on the risk adjustment reimbursement mechanism employed by CMS and risks associated with our Medicare business, see Note 2 to our consolidated financial statements and "*—Medicare programs represent a significant portion of our business and are subject to risk*." Such audits, reviews and investigations could result in the loss of licensure or the right to participate in certain programs, or the imposition of civil or criminal fines, penalties and other sanctions. In addition, disclosure of any adverse investigation or audit results or sanctions could negatively affect our reputation in various markets and make it more difficult for us to sell our products and services. We have entered into consent agreements relating to, and in some instances have agreed to pay fines in connection with, several recent audits and investigations. In addition, state attorneys general have become increasingly active in investigating the activities of health plans, and we have received in the past, and may continue to receive in the future, subpoenas and other requests for information as part of these investigations.

Many regulatory audits, reviews and investigations in recent years have focused on the timeliness and accuracy of claims payments by managed care companies and health insurers. Our subsidiaries have been the subject of audits, reviews and investigations of this nature. Depending on the circumstances and the specific matters reviewed, regulatory findings could require remediation of claims payment errors and payment of penalties of material amounts that could have a material adverse effect on our results of operations.

Beginning in November 2008, CMS performed a routine audit of certain of our Medicare Advantage, Private Fee For Service and PDP products and found deficiencies in many of the business areas included in the review. On August 6, 2009, CMS accepted our corrective action plan relating to the 2008 audit. In December 2009, CMS performed a focused audit to assess our implementation of the corrective action plan. We received CMS' report on the focused audit and related corrective action request on January 11, 2010 and submitted our corrective action plan to CMS for review and approval on February 26, 2010. CMS found deficiencies in many of the business areas included in the review, including several repeat findings from previous audits, which were submitted to CMS Central Office for review. If the CMS Central Office believes that the repeat deficiencies are substantial, it could levy enforcement actions against us, including financial penalties and/or the suspension of marketing and enrollment into our Medicare products. Additionally, on January 7, 2010, we were notified by CMS that, due to certain pharmacy claims processing errors, none of our stand-alone PDP plans would be considered "available" for the purposes of the process through which CMS randomly assigns low-income subsidy ("LIS") eligible Medicare beneficiaries not otherwise enrolled in PDP plans into stand-alone PDP plans, effective February 1, 2010. In its notice to us, CMS indicated that it would work with us to develop a corrective action plan in this regard, but we have not received a corrective action request from CMS. At this time, we do not expect the suspension of our auto-enrollment for LIS beneficiaries to have a material adverse effect on our Medicare business; however, if CMS were to impose substantial financial penalties and/or suspend the marketing of and enrollment into our other Medicare products for a significant period of time in the future, it could have a material adverse effect on our Medicare business.

In addition, from time to time, agencies of the U.S. government investigate whether our operations are being conducted in accordance with regulations applicable to government contractors. Government investigations of us, whether relating to government contracts or conducted for other reasons, could result in administrative, civil or criminal liabilities, including repayments, fines and/or penalties being imposed upon us, or could lead to suspension or debarment from future U.S. government contracting, which could have a material adverse effect on our financial condition and results of operations.

We face risks related to litigation, which, if resolved unfavorably, could result in substantial penalties and/or monetary damages, including punitive damages. In addition, we incur material expenses in the defense of litigation and our results of operations or financial condition could be adversely affected if we fail to accurately project litigation expenses.

We are currently, and may become in the future, subject to a variety of legal actions to which any corporation may be subject, including employment and employment discrimination-related suits, employee benefit claims, wage and hour claims, breach of contract actions, tort claims, fraud and misrepresentation claims, shareholder suits, including suits for securities fraud, and intellectual property and real estate related disputes. In addition, we incur and likely will continue to incur potential liability for claims related to the insurance industry in general and our business in particular, such as claims by members alleging failure to pay for or provide health care, poor outcomes for care delivered or arranged, improper rescission, termination or non-renewal of coverage, insufficient payments for out-of-network services and claims relating to information security breaches; claims by employer groups for return of premiums; and claims by providers, including claims for withheld or otherwise insufficient compensation or reimbursement, claims related to self-funded business and claims related to reinsurance matters. Such actions can also include allegations of fraud, misrepresentation, and unfair or improper business practices and can include claims for punitive damages. Also, there are currently, and may be in the future, attempts to bring class action lawsuits against various managed care organizations, including us. In some of the cases pending against us, substantial non-economic or punitive damages are also being sought. Additionally, in periods prior to and subsequent to acquisitions, divestitures and other significant transactions, there may be attempts to bring lawsuits or other actions to block or unwind these transactions. For instance, on January 13, 2010, the Connecticut State Medical Society, together with two member physicians in their individual capacities, filed an appeal in the Superior Court in New Britain, Connecticut seeking to overturn the Connecticut Department of Insurance's approval of the Northeast Sale.

Recent court decisions and legislative activity may increase our exposure for any of the types of claims we face. There is a risk that we could incur substantial legal fees and expenses, including discovery expenses, in any of the actions we defend in excess of amounts budgeted for defense. Plaintiffs' attorneys have increasingly used expansive electronic discovery requests as a litigation tactic. Responding to these requests, the scope of which may exceed the normal capacity of our historical systems for archiving and organizing electronic documents, may require application of significant resources and impose significant costs on us. In certain cases, we could also be subject to awards of substantial legal fees and costs to plaintiffs' counsel.

We cannot predict the outcome of any lawsuit with certainty, and we are incurring material expenses in the defense of litigation matters, including without limitation, substantial discovery costs. While we currently have insurance policies that may provide coverage for some of the potential liabilities relating to litigation matters, there can be no assurance that coverage will be available for any particular case or liability. Insurers could dispute coverage or the amount of insurance could not be sufficient to cover the damages awarded or settlement amounts. In addition, certain liabilities such as punitive damages, may not be covered by insurance. Insurance coverage for all or certain types of liability may become unavailable or prohibitively expensive in the future or the deductible on any such insurance coverage could be set at a level that would result in us effectively self-insuring cases against us. The deductible on our errors and omissions ("E&O") insurance has reached such a level. Given the amount of the deductible, the only cases which would be covered by our E&O insurance are those involving claims that substantially exceed our average claim values and otherwise qualify for coverage under the terms of the insurance policy.

We regularly evaluate litigation matters pending against us, including those described in Note 13 to our consolidated financial statements, to determine if settlement of such matters would be in the best interests of the Company and its stockholders. The costs associated with any such settlement could be substantial and, in certain cases, could result in an earnings charge in any particular quarter in which we enter into a settlement agreement. Although we have recorded litigation reserves which represent our best estimate on probable losses, both known and incurred but not reported, our recorded reserves might prove to be inadequate to cover an adverse result or settlement for extraordinary matters, such as the matters described in Note 13. Therefore, costs associated with the various litigation matters to which we are subject and any earnings charge recorded in connection with a settlement agreement could have a material adverse effect on our financial condition or results of operations.

If we are unable to manage our general and administrative expenses, our business, financial condition or results of operations could be harmed.

The level of our administrative expenses can affect our profitability, and our ability to manage administrative expense increases is difficult to predict. While we attempt to effectively manage such expenses, including through the development of online functionalities and other projects designed to create administrative efficiencies, increases in staff-related and other administrative expenses may occur from time to time. These increases could be caused by any number of things, including difficulties or delays in projects designed to create administrative efficiencies, reliance on outsourced services, acquisitions and divestitures, business or product start-ups or expansions, changes in business or regulatory requirements, including compliance with HIPAA regulations, or other reasons. In November 2007, we announced a reorganization plan to enhance efficiency and achieve general and administrative cost savings. The reorganization is nearly complete and is intended to enable us to streamline our operations, including combining duplicative administrative and operational functions and outsourcing certain operations where appropriate. However, there can be no assurance that the reorganization will produce the anticipated savings.

Under the United Administrative Services Agreements, HNNE has agreed to provide certain administrative services to the Acquired Companies until all of their members have either transitioned to legacy United products or non-renewed. As these operations wind-down, we will seek to reduce the scale of, and ultimately eliminate, certain of our administrative functions. In addition, we will need to reduce the scale of our overhead to reflect the smaller size of the remaining company. In the event that the costs of the wind-down are greater than we

anticipated, our profitability could be adversely affected. There can be no assurances that these efforts will not significantly disrupt our operations, thereby negatively impacting our financial performance. Furthermore, our failure to successfully adjust our overhead and administrative expenses in proportion to the wind-down could have an adverse effect on our business, financial condition or results of operations.

In addition to managing administrative expenses, our profitability is also affected by our ability to effectively and quickly respond to events that require significant reductions and changes to the allocation of our administrative expenses. In the event that our TRICARE North operations are concluded, this will render redundant many of the management, administrative and operational functions previously required to maintain those operations. See "—Segment Information—Government Contracts Segment—TRICARE" for additional detail regarding the status of the T3 North Region award. While we will need to significantly reduce, reallocate or eliminate these redundant administrative expenses, we cannot guarantee you that we will be successful in making these cuts and adjustments at a pace that will maintain or increase our profitability. In addition, we would expect to incur significant restructuring charges due to severance and other costs if we terminate our TRICARE North operations. Failure to adjust our overhead and other administrative expenses in proportion to these events could have a material adverse effect on our business, financial condition or results of operations.

If we are unable to maintain good relations with the physicians, hospitals and other providers that we contract with, our profitability could be adversely affected.

We contract with physicians, hospitals and other providers as a means to assure access to health care services for our members, to manage health care costs and utilization and to better monitor the quality of care being delivered. In any particular market, providers could refuse to contract with us, demand higher payments or take other actions, including litigation, which could result in higher health care costs, less desirable products for customers and members, disruption to provider access for current members or to support growth, or difficulty in meeting regulatory or accreditation requirements. In some markets, certain providers, particularly hospitals, physician/hospital organizations and multi-specialty physician groups, may have significant market positions or even monopolies. If these providers refuse to contract with us or utilize their market position to negotiate favorable contracts or place us at a competitive disadvantage, our ability to market our products or to be profitable in those areas could be adversely affected.

We contract with professional providers in California primarily through capitation fee arrangements. Under a capitation fee arrangement, we pay a provider group a fixed amount per member on a regular basis and the provider group accepts the risk of the frequency and cost of member utilization of professional services, and in some cases, institutional services. Provider groups that enter into capitation fee arrangements generally contract with specialists and other secondary providers, and may contract with primary care physicians, to provide services. The inability of provider groups to properly manage costs under capitation arrangements can result in their financial instability and the termination of their relationship with us. A provider group's financial instability or failure to pay secondary providers for services rendered could be exacerbated by the economic recession, and could lead secondary providers to demand payment from us, even though we have made our regular capitated payments to the provider group. Depending on state law, we could be liable for such claims. In California, for instance, the liability of our HMO subsidiaries for unpaid provider claims has not been definitively settled. There can be no assurance that we will not be liable for unpaid provider claims. There can also be no assurance that providers with whom we contract will properly manage the costs of services, maintain financial solvency or avoid disputes with secondary providers, the failure of any of which could have an adverse effect on the provision of services to members and our operations. Moreover, with the completion of the Northeast Sale our dependence on capitated provider groups has increased, as 68 percent of our West Operations members were enrolled with capitated provider groups as of December 31, 2009. Our strategy to expand commercial membership through narrow network products also places a greater emphasis on our relationships with certain capitated provider groups, as narrow network products significantly restrict covered members' access to certain hospitals and physicians. If these capitated provider groups cannot provide comprehensive services to our

members in narrow network products or encounter financial difficulties, it could have an adverse effect on the provision of services to members and our operations.

Some providers that render services to our members and insureds that have coverage for out-of-network services are not contracted with our plans and insurance companies. In those cases, there is no pre-established understanding between the provider and the plan about the amount of compensation that is due to the provider; rather, the plan's obligation is to reimburse the member based upon the terms of the member's plan. In some states and product lines, the amount of reimbursement is defined by law or regulation, but in most instances it is established by a standard set forth in the plan that is not clearly translated into dollar terms, such as "maximum allowable amount" or "usual, customary and reasonable." In such instances providers may believe they are underpaid for their services and may either litigate or arbitrate their dispute with the plan or balance bill our member. Regulatory authorities in various states may also challenge the manner in which we reimburse members for services performed by non-contracted providers. As a result of litigation or regulatory activity, we may have to pay providers additional amounts or reimburse members for their out-of-pocket payments. The uncertainty about our financial obligations for such services and the possibility of subsequent adjustment of our original payments could have a material adverse effect on our financial position or results of operations.

In addition, provider groups and hospitals that contract with us have in certain situations commenced litigation and/or arbitration proceedings against us to recover amounts they allege to be underpayments due to them under their contracts with us. We believe that provider groups and hospitals have become increasingly sophisticated in their review of claim payments and contractual terms in an effort to maximize their payments from us and have increased their use of outside professionals, including accounting firms and attorneys, in these efforts. These efforts and the litigation and arbitration that result from them could have an adverse effect on our results of operations and financial condition.

If the current unfavorable economic conditions continue or further deteriorate, it could adversely affect our revenues and results of operations.

The economic conditions in the United States continue to be challenging. Continued concerns about the systemic impact of inflation, energy costs, rising unemployment rates, geopolitical issues, the availability and cost of credit and other capital, the U.S. mortgage market, consumer spending and a declining real estate market have contributed to increased market volatility and relatively low expectations for the U.S. economy. These events could adversely affect our revenues and results of operations.

These market conditions expose us to a number of risks, including risks associated with the potential financial instability of our customers. If our customer base experiences cash flow problems or other financial difficulties, it could, in turn, adversely impact membership in our plans. For example, our customers may modify, delay or cancel plans to purchase our products, or may make changes in the mix of products purchased from us. If our customers experience financial issues, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Further, our customers or potential customers may force us to compete more vigorously on factors such as price and service to retain or obtain their business, and in order to compete effectively in our markets, we also must deliver products and services that demonstrate value to our customers and that are designed and priced properly and competitively. The adverse economic conditions could also cause employers to stop offering certain health care coverage as an employee benefit or elect to offer this coverage on a voluntary, employee-funded basis as a means to reduce their operating costs. A significant decline in membership in our plans and the inability of current and/or potential customers to pay their premiums as a result of unfavorable economic conditions could have a material adverse effect on our business, including our revenues, profitability and cash flow. In addition, a prolonged economic downturn could negatively impact the financial position of hospitals and other providers and, as a result, could adversely affect our contracted rates with such parties and increase our medical costs.

High unemployment rates and significant employment layoffs and downsizings may also impact the number of enrollees in managed care programs and the profitability of our operations. For example, in 2009, our

commercial membership decreased by 10.4 percent due, in part, to the difficult economic conditions in the regions where we do business. If economic conditions continue to be difficult and unemployment rates continue to be high, we may experience a reduction in existing and new business, which may have a material adverse effect on our business, financial condition and results of operations.

An extended economic downturn could adversely affect state and federal budgets, resulting in reduced reimbursements or payments in our federal and state government health care coverage programs, including Medicare, Medi-Cal and CHIP. A reduction in California's Medi-Cal reimbursement rates could be implemented retrospectively to payments already negotiated and/or received from the government and could adversely affect our revenues and financial results. In addition, state and federal budgetary pressures could cause new or higher levels of assessments or taxes for our commercial programs, such as surcharges on select fee-for-service and capitated medical claims or premium taxes on insurance companies and health maintenance organizations, and could adversely affect our results of operations. Moreover, any enrollment freeze or significant delay in reimbursement payment could adversely affect our business, financial condition or results of operations.

Under the United Administrative Services Agreements, we are obligated to provide administrative services in connection with the wind-down and run-off of the acquired business, which exposes us to operational and financial risks.

At the closing of the Northeast Sale, we entered into the United Administrative Services Agreements pursuant to which our subsidiary, HNNE, provides administrative services to the HMO and insurance subsidiaries formerly engaged in our Northeast operations. The scope of these administrative services include substantially all of the day-to-day operational functions of these entities, including (i) claims payment services and operations, (ii) medical management services, (iii) financial planning and analysis, (iv) actuarial and underwriting services, (v) corporate finance services, (vi) regulatory relations services, (vii) organization effectiveness (human resources) services, (viii) legal services, (ix) customer care operations, (x) information technology services, (xi) premium tax filing services, (xii) administration of governmental assessments, (xiii) broker commissions payment services, and (xiv) other administrative services. In addition, we have agreed to administer the Medicare business of the Acquired Companies for 2010 and potentially for 2011 (only if the related Medicare contract is not transferred to a non-Acquired Company affiliate of United as of January 1, 2011). If the underlying Medicare contract is not transferred and we are required to continue to administer this Medicare business for United, it could slow our ability to wind-down the business and could have an adverse impact on our profitability.

The United Administrative Services Agreements require HNNE to perform the administrative services in accordance with specified service standards and other requirements. Subject to certain terms and conditions, if HNNE fails to comply with the service standards, among other things, it will be required to pay specified penalties in accordance with the United Administrative Services Agreements. We could fail to comply with the service standards for various reasons, some of which are not within our control. For example, the personnel needed to provide the administrative services could terminate their employment with us. The amount of penalties we could incur for violating the service standards could be substantial.

If HNNE is unable to perform all or a material part of the services required under the United Administrative Services Agreements, and is unable to obtain an alternative means to provide such services, or if HNNE materially breaches the United Administrative Services Agreements, the service recipients may terminate the United Administrative Services Agreements. If such a termination occurs prior to the second anniversary of the closing date of the transaction, we and HNNE will be required to establish (and will be required to pay to United) a loss reserve, which, depending on when the United Administrative Services Agreements are terminated, could be substantial and could have a material adverse effect on our business, financial condition or results of operations. See "*—Under the agreements that govern the Northeast Sale, we have retained responsibility for certain liabilities of the acquired business, which could be substantial,*" for additional detail on when the loss

reserve is required to be established and paid. For additional information on the United Administrative Services Agreements, see "Item 1. Business—Segment Information—Northeast Operations".

Under the agreements that govern the Northeast Sale, we have retained responsibility for certain liabilities of the acquired business, which could be substantial.

Under the Stock Purchase Agreement, we are required to indemnify the Buyer and its affiliates for all pre-closing liabilities of the acquired business and for a broad range of excluded liabilities, including liabilities arising out of the acquired business incurred through the winding-up and running-out period of the acquired business. These liabilities could exceed the amount of profits that will be payable to us by the Buyer in connection with the operations of the acquired business. The Stock Purchase Agreement does not limit the amount or duration of our obligations to the Buyer and its affiliates with respect to these indemnities. As a result, in the event that the amount of these liabilities was to exceed our expectations, we could be responsible to the Buyer and its affiliates for substantial indemnification obligations.

In addition, under the Stock Purchase Agreement, the purchase price for the acquired HMO and insurance subsidiaries is subject to adjustment upward or downward by the amount of profits or losses, subject to specified adjustments, of these subsidiaries for the period beginning on the closing date and ending on the earlier of (i) the second anniversary of the closing date (the "Transition Date") and (ii) the date that all of the United Administrative Service Agreements are terminated (the "ASA Termination Date"). As a result, even though we do not own these subsidiaries, to the extent that they incur losses, we and HNNE generally will be financially responsible to the Buyer for the amount of such losses. Subject to certain terms and conditions, the Buyer will be permitted to exercise control rights over the subsidiaries after the closing without our or HNNE's consent. The exercise of such rights by the Buyer, or other events or circumstances beyond our or HNNE's control, could result in substantial losses for which HNNE will responsible to Buyer.

Furthermore, in the event that the ASA Termination Date occurs prior to the Transition Date, among other things, in specified circumstances we and HNNE will be required to establish (and will be required to pay to Buyer) a loss reserve in an amount equal to an actuarially determined provision for medical costs and loss adjustment expenses as of the ASA Termination Date for all claims of the subsidiaries through the winding-up and running-out period of the acquired business (excluding certain unreserved claims). Depending on when the ASA Termination Date occurs, the amount of such loss reserve could be substantial.

As a result of the provisions described above, we continue to have significant potential financial obligations to the Buyer and its affiliates with respect to the acquired business. In the event that the amount of these financial obligations exceed our expectations, our responsibilities to the Buyer and its affiliates with respect to these obligations could have an adverse effect on our business, financial condition or results of operations.

We have a material amount of indebtedness and may incur additional indebtedness, or need to refinance existing indebtedness, in the future, which may adversely affect our operations.

Our indebtedness includes $400 million in aggregate principal amount of 6.375% Senior Notes due 2017 and $104 million in borrowings under a financing facility which will amortize over a period ending December 2012. For a description of our Senior Notes and our financing facility, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Structure." In addition, to provide liquidity, we have a $900 million five-year revolving credit facility that expires in June 2012. As of December 31, 2009, $100 million was outstanding under our revolving credit facility. We may incur additional debt in the future. Our existing indebtedness, and any additional debt we incur in the future through drawings on our revolving credit facility or otherwise could have an adverse effect on our business and future operations. For example, it could:

- require us to dedicate a substantial portion of cash flow from operations to pay principal and interest on our debt, which would reduce funds available to fund future working capital, capital expenditures and other general operating requirements;

- increase our vulnerability to general adverse economic and industry conditions or a downturn in our business; and
- place us at a competitive disadvantage compared to our competitors that have less debt.

We continually evaluate options to refinance our outstanding indebtedness. Our ability to obtain any financing, whether through the issuance of new debt securities or otherwise, and the terms of any such financing are dependent on, among other things, our financial condition, financial market conditions within our industry and generally, credit ratings and numerous other factors. Recently, credit markets have experienced unusual uncertainty, and liquidity and access to capital markets have tightened. See "*—Adverse conditions in the credit markets may materially affect our ability to obtain credit.*" Consequently, in the event we need to access the credit markets to refinance our debt, there can be no assurance that we will be able to obtain financing on acceptable terms or within an acceptable time, if at all. If we are unable to obtain financing on terms and within a time acceptable to us it could, in addition to other negative effects, have a material adverse effect on our operations, financial condition, ability to compete or ability to comply with regulatory requirements.

Concern about the stability of the markets generally has lead many lenders to reduce and in some cases cease to provide funding to borrowers. If markets remain tight, they may materially and adversely affect our ability to access additional capital to meet liquidity needs, which could have an adverse effect on our financial condition and results of operations.

The current economic environment and uncertainty in the financial markets could have an adverse impact on the value of our investment portfolio and our goodwill which could, in turn, have a negative effect on our results of operations and stockholders' equity.

Our investment portfolio is comprised primarily of available-for-sale investment securities such as interest-yielding debt securities of varying maturities. As of December 31, 2009, our available-for-sale investment securities were $1.4 billion. The value of fixed-income securities is highly sensitive to fluctuations in short-and long-term interest rates, with the value decreasing as such rates increase and increasing as such rates decrease. These securities may also be negatively impacted by illiquidity in the market. We closely monitor the fair values of our investment securities and regularly evaluate them for any other-than-temporary impairments. We have the intent and ability to hold our investments for a sufficient period of time to allow for recovery of the principal amount invested.

The current economic environment and uncertainty in the U.S. and global capital markets have negatively impacted the liquidity of investments, such as our debt securities, and a worsening in these markets could have additional negative effects on the liquidity and value of our investment assets. In addition, such uncertainty has increased the difficulty of assessing investment impairment and the same influences tend to increase the risk of potential impairment of these assets.

Over time, the economic and capital market environment may further deteriorate or provide additional insight regarding the fair value of certain securities, which could change our judgment regarding the impairment of certain investments. This could result in realized losses relating to other-than-temporary declines being charged against future income. Given the current market conditions and the significant judgments involved, there is continuing risk that further declines in fair value may occur and material other-than-temporary impairments may result in realized losses in future periods, which could have an adverse effect on our results of operations, liquidity and financial condition. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources" for additional information regarding our investment portfolio.

In addition, our regulated subsidiaries are also subject to state laws and regulations that govern the types of investments that are allowable and admissible in those subsidiaries' portfolios. There can be no assurance that

our investment assets will produce total positive returns or that we will not sell investments at prices that are less than the carrying value of these investments. Changes in the value of our investment assets, as a result of interest rate fluctuations, illiquidity or otherwise, could have a negative affect on our stockholders' equity. In addition, if it became necessary for us to liquidate our investment portfolio on an accelerated basis, it could have an adverse effect on our results of operations.

The economic environment and crisis in the financial markets that began in 2008 continued to impact our market capitalization during 2009. Our annual goodwill impairment test did not indicate any impairment in 2009 as a result of the fluctuations in our market capitalization. However, if our stock price experiences significant fluctuations or if our market capitalization materially declines, we could be required to update our goodwill impairment test prior to our regularly scheduled annual test in 2010. Depending on the results of any such impairment test, we could be required to take an impairment charge to reduce the carrying amount of our goodwill. If we were required to take such a charge, it would be non-cash and would not affect our liquidity, tangible equity or regulatory capital levels but could have a significant adverse effect on our results of operations.

Downgrades in our debt ratings may adversely affect our business, financial condition and results of operations.

Claims paying ability, financial strength, and debt ratings by nationally recognized rating agencies are increasingly important factors in establishing the competitive position of insurance companies and health benefits companies. Ratings information by nationally recognized rating agencies is broadly disseminated and generally used throughout the industry. We believe our claims paying ability and financial strength ratings are important factors in marketing our products to certain of our customers. In addition, our debt ratings impact both the cost and availability of future borrowings and, accordingly, our cost of capital. On July 15, 2009, in light of our announcement that we were not selected by the Department of Defense to be the Managed Care Support Contractor under the T3 North Region contract, Fitch Ratings announced that the outlook for the Company remained negative and downgraded the Company's default issuer rating to "BB-" (speculative) from "BBB-" (lower medium grade), downgraded our senior debt rating to "B+" (highly speculative) from "BB+" (non-investment) and downgraded our insurer financial strength rating to "BBB-" from "BBB+," both of which are lower medium grade ratings. On the same day, Standard & Poor's Rating Services (S&P) announced that the outlook for the Company remained negative and lowered its counterparty credit rating of the Company to "BB-" from "BB" and, at the same time, affirmed the "BBB-" financial strength and counterparty credit ratings of our core operating subsidiaries, Health Net of California and Health Net Life Insurance Company. Moody's Investors Service also announced on the same day that it had placed the Company's "Ba3" senior debt ratings under review for possible downgrade, also due to the loss of the T3 North Region contract. For additional detail regarding the current status of the T3 North Region contract award, please see "—Segment Information—Government Contracts Segment—TRICARE". On January 22, 2010, Moody's Investors Service reaffirmed our "Ba3" senior debt ratings and changed the outlook for the Company to "stable." Each of the rating agencies reviews our ratings periodically and there can be no assurance that current ratings will be maintained in the future. Our ratings reflect each rating agency's independent opinion of our financial strength, operating performance, ability to meet our debt obligations or obligations to policyholders and other factors. Potential further downgrades from ratings agencies, should they occur, may adversely affect our business, financial condition and results of operations.

We are a holding company and a substantial amount of our cash flow is generated by our subsidiaries. Our regulated subsidiaries are subject to restrictions on the payment of dividends and maintenance of minimum levels of capital.

As a holding company, our subsidiaries conduct substantially all of our consolidated operations and own substantially all of our consolidated assets. Consequently, our cash flow and our ability to pay our debt depends, in part, on the amount of cash that we receive from our subsidiaries. Our subsidiaries' ability to make any payments to us will depend on their earnings, business and tax considerations, legal and regulatory restrictions and economic conditions. In addition, in certain states our regulated subsidiaries are subject to risk-based capital

requirements, known as RBC. These laws require our regulated subsidiaries to report their results of risk-based capital calculations to the departments of insurance in their state of domicile and the National Association of Insurance Commissioners. Failure to maintain the minimum RBC standards could subject certain of our regulated subsidiaries to corrective action, including increased reporting and/or state supervision. In addition, in most states, we are required to seek prior approval before we transfer money or pay dividends from our regulated subsidiaries that exceed specified amounts. If our regulated subsidiaries are restricted from paying us dividends or otherwise making cash transfers to us, it could have material adverse effect on our results of operations and Health Net, Inc.'s free cash flow. For additional information regarding our regulated subsidiaries' statutory capital requirements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Statutory Capital Requirements."

Our revolving credit facility and our financing facility contain restrictive covenants that could limit our ability to pursue our business strategies.

On June 25, 2007, we entered into a $900 million five-year revolving credit facility. On December 19, 2007, we entered into a $175 million financing facility. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Structure" for additional information regarding our revolving credit facility and our financing facility. Our revolving credit facility and our financing facility require us to comply with various covenants that impose restrictions on our operations, including our ability to incur additional indebtedness, pay dividends, make investments or other restricted payments, sell or otherwise dispose of assets and engage in other activities. Our revolving credit facility and our financing facility also require us to comply with certain financial covenants, including a maximum leverage ratio and a minimum fixed charge coverage ratio. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Structure Amortizing Financing Facility" for details regarding the revolving credit facility and the financing facility.

The restrictive covenants under our revolving credit facility and our financing facility could limit our ability to pursue our business strategies. In addition, any failure by us to comply with these restrictive covenants could result in an event of default under the revolving credit facility, our financing facility, and, in some circumstances, under the indenture governing our Senior Notes, which, in any case, could have a material adverse effect on our financial condition.

Downgrades in our debt ratings may adversely affect our business, financial condition and results of operations.

Claims paying ability, financial strength, and debt ratings by nationally recognized rating agencies are increasingly important factors in establishing the competitive position of insurance companies and health benefits companies. Ratings information by nationally recognized rating agencies is broadly disseminated and generally used throughout the industry. We believe our claims paying ability and financial strength ratings are important factors in marketing our products to certain of our customers. In addition, our debt ratings impact both the cost and availability of future borrowings and, accordingly, our cost of capital. On July 15, 2009, in light of our announcement that we were not selected by the Department of Defense to be the Managed Care Support Contractor under the T3 North Region contract, Fitch Ratings announced that the outlook for the Company remained negative and downgraded the Company's default issuer rating to "BB-" (speculative) from "BBB-" (lower medium grade), downgraded our senior debt rating to "B+" (highly speculative) from "BB+" (noninvestment) and downgraded our insurer financial strength rating to "BBB-" from "BBB+," both of which are lower medium grade ratings. On the same day, Standard & Poor's Rating Services (S&P) announced that the outlook for the Company remained negative and lowered its counterparty credit rating of the Company to "BB-" from "BB" and, at the same time, affirmed the "BBB-" financial strength and counterparty credit ratings of our core operating subsidiaries, Health Net of California and Health Net Life Insurance Company. Moody's Investors Service also announced on the same day that it had placed the Company's "Ba3" senior debt ratings under review for possible downgrade, also due to the loss of the T3 North Region contract. For additional detail regarding the

current status of the T3 North Region contract award, please see "—Segment Information—Government Contracts Segment—TRICARE". On January 22, 2010, Moody's Investors Service reaffirmed our "Ba3" senior debt ratings and changed the outlook for the Company to "stable." Each of the rating agencies reviews our ratings periodically and there can be no assurance that current ratings will be maintained in the future. Our ratings reflect each rating agency's independent opinion of our financial strength, operating performance, ability to meet our debt obligations or obligations to policyholders and other factors. Potential further downgrades from ratings agencies, should they occur, may adversely affect our business, financial condition and results of operations.

The markets in which we do business are highly competitive. If we do not design and price our product offerings competitively, our membership and profitability could decline.

We are in a highly competitive industry. Many of our competitors may have certain characteristics, capabilities or resources, such as greater market share, superior provider and supplier arrangements and existing business relationships, that give them an advantage in competing with us. These competitors include HMOs, PPOs, self-funded employers, insurance companies, hospitals, health care facilities and other health care providers. In addition, other companies may enter our markets in the future.

In addition, financial services or other technology-based companies could enter the market and compete with us on the basis of their streamlined administrative functions. The addition of new competitors can occur relatively easily and customers enjoy significant flexibility in moving between competitors. There is a risk that our customers may decide to perform for themselves functions or services currently provided by us, which could result in a decrease in our revenues. In addition, our providers and suppliers may decide to market products and services to our customers in competition with us.

In recent years, there has been significant merger and acquisition activity in our industry and in industries that act as our suppliers, such as the hospital, medical group, pharmaceutical and medical device industries. This activity may create stronger competitors and/or result in higher health care costs. In addition, our contracts with government agencies, such as our TRICARE North contract, are frequently up for re-bid and the loss of any significant government contract to a competitor, such as the T3 North Region contract, could have an adverse effect on our financial condition and results of operations. To the extent that there is strong competition or that competition intensifies in any market, our ability to retain or increase customers, our revenue growth, our pricing flexibility, our control over medical cost trends and our marketing expenses may all be adversely affected.

If we do not compete effectively in our markets, if we do not design and price our products appropriately and competitively, if we are unable to innovate and deliver products and services that demonstrate value to our customers, if we set rates too high or too low in highly competitive markets, if we lose accounts with more profitable products while retaining or increasing membership in accounts with less profitable products, if we do not provide satisfactory service levels, if membership or demand for other services does not increase as we expect or if membership or demand for other services declines, it could have a material adverse effect on our business, financial condition and results of operations.

At the closing of the Northeast Sale, we entered into a Non-Competition Agreement with the Buyer that contains prohibitions which could negatively impact our prospects, business, financial condition or results of operations.

Under the Stock Purchase Agreement, at the closing of the transactions contemplated by the agreement, we entered into a Non-Competition Agreement with the Buyer, pursuant to which we generally are prohibited from competing with the acquired business in the States of New York, New Jersey, Connecticut and Rhode Island for a period of five years, and from engaging in certain other restricted activities. Although we currently do not have any intention to engage in such prohibited activities during the term of the Non-Competition Agreement, circumstances could change and it may become in our best interests to engage in a business that is prohibited by the agreement. If this were to occur, in order to engage in the business we would be required to obtain the

Buyer's consent under the Non-Competition Agreement, which the Buyer could withhold in its discretion. In the event that we are unable to engage in a business due to the terms of the Non-Competition Agreement, this could have an adverse effect on our prospects, business, financial condition or results of operations.

If we fail to effectively maintain our information management systems, it could adversely affect our business.

Our business depends significantly on effective information systems. The information gathered and processed by our information management systems assists us in, among other things, pricing our services, monitoring utilization and other cost factors, processing provider claims, billing our customers on a timely basis and identifying accounts for collection. Our customers and providers also depend upon our information systems for membership verification, claims status and other information. We have many different information systems for our various businesses and these systems require continual maintenance, upgrading and enhancement to meet our operational needs. Our merger, acquisition and divestiture activity also requires transitions to or from, and the integration of, various information management systems.

Any difficulty or unexpected delay associated with the transition to or from information systems, including the current transition of our data center operations to a third-party vendor, any inability or failure to properly maintain information management systems, or any inability or failure to successfully update or expand processing capability or develop new capabilities to meet our business needs, could result in operational disruptions, loss of existing customers, difficulty in attracting new customers, disputes with customers and providers, regulatory problems, significant increases in administrative expenses and/or other adverse consequences. In addition, we may, from time-to-time, obtain significant portions of our systems-related or other services or facilities from independent third parties, which may make our operations vulnerable to adverse effects if such third parties fail to perform adequately. See "—*We are subject to risks associated with outsourcing services and functions to third parties.*"

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

We contract with independent third party vendors who provide services to us and our subsidiaries or to whom we delegate selected functions. These third party vendors include, but are not limited to, information technology system providers, medical management providers, claims administration providers, billing and enrollment providers, third party service providers of actuarial services, call center providers and specialty service providers. Our arrangements with third party vendors may make our operations vulnerable if those third parties fail to satisfy their obligations to us, including their obligations to maintain and protect the security and confidentiality of our information and data. Our outsourcing arrangements could be adversely impacted by changes in the vendors' operations or financial condition or other matters outside of our control. If we fail to adequately monitor and regulate the performance of our third party vendors, we could be subject to additional risk. Violations of laws or regulations governing our business by third party vendors could increase our exposure to liability or otherwise increase the costs associated with the operation of our business. In addition, to the extent we outsource selected services or selected functions to third parties in foreign jurisdictions, we could be exposed to risks inherent in conducting business outside of the United States, including international economic and political conditions, additional costs associated with complying with foreign laws and fluctuations in currency values. Moreover, if these vendor relationships were terminated for any reason, we may not be able to find alternative partners in a timely manner or on acceptable financial terms, and may incur significant costs in connection with any such vendor transition. As a result, we may not be able to meet the full demands of our customers and, in turn, our business, financial condition and results of operations may be harmed. In addition, we may not fully realize the anticipated economic and other benefits from our outsourcing projects or other relationships we enter into with third party vendors, as a result of regulatory restrictions on outsourcing, unanticipated delays in transitioning our operations to the third party vendor or otherwise. This could result in substantial costs or other operational or financial problems that could adversely impact our results of operations.

Acquisitions, divestitures and other significant transactions may adversely affect our business.

We continue to evaluate the profitability realized or likely to be realized by our existing businesses and operations. From time to time we review, from a strategic standpoint, potential acquisitions and divestitures in light of our core businesses and growth strategies. The success of any such acquisition or divestiture depends, in part, upon our ability to identify suitable buyers or sellers, negotiate favorable contractual terms and, in many cases, obtain governmental approval. For acquisitions, success is also dependent upon efficiently integrating the acquired business into the Company's existing operations. In the event the structure of the transaction results in continuing obligations by the buyer to us or our customers, a buyer's inability to fulfill these obligations could lead to future financial loss on our part.

Potential acquisitions or divestitures present financial, managerial and operational challenges, including diversion of management attention from existing businesses, difficulty with integrating or separating personnel and financial and other systems, significant post-closing obligations, increased expenses, assumption of unknown liabilities, indemnities and potential disputes with the buyers or sellers. We completed the sale of our Northeast operations on December 11, 2009. Risks associated with that divestiture are described in "*—Under the United Administrative Services Agreements, we are obligated to provide administrative services in connection with the wind-down and run-off of the acquired business, which exposes us to operational and financial risks*" and "*—Under the agreements that govern the Northeast Sale, we have retained responsibility for certain liabilities of the acquired business, which could be substantial.*" Further, in the event the structure of the transaction results in continuing obligations by the buyer to us or our customers, a buyer's inability to fulfill these obligations could lead to future financial loss on our part.

The value of our intangible assets may become impaired.

Goodwill and other intangible assets represent a significant portion of our assets. Goodwill and other intangible assets were approximately $640 million as of December 31, 2009, representing approximately 15 percent of our total assets and 38 percent of our consolidated stockholders' equity at December 31, 2009.

In accordance with applicable accounting standards, we periodically evaluate our goodwill and other intangible assets to determine whether all or a portion of their carrying values may be impaired, in which case a charge to income may be necessary. This impairment testing requires us to make assumptions and judgments regarding estimated fair value including assumptions and estimates related to future earnings and membership levels based on current and future plans and initiatives, long-term strategies and our annual planning and forecasting processes, as well as the expected weighted average cost of capital used in the discount process. If estimated fair values are less than the carrying values of goodwill and other intangible assets with indefinite lives in future impairment tests, or if significant impairment indicators are noted relative to other intangible assets subject to amortization, we may be required to record impairment losses against income. Any future evaluations requiring an impairment of our goodwill and other intangible assets could materially impact our results of operations and shareholders' equity in the period in which the impairment occurs. A material decrease in shareholders' equity could, in turn, negatively impact our debt ratings or potentially impact our compliance with existing debt covenants.

From time to time, we divest businesses that are less of a strategic fit for the company or do not produce an adequate return. Any such divestiture could result in significant asset impairment charges, including those related to goodwill and other intangible assets, which could have a material adverse effect on our financial condition and results of operations. We completed the Northeast Sale on December 11, 2009. In connection with the Northeast Sale, we assessed the recoverability of goodwill and our long-lived assets, including other intangible assets, property and equipment and other long-term assets related to our Northeast Operations reporting segment during the quarter ended September 30, 2009. As a result, in the quarter ended September 30, 2009 we recorded $170.6 million in total asset impairments, including goodwill impairment of $137.0 million, impairments of other intangible assets of $6.0 million and property and equipment of $27.6 million. During this period we also

recorded an additional $4.3 million of asset impairment on the long-lived assets related to our Northeast operations. Upon the consummation of the Northeast Sale on December 11, 2009, we recorded a pretax loss on sale of $105.9 million. While these non-cash impairment charges and pretax loss had no impact on our liquidity position, they did have a significant adverse effect on our results of operations for the year ended December 31, 2009.

We must comply with restrictions on patient privacy and information security, including taking steps to ensure compliance by our business associates with HIPAA.

In December 2000, the Department of Health and Human Services promulgated regulations under HIPAA related to the privacy and security of electronically transmitted protected health information ("PHI"). The regulations require health plans, clearinghouses and providers to: comply with various requirements and restrictions related to the use, storage, transmission and disclosure of PHI; adopt rigorous internal procedures to safeguard PHI; and enter into specific written agreements with business associates to whom PHI is disclosed. The regulations also establish significant criminal penalties and civil sanctions for non-compliance. In addition, the regulations could expose us to additional liability for, among other things, violations of the regulations by our business associates, including the third party vendors involved in our outsourcing projects. The HITECH Act, which became fully effective in February 2010, expanded the HIPAA rules for security and privacy safeguards, including improved enforcement, additional limitations on use and disclosure of PHI and additional potential penalties. Although our contracts with business associates provide for appropriate protections of PHI, we may have limited control over the actions and practices of our business associates. Compliance with HIPAA and other state and federal privacy and security regulations may result in cost increases due to necessary systems changes, the development of new administrative processes and the effects of potential noncompliance by ourselves or our business associates. See "*—If we fail to comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality, our reputation and business operations could be materially adversely affected*" for detail regarding our recent information security breach.

If we fail to comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality, our reputation and business operations could be materially adversely affected.

The collection, maintenance, use, disclosure and disposal of individually identifiable data by our businesses are regulated at the federal and state levels. See "Item 1. Business—Government Regulation" for additional information on the federal and state regulations that govern how we conduct our business**.** Despite the security measures we have in place to ensure compliance with applicable laws and rules, our facilities and systems, and those of our third party service providers, may be vulnerable to security breaches, acts of vandalism or theft, computer viruses, misplaced or lost data, programming and/or human errors or other similar events. For example, a portable, external hard drive holding PHI of certain of our enrollees, such as Social Security numbers and medical data, was discovered missing from our Northeast headquarters in Shelton, Connecticut in May 2009. While the information stored on the hard drive was saved in an image format that cannot be read without special software, we subsequently commenced a lengthy investigation of the contents of the hard drive, including a detailed forensic review by computer experts, reported the loss to authorities and began notifying our customers of the incident. On January 13, 2010, the Connecticut Attorney General filed a complaint in federal court in Connecticut alleging that we had violated HIPAA and the Connecticut Unfair Trade Practices Act in connection with the loss of the disk drive. The complaint seeks injunctive relief as well as statutory damages, attorney fees and litigation costs. Noncompliance with any privacy laws or any security breach involving the misappropriation, loss or other unauthorized disclosure of sensitive or confidential member information, whether by us or by one of our business associates, could have a material adverse effect on our business, reputation and results of operations, including but not limited to: material fines and penalties; compensatory, special, punitive, and statutory damages; litigation; consent orders regarding our privacy and security practices; adverse actions against our licenses to do business; and injunctive relief. Additionally, the costs incurred to remediate any data security incident could be

substantial. See "—*We must comply with restrictions on patient privacy and information security, including taking steps to ensure compliance by our business associates with HIPAA*" for additional information on requirements and restrictions related to the use, storage, transmission and disclosure of PHI.

We depend, in part, on independent brokers and sales agents to market our products and services, and recent regulatory investigations have focused on certain brokerage practices, including broker compensation arrangements and bid quoting practices.

We market our products and services both through sales people employed by us and through independent sales agents. Independent sales agents typically do not work with us on an exclusive basis and may market health care products and services of our competitors. We face intense competition for the services and allegiance of independent sales agents and we cannot assure you that these agents will continue to market our products at a reasonable cost. Although we have a number of sales employees and agents, if key sales employees or agents or a large subset of these individuals were to leave us, our ability to retain existing customers and members could be impaired.

There have been a number of investigations and enforcement actions against insurance brokers and insurers over the last several years regarding allegedly inappropriate or undisclosed payments made by insurers to brokers for the placement of insurance business. For example, CMS has increased its scrutiny of insurance brokers and insurers regarding allegedly improper sales and marketing practices in connection with the sale of Medicare products. While we are not aware of any unlawful practices by the Company or any of our agents or brokers in connection with the marketing and sales of our products and services, investigations by state attorneys general, CMS and other regulators, as well as regulatory changes initiated in several states in response to allegedly inappropriate broker conduct and broker payment practices, could result in changes in industry practices that could have an adverse effect on our ability to market our products.

We have historically experienced significant turnover in senior management. If we are unable to manage the succession of our key executives, it could adversely affect our business.

We have experienced a high turnover in our senior management team in recent years. Although we have succession plans in place and have employment arrangements with our key executives, these do not guarantee that the services of these key executives will continue to be available to us. We would be adversely affected if we fail to adequately plan for future turnover of our senior management team.

Our forecasts and other forward-looking statements are based on a variety of assumptions that are subject to significant uncertainties. Our performance may not be consistent with these forecasts and forward-looking statements.

From time to time in press releases and otherwise, we publish forecasts or other forward-looking statements regarding our future results, including estimated revenues, net earnings and other operating and financial metrics. Any forecast of our future performance reflects various assumptions. These assumptions are subject to significant uncertainties, and, as a matter of course, any number of them may prove to be incorrect.

The achievement of any forecast depends on numerous risks and other factors, including those described in this Annual Report, many of which are beyond our control. In addition, the volatility in the financial markets and challenging economic conditions may make it particularly difficult to forecast our future performance. As a result, we cannot assure that our performance will meet any management forecasts or that the variation from such forecasts will not be material and adverse. You are cautioned not to base your entire analysis of our business and prospects upon isolated predictions, but instead are encouraged to utilize the entire mix of publicly available historical and forward-looking information, as well as other available information affecting us, our services, and our industry when evaluating our forecasts and other forward-looking statements relating to our operations and financial performance.

The market price of our common stock is volatile.

The market price of our common stock is subject to volatility. In 2009, the Morgan Stanley Healthcare Payor Index (the "HMO Index"), an index comprised of 11 managed care organizations, including Health Net, recorded an approximate 53.4% increase in its value, while the per-share value of our common stock increased by 113.9%. There can be no assurance that the trading price of our common stock will vary in a manner consistent with the variation in the HMO Index or the Standard & Poor's 400 Mid-Cap Index of which our common stock is also a component. The market prices of our common stock and the securities of certain other publicly-traded companies in our industry have shown significant volatility and sensitivity in response to many factors, including public communications regarding managed care, legislative or regulatory actions, health care reform, litigation or threatened litigation, health care cost trends, pricing trends, competition, earnings, receivable collections or membership reports of particular industry participants, and market speculation about or actual acquisition activity. Additionally, adverse developments affecting any one of the companies in our sector could cause the price of our common stock to weaken, even if those adverse developments do not otherwise affect us. There can be no assurances regarding the level or stability of our share price at any time or the impact of these or any other factors on our stock price.

Negative publicity regarding the managed health care industry could adversely affect our ability to market and sell our products and services.

Managed health care companies have received and continue to receive negative publicity reflecting the public perception of the industry. For example, the Company and the managed health care industry have been subject to negative publicity surrounding practices in connection with the rescission of individual health insurance policies. In addition, health care and related health care reform proposals have been and are expected to continue to be the subject of intense media attention and political debate. Such political discourse can often generate publicity that portrays managed care in a negative light. Our marketing efforts may be affected by the amount of negative publicity to which the industry has been subject, as well as by speculation and uncertainty relating to merger and acquisition activity among companies in our industry. Speculation, uncertainty or negative publicity about us, our industry or our lines of business could adversely affect our ability to market and sell our products or services, require changes to our products or services, or stimulate additional legislation, regulation, review of industry practices or litigation that could adversely affect us.

Large-scale public health epidemics and/or terrorist activity could cause us to incur unexpected health care and other costs and could materially and adversely affect our business, financial condition and results of operations.

An outbreak of a pandemic disease and/or future terrorist activities, including bio-terrorism, could materially and adversely affect the U.S. economy in general and the health care industry specifically. Depending on the government's actions and the responsiveness of public health agencies and insurance companies, a large-scale public health epidemic or future acts of bio-terrorism could lead to, among other things, increased use of health care services, disruption of information and payment systems, increased health care costs due to increased in-patient and out-patient hospital costs and the cost of any anti-viral medication used to treat affected people.

Natural disasters, including earthquakes, fires and floods, could severely damage or interrupt our systems and operations and result in an adverse effect on our business, financial condition or results of operations.

Natural disasters such as fire, flood, earthquake, tornado, power loss, virus, telecommunications failure, break-in or similar event could severely damage or interrupt our systems and operations, result in loss of data, and/or delay or impair our ability to service our members and providers. We have in place a disaster recovery plan which is intended to provide us with the ability to maintain fully redundant systems for our operations in the event of a natural disaster utilizing various alternate sites provided by a national disaster recovery vendor. However, there can be no assurance that such adverse effects will not occur in the event of a disaster. Any such

disaster or similar event could have a material adverse effect on our business, financial condition and results of operations.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

We lease office space for our principal executive offices in Woodland Hills, California. Our executive offices, comprising approximately 125,315 square feet, are occupied under a lease that will expire on December 31, 2014. A significant portion of our California HMO operations are also housed in Woodland Hills, in a separate 333,954 square foot leased facility. The lease for this two-building facility expires December 31, 2011. Combined rent and rent-related obligations for our Woodland Hills facilities were approximately $14.8 million in 2009.

We also lease an aggregate of approximately 548,807 square feet of office space in Rancho Cordova, California for certain Commercial and Government operations. Our aggregate rent and rent-related obligations under these leases were approximately $11.6 million in 2009. These leases expire at various dates ranging from 2010 to 2014. We also lease a total of approximately 67,293 square feet of office space in San Rafael, California for certain specialty services operations.

On March 29, 2007 we sold our 68-acre commercial campus in Shelton, Connecticut (the Shelton Property) to The Dacourt Group, Inc. (Dacourt), dba HN Property Owner, LLC, and leased it back from the Buyer under an operating lease agreement for an initial term of ten years with an option to extend for two additional terms of ten years each. Under the Shelton Property lease agreement and other lease agreements, we lease an aggregate of approximately 492,673 square feet of office space in Shelton, Connecticut primarily used for the provision of administrative services to United and certain of its affiliates as part of our Northeast Operations. Our aggregate rent and rent-related obligations under these leases was approximately $9.5 million in 2009. These leases expire at various dates ranging from 2016 to 2017.

In addition to the office space referenced above, we lease approximately 73 sites in 23 states, totaling approximately 824,122 square feet of space. We also own a data center facility in Rancho Cordova, California comprising approximately 82,000 square feet of space.

We believe that our ownership and rental costs are consistent with those associated with similar space in the applicable local areas. Our properties are well maintained, adequately meet our needs and are being utilized for their intended purposes.

Item 3. Legal Proceedings.

Litigation Related to the Sale of Businesses

AmCareco Litigation

We are a defendant in two related litigation matters pending in Louisiana and Texas state courts, both of which relate to claims asserted by three separate state receivers overseeing the liquidation of three health plans in Louisiana, Texas and Oklahoma that were previously owned by our former subsidiary, Foundation Health Corporation (FHC), which merged into Health Net, Inc. in January 2001. In 1999, FHC sold its interest in these plans to AmCareco, Inc. (AmCareco). We retained a minority interest in the three plans after the sale. Thereafter, the three plans became known as AmCare of Louisiana (AmCare-LA), AmCare of Oklahoma (AmCare-OK) and AmCare of Texas (AmCare-TX). In 2002, three years after the sale of the plans to AmCareco, each of the AmCare plans was placed under state oversight and ultimately into receivership. The receivers for each of the

AmCare plans filed suit against us contending that, among other things, we were responsible as a "controlling shareholder" of AmCareco following the sale of the plans for post-acquisition misconduct by AmCareco and others that caused the three health plans to fail and ultimately be placed into receivership.

On June 16, 2005, a consolidated trial of the claims asserted against us by the three receivers commenced in state court in Baton Rouge, Louisiana. The claims of the receiver for AmCare-TX were tried before a jury and the claims of the receivers for the AmCare-LA and AmCare-OK were tried before the judge in the same proceeding. On June 30, 2005, the jury considering the claims of the receiver for AmCare-TX returned a verdict against us in the amount of $117.4 million, consisting of $52.4 million in compensatory damages and $65 million in punitive damages. The Court later reduced the compensatory and punitive damages awards to $36.7 million and $45.5 million, respectively, and entered judgments against us in those amounts.

The proceedings regarding the claims of the receivers for AmCare-LA and AmCare-OK concluded on July 8, 2005. On November 4, 2005, the Court issued separate judgments on those claims and awarded $9.5 million in compensatory damages to AmCare-LA and $17 million in compensatory damages to AmCare-OK, respectively. The Court later denied requests by AmCare-LA and AmCare-OK for attorneys' fees and punitive damages. We thereafter appealed both judgments, and the receivers for AmCare-LA and AmCare-OK each appealed the orders denying them attorneys' fees and punitive damages.

On December 30, 2008, the Court of Appeal issued its judgment on each of the appeals. It reversed in their entirety the trial court's judgments in favor of the AmCare-TX and AmCare-OK receivers, and entered judgment in our favor against those receivers, finding that the receivers' claims failed as a matter of law. As a result, those receivers' cross appeals were rendered moot. The Court of Appeal also reversed the trial court judgment in favor of the AmCare-LA receiver, with the exception of a single breach of contract claim, on which it entered judgment in favor of the AmCare-LA receiver in the amount of $2 million. On January 14, 2009, the three receivers filed a request for rehearing by the Court of Appeal. On February 13, 2009, the Court of Appeal denied the request for a rehearing. Following the Court of Appeal's denial of the requests for rehearing, each of the receivers filed applications for a writ with the Louisiana Supreme Court. On December 18, 2009, the Louisiana Supreme Court granted the receivers' writs, and oral argument has been scheduled for March 16, 2010.

In light of the original trial court judgments against us, on November 3, 2006, we filed a complaint in the U.S. District Court for the Middle District of Louisiana and simultaneously filed an identical suit in the 19th Judicial District Court in East Baton Rouge Parish seeking to nullify the three judgments that were rendered against us on the grounds of ill practice which resulted in the judgments entered. We have alleged that the judgments and other prejudicial rulings rendered in these cases were the result of impermissible ex parté contacts between the receivers, their counsel and the trial court during the course of the litigation. Preliminary motions and exceptions have been filed by the receivers for AmCare-TX, AmCare-OK and AmCare-LA seeking dismissal of our claim for nullification on various grounds. The federal judge dismissed Health Net's federal complaint and Health Net appealed to the U.S. Fifth Circuit Court of Appeals. On July 8, 2008, the Fifth Circuit issued an opinion affirming the district court's dismissal of the federal complaint, albeit on different legal grounds from those relied upon by the district court. The state court nullity action has been stayed pending the resolution of Health Net's jurisdictional appeal in the federal action and has remained stayed during the pendency of the appeal of the underlying judgments.

These proceedings are subject to many uncertainties, and, given their complexity and scope, their outcome, including the outcome of any appeal, cannot be predicted at this time. It is possible that in a particular quarter or annual period our results of operations, cash flow and/or liquidity could be materially affected by an ultimate unfavorable resolution of these proceedings depending, in part, upon the results of operations or cash flow for such period. However, at this time, management believes that the ultimate outcome of these proceedings should not have a material adverse effect on our financial condition.

Miscellaneous Proceedings

In the ordinary course of our business operations, we are also subject to periodic reviews by various regulatory agencies with respect to our compliance with a wide variety of rules and regulations applicable to our business, including, without limitation, rules relating to pre-authorization penalties, payment of out-of-network claims and timely review of grievances and appeals, which may result in remediation of certain claims and the assessment of regulatory fines or penalties.

In addition, in the ordinary course of our business operations, we are also party to various other legal proceedings, including, without limitation, litigation arising out of our general business activities, such as contract disputes, employment litigation, wage and hour claims, real estate and intellectual property claims, claims brought by members seeking coverage or additional reimbursement for services allegedly rendered to our members, but which allegedly were either denied, underpaid or not paid, and claims arising out of the acquisition or divestiture of various business units or other assets. We are also subject to claims relating to the performance of contractual obligations to providers, members, employer groups and others, including the alleged failure to properly pay claims and challenges to the manner in which we process claims. In addition, we are subject to claims relating to the insurance industry in general, such as claims relating to information security breaches, reinsurance agreements, rescission of coverage and other types of insurance coverage obligations.

These other regulatory and legal proceedings are subject to many uncertainties, and, given their complexity and scope, their final outcome cannot be predicted at this time. It is possible that in a particular quarter or annual period our results of operations and cash flow could be materially affected by an ultimate unfavorable resolution of any or all of these other regulatory and legal proceedings depending, in part, upon the results of operations or cash flow for such period. However, at this time, management believes that the ultimate outcome of the regulatory and legal proceedings currently pending against us, after consideration of applicable reserves and potentially available insurance coverage benefits, should not have a material adverse effect on our financial condition and liquidity.

Potential Settlements

We regularly evaluate litigation matters pending against us, including those described above, to determine if settlement of such matters would be in the best interests of the Company and its stockholders. The costs associated with any such settlement could be substantial and, in certain cases, could result in a significant earnings charge in any particular quarter in which we enter into a settlement agreement. We have recorded reserves and accrued costs for future legal costs for certain significant matters. These reserves and accrued costs represent our best estimate of probable loss, including related future legal costs for such matters, both known and incurred but not reported, although our recorded amounts might ultimately be inadequate to cover such costs. Therefore, the costs associated with the various litigation matters to which we are subject and any earnings charge recorded in connection with a settlement agreement could have a material adverse effect on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Security Holders.

There were no matters submitted to a vote of the security holders of the Company, either through solicitation of proxies or otherwise, during the fourth quarter of the year ended December 31, 2009.

PART II

Item 5. Market For Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The following table sets forth the high and low sales prices of the Company's common stock, par value $.001 per share, on The New York Stock Exchange, Inc. ("NYSE") since January 2008.

	High	Low
Calendar Quarter—2008		
First Quarter	$52.96	$27.83
Second Quarter	$32.39	$24.01
Third Quarter	$28.93	$20.75
Fourth Quarter	$29.87	$ 7.38
Calendar Quarter—2009		
First Quarter	$17.99	$10.52
Second Quarter	$17.69	$12.71
Third Quarter	$17.57	$11.32
Fourth Quarter	$24.69	$14.51

On February 22, 2010, the last reported sales price per share of our common stock was $23.03 per share.

Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding the Company's equity compensation plans is contained in Part III of this Annual Report on Form 10-K under "Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

Holders of Common Stock

As of February 22, 2010, there were 1,873 holders of record of our common stock.

Dividends

We have not paid any dividends on our common stock during the preceding two fiscal years. We have no present intention of paying any dividends on our common stock, although the matter will be periodically reviewed by our Board of Directors.

We are a holding company and, therefore, our ability to pay dividends depends on distributions received from our subsidiaries, which are subject to regulatory net worth requirements and additional state regulations which may restrict the declaration of dividends by HMOs, insurance companies and licensed managed health care plans. The payment of any dividend is at the discretion of our Board of Directors and depends upon our earnings, financial position (including cash position), capital requirements and such other factors as our Board of Directors deems relevant.

Under our revolving credit facility and our financing facility, we cannot declare or pay cash dividends to our stockholders or purchase, redeem or otherwise acquire shares of our capital stock or warrants, rights or options to acquire such shares for cash except to the extent permitted under the revolving credit facility and the financing facility, which are described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Structure."

Stock Repurchase Program

We have a $700 million stock repurchase program authorized by our Board of Directors. Subject to Board approval, additional amounts are added to the repurchase program from time to time based on exercise proceeds and tax benefits the Company receives from the employee stock options. We repurchased 860,737 shares of our common stock during the year ended December 31, 2009, for aggregate consideration of approximately $20.6 million.

We used net free cash available, including proceeds from the Northeast Sale, to fund the share repurchases. As of December 31, 2009, the remaining authorization under our stock repurchase program was $82.7 million. As of December 31, 2009 we had repurchased an aggregate of 37,484,084 shares of our common stock under our repurchase program at an average price of $34.16 for aggregate consideration of approximately $1,280.4 million (which amount includes exercise proceeds and tax benefits the Company had received from the exercise of employee stock options). As of December 31, 2009, the remaining authorization under our stock repurchase program was $82.7 million and, since its inception, we had repurchased an aggregate of 37,484,084 shares of our common stock at an average price of $34.16 for aggregate consideration of approximately $1,280.4 million. As of February 22, 2010, the remaining authorization under our stock repurchase program was approximately $3 million due to share repurchases that occurred after December 31, 2009.

We may repurchase shares of our common stock under the stock repurchase program from time to time in open market transactions, privately negotiated transactions, through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations, and other market and economic conditions.

Our stock repurchase program does not have an expiration date. The stock purchase program may be suspended or discontinued at any time.

On November 4, 2008, we announced that our stock repurchase program was on hold as a consequence of the uncertain financial environment and the announcement by Health Net's Board of Directors that Jay Gellert, our President and Chief Executive Officer, would be undertaking a review of the Company's strategic direction. On July 20, 2009, we announced the completion of our strategic review, which included entering into a Stock Purchase Agreement for the sale of our Northeast operations, which was completed on December 11, 2009. For a detailed description of the Northeast Sale, see "Item 1. Business—Segment Information—Northeast Operations." On December 8, 2009, we announced that our Board of Directors authorized the Company to resume repurchases of our common stock under the existing stock repurchase program.

Under the Company's various stock option and long-term incentive plans, employees and non-employee directors may elect for the Company to withhold shares to satisfy minimum statutory federal, state and local tax withholding and/or exercise price obligations, as applicable, arising from the exercise of stock options. For certain other equity awards, the Company has the right to withhold shares to satisfy any tax obligations that may be required to be withheld or paid in connection with such equity award, including any tax obligation arising on the vesting date. These repurchases were not part of our stock repurchase program.

The following table presents monthly information related to repurchases of our common stock, including shares withheld by the Company to satisfy tax withholdings and exercise price obligations in 2009, as of December 31, 2009:

Period	Total Number of Shares Purchased (a)	Average Price Paid per Share	Total Average Price Paid	Total Number of Shares Purchased as Part of Publicly Announced Programs (b) (c)	Maximum Number (or Approximate Dollar Value) of Shares (or Units) that May Yet Be Purchased Under the Programs (c) (d)
January 1—January 31	—	—	—	—	$103,349,478
February 1—February 28	95,183(e)	$15.41	$ 1,466,885	—	$103,349,478
March 1—March 31	2,683(e)	14.39	38,666	—	$103,349,478
April 1—April 30	2(e)	—	—	—	$103,349,478
May 1—May 31	—	—	—	—	$103,349,478
June 1—June 30	2(e)	—	—	—	$103,349,478
July 1—July 31	313(e)	15.71	4,916	—	$103,349,478
August 1—August 31	60(e)	15.22	913	—	$103,349,478
September 1—September 30	1,349(e)	17.00	22,927	—	$103,349,478
October 1—October 31	8,051(e)	16.60	133,614	—	$103,349,478
November 1—November 30	6,874(e)	14.77	101,523	—	$103,349,478
December 1—December 31	860,898(e)	23.96	20,624,791	860,737	$ 82,728,189
	975,415	$22.96	$22,394,235	860,737	

(a) We did not repurchase any shares of our common stock during the twelve months ended December 31, 2009 outside our publicly announced stock repurchase program, except shares withheld in connection with our various stock option and long-term incentive plans.

(b) Our stock repurchase program was announced in April 2002. We announced additional repurchase authorization in August 2003, October 2006 and October 2007.

(c) A total of $700 million of our common stock can be repurchased under our stock repurchase program. Additional amounts may be added to the program based on exercise proceeds and tax benefits the Company receives from the exercise of employee stock options, but only upon further approval by the Board of Directors. The remaining authority under our repurchase program includes proceeds received from option exercises and tax benefits the Company received from exercise of employee stock options, which have been approved for inclusion in the program by the Board.

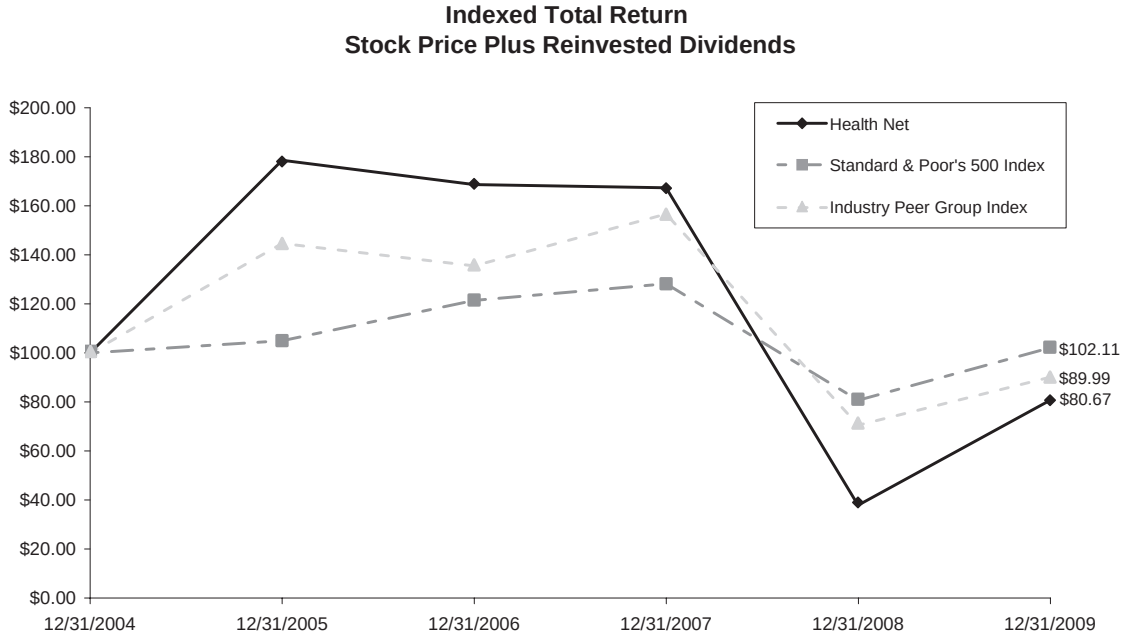
(d) Our stock repurchase program does not have an expiration date. During the twelve months ended December 31, 2009, we did not have any repurchase program that expired, and we did not terminate any repurchase program prior to its expiration date.

(e) Includes shares withheld by the Company to satisfy tax withholding and/or exercise price obligations arising from the vesting and/or exercise of restricted stock units, stock options and other equity awards.

Performance Graph

The following graph compares the performance of the Company's common stock with the performance of the Standard & Poor's 500 Composite Stock Price Index (the "S&P 500 Index") and our Industry Peer Group Index from December 31, 2004 (the last trading day of 2004) to December 31, 2005, 2006, 2007, 2008, and 2009. The graph assumes that $100 was invested on December 31, 2004 in each of the Common Stock, the S&P 500 Index, and the Industry Peer Group Index, and that all dividends were reinvested. The Industry Peer Group Index weights the constituent companies' stock performance on the basis of market capitalization at the beginning of each annual period.

The Company's Industry Peer Group Index includes the following companies: Aetna, Inc., Cigna Corporation, Coventry Health Care, Humana, Inc., UnitedHealth Group, Inc. and WellPoint, Inc.



Indexed Total Return (Stock Price Plus Reinvested Dividends)

Name	12/31/2004	12/31/2005	12/31/2006	12/31/2007	12/31/2008	12/31/2009
Health Net	$100.00	$178.56	$168.55	$167.30	$37.72	$ 80.67
Standard & Poor's 500 Index	$100.00	$104.91	$121.46	$128.13	$80.73	$102.11
Industry Peer Group Index	$100.00	$144.71	$135.47	$156.55	$70.51	$ 89.99

All historical performance data reflects the performance of each Company's own stocks only and does not include the historical performance data of acquired companies.

The preceding graph and related information are being furnished solely to accompany this Annual Report on Form 10-K pursuant to Item 201(e) of Regulation S-K and shall not be deemed "soliciting materials" or to be "filed" with the Securities and Exchange Commission (other than as provided in Item 201). Such information shall not be incorporated by reference into any filing under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date hereof and irrespective of any general incorporation language contained therein, except to the extent that we specifically incorporate it by reference into such filing.

Item 6. Selected Financial Data.

The following selected financial and operating data are derived from our audited consolidated financial statements. The selected financial and operating data should be read in conjunction with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and notes thereto contained elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
	2009	2008	2007	2006	2005
	(Dollars in thousands, except per share and PMPM data)				
REVENUES:					
Health plan services premiums	$12,440,589	$12,392,006	$11,435,314	$10,364,740	$ 9,506,865
Government contracts	3,104,700	2,835,261	2,501,677	2,376,014	2,307,483
Net investment income	105,930	91,042	120,176	111,042	72,751
Administrative services fees and other income	62,022	48,280	51,104	56,554	53,434
Total revenues	$15,713,241	$15,366,589	$14,108,271	$12,908,350	$11,940,533
INCOME SUMMARY (1):					
Net (loss) income	$ (49,004)	$ 95,003	$ 193,697	$ 329,313	$ 229,785
NET INCOME PER SHARE—DILUTED (1):					
Net (loss) income	$ (0.47)	$ 0.88	$ 1.70	$ 2.78	$ 1.99
Weighted average shares outstanding:					
Diluted	103,849	107,610	113,829	118,310	115,641
BALANCE SHEET DATA:					
Cash and cash equivalents and investments available for sale	$ 2,079,815	$ 2,172,859	$ 2,564,295	$ 2,120,844	$ 2,106,303
Total assets	4,282,651	4,816,350	4,933,055	4,297,022	3,940,722
Loans payable—Current	104,007	27,335	35,000	200,000	—
Loans payable—Long term	100,000	253,992	112,363	300,000	—
Senior notes payable	398,480	398,276	398,071	—	387,954
Total stockholders' equity (2)	1,695,783	1,752,126	1,875,582	1,778,965	1,589,075
OPERATING DATA:					
Pretax margin	(0.2)%	1.0%	2.5%	3.7%	3.2%
Health plan services medical care ratio (MCR)	86.3%	86.9%	85.4%	83.0%	84.3%
Government contracts cost ratio	94.7%	95.3%	92.2%	94.0%	95.8%
G&A expense ratio	10.9%	10.4%	11.1%	11.2%	10.0%
Selling costs ratio	2.7%	2.9%	2.9%	2.4%	2.3%
Health plan services premiums per member per month (PMPM)	$ 294.25	$ 277.79	$ 263.54	$ 243.70	$ 235.80
Health plan services costs PMPM	$ 253.84	$ 241.27	$ 225.00	$ 202.22	$ 198.75
Net cash provided by (used in) operating activities	$ 247,533	$ (158,962)	$ 605,482	$ 277,937	$ 191,394
Net cash (used in) investing activities	$ (135,174)	$ (67,871)	$ (230,195)	$ (184,879)	$ (244,046)
Net cash (used in) provided by financing activities	$ (97,757)	$ (111,983)	$ (73,076)	$ (130,737)	$ 73,035

(1) For 2009, includes pretax charges of $105.9 million for loss on Northeast Sale, $174.9 million of asset impairment on Northeast operations and $123.6 million related to our operations strategy, reductions for a litigation reserve true-ups and Northeast Sale-related expenses. For 2008, includes a $175.1 million pretax charge of which $119.6 million was primarily related to severance and other expenses associated with the Company's operations strategy and included in G&A expenses, $37.5 million of which was included in health plan services expenses for estimated litigation liability and regulatory actions, $14.6 million of which was an investment impairment charge included in net investment income, and $3.4 million of which related to an impairment of the assets of a subsidiary and was included in other income. For 2007, includes a $306.8 million pretax litigation and regulatory-related charge. For 2006, includes a $107.2 million pretax charge relating to debt refinancing and litigation. For 2005, includes a $83.3 million pretax charge for litigation and severance.

(2) No cash dividends were declared in any of the years presented.

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

OVERVIEW

General

We are an integrated managed care organization that delivers managed health care services through health plans and government sponsored managed care plans. We are among the nation's largest publicly traded managed health care companies. Our mission is to help people be healthy, secure and comfortable. We provide health benefits to approximately 6.1 million individuals across the country through group, individual, Medicare (including the Medicare prescription drug benefit commonly referred to as "Part D"), Medicaid, TRICARE and Veterans Affairs programs. Our behavioral health services subsidiary, Managed Health Network (MHN), provides behavioral health, substance abuse and employee assistance programs to approximately 6.5 million individuals, including our own health plan members. Our subsidiaries also offer managed health care products related to prescription drugs, and offer managed health care product coordination for multi-region employers and administrative services for medical groups and self-funded benefits programs.

How We Report Our Results

Due to the Northeast Sale (see "—Recent Developments" below), we expanded our reportable segments in the third quarter ended September 30, 2009. We currently operate within three reportable segments, West Operations, Northeast Operations and Government Contracts, each of which is described below. Prior to the third quarter ended September 30, 2009, we operated within two reportable segments, Health Plan Services and Government Contracts.

Our health plan services are provided under two reportable segments: West Operations and Northeast Operations. Our West Operations reportable segment includes the operations of our commercial, Medicare (including Part D) and Medicaid health plans, the operations of our health and life insurance companies, and our behavioral health and pharmaceutical services subsidiaries in Arizona, California and Oregon. We have approximately 3.0 million medical members (including Medicare Part D members) in our West Operations reportable segment. Prior to the Northeast Sale, our Northeast Operations reportable segment included our commercial, Medicare and Medicaid health plans, the operations of our HMOs in Connecticut, New York and New Jersey and our New York Insurance Company. Following the Northeast Sale, our Northeast Operations reportable segment includes the operations of our businesses that are providing administrative services to United and its affiliates pursuant to the United Administrative Services Agreements. See "Item 1. Business—Segment Information—Northeast Operations Segment" and Note 3 to our consolidated financial statements for more information on the Northeast Sale.

Our Government Contracts segment includes our government-sponsored managed care federal contract with the U.S. Department of Defense (the Department of Defense) or DoD under the TRICARE program in the North Region and other health care related government contracts. Under the TRICARE contract for the North Region, we provide health care services to approximately 3.1 million Military Health System (MHS) eligible beneficiaries (active duty personnel and TRICARE/Medicare dual eligible beneficiaries), including 1.8 million TRICARE eligibles for whom we provide health care and administrative services and 1.3 million other MHS-eligible beneficiaries for whom we provide ASO. We also provide behavioral health services to military families under the Department of Defense Military Family Life Counseling contract.

How We Measure Our Profitability

Our profitability depends in large part on our ability to, among other things, effectively price our health care products; manage health care costs, including reserve estimates and pharmacy costs; contract with health care providers; attract and retain members; and manage our general and administrative (G&A) and selling expenses. In addition, factors such as regulation, competition and general economic conditions affect our operations and

profitability. The effect of escalating health care costs, as well as any changes in our ability to negotiate competitive rates with our providers, may impose further risks to our ability to profitably underwrite our business, and may have a material impact on our business, financial condition or results of operations.

We measure our West Operations and Northeast Operations reportable segments profitability based on medical care ratio (MCR) and pretax income. The MCR is calculated as health plan services expense (excluding depreciation and amortization) divided by health plan services premiums. The pretax income is calculated as health plan services premiums and administrative services fees and other income less health plan services expense and G&A and other net expenses. See "—Results of Operations—Table of Summary Financial Information" for a calculation of our MCR and "—Results of Operations—Health Plan Services Results" for a calculation of our pretax income.

Health plan services premiums include health maintenance organization (HMO), point of service (POS) and preferred provider organization (PPO) premiums from employer groups and individuals and from Medicare recipients who have purchased supplemental benefit coverage (which premiums are based on a predetermined prepaid fee), Medicaid revenues based on multi-year contracts to provide care to Medicaid recipients, and revenue under Medicare risk contracts, including Medicare Part D, to provide care to enrolled Medicare recipients. Medicare revenue can also include amounts for risk factor adjustments and additional premiums that we charge in some places to members who purchase our Medicare risk plans (see Note 2 to our consolidated financial statements). The amount of premiums we earn in a given year is driven by the rates we charge and enrollment levels. Administrative services fees and other income primarily include revenue for administrative services such as claims processing, customer service, medical management, provider network access and other administrative services. Health plan services expense includes medical and related costs for health services provided to our members, including physician services, hospital and related professional services, outpatient care, and pharmacy benefit costs. These expenses are impacted by unit costs and utilization rates. Unit costs represent the health care cost per visit, and the utilization rates represent the volume of health care consumption by our members.

G&A expenses include those costs related to employees and benefits, consulting and professional fees, marketing, premium taxes and assessments, occupancy costs and litigation and regulatory-related costs. Such costs are driven by membership levels, introduction of new products, system consolidations, outsourcing activities and compliance requirements for changing regulations. These expenses also include expenses associated with corporate shared services and other costs to reflect the fact that such expenses are incurred primarily to support health plan services. Selling expenses consist of external broker commission expenses and generally vary with premium volume.

We measure our Government Contracts segment profitability based on government contracts cost ratio and pretax income. The government contracts cost ratio is calculated as government contracts cost divided by government contracts revenue. The pretax income is calculated as government contracts revenue less government contracts cost. See "—Results of Operations—Table of Summary Financial Information" for a calculation of our government contracts cost ratio and "—Results of Operations—Government Contracts Segment Results" for a calculation of our pretax income.

Government Contracts revenue is made up of two major components: health care and administrative services. The health care component includes revenue recorded for health care costs for the provision of services to our members, including paid claims and estimated incurred but not reported claims (IBNR) expenses for which we are at risk, and underwriting fees earned for providing the health care and assuming underwriting risk in the delivery of care. The administrative services component encompasses fees received for all other services provided to both the government customer and to beneficiaries, including services such as medical management, claims processing, enrollment, customer services and other services unique to the managed care support contract with the government. Government Contracts revenue and expenses include the impact from underruns and overruns relative to our target cost under the applicable contracts (see Note 2 to our consolidated financial statements).

Recent Developments

Sale of Northeast Health Plan Subsidiaries

On December 11, 2009, we completed the sale (the Northeast Sale) of all of the outstanding shares of capital stock of our New York, New Jersey, Connecticut and Bermuda subsidiaries (collectively, the Acquired Companies or Northeast business) that conducted business in our Northeast Operations. The sale was made pursuant to a Stock Purchase Agreement (the Stock Purchase Agreement), dated as of July 20, 2009, by and among the Company, Health Net of the Northeast, Inc. (HNNE), Oxford Health Plans, LLC (Buyer) and, solely for the purposes of guaranteeing Buyer's obligations thereunder, UnitedHealth Group Incorporated (United).

At the closing, United paid to us $350 million, consisting of (i) a $60 million minimum payment for the commercial membership of the acquired business and the Medicare and Medicaid businesses of the Acquired Companies, and (ii) $290 million representing a portion of the adjusted tangible net equity (as defined in the Stock Purchase Agreement) of the Acquired Companies at closing. Under the Stock Purchase Agreement, we will receive one-half of the remaining amount of the closing adjusted tangible net equity of the Acquired Companies, estimated to total $160 million, on the first anniversary of closing and the other half on the second anniversary, subject to certain adjustments.

After closing, United could pay us additional consideration as our Northeast commercial members, Medicare and/or Medicaid businesses transition to other United products to the extent such amounts exceed the initial minimum payment of $60 million (referred to as contingent membership renewal). Our current estimate of the total future payment for the contingent membership renewal is approximately $106 million, which we will recognize as we receive payment. We will continue to serve the members of the Acquired Companies under administrative services agreements we entered into on the closing date with United and certain of its affiliates (United Administrative Services Agreements), until all members are either transitioned to a legacy United entity or non-renewed. We expect the United Administrative Services Agreements to be in effect for approximately two years following the closing of the transaction. See "Item 1. Business—Segment Information—Northeast Operations Segment" for additional information on the Northeast Sale.

The Northeast Operations had approximately $2,575.4 million, $2,739.3 million and $2,727.6 million of premium revenues in the years ended December 31, 2009, 2008 and 2007, respectively, which represent 21%, 22% and 24% of our health plan services premiums for the years ended December 31, 2009, 2008 and 2007, respectively. The Northeast Operations had a combined pretax (loss) income of $(53.9) million, $16.9 million and $5.1 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2008, we had approximately 565,000 total health plan members in the Northeast Operations. On December 11, 2009, the closing date of the Northeast Sale, we had approximately 462,000 total health plan members in the Northeast Operations.

2009 Financial Performance Summary

Health Net's financial performance in 2009 is summarized as follows:

- In the year ended December 31, 2009, we reported a net loss of $(49.0) million or $(0.47) per share as compared to net income of $95.0 million, or $0.88 per diluted share, for the same period in 2008. Our operating results for the year ended December 31, 2009 were impacted by pretax charges of $105.9 million loss on sale of our Northeast health plan subsidiaries, $174.9 million of asset impairment on Northeast Operations and $123.6 million charges related to our operations strategy, reductions for a litigation reserve true-up and Northeast Sale related expenses. Our 2008 operating results were impacted by pretax charges of $175.1 million related to our operations strategy, litigation and regulatory matters and other-than-temporary impairment of investment securities.
- Total health plan enrollment was 3.0 million as of December 31, 2009, a decrease of 702,000 members, or approximately 19%, compared to December 31, 2008;

- Total revenues for the year ended December 31, 2009 increased by approximately 2% to $15.7 billion from the same period in 2008;
- West Operations segment pretax income improved to $144.5 million in 2009 compared to pretax loss of $(2.5) million in 2008.
- Northeast Operations segment pretax loss was $(53.9) million in 2009 compared to pretax income of $16.9 million in 2008.
- Government Contracts segment pretax income was $165.0 million and $132.7 million for the years ended December 31, 2009 and 2008, respectively; and
- Net cash provided by operating activities totaled $247.5 million for the year ended December 31, 2009 compared to net cash used in operating activities of $159.0 million for the same period in 2008.

RESULTS OF OPERATIONS

Table of Summary Financial Information

The table below and the discussion that follows summarize our results of operations for the last three fiscal years. Effective December 11, 2009, we completed the Northeast Sale. As a result, the revenues and expenses and related metrics for the year ended December 31, 2009 exclude the results of the Acquired Companies after December 11, 2009 through December 31, 2009. The financial results for the 20 days following the closing of the Northeast Sale were not material to our consolidated operations for the year ended December 31, 2009.

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in thousands, except per share and PMPM data)		
Revenues			
Health plan services premiums	$12,440,589	$12,392,006	$11,435,314
Government contracts	3,104,700	2,835,261	2,501,677
Net investment income	105,930	91,042	120,176
Administrative services fees and other income	62,022	48,280	51,104
Total revenues	15,713,241	15,366,589	14,108,271
Expenses			
Health plan services (excluding depreciation and amortization)	10,731,951	10,762,657	9,762,896
Government contracts	2,939,722	2,702,573	2,307,610
General and administrative	1,361,956	1,291,059	1,275,555
Selling	330,112	360,381	327,827
Depreciation and amortization	53,042	59,878	42,982
Interest	40,887	42,909	32,497
Asset impairment on Northeast operations	174,879	—	—
Loss on sale of Northeast health plan subsidiaries	105,931	—	—
Total expenses	15,738,480	15,219,457	13,749,367
Income from operations before income taxes	(25,239)	147,132	358,904
Income tax provision	23,765	52,129	165,207
Net income	$ (49,004)	$ 95,003	$ 193,697
Net income per share:			
Basic	$ (0.47)	$ 0.89	$ 1.74
Diluted	$ (0.47)	$ 0.88	$ 1.70
Pretax margin	(0.2)%	1.0%	2.5%
Health plan services medical care ratio (MCR) (a)	86.3%	86.9%	85.4%
Government contracts cost ratio (b)	94.7%	95.3%	92.2%
G&A expense ratio (c)	10.9%	10.4%	11.1%
Selling costs ratio (d)	2.7%	2.9%	2.9%
Health plan services premiums per member per month (PMPM) (e)	$ 294.25	$ 277.79	$ 263.54
Health plan services costs PMPM (e)	$ 253.84	$ 241.27	$ 225.00

(a) MCR is calculated as health plan services cost divided by health plan services premiums revenue.
(b) Government contracts cost ratio is calculated as government contracts cost divided by government contracts revenue.
(c) The G&A expense ratio is computed as G&A expenses divided by the sum of health plan services premium revenues and administrative services fees and other income.
(d) The selling costs ratio is computed as selling expenses divided by health plan services premium revenues.
(e) PMPM is calculated based on total at-risk member months and excludes ASO member months.

Summary of Operating Results

Year Ended December 31, 2009 compared to Year Ended December 31, 2008

In the year ended December 31, 2009, we reported a net loss of $(49.0) million or $(0.47) per share as compared to net income of $95.0 million, or $0.88 per diluted share, for the same period in 2008. Pretax margin was (0.2)% for 2009 compared to 1.0% for 2008. Our operating results for the year ended December 31, 2009 were impacted by $404.4 million pretax expenses as follows:

- $174.9 million in asset impairments on Northeast operations,
- $105.9 loss on sale of our Northeast health plan subsidiaries, and
- $123.6 million charges related to our operations strategy, reductions for a litigation reserve true-up and Northeast Sale related expenses (the 2009 Charges).

Our 2008 operating results were impacted by pretax charges of $175.1 million (the 2008 Charges), including the following:

- $119.6 million recorded as part of G&A expenses primarily for severance and other costs associated with Health Net's operations strategy. This amount also includes attorney's fees and regulatory fines associated with our rescission practices and in connection with the settlement agreement for the *McCoy, Wachtel* and *Scharfman* lawsuits, which were nationwide class actions principally relating to our out-of-network claims payment practices.
- $37.5 million recorded as part of health plan services expenses for estimated litigation and regulatory actions related to the Company's rescission practices in Arizona and California and claim-related matters in connection with the settlement agreement for the *McCoy, Wachtel* and *Scharfman* class action lawsuits*;*
- $14.6 million loss recorded as part of net investment income from other-than-temporary impairments in our available-for-sale investments and money market funds; and
- $3.4 million recorded as part of administrative services fees and other income for an impairment of assets of a small, non-core subsidiary.

Total health plan enrollment, including Medicare Part D, decreased to 3,018,000 members at December 31, 2009 from 3,720,000 members at December 31, 2008, primarily due to a decline of 600,000 commercial and ASO members, 85,000 Medicare Part D members and 62,000 Medicare Advantage members, partially offset by an increase of 45,000 Medicaid members. Our TRICARE membership increased to approximately 3.1 million beneficiaries at December 31, 2009 from 3.0 million beneficiaries at December 31, 2008, respectively.

Health Net's total revenues increased 2% in 2009 to $15.7 billion from $15.4 billion in 2008. Health plan services premium revenues were essentially flat with $12.4 billion in 2009 compared to $12.4 billion in 2008. Our total premium revenue yield on a PMPM basis was 6% in 2009 compared to 5% in 2008. The health plan services MCR was 86.3% in 2009 compared to 86.9% in 2008. The MCR for 2009 and 2008 included 4 and 40 basis points, respectively, impact from the charges taken during those periods.

Our Government contracts revenues increased 10% in 2009 to $3.1 billion from $2.8 billion in 2008. The Government contracts cost ratio decreased to 94.7% in 2009 compared to 95.3% in 2008.

Our G&A expense ratio declined by 50 basis points to 10.9% in 2009 compared to 10.4% in 2008. The G&A expense ratio for 2009 and 2008 included the impact of 100 basis points and 100 basis points, respectively, of G&A expenses related to the operations strategy and litigation and regulatory-related charges. Our selling costs ratio was 2.7% and 2.9% for the years ended December 31, 2009 and 2008, respectively.

Net cash provided by operating activities totaled $247.5 million for the year ended December 31, 2009 compared to net cash used in operating activities of $159.0 million for the same period in 2008. This increase in cash was primarily due to lower payments made for operations strategy and litigation and regulatory matters. The increase in operating cash flow was partially offset by increase in net cash used in investing activities of $67 million.

December 31, 2008 Compared to December 31, 2007

Net income for 2008 decreased to $95.0 million from $193.7 million in 2007. Earnings per share fell to $0.89 per basic share and $0.88 per diluted share for 2008 compared with $1.74 per basic share and $1.70 per diluted share for 2007. Pretax margin was 1.0% for 2008 compared to 2.5% for 2007. The 2008 Charges are included in the 2008 operating results.

Total health plan enrollment, including Medicare Part D, decreased to 3,720,000 members at December 31, 2008 from 3,754,000 members at December 31, 2007, primarily due to a decline of 225,000 commercial and ASO members and 34,000 Medicaid members, partially offset by an increase of 166,000 Medicare Part D members and 59,000 Medicare Advantage members. Our TRICARE membership increased to approximately 3.0 million beneficiaries at December 31, 2008 from 2.9 million beneficiaries at December 31, 2007.

Health Net's total revenues increased 9% in 2008 to $15.4 billion from $14.1 billion in 2007. Health plan services premium revenues increased 8% to $12.4 billion in 2008 compared to $11.4 billion in 2007. Our total premium revenue yield on a PMPM basis was 5% in 2008 compared to 8% in 2007. The health plan services MCR was 86.9% in 2008 compared to 85.4% in 2007. The MCR for 2008 and 2007 included 40 and 180 basis points, respectively, impact from the charges taken during those periods.

In 2007, we recorded a $306.8 million pretax charge incurred as a result of us reaching an agreement to settle class action lawsuits and other regulatory-related matters. This charge is included in the 2007 operating results.

Our Government contracts revenues increased 13% in 2008 to $2.8 billion from $2.5 billion in 2007. The Government contracts cost ratio increased to 95.3% in 2008 compared to 92.2% in 2007.

Our G&A expense ratio improved by 70 basis points to 10.4% in 2008 compared to 11.1% in 2007. The G&A expense ratio for 2008 and 2007 included the impact of 100 basis points and 90 basis points, respectively, of G&A expenses related to the operations strategy and litigation and regulatory-related charges. Our selling costs ratio remained stable at 2.9% in 2008 and in 2007.

Net cash used in operating activities totaled $159.0 million for the year ended December 31, 2008 compared to net cash provided by operating activities of $605.5 million for the same period in 2007. This decrease in cash was driven by payments made in 2008 related to operations strategy and regulatory related matters and an increase in our CMS receivables relating to catastrophic and low-income subsidies.

Consolidated Segment Results

The following table summarizes the operating results of our reportable segments for the last three fiscal years:

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in millions)		
Pretax income:			
West Operations	$ 144.5	$ (2.5)	$159.7
Northeast Operations	(53.9)	16.9	5.1
Government Contracts	165.0	132.7	194.1
Total segment pretax income	$ 255.6	$147.1	$358.9
Asset impairment on Northeast operations	(105.9)	—	—
Loss on sale of Northeast health plan subsidiaries	(174.9)	—	—
Income from operations before income taxes as reported	$ (25.2)	$147.1	$358.9

Health Plan Services Membership

The following table below summarizes our health plan membership information by program and by state:

	Commercial			ASO[1]			Medicare			Medicaid			Health Plan Total		
	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007	2009	2008	2007
	(Membership in thousands)														
Arizona	96	123	137	—	—	—	65	67	51	—	—	—	161	190	188
California	1,227	1,352	1,468	5	5	6	137	133	112	857	765	712	2,226	2,255	2,298
Connecticut	19	139	161	1	25	32	—	57	45	—	—	90	20	221	328
New Jersey	2	73	90	—	3	17	—	—	—	—	47	44	2	123	151
New York	—	204	234	—	11	13	—	6	3	—	—	—	—	221	250
Oregon	118	133	135	—	—	—	25	22	21	—	—	—	143	155	156
Other States	—	—	—	—	—	—	6	10	4	—	—	—	6	10	4
	1,462	2,024	2,225	6	44	68	233	295	236	857	812	846	2,558	3,175	3,375
Medicare Part D	—	—	—	—	—	—	460	545	379	—	—	—	460	545	379
Total	1,462	2,024	2,225	6	44	68	693	840	615	857	812	846	3,018	3,720	3,754

[1] Services provided to members of the Acquired Companies pursuant to the United Administrative Services Agreements are excluded.

December 31, 2009 Compared to December 31, 2008

Our total health plan membership decreased by 702,000 members, or 19%, to 3.0 million members at December 31, 2009 when compared to December 31, 2008. The decrease was driven by a decline of 600,000 commercial and ASO members, 85,000 Medicare Part D members and 62,000 Medicare Advantage members, partially offset by an increase of 45,000 Medicaid members.

Membership in our commercial health plans decreased by 562,000 members, or 28%, at December 31, 2009 compared to December 31, 2008. This decrease was primarily attributable to the Northeast Sale, which represents 395,000 of the commercial membership decline. Our California plan experienced a decline of 125,000 commercial members, our Arizona plan experienced a decline of 27,000 commercial members and our Oregon plan experienced a decline of 15,000 commercial members. Our ASO enrollment, excluding the impact from United Administrative Services Agreements, declined by 38,000 members, or 86%, at December 31, 2009 compared to December 31, 2008 due to the Northeast Sale. Declines in our West Operations commercial membership were primarily driven by the current economic environment.

Membership in our Medicare Advantage program decreased by 62,000 members, or 21%, at December 31, 2009 compared to December 31, 2008 due to the Northeast Sale. Our Medicare Part D membership decreased by 85,000 members, or 16%, at December 31, 2009 compared to December 31, 2008 due to our pricing discipline strategy.

We participate in the state Medicaid program in California, where the program is known as Medi-Cal. Membership in our Medi-Cal program increased by 92,000 members at December 31, 2009 compared to December 31, 2008 as a result of higher enrollment in the Fresno, Los Angeles and Sacramento counties and in the Healthy Families program. This gain was offset by a loss of 47,000 members in the New Jersey state Medicaid program due to the Northeast Sale.

December 31, 2008 Compared to December 31, 2007

Our total health plan membership decreased by 34,000 members, or 1%, to 3.7 million members at December 31, 2008 when compared to December 31, 2007. The decrease was driven by a decline of 225,000 commercial and ASO members and 34,000 Medicaid members, partially offset by an increase of 166,000 Medicare Part D members, and 59,000 Medicare Advantage members.

Membership in our commercial health plans decreased by 201,000 members, or 9%, at December 31, 2008 compared to December 31, 2007. This decrease was primarily attributable to our California plan, which experienced declines of 63,000 small group/individual members and 53,000 large group members, and our Northeast plans, which experienced declines of 48,000 large group members and 21,000 small group/individual members. Our Arizona and Oregon plans experienced declines of 14,000 and 2,000 members, respectively. Our ASO enrollment declined by 24,000 members, or 35%, at December 31, 2008 compared to December 31, 2007, due to membership losses in our Northeast plans.

Membership in our Medicare Advantage program increased by 59,000 members at December 31, 2008 compared to December 31, 2007, due to membership growth primarily in California, Arizona and Connecticut. Medicare Part D membership increased by 166,000 members at December 31, 2008 compared to December 31, 2007.

In January 2008, we were directed by CMS to temporarily cease the sale of our stand-alone PDP products due to certain administrative deficiencies relating to our ability to timely process stand-alone PDP enrollment applications. On March 18, 2008, CMS lifted this suspension based on its acceptance of our corrective action plan and our demonstrated correction of the deficiencies. This temporary suspension did not have a material adverse effect on our Medicare business.

In 2007 and 2008, we participated in state Medicaid programs in California, New Jersey and Connecticut. California membership comprised 94% and 84% of our Medicaid membership at December 31, 2008 and 2007, respectively. Membership in our Medicaid programs decreased by 34,000 members at December 31, 2008 compared to December 31, 2007, primarily due to our withdrawal from the Connecticut Medicaid Program in April 2008, partially offset by a gain of 53,000 members in California due to higher enrollment in the Fresno and San Diego counties and in the Healthy Families program. We provided administrative services only to Connecticut Medicaid members during the first quarter of 2008 and completed our exit from the Connecticut Medicaid programs as of April 1, 2008.

Health Plan Services Results

The following table summarizes the operating results for the health plan services for the last three fiscal years:

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in millions, except PMPM data)		
Health plan services:			
Commercial premium revenue	$ 7,562.4	$ 7,797.5	$ 7,468.0
Medicare premium revenue	3,672.9	3,521.5	2,778.9
Medicaid premium revenue	1,205.3	1,073.0	1,188.4
Health plan services premium revenues	$ 12,440.6	$ 12,392.0	$11,435.3
Health plan services costs	(10,731.9)	(10,762.7)	(9,762.9)
Net investment income	105.9	91.0	120.2
Administrative services fees and other income	62.0	48.3	51.1
G&A	(1,362.0)	(1,291.0)	(1,275.6)
Selling	(330.1)	(360.4)	(327.8)
Depreciation and amortization	(53.0)	(59.9)	(43.0)
Interest	(40.9)	(42.9)	(32.5)
Pretax income	$ 90.6	$ 14.4	$ 164.8
MCR:	86.3%	86.9%	85.4%
Commercial	86.1%	85.9%	85.7%
Medicare	86.3%	89.9%	85.4%
Medicaid	87.1%	83.7%	83.1%
Health plan services premium PMPM	$ 294.25	$ 277.79	$ 263.54
Health plan services costs PMPM	$ 253.84	$ 241.27	$ 225.00
G&A expense ratio	10.9%	10.4%	11.1%
Selling costs ratio	2.7%	2.9%	2.9%

Due to the Northeast Sale on December 11, 2009, the health plan services results above include the financial results of the Acquired Companies only for the period ended December 11, 2009. Starting in the first quarter of 2010, the administrative services fees earned and expenses incurred under the United Administrative Services Agreements are expected to be significant.

Health Plan Services Premiums

Total health plan services premiums increased by $48.6 million, or less than 1%, for the year ended December 31, 2009 as compared to the same period in 2008, and increased by $956.7 million, or 8%, for the year ended December 31, 2008 as compared to the same period in 2007. On a PMPM basis, premium yields increased by 6% for the year ended December 31, 2009 as compared to the same period in 2008, and increased by 5% for the year ended December 31, 2008 as compared to the same period in 2007.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Commercial premium revenues decreased by $235.1 million, or 3%, for the year ended December 31, 2009 as compared to the same period in 2008. These decreases were primarily attributable to a decline in our commercial risk membership primarily driven by higher unemployment as a result of economic pressures and the Northeast Sale. The commercial premium PMPM increased by 7.6% for the year ended December 31, 2009 as compared to the same period in 2008.

Medicare premiums increased by $151.4 million, or 4%, for the year ended December 31, 2009 as compared to the same period in 2008. This increase was primarily due to premium rate increases, partially offset by membership declines.

Medicaid premiums increased by $132.3 million, or 12%, for the year ended December 31, 2009 as compared to the same periods in 2008. These increases were primarily attributable to an increase in our Medicaid membership, driven by the economic downturn that caused the Medicaid-eligible population to increase.

West Operations

Commercial premium revenues for our West Operations decreased by $113.2 million, or 2%, for the year ended December 31, 2009 as compared to the same period in 2008. These decreases were primarily attributable to a decrease in our commercial risk membership. The commercial premium PMPM increased by 9.2% for the year ended December 31, 2009 as compared to the same period in 2008.

Medicare premiums for our West Operations increased by $205.6 million, or 7%, for the year ended December 31, 2009 as compared to the same period in 2008. These increases were primarily attributable to an increase in members participating in Medicare Advantage and premium rate increases, partially offset by Medicare Part D membership declines.

Medicaid premiums for our West Operations increased by $120.1 million, or 13%, for the year ended December 31, 2009 as compared to the same period in 2008. These increases were primarily attributable to an increase in our Medi-Cal membership.

Northeast Operations

Commercial premium revenues for our Northeast Operations decreased by $121.9 million, or 6%, for the year ended December 31, 2009 as compared to the same period in 2008. Medicare premiums for our Northeast Operations decreased by $54.2 million, or 8%, for the year ended December 31, 2009 as compared to the same period in 2008. Medicaid premiums for our Northeast Operations increased by $12.2 million, or 10%, for the year ended December 31, 2009 as compared to the same period in 2008. The decrease in the Northeast Operations premium revenues is primarily attributable to the Northeast Sale on December 11, 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Commercial premium revenues increased by $329.5 million, or 4%, for the year ended December 31, 2008 as compared to the same period in 2007. These increases were primarily attributable to our ongoing pricing discipline and premium rate increases, partially offset by membership declines.

Medicare premiums increased by $742.6 million, or 27%, for the year ended December 31, 2008 as compared to the same period in 2007. This increase was primarily due to an increase in members participating in the Medicare Advantage and Medicare Part D prescription drug program.

Medicaid premiums decreased by $115.4 million, or 10%, for the year ended December 31, 2008 as compared to the same period in 2007 primarily due to a decrease in Connecticut Medicaid membership. We served the Connecticut Medicaid members on an ASO basis through the end of the first quarter of 2008, and we completed our exit from the Connecticut Medicaid program in April 2008. We recognized $0 and $185 million of premium revenue from our Connecticut Medicaid program during the years ended December 31, 2008 and 2007, respectively. Partially offsetting the decrease in Medicaid premiums from the cessation of the Connecticut program was a $19 million increase from a change in estimate due to revised application of California Medi-Cal program premium rates for 2001 and 2002 plan years.

West Operations

Commercial premium revenues for our West Operations increased by $259.9 million, or 5%, for the year ended December 31, 2008 as compared to the same period in 2007. These increases were primarily attributable to our ongoing pricing discipline and premium rate increases, partially offset by decreases in commercial membership.

Medicare premiums for our West Operations increased by $624.0 million, or 28%, for the year ended December 31, 2008 as compared to the same period in 2007. These increases were primarily attributable to increases in Medicare Advantage and Medicare Part D membership.

Medicaid premiums for our West Operations increased by $61.1 million, or 7%, for the year ended December 31, 2008 as compared to the same period in 2007. These increases were primarily attributable to an increase in our Medi-Cal membership.

Northeast Operations

Commercial premium revenues for our Northeast Operations increased by $69.6 million, or 4%, for the year ended December 31, 2008 as compared to the same period in 2007. These increases were primarily attributable to our ongoing pricing discipline and premium rate increases, partially offset by decreases in commercial membership.

Medicare premiums for our Northeast Operations increased by $118.6 million, or 22%, for the year ended December 31, 2008 as compared to the same period in 2007. These increases were due to an increase in Medicare Advantage and Medicare Part D membership.

Medicaid premiums for our Northeast Operations decreased by $176.5 million, or 59%, for the year ended December 31, 2008 as compared to the same period in 2007, primarily due to our withdrawal from the Connecticut Medicaid program in April 2008.

Health Plan Services Costs

Health plan services costs decreased by $30.7 million, or less than 1% for the year ended December 31, 2009 as compared to the same period in 2008, and increased by $999.8 million, or 10%, for the year ended December 31, 2008 as compared to the same period in 2007. Health plan MCR was 86.3% at December 31, 2009 compared to 86.9% at December 31, 2008 and 85.4% at December 31, 2007.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Commercial health care costs decreased by $184.1 million, or 3%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase in the commercial health care cost trend on a PMPM basis was 7.8% for the year ended December 31, 2009 over the same period in 2008. Commercial MCR increased to 86.1% for the year ended December 31, 2009 from 85.9% for the year ended December 31, 2008, primarily due to higher utilization related to the H1N1 flu, COBRA and higher-than-expected health care costs in the Northeast plans. Physician and hospital costs on a PMPM basis rose about 8% and 10%, respectively, from higher utilization. Pharmacy costs on a PMPM basis rose approximately 7%. The litigation and regulatory-related charge recorded in 2009 impacted the commercial MCR by 6 basis points and commercial health care cost trend on a PMPM basis by 70 basis points. The litigation and regulatory-related charge recorded in 2008 impacted the commercial MCR by 50 basis points and commercial health care cost trend on a PMPM basis by 290 basis points.

Medicare health care costs increased by $1.5 million, or less than 1%, for the year ended December 31, 2009 as compared to the same period in 2008, and Medicare MCR, including Medicare Advantage and Part D,

decreased by 360 basis points for the same comparative periods. Medicare Advantage health care cost PMPM increased by 5% for the year ended December 31, 2009, as compared to the same period in 2008. Part D health care cost PMPM decreased by 690 basis points for the year ended December 31, 2009, as compared to the same period in 2008.

Medicaid health care costs increased by $151.9 million, or 17%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase in the Medicaid health care cost PMPM was 5% for the year ended December 31, 2009 over the same period in 2008. These increases were primarily driven by physician and hospital costs. Medicaid MCR increased by 340 basis points for the year ended December 31, 2009 to 87.1% from 83.7% at December 31, 2008.

West Operations

Commercial health care costs decreased by $134.6 million, or 3%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase in the commercial health care cost trend on a PMPM basis was 9% for the year ended December 31, 2009 over the same period in 2008. Commercial MCR decreased to 86.8% for the year ended December 31, 2009 from 87.4% for the year ended December 31, 2008.

Medicare health care costs increased by $73.0 million, or 3%, for the year ended December 31, 2009 as compared to the same period in 2008, and Medicare MCR, including Medicare Advantage and Part D, decreased by 370 basis points for the same comparative periods. The decrease in MCR is due to the increase in premium yield outpacing the increase in health care cost trend.

Medicaid health care costs increased by $129.3 million, or 16%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase in the Medicaid health care cost PMPM was 4% for the year ended December 31, 2009 over the same period in 2008. These increases were primarily driven by physician and hospital costs. Medicaid MCR increased by 270 basis points for the year ended December 31, 2009.

Northeast Operations

Commercial health care costs decreased by $49.5 million, or 3%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase in the commercial health care cost trend on a PMPM basis was 6% for the year ended December 31, 2009 over the same period in 2008. Commercial MCR increased to 84.1% for the year ended December 31, 2009 from 81.4% for the year ended December 31, 2008 due to higher-than-expected health care costs.

Medicare health care costs decreased by $71.5 million, or 12%, for the year ended December 31, 2009 as compared to the same period in 2008, and Medicare MCR, including Medicare Advantage and Part D, decreased by 400 basis points for the same comparative periods.

Medicaid health care costs increased by $22.6 million, or 22%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase in the Medicaid health care cost PMPM was 15% for the year ended December 31, 2009 over the same period in 2008. Medicaid MCR increased by 920 basis points for the year ended December 31, 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Commercial health care costs increased by $296.0 million, or 5%, for the year ended December 31, 2008 as compared to the same period in 2007. The increase in the commercial health care cost trend on a PMPM basis was 9% for the year ended December 31, 2008 over the same period in 2007. Commercial MCR increased to 85.9% for the year ended December 31, 2008 from 85.7% for the year ended December 31, 2007. Physician and hospital costs on a PMPM basis rose about 9% and 13% from higher paid claims costs, respectively, while the

utilization was relatively flat with commercial bed days increasing by less than one-half of a percent in 2008 over 2007. Pharmacy costs rose approximately 12% due to higher utilization on a PMPM basis for the year ended December 31, 2008 over the same period in 2007. The litigation and regulatory-related charge recorded in 2008 impacted the commercial MCR by 50 basis points and commercial health care cost trend on a PMPM basis by 290 basis points. The litigation and regulatory-related charge recorded in 2007 impacted the commercial MCR by 270 basis points and commercial health care cost trend on a PMPM basis by 360 basis points.

Medicare health care costs increased by $793.1 million, or 33%, for the year ended December 31, 2008 as compared to the same period in 2007, and Medicare MCR, including Medicare Advantage and Part D, increased by 450 basis points for the same comparative periods. These increases were primarily driven by a 37% enrollment growth and were primarily comprised of higher inpatient and outpatient hospital and pharmacy costs and utilization. Medicare Advantage health care cost PMPM increased by 6% for the year ended December 31, 2008, as compared to the same period in 2007. Part D health care cost PMPM increased by 20 basis points for the year ended December 31, 2008, as compared to the same period in 2007.

Medicaid health care costs decreased by $89.3 million, or 9%, for the year ended December 31, 2008 as compared to the same period in 2007. The decrease in the Medicaid health care cost PMPM was 4% for the year ended December 31, 2008 over the same period in 2007. These decreases were primarily driven by lower outpatient hospital and pharmacy costs and utilization. Medicaid MCR increased by 60 basis points for the year ended December 31, 2008.

West Operations

Commercial health care costs increased by $274.3 million, or 6%, for the year ended December 31, 2008 as compared to the same period in 2007. The increase in the commercial health care cost trend on a PMPM basis was 8% for the year ended December 31, 2008 over the same period in 2007. Commercial MCR increased to 87.4% for the year ended December 31, 2008 from 86.6% for the year ended December 31, 2007.

Medicare health care costs increased by $663.4 million, or 34%, for the year ended December 31, 2008 as compared to the same period in 2007, and Medicare MCR, including Medicare Advantage and Part D, increased by 450 basis points for the same comparative period.

Medicaid health care costs increased by $72.1 million, or 10%, for the year ended December 31, 2008 as compared to the same period in 2007. The increase in the Medicaid health care cost PMPM was 5% for the year ended December 31, 2008 over the same period in 2007. Medicaid MCR increased by 230 basis points for the year ended December 31, 2008.

Northeast Operations

Commercial health care costs increased by $21.7 million, or 1%, for the year ended December 31, 2008 as compared to the same period in 2007. The increase in the commercial health care cost trend on a PMPM basis was 14% for the year ended December 31, 2008 over the same period in 2007. Commercial MCR decreased to 81.4% for the year ended December 31, 2008 from 83.3% for the year ended December 31, 2007.

Medicare health care costs increased by $129.7 million, or 29%, for the year ended December 31, 2008 as compared to the same period in 2007, and Medicare MCR increased by 464 basis points for the same comparative period. The increase in the Medicare health care cost trend on a PMPM basis was 4% for the year ended December 31, 2008 over the same period in 2007.

Medicaid health care costs decreased by $161.4 million, or 61%, for the year ended December 31, 2008 as compared to the same period in 2007, primarily due to our withdrawal from the Connecticut Medicaid program in April 2008.

Administrative Services Fees and Other Income

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Administrative services fees and other income increased by $13.7 million, or 28%, for the year ended December 31, 2009 as compared to the same period in 2008. The increase was primarily due to $15.1 million in administrative services revenues earned pursuant to the United Administrative Services Agreements in connection with the Northeast Sale and a $10.0 million payment received from the California Department of Health Services for interest on a premium rate settlement, partially offset by a $11.3 million decrease in ASO revenues primarily due to ASO membership declines due to the sale of our Northeast health plan subsidiaries.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Administrative services fees and other income decreased by $2.8 million, or 6%, for the year ended December 31, 2008 as compared to the same period in 2007. The decrease was primarily due to a decline in ASO fees primarily due to membership losses in our Northeast plans.

Net Investment Income

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net investment income increased by $14.9 million, or 16%, for the year ended December 31, 2009 as compared to the same period in 2008. This increase was primarily due to realized gains taken in the portfolio in connection with the Northeast Sale. In 2008, our investment income was lowered by $14.6 million due to a loss recorded in the third quarter from other-than-temporary impairments in our available-for-sale investments and money market fund.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net investment income decreased by $29.1 million, or 24%, for the year ended December 31, 2008 as compared to the same period in 2007. This decrease was primarily due to lower short-term interest rates along with a slight decrease in cash balances and a $14.6 million recognized loss from other-than temporary impairments in our available-for-sale investments and money market funds. This decrease was partially offset by a $7 million increase in our interest rate swap value (see Note 2—Summary of Significant Accounting Policies to our consolidated financial statements).

General, Administrative and Other Costs

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

G&A costs increased by $71.0 million, or 6%, for the year ended December 31, 2009 as compared to the same period in 2008. The increases in G&A costs in the year ended December 31, 2009 were primarily due to increases in regulatory and assessment fees, premium taxes and in our operations strategy-related charges as compared to the same period in 2008. Our G&A expense ratio increased to 10.9% for the year ended December 31, 2009, compared to 10.4% for the same period in 2008. The charges recorded in 2009 and 2008 impacted the G&A expense ratio by 100 basis points and 100 basis points, respectively.

The selling costs ratio was 2.7% and 2.9% for the years ended December 31, 2009 and 2008, respectively, and was primarily driven by declines in our commercial membership as well as the growth of our Medicaid business, which generally has lower broker and sales commissions.

Amortization and depreciation expense decreased by $6.8 million for the year ended December 31, 2009 as compared to the same period in 2008. The decrease was due to impairment of property and equipment and other

intangible assets in connection with the Northeast Sale, partially offset by property and equipment purchased during the year and new assets placed in production related to various information technology system projects.

Interest expense decreased by $2.0 million, or 5%, for the year ended December 31, 2009 as compared to the same period in 2008. The decrease was primarily due to lower interest rates.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

G&A costs increased by $15.5 million, or 1%, for the year ended December 31, 2008 as compared to the same period in 2007. The increase in costs was primarily driven by operations strategy related charges and a $7.3 million increase in the allowance related to Medicare receivable. Our G&A expense ratio decreased to 10.4% for the year ended December 31, 2008, compared to 11.1% for the same period in 2007. The charges recorded in 2008 and 2007 impacted the G&A expense ratio by 100 basis points and 90 basis points, respectively. The G&A expense excluding the Northeast Operations increased by $44.7 million, or 5%, for the year ended December 31, 2008, compared to for the same period in 2007.

The selling costs ratio was 2.9% for the years ended December 31, 2008 and 2007. The selling costs ratio is a function of changes in our membership mix between large group and small and individual group members, and the growth of our Medicare Advantage business. The selling costs ratios excluding the Northeast Operations was 2.7% and 2.8% for the years ended December 31, 2008 and 2007, respectively.

Amortization and depreciation expense increased by $16.9 million for the year ended December 31, 2008 as compared to the same period in 2007 primarily due to property and equipment purchased during the year, the addition of new assets placed in production related to various information technology system projects and the amortization of intangible assets from the Guardian Transaction. See Note 2—Summary of Significant Accounting Policies to the consolidated financial statements. Amortization and depreciation expense excluding the Northeast Operations increased by $2.4 million for the year ended December 31, 2008 as compared to the same period in 2007.

Interest expense increased by $10.4 million, or 32%, for the year ended December 31, 2008 as compared to the same period in 2007. The increase was primarily due to increased borrowings on our revolving credit facility and amortization of the discount on our amortizing financing facility completed in December 2007, partially offset by interest on our bridge loan paid off in March 2007 and term loan paid off in May 2007.

Government Contracts Segment Membership

	2009	2008	2007
	(Membership in thousands)		
Membership under North Region TRICARE contract	3,067	3,004	2,895

Under our TRICARE contract for the North Region, we provided health care services to approximately 3.1 million eligible beneficiaries in MHS as of December 31, 2009. Included in the 3.1 million MHS-eligible beneficiaries as of December 31, 2009 were 1.8 million TRICARE eligibles for whom we provide health care and administrative services and 1.3 million other MHS-eligible beneficiaries for whom we provide administrative services only. As of December 31, 2009 and 2008, there were approximately 1.5 million and 1.5 million TRICARE eligibles, respectively, enrolled in TRICARE Prime under our North Region contract.

In addition to the 3.1 million eligible beneficiaries that we service under the TRICARE contract for the North Region, we administer contracts with the U.S. Department of Veterans Affairs to manage community based outpatient clinics in 8 states covering approximately 17,000 enrollees.

Government Contracts Segment Results

The following table summarizes the operating results for Government Contracts for the last three fiscal years:

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in millions)		
Government Contracts segment:			
Revenues	$3,104.7	$2,835.3	$2,501.7
Costs	2,939.7	2,702.6	2,307.6
Pretax income	$ 165.0	$ 132.7	$ 194.1
Government contracts ratio	94.7%	95.3%	92.2%

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Government contracts revenues increased by $269.4 million, or 10%, for the year ended December 31, 2009 as compared to the same period in 2008. Government contracts costs increased by $237.1 million or 9% for the year ended December 31, 2009 as compared to the same period in 2008. The increases were primarily due to an increase in health care services provided under a new option year in the TRICARE contract, Option Period 6, and growth in the family counseling business with the DoD.

Our TRICARE contract for the North Region includes a target cost and price for reimbursed health care costs, which is negotiated annually during the term of the contract with underruns and overruns of our target cost borne 80% by the government and 20% by us. In the normal course of contracting with the federal government, we recognize changes in our estimate for the target cost underruns and overruns (Target Estimate) when the amounts become determinable, supportable, and the collectibility is reasonably assured. As a result of changes in the Target Estimate during the year ended December 31, 2009, we recognized an increase in revenue of $40 million compared to an increase in revenue of $17 million in the year ended December 31, 2008. As a result of changes in the Target Estimate during the year ended December 31, 2009, we recognized an increase in cost of $49 million compared to an increase in cost of $22 million in the year ended December 31, 2008. The administrative price is paid on a monthly basis, one month in arrears and certain components of the administrative price are subject to volume-based adjustments.

The Government contracts ratio decreased by 60 basis points for the year ended December 31, 2009 as compared to the same period in 2008 primarily due to growth in the family counseling business with the DoD and lower health care cost trends in the fourth quarter of 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Government contracts revenues increased by $333.6 million, or 13%, for the year ended December 31, 2008 as compared to the same period in 2007. Government contracts costs increased by $395.0 million or 17% for the year ended December 31, 2008 as compared to the same period in 2007. The increases were primarily due to an increase in health care services provided under a new option year in the TRICARE contract, Option Period 5, which began April 1, 2008, and growth in the family counseling business with the DoD.

As a result of changes in the Target Estimate during the year ended December 31, 2008, we recognized an increase in revenue of $17 million compared to a decrease in revenue of $58 million in the year ended December 31, 2007. As a result of changes in the Target Estimate during the year ended December 31, 2008, we recognized an increase in cost of $22 million compared to a decrease in cost of $75 million in the year ended December 31, 2007. The administrative price is paid on a monthly basis, one month in arrears and certain components of the administrative price are subject to volume-based adjustments.

The Government contracts ratio increased by 310 basis points for the year ended December 31, 2008 as compared to the same period in 2007 primarily due to increased costs of health care services provided under Option Period 5 in the TRICARE contract.

Asset Impairment, Loss on Sale of Northeast Health Plan Subsidiaries and Other Charges

2009 Charges

We recorded $404.4 million pretax, or $280.9 million after tax, charges during the year ended December 31, 2009 as follows:

- $174.9 million recorded in asset impairments on Northeast Operations, including goodwill impairment of $137.0 million, impairments of other intangible assets of $6.3 million and property and equipment of $31.6 million. See Note 2 to our consolidated financial statements for more information regarding these impairments;
- $105.9 million recorded in loss on sale of Northeast health plan subsidiaries. See Note 3 to our consolidated financial statements for more information regarding the Northeast Sale;
- $124.8 million recorded as part of G&A expenses primarily for severance charges, IT infrastructure transformation costs and other costs associated with Health Net's operations strategy which is aimed at achieving substantial reductions in G&A by 2010; and
- $3.6 million recorded in government contracts costs for TRICARE contract procurement costs; partially offset by
- $4.8 million recorded as a reduction in health plan services reserves primarily for litigation and regulatory actions related to the Company's rescission practices in Arizona and California and claim-related matters.

2008 Charges

We recorded the following $175.1 million pretax, or $104.1 million after tax, charges during the year ended December 31, 2008:

- $119.6 million recorded as part of G&A expenses primarily for severance and other costs associated with Health Net's operations strategy. This amount also includes attorney's fees and regulatory fines associated with our rescission practices and in connection with the settlement agreement for the *McCoy, Wachtel* and *Scharfman* class action lawsuits.
- $37.5 million recorded as part of health plan services expenses for estimated litigation and regulatory actions related to the Company's rescission practices in Arizona and California and claim-related matters in connection with the settlement agreement for the *McCoy, Wachtel* and *Scharfman* class action lawsuits*;*
- $14.6 million loss recorded as part of net investment income from other-than-temporary impairments in our available-for-sale investments and money market funds; and
- $3.4 million recorded as part of administrative services fees and other income for an impairment of assets of a small, non-core subsidiary.

2007 Charges

In 2007, we recorded a $306.8 million pretax, or $222.4 million after-tax, charge incurred as a result of us reaching an agreement in principle to settle the *McCoy, Wachtel* and *Scharfman* class action lawsuits; the proposed resolution of regulatory issues with the New Jersey Department of Banking and Insurance; arbitration settlement; and other immaterial litigation matters. The charge amount was comprised of the following:

- $201.5 million recorded as part of health plan services expenses during the year ended December 31, 2007 for claim-related matters, class disbursements and remediations; and

- $105.3 million recorded as part of G&A expenses during the year ended December 31, 2007 for attorney's fees, regulatory fines, arbitration settlement and estimated liability for litigation unrelated to the class action lawsuits.

Income Tax Provision

Our income tax expense and the effective income tax rate for the years ended December 31, 2009, 2008 and 2007 are as follows:

	2009	2008	2007
	(Dollars in millions)		
Income tax expense	$23.8	$52.1	$165.2
Effective tax rate	94.2%	35.4%	46.0%

The effective income tax rate differs from the statutory federal tax rate of 35% for the year ended December 31, 2009 due primarily to state income taxes, tax-exempt investment income, nondeductible goodwill impairment, and the tax benefit associated with the Northeast Sale.

The effective income tax rate differs from the statutory federal tax rate of 35% for the year ended December 31, 2008 due primarily to state income taxes, tax-exempt investment income, and a favorable outcome related to prior year nondeductible class action lawsuit expenses. The effective income tax rate differs from the statutory federal tax rate of 35% for the year ended December 31, 2007 due primarily to state income taxes, tax-exempt investment income, the establishment of a valuation allowance against certain deferred tax assets, and nondeductible class action lawsuit expenses.

The effective income tax rate in 2009 is an inverse ratio to the pretax loss. We reported a tax expense associated with a pretax loss because a significant portion of the loss on sale of our Northeast health plan subsidiaries and the associated goodwill impairment is nondeductible for tax reporting purposes. The impact of these nondeductible items is the primary cause of the large change in tax rates between 2008 and 2009. The effective income tax decreased from 2007 to 2008 primarily due to the favorable outcome related to the prior year nondeductible class action lawsuit expenses.

LIQUIDITY AND CAPITAL RESOURCES

Market and Economic Conditions

The current state of the global economy and market conditions continue to be challenging with high levels of unemployment, diminished business and consumer confidence, and volatility in both U.S. and international capital and credit markets. These conditions continue to negatively impact the availability of funding to borrowers. Market conditions could limit our ability to timely replace maturing liabilities and access the capital markets to meet liquidity needs, which could adversely affect our financial condition and results of operations. Furthermore, if our customer base experiences cash flow problems and other financial difficulties, it could, in turn, adversely impact membership in our plans. For example, our customers may modify, delay or cancel plans to purchase our products, may reduce the number of individuals to whom they provide coverage, or may make changes in the mix or products purchased from us. In addition, if our customers experience financial issues, they may not be able to pay, or may delay payment of, accounts receivable that are owed to us. Further, our customers or potential customers may force us to compete more vigorously on factors such as price and service to retain or obtain their business. A significant decline in membership in our plans and the inability of current and/or potential customers to pay their premiums as a result of unfavorable conditions may adversely affect our business, including our revenues, profitability and cash flow.

Cash and Investments

As of December 31, 2009, the fair value of the investment securities available-for-sale was $1.4 billion, which includes both current and noncurrent investments. Such amount includes noncurrent investments of $20.9 million, or 1.5% of the total investments available for sale. We hold high-quality fixed income securities primarily comprised of corporate bonds, mortgage-backed bonds and municipals bonds. We evaluate and determine the classification of our investments based on management's intent. We also closely monitor the fair values of our investment holdings and regularly evaluate them for other-than-temporary impairments.

Our cash flow from investing activities is primarily impacted by the sales, maturities and purchases of our available-for-sale investment securities and restricted investments. Our investment objective is to maintain safety and preservation of principal by investing in a diversified mix of high-quality, investment grade securities while maintaining liquidity in each portfolio sufficient to meet our cash flow requirements while attaining the highest total return on invested funds.

Our investment portfolio includes $564.9 million, or 40% of our portfolio holdings, of mortgage-backed and asset-backed securities. Such amount includes current and noncurrent mortgage-backed and asset-backed securities of $544.0 million, or 96.3% of the total mortgage-backed and asset-backed securities, and $20.9 million, or 3.7% of the total mortgage-backed and asset-backed securities, respectively. The majority of our mortgage-backed securities are Fannie Mae, Freddie Mac and Ginnie Mae issues, and the average rating of our asset-backed securities is AA/Aa1. However, any failure by Fannie Mae or Freddie Mac to honor the obligations under the securities they have issued or guaranteed could cause a significant decline in the value or cash flow of our mortgage-backed securities. Our investment portfolio also includes $10.0 million, or 1% of our portfolio holdings, of auction rate securities (ARS). These ARS have long-term nominal maturities for which the interest rates are reset through a dutch auction process every 7, 28 or 35 days. At December 31, 2009, these ARS had at one point or are continuing to experience "failed" auctions. These securities are entirely municipal issues and rates are set at the maximum allowable rate as stipulated in the applicable bond indentures. We continue to receive income on all ARS. If all or any portion of the ARS continue to experience failed auctions, it could take an extended amount of time for us to realize our investments' recorded value.

We had gross unrealized losses of $13.3 million as of December 31, 2009, and $32.8 million as of December 31, 2008. Included in the gross unrealized losses as of December 31, 2009 are $2.7 million related to noncurrent investments available for sale. We believe that these impairments are temporary and we do not intend to sell these investments. It is not likely that we will be required to sell any security in an unrealized loss position before recovery of its amortized cost basis. Given the current market conditions and the significant judgments involved, there is a continuing risk that further declines in fair value may occur and additional material other-than-temporary impairments may be recorded in future periods. After performing our impairment analysis, we noted that one of our prime residential mortgage-backed securities may suffer losses under certain stressed scenarios. As a result, we recognized an impairment related to the credit loss in the amount of $60,000 during the year ended December 31, 2009. This amount represents the difference between the present value of the Company's best estimate of future cash flows using the latest performance indicators and the amortized cost basis.

During the year ended December 31, 2008, we recognized a $14.6 million loss from other-than-temporary impairments of our cash equivalents and available-for-sale investments. Such other-than-temporary impairments primarily were as a result of investments in corporate debt from Lehman Brothers, money market funds from The Reserve and preferred stock from Fannie Mae and Freddie Mac. In September 2008, The Reserve announced its intention to liquidate its money market fund and froze all redemptions until an orderly liquidation process could be implemented. As a result, in the third quarter of 2008, we reclassified $372 million in estimated net asset value we had invested in The Reserve money market funds from cash equivalents to investments available-for-sale. As of December 31, 2008, we held $50.4 million in the Reserve Primary Institutional Fund and $69.2 million in the Reserve U.S. Government Fund. On January 16, 2009, The Reserve paid out in full the

balance in the U.S. Government Fund. On January 29, 2010, the Reserve Primary Fund made its sixth distribution, and in total, we have received approximately 99% of the $372 million.

Liquidity

We believe that cash flow from operating activities, existing working capital, lines of credit and cash reserves are adequate to allow us to fund existing obligations, repurchase shares under our stock repurchase program, introduce new products and services, and continue to develop health care-related businesses. We regularly evaluate cash requirements for current operations and commitments, and for capital acquisitions and other strategic transactions. We may elect to raise additional funds for these purposes, either through issuance of debt or equity, the sale of investment securities or otherwise, as appropriate. Based on the composition and quality of our investment portfolio, our expected ability to liquidate our investment portfolio as needed, and our expected operating and financing cash flows, we do not anticipate any liquidity constraints as a result of the current credit environment. However, continued turbulence in U.S. and international markets could adversely affect our liquidity.

Our cash flow from operating activities is impacted by, among other things, the timing of collections on our amounts receivable from our TRICARE contract for the North Region. Health care receivables related to TRICARE are best estimates of payments that are ultimately collectible or payable. The timing of collection of such receivables is impacted by government audit and negotiation and can extend for periods beyond a year. Amounts receivable under government contracts were $270.8 million and $241.3 million as of December 31, 2009 and December 31, 2008, respectively. Our cash flow from operating activities is also impacted by the timing of collections on our amounts receivable from CMS. Our receivable related to our Medicare business was $102.7 million as of December 31, 2009 and $315.5 million as of December 31, 2008.

During 2009, we recognized $123.6 million in pretax charges related to our operations strategy, reductions for a litigation reserve true-up and Northeast Sale related expenses. The majority of these charges was settled in cash and was funded by cash flow from operating and financing activities. For additional information regarding these charges, see "—Summary of Operating Results" above.

Our total cash and cash equivalents as of December 31, 2009 and 2008 were $682.8 million and $668.2 million, respectively. The changes in cash and cash equivalents are summarized as follows:

	2009	2008	2007
	(Dollars in millions)		
Net cash provided by (used in) operating activities	$ 247.5	$(159.0)	$ 605.5
Net cash (used in) investing activities	(135.1)	(67.8)	(230.2)
Net cash (used in) financing activities	(97.8)	(112.0)	(73.1)
Net increase (decrease) in cash and cash equivalents	$ 14.6	$(338.8)	$ 302.2

Operating Cash Flows

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net cash from operating activities increased by $406.5 million for the year ended December 31, 2009 compared to the same period in 2008. This increase was primarily due to a $246 million decrease in cash used for operations strategy, and litigation and regulatory matters, a $140 million decrease in our CMS catastrophic and low-income subsidies receivable and a $17 million Medi-Cal rate court settlement related to 2001-2002 rates paid in 2009.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net cash from operating activities decreased by $764.5 million for the year ended December 31, 2008 compared to the same period in 2007. This decrease was primarily due to the $283 million paid in 2008 related to operations strategy and litigation and regulatory related matters, a $218 million increase in our net CMS catastrophic and low-income subsidies receivables, and approximately $83 million Medicare Part D payments received in 2007 for the final settlement of the 2006 plan year.

Investing Activities

Our cash flow from investing activities is primarily impacted by the sales, maturities and purchases of our available-for-sale investment securities and restricted investments. Our investment objective is to maintain safety and preservation of principal by investing in high-quality, investment grade securities while maintaining liquidity in each portfolio sufficient to meet our cash flow requirements and attaining the highest total return on invested funds.

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net cash used in investing activities increased by $67.3 million compared to the year ended December 31, 2008 primarily due to $173.4 million net cash used in the sale of the Northeast operations (including $523.4 million of cash balances given up at the subsidiaries offset by $350 million received from United), offset by a $70.3 million decrease in cash used for the purchase of property and equipment and a $51.0 million net increase in the sale of investments available-for-sale.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net cash used in investing activities decreased by $162.4 million compared to the year ended December 31, 2007 primarily due to the $252 million redemption from The Reserve Funds, partially offset by $97 million decrease in net proceeds from property and equipment sale.

Financing Activities

Year Ended December 31, 2009 Compared to Year Ended December 31, 2008

Net cash used in financing activities decreased by $14.2 million primarily due to a $229.0 million decrease in cash used for share repurchases offset by a $208.7 million increase in net cash used in borrowings.

Year Ended December 31, 2008 Compared to Year Ended December 31, 2007

Net cash used in financing activities increased by $38.9 million primarily due to a decrease in stock option exercise proceeds of $66 million, decrease in excess tax benefits from share based compensation of $17 million and a net increase in share repurchases of $11 million, partially offset by an increase in net borrowings of $55 million.

Capital Structure

Stock Repurchase Program

We have a $700 million stock repurchase program authorized by our Board of Directors. Subject to Board approval, additional amounts are added to the repurchase program from time to time based on exercise proceeds and tax benefits the Company receives from the employee stock options. On November 4, 2008, we announced that our stock repurchase program was on hold as a consequence of the uncertain financial environment and the announcement by Health Net's Board of Directors that Jay Gellert, our President and Chief Executive Officer, was undertaking a review of the Company's strategic direction. On July 20, 2009, we announced the completion

of our strategic review, which included entering into the Stock Purchase Agreement for the sale of our Northeast business. On December 8, 2009, we announced that our Board of Directors has authorized the Company to resume repurchases of its common stock under the existing stock repurchase program.

We repurchased 860,737 shares of our common stock during the year ended December 31, 2009, for aggregate consideration of approximately $20.6 million. We used net free cash available, including proceeds received from the Northeast Sale, to fund the share repurchases. As of December 31, 2009, the remaining authorization under our stock repurchase program was $82.7 million and, since its inception, we had repurchased an aggregate of 37,484,084 shares of our common stock at an average price of $34.16 for aggregate consideration of approximately $1,280.4 million. As of February 22, 2010, the remaining authorization under our stock repurchase program was approximately $3 million due to share repurchases that occurred after December 31, 2009.

Amortizing Financing Facility

On December 19, 2007, we entered into a five-year, non-interest bearing, $175 million amortizing financing facility with a non-U.S. lender and we entered into amendments to the financing facility on April 29, 2008 and November 10, 2008, which were administrative in nature. On March 9, 2009, we amended certain terms of the documentation relating to the financing facility to, among other things, (i) eliminate the requirement that we maintain certain minimum public debt ratings throughout the term of the financing facility and (ii) provide that the financing facility may be terminated at any time at the option of one of our wholly-owned subsidiaries or the non-U.S. lender. The proceeds from the financing facility were used for general corporate purposes.

As amended, the financing facility requires one of our subsidiaries to pay semi-annual distributions, in the amount of $17.5 million, to a participant in the financing facility. Unless terminated earlier, the final payment under the facility is scheduled to be made on December 19, 2012.

The financing facility includes limitations (subject to specified exclusions) on certain of our subsidiaries' ability to incur debt; create liens; engage in certain mergers, consolidations and acquisitions; engage in transactions with affiliates; enter into agreements which will restrict the ability of our subsidiaries to pay dividends or other distributions with respect to any shares of capital stock or the ability to make or repay loans or advances; make dividends; and alter the character of the business we and our subsidiaries conducted on the closing date of the financing facility. In addition, the financing facility also requires that we maintain a specified consolidated leverage ratio and consolidated fixed charge coverage ratio throughout the term of the financing facility. As of December 31, 2009, we were in compliance with all of the covenants under the financing facility.

The financing facility provides that it may be terminated through a series of put and call transactions (1) at the option of one of our wholly-owned subsidiaries or the non-U.S. lender at any time, or (2) upon the occurrence of certain defined early termination events. These early termination events, include, but are not limited to:

- nonpayment of certain amounts due by us or certain of our subsidiaries under the financing facility (if not cured within the related time period set forth therein);
- a change of control (as defined in the financing facility);
- cross-acceleration and cross-default to other indebtedness of the Company in excess of $50 million, including our revolving credit facility;
- certain ERISA-related events;
- noncompliance by the Company with any material term or provision of the HMO Regulations or Insurance Regulations (as each such term is defined in the financing facility);
- events in bankruptcy, insolvency or reorganization of the Company;
- undischarged, uninsured judgments in the amount of $50 million or more against the Company; or

- certain changes in law that could adversely affect a participant in the financing facility.

In addition, in connection with the financing facility, we guaranteed the payment of the semi-annual distributions and any other amounts payable by one of our subsidiaries to the financing facility participants under certain circumstances provided under the financing facility. Also in connection with the financing facility, we entered into the 2007 Swap with a non-U.S. bank affiliated with one of the financing facility participants (see Note 2 to our consolidated financial statements). Under the 2007 Swap agreement, we pay a floating payment in an amount equal to LIBOR times a notional principal amount and receive a fixed payment in an amount equal to 4.294% times the same notional principal amount from the non-U.S. bank counterparty in return in accordance with a schedule set forth in the 2007 Swap agreement.

Senior Notes

On May 18, 2007, we issued $300 million in aggregate principal amount of 6.375% Senior Notes due 2017. On May 31, 2007, we issued an additional $100 million of 6.375% Senior Notes due 2017 which were consolidated with, and constitute the same series as, the Senior Notes issued on May 18, 2007 (collectively, the "Senior Notes"). The aggregate net proceeds from the issuance of the Senior Notes were $393.5 million and were used to repay outstanding debt.

The indenture governing the Senior Notes limits our ability to incur certain liens, or consolidate, merge or sell all or substantially all of our assets. In the event of the occurrence of both (1) a change of control of Health Net, Inc. and (2) a below investment grade rating by any two of Fitch, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, within a specified period, we will be required to make an offer to purchase the Senior Notes at a price equal to 101% of the principal amount of the Senior Notes plus accrued and unpaid interest to the date of repurchase. As of December 31, 2009, we were in compliance with all of the covenants under the indenture governing the Senior Notes.

The Senior Notes may be redeemed in whole at any time or in part from time to time, prior to maturity at our option, at a redemption price equal to the greater of:

- 100% of the principal amount of the Senior Notes then outstanding to be redeemed; or
- the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable treasury rate plus 30 basis points

plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the redemption date.

Each of the following will be an Event of Default under the indenture governing the Senior Notes:

- failure to pay interest for 30 days after the date payment is due and payable; provided that an extension of an interest payment period by us in accordance with the terms of the Senior Notes shall not constitute a failure to pay interest;
- failure to pay principal or premium, if any, on any note when due, either at maturity, upon any redemption, by declaration or otherwise;
- failure to perform any other covenant or agreement in the notes or indenture for a period of 60 days after notice that performance was required;
- (A) our failure or the failure of any of our subsidiaries to pay indebtedness for money we borrowed or any of our subsidiaries borrowed in an aggregate principal amount of at least $50,000,000, at the later of final maturity and the expiration of any related applicable grace period and such defaulted payment shall not have been made, waived or extended within 30 days after notice or (B) acceleration of the

maturity of indebtedness for money we borrowed or any of our subsidiaries borrowed in an aggregate principal amount of at least $50,000,000, if that acceleration results from a default under the instrument giving rise to or securing such indebtedness for money borrowed and such indebtedness has not been discharged in full or such acceleration has not been rescinded or annulled within 30 days after notice; or

- events in bankruptcy, insolvency or reorganization of our Company.

Revolving Credit Facility

On June 25, 2007, we entered into a $900 million five-year revolving credit facility with Bank of America, N.A. as Administrative Agent, Swingline Lender, and L/C Issuer, and the other lenders party thereto. We entered into an amendment to the credit facility on April 29, 2008, which was administrative in nature. Our revolving credit facility provides for aggregate borrowings in the amount of $900 million, which includes a $400 million sub-limit for the issuance of standby letters of credit and a $50 million sub-limit for swing line loans. In addition, we have the ability from time to time to increase the facility by up to an additional $250 million in the aggregate, subject to the receipt of additional commitments. The revolving credit facility matures on June 25, 2012.

Amounts outstanding under the new revolving credit facility will bear interest, at our option, at (a) the base rate, which is a rate per annum equal to the greater of (i) the federal funds rate plus one-half of one percent and (ii) Bank of America's prime rate (as such term is defined in the facility), (b) a competitive bid rate solicited from the syndicate of banks, or (c) the British Bankers Association LIBOR rate (as such term is defined in the facility), plus an applicable margin, which is initially 70 basis points per annum and is subject to adjustment according to our credit ratings, as specified in the facility.

Our revolving credit facility includes, among other customary terms and conditions, limitations (subject to specified exclusions) on our and our subsidiaries' ability to incur debt; create liens; engage in certain mergers, consolidations and acquisitions; sell or transfer assets; enter into agreements which restrict the ability to pay dividends or make or repay loans or advances; make investments, loans, and advances; engage in transactions with affiliates; and make dividends. In addition, we are required to maintain a specified consolidated leverage ratio and consolidated fixed charge coverage ratio throughout the term of the revolving credit facility.

Our revolving credit facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness of the Company or our subsidiaries in excess of $50 million; certain ERISA-related events; noncompliance by us or any of our subsidiaries with any material term or provision of the HMO Regulations or Insurance Regulations (as each such term is defined in the facility); certain voluntary and involuntary bankruptcy events; inability to pay debts; undischarged, uninsured judgments greater than $50 million against us and/or our subsidiaries; actual or asserted invalidity of any loan document; and a change of control. If an event of default occurs and is continuing under the facility, the lenders thereunder may, among other things, terminate their obligations under the facility and require us to repay all amounts owed thereunder.

As of December 31, 2009, we were in compliance with all covenants under our revolving credit facility.

We can obtain letters of credit in an aggregate amount of $400 million under our revolving credit facility. The maximum amount available for borrowing under our revolving credit facility is reduced by the dollar amount of any outstanding letters of credit. As of December 31, 2009, we had outstanding an aggregate of $321.3 million in letters of credit and outstanding borrowings under the revolving credit facility of $100.0 million. As a result, the maximum amount available for borrowing under the revolving credit facility was $478.7 million as of December 31, 2009, and no amount had been drawn on the letters of credit. As of February 15, 2010, we had no outstanding borrowings under the revolving credit facility.

Interest Rate Swap Contract

On March 12, 2009, we entered into an interest rate swap agreement (2009 Swap) under which we pay an amount equal to 2.245% times a notional principal amount and in return we receive an amount equal to LIBOR times the same notional principal amount. The 2009 Swap is designed to reduce variability in our net income due to changes in variable interest rates.

Statutory Capital Requirements

Certain of our subsidiaries must comply with minimum capital and surplus requirements under applicable state laws and regulations, and must have adequate reserves for claims. Management believes that as of December 31, 2009, all of our active health plans and insurance subsidiaries met their respective regulatory requirements in all material respects.

By law, regulation and governmental policy, our health plan and insurance subsidiaries, which we refer to as our regulated subsidiaries, are required to maintain minimum levels of statutory net worth. The minimum statutory net worth requirements differ by state and are generally based on balances established by statute, a percentage of annualized premium revenue, a percentage of annualized health care costs, or risk-based capital (RBC) requirements. The RBC requirements are based on guidelines established by the National Association of Insurance Commissioners. The RBC formula, which calculates asset risk, underwriting risk, credit risk, business risk and other factors, generates the authorized control level (ACL), which represents the minimum amount of net worth believed to be required to support the regulated entity's business. For states in which the RBC requirements have been adopted, the regulated entity typically must maintain the greater of the Company Action Level RBC, calculated as 200% of the ACL, or the minimum statutory net worth requirement calculated pursuant to pre-RBC guidelines. Because our regulated subsidiaries are also subject to their state regulators' overall oversight authority, some of our subsidiaries are required to maintain minimum capital and surplus in excess of the RBC requirement, even though RBC has been adopted in their states of domicile. Historically, we generally managed our aggregate regulated subsidiary capital above 300% of ACL, although RBC standards are not yet applicable to all of our regulated subsidiaries. At December 31, 2009, we had sufficient capital to exceed 400% of ACL, a higher level compared to the past.

As necessary, we make contributions to and issue standby letters of credit on behalf of our subsidiaries to meet RBC or other statutory capital requirements under state laws and regulations. During the year ended December 31, 2009, we made capital contributions of $119.5 million to various subsidiaries to increase RBC or other statutory capital compared to a higher level compared to the past. The capital contributions were generally not required to meet regulatory requirements, but were made to enhance the financial condition of the subsidiaries. Health Net, Inc. made no capital contributions to any of its subsidiaries to meet RBC or other statutory capital requirements under state laws and regulations thereafter through February 22, 2010.

In addition, pursuant to the Stock Purchase Agreement relating to the Northeast Sale, we have agreed to contribute additional capital to the Acquired Companies to meet statutory capital requirements as required by governmental authorities. The amount of such contributions, if any, will be added to the payments we are entitled to receive under the Stock Purchase Agreement.

Legislation has been or may be enacted in certain states in which our subsidiaries operate imposing substantially increased minimum capital and/or statutory deposit requirements for HMOs in such states. Such statutory deposits may only be drawn upon under limited circumstances relating to the protection of policyholders.

As a result of the above requirements and other regulatory requirements, certain subsidiaries are subject to restrictions on their ability to make dividend payments, loans or other transfers of cash to their parent companies. Such restrictions, unless amended or waived or unless regulatory approval is granted, limit the use of any cash

generated by these subsidiaries to pay our obligations. The maximum amount of dividends that can be paid by our insurance company subsidiaries without prior approval of the applicable state insurance departments is subject to restrictions relating to statutory surplus, statutory income and unassigned surplus.

Contractual Obligations

Our significant contractual obligations as of December 31, 2009 are summarized below for the years ending December 31:

	Total	2010	2011	2012	2013	2014	Thereafter
			(Dollars in Millions)				
Fixed-rate borrowings principal (c)	$512.8	$ 35.0	$ 35.0	$35.0	$ 7.8	$ —	$400.0
Fixed-rate borrowings interest	188.2	25.5	25.5	25.5	25.5	25.5	60.7
Floating-rate borrowings principal (c)	100.0	100.0	—	—	—	—	—
Floating-rate borrowings interest	0.3	0.3	—	—	—	—	—
Valuation of interest rate swap payments	1.8	1.5	0.5	(0.2)	—	—	—
Operating leases	239.6	64.2	53.0	34.4	27.5	26.0	34.5
Long-term purchase obligations	471.8	154.7	147.1	93.5	69.2	7.2	0.1
Uncertain tax positions liability, including interest and penalties (b)	2.7	2.7	—	—	—	—	—
Deferred compensation	44.2	4.1	2.2	2.5	2.1	1.9	31.4(a)
Estimated future payments for pension and other benefits	26.2	1.5	1.7	1.9	2.2	3.3	15.6(a)

(a) Represents estimated future payments from 2015 through 2019.

(b) The obligations shown above represent uncertain tax positions expected to be paid within the reporting periods presented. In addition to the obligations shown above, approximately $20.4 million of unrecognized tax benefits have been recorded as a liability, and we are uncertain as to if or when such amounts may be settled or paid.

(c) These amounts are based on stated terms and expected payments. As such, they differ from the amounts reported on our consolidated balance sheet and notes, which are reported consistently with the financial reporting and classification requirements.

Operating Leases

We lease office space under various operating leases. Certain leases are cancelable with substantial penalties. See “Item 2. Properties” for additional information regarding our leases.

Long-Term Purchase Obligations and Commitments

We have entered into long-term agreements to purchase various services, which may contain certain termination provisions and have remaining terms in excess of one year as of December 31, 2009.

We have entered into long-term agreements to receive services related to pharmacy benefit management, pharmacy claims processing services and health quality/risk scoring enhancement services with external third-party service providers. The remaining terms are approximately three years for each of these contracts. Termination of these agreements is subject to certain termination provisions. The total future minimum commitments under these agreements are $131.7 million and are included in the table above.

On August 19, 2008, we entered into an agreement with International Business Machines Corporation (IBM) to outsource our IT infrastructure management services including data center services, IT security

management and help desk support. The remaining term of this contract is approximately four years, and total estimated future minimum commitments under the agreement are approximately $225.4 million.

On September 30, 2008, we entered into an agreement with Cognizant Technology Solutions U.S. Corporation (Cognizant) to outsource our software applications development and management activities to Cognizant. Under the terms of the agreement, Cognizant will, among other things, provide us with: application development services, testing and monitoring services, application maintenance and support services, project management services and cross functional services. The remaining term of this contract is approximately four years, and the total estimated future commitments under the agreement are approximately $84.7 million.

On January 23, 2009, we entered into another agreement with Cognizant to outsource a substantial portion of our claims processing activities to Cognizant. Under the terms of the agreement, Cognizant will, among other things, provide us with claims adjudication, adjustment, audit and process improvement services. The remaining term of this contract is approximately five years, and the total estimated future commitments under the agreement are approximately $13.0 million.

Under the Stock Purchase Agreement, we retain financial responsibility for the profits or losses, subject to specified adjustments, of the Acquired Companies for the period beginning on the closing date and ending on the earlier of (i) the second anniversary of the closing date and (ii) the date that all of the United Administrative Services Agreements are terminated. We expect the United Administrative Services Agreements to be in effect for approximately two years following the closing of the transaction, and anticipate that these profits or losses and the other expenses we incur in performing the administrative services could be significant.

Under the Stock Purchase Agreement, we also will be entitled to 50% of the profits or losses associated with the Acquired Companies' Medicare business for the year ended December 31, 2010 (subject to a cap of $10 million of profit or loss). In the event that the Acquired Companies renew the Medicare contract for the acquired business for the year ended December 31, 2011, United will be entitled to all of the after tax profits and losses relating to the business for that year (subject to certain limitations). We have agreed to administer the Medicare business of the Acquired Companies for 2010 and for 2011 (only if the related Medicare contract is not transferred to a non-Acquired Company affiliate of United as of January 1, 2011). We expect to administer the Medicaid business of the Acquired Companies until no later than June 30, 2010, which is the termination date for the related Medicaid contract. See "Item 1. Business—Segment Information—Northeast Operations Segment" for additional detail on the Northeast Sale.

We have excluded from the table above amounts already recorded in our current liabilities on our consolidated balance sheet as of December 31, 2009. We have also excluded from the table above various contracts we have entered into with our health care providers, health care facilities, the federal government and other contracts that we have entered into for the purpose of providing health care services. We have excluded those contracts that allow for cancellation without significant penalty, obligations that are contingent upon achieving certain goals and contracts for goods and services that are fulfilled by vendors within a short time horizon and within the normal course of business.

The future contractual obligations in the contractual obligations table are estimated based on information currently available. The timing of and the actual payment amounts may differ based on actual events.

Surety Bonds

In order to secure judgment pending our appeal in the AmCareco litigation, we obtained surety bonds totaling $114.7 million, which are further secured by letters of credit issued in December 2005 in the amounts of $88.1 million. See Notes 6 and 13 to the consolidated financial statements for additional information.

Off-Balance Sheet Arrangements

As of December 31, 2009, we had no off-balance sheet arrangements as defined under Regulation S-K 303(a)(4) and the instructions thereto.

Critical Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Principal areas requiring the use of estimates include revenue recognition, health care costs, reserves for contingent liabilities, amounts receivable or payable under government contracts, goodwill and recoverability of long-lived assets and investments and income taxes. Accordingly, we consider accounting policies on these areas to be critical in preparing our consolidated financial statements. A significant change in any one of these amounts may have a significant impact on our consolidated results of operations and financial condition. A more detailed description of the significant accounting policies that we use in preparing our financial statements is included in the notes to our consolidated financial statements, which are included elsewhere in this Annual Report on Form 10-K.

Health Plan Services

Health plan services premium revenues include HMO, POS and PPO premiums from employer groups and individuals and from Medicare recipients who have purchased supplemental benefit coverage (for which premiums are based on a predetermined prepaid fee), Medicaid revenues based on multi-year contracts to provide care to Medicaid recipients, and revenue under Medicare risk contracts (including Part D) to provide care and services to enrolled Medicare recipients. Revenue is recognized in the month in which the related enrollees are entitled to health care services. Premiums collected in advance of the month in which enrollees are entitled to health care services are recorded as unearned premiums.

Approximately 39%, 37%, and 35% in 2009, 2008 and 2007, respectively, of our health plan services premium revenues were generated under Medicare and Medicaid/Medi-Cal contracts. These revenues are subject to audit and retroactive adjustment by the respective fiscal intermediaries. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

Our Medicare contracts are with CMS. CMS deploys a risk adjustment model which apportions premiums paid to all health plans according to health severity and certain demographic factors. The CMS risk adjustment model pays more for members whose medical history would indicate that they are expected to have higher medical costs. Under this risk adjustment methodology, CMS calculates the risk adjusted premium payment using diagnosis data from hospital inpatient, hospital outpatient and physician treatment settings. We and the health care providers collect, compile and submit the necessary and available diagnosis data to CMS within prescribed deadlines. We estimate risk adjustment revenues based upon the diagnosis data submitted and expected to be submitted to CMS.

On a monthly basis, we estimate the amount of uncollectible receivables to reflect allowances for doubtful accounts. The allowances for doubtful accounts are estimated based on the creditworthiness of our customers, our historical collection rates and the age of our unpaid balances. During this process, we also assess the recoverability of the receivables, and an allowance is recorded based upon their net realizable value. Those receivables that are deemed to be uncollectible, such as receivables from bankrupt employer groups, are fully written off against their corresponding asset account, with a debit to the allowance to the extent such an allowance was previously recorded.

Reserves for claims and other settlements include reserves for claims (incurred but not reported claims (IBNR) and received but unprocessed claims), and other liabilities including capitation payable, shared risk settlements, provider disputes, provider incentives and other reserves for our Health Plan Services. As of December 31, 2009, 73% of reserves for claims and other settlements were attributed to claims reserves. See Note 15 to our consolidated financial statements for a reconciliation of changes in the reserve for claims.

We estimate the amount of our reserves for claims primarily by using standard actuarial developmental methodologies. This method is also known as the chain-ladder or completion factor method. The developmental method estimates reserves for claims based upon the historical lag between the month when services are rendered and the month claims are paid while taking into consideration, among other things, expected medical cost inflation, seasonal patterns, product mix, benefit plan changes and changes in membership. A key component of the developmental method is the completion factor which is a measure of how complete the claims paid to date are relative to the estimate of the claims for services rendered for a given period. While the completion factors are reliable and robust for older service periods, they are more volatile and less reliable for more recent periods since a large portion of health care claims are not submitted to us until several months after services have been rendered. Accordingly, for the most recent months, the incurred claims are estimated from a trend analysis based on per member per month claims trends developed from the experience in preceding months. This method is applied consistently year over year while assumptions may be adjusted to reflect changes in medical cost inflation, seasonal patterns, product mix, benefit plan changes and changes in membership.

An extensive degree of actuarial judgment is used in this estimation process, considerable variability is inherent in such estimates, and the estimates are highly sensitive to changes in medical claims submission and payment patterns and medical cost trends. As such, the completion factors and the claims per member per month trend factor are the most significant factors used in estimating our reserves for claims. Since a large portion of the reserves for claims is attributed to the most recent months, the estimated reserves for claims are highly sensitive to these factors. The following table illustrates the sensitivity of these factors and the estimated potential impact on our operating results caused by these factors:

Completion Factor (a) Percentage-point Increase (Decrease) in Factor	Health Plan Services Increase (Decrease) in Reserves for Claims
2%	$(43.8) million
1%	$ (22.3)million
(1)%	$ 23.1 million
(2)%	$ 47.2 million

Medical Cost Trend (b) Percentage-point Increase (Decrease) in Factor	Health Plan Services Increase (Decrease) in Reserves for Claims
2%	$ 23.1 million
1%	$ 11.6 million
(1)%	$(11.6) million
(2)%	$(23.1) million

(a) Impact due to change in completion factor for the most recent three months. Completion factors indicate how complete claims paid to date are in relation to the estimate of total claims for a given period. Therefore, an increase in completion factor percent results in a decrease in the remaining estimated reserves for claims.

(b) Impact due to change in annualized medical cost trend used to estimate the per member per month cost for the most recent three months.

Other relevant factors include exceptional situations that might require judgmental adjustments in setting the reserves for claims, such as system conversions, processing interruptions or changes, environmental changes or other factors. All of these factors are used in estimating reserves for claims and are important to our reserve methodology in trending the claims per member per month for purposes of estimating the reserves for the most

recent months. In developing our best estimate of reserves for claims, we consistently apply the principles and methodology described above from year to year, while also giving due consideration to the potential variability of these factors. Because reserves for claims include various actuarially developed estimates, our actual health care services expense may be more or less than our previously developed estimates. Claims processing expenses are also accrued based on an estimate of expenses necessary to process such claims. Such reserves are continually monitored and reviewed, with any adjustments reflected in current operations.

We assess the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Significant factors that can lead to a change in our profitability estimates include premium yield and health care cost trend assumptions, risk share terms and non-performance of a provider under a capitated agreement resulting in membership reverting to fee-for-service arrangements with other providers. Contracts are grouped in a manner consistent with the method of determining premium rates. Losses are determined by comparing anticipated premiums to estimates for the total of health care related costs less reinsurance recoveries, if any, and the cost of maintaining the contracts. Losses, if any, are recognized in the period the losses are determined and are classified as Health Plan Services. We held no premium deficiency reserves as of December 31, 2009.

Government Contracts

The TRICARE North Region contract is made up of two major revenue components, health care and administrative services. Health care services revenue includes health care costs, including paid claims and estimated IBNR expenses, for care provided for which we are at risk and underwriting fees earned for providing the health care and assuming underwriting risk in the delivery of care. Administrative services revenue encompasses all other services provided to both the government customer and to beneficiaries, including services such as medical management, claims processing, enrollment, customer services and other services unique to the managed care support contracts with the government. Health care costs and associated revenues are recognized as the costs are incurred and the associated revenue is earned. Revenue related to administrative services is recognized as the services are provided and earned. Revenues associated with the transition to the TRICARE contract for the North Region are recognized over the entire term of the contract.

There are different variables that impact the estimate of the IBNR reserves for our TRICARE business than those that impact our managed care businesses. These variables consist of changes in the level of our nation's military activity, including the call-up of reservists in support of heightened military activity, continual changes in the number of eligible beneficiaries, changes in the health care facilities in which the eligible beneficiaries seek treatment, and revisions to the provisions of the contract in the form of change orders. Each of these factors is subject to significant judgment, and we have incorporated our best estimate of these factors in estimating the reserve for IBNR claims.

As part of our TRICARE contract for the North Region, we have a risk-sharing arrangement with the federal government whereby variances in actual claim experience from the targeted medical claim amount negotiated in our annual bid are shared. Due to this risk-sharing arrangement provided for in the TRICARE contract for the North Region, the changes in the estimate of the IBNR reserves are not expected to have a material effect on the favorable or adverse development of our liability under the TRICARE contract.

Other government contracts revenues are recognized in the month in which the eligible beneficiaries are entitled to health care services or in the month in which the administrative services are performed or the period that coverage for services is provided. Under our TRICARE contract for the North Region we recognize amounts receivable and payable under the government contracts related to estimated health care IBNR expenses which are reported separately on the accompanying consolidated balance sheet as of December 31, 2009. These amounts are the same since all of the estimated health care IBNR expenses incurred are offset by an equal amount of revenues earned.

Some of the amounts receivable under government contracts are comprised primarily of contractually defined billings, deferred underwriting fees under the terms of the contract and change orders for services not originally specified in the contracts. Change orders arise because the government often directs us to implement changes to our contracts before the scope and/or value is defined or negotiated. We start to incur costs immediately, before we have proposed a price to the government. In these situations, we make no attempt to estimate and record revenue. Our policy is to defer the costs as incurred until we have submitted a cost proposal to the government, at which time we will record the costs and the appropriate value for revenue, using our best estimate of what will ultimately be negotiated. In the normal course of contracting with the federal government, we may make claims for contract and price adjustments arising from cost overruns against the government. We recognize such claims when the amounts become determinable, supportable and the collectibility is reasonably assured.

Reserves For Contingent Liabilities

In the course of our operations, we are involved on a routine basis in various disputes with members, health care providers, and other entities, as well as audits by government agencies that relate to our services and/or business practices that expose us to potential losses.

We recognize an estimated loss, which may represent damages, settlement costs, future legal expenses or a combination of the foregoing, as appropriate, from such loss contingencies when it is both probable that a loss will be incurred and that the amount of the loss can be reasonably estimated. Our loss estimates are based in part on an analysis of potential results, the stage of the proceedings, consultation with outside counsel and any other relevant information available.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets arise primarily as a result of various business acquisitions and consist of identifiable intangible assets acquired and the excess of the cost of the acquisitions over the tangible and intangible assets acquired and liabilities assumed (goodwill). Identifiable intangible assets primarily consist of the value of employer group contracts, provider networks and customer relationships, which are all subject to amortization.

We perform our annual impairment test on our recorded goodwill as of June 30 or more frequently if events or changes in circumstances indicate that we might not recover the carrying value of these assets for each of our reporting units. Health Plan Services was our only reporting unit with goodwill as of December 31, 2008. During the three months ended September 30, 2009, we reviewed our reportable segments following the execution of the Stock Purchase Agreement to sell the Acquired Companies as discussed in Note 3 to our consolidated financial statements. Upon the execution of the Stock Purchase Agreement, we determined that we needed to expand our reportable segments to the West Operations, Northeast Operations and Government Contracts (See Note 14 to our consolidated financial statements for more information on our segment changes). Also, at the time we entered into the Stock Purchase Agreement, it became more likely than not that the Acquired Companies would be sold within a year. As a result, we determined that the requirements to classify the Acquired Companies' assets and liabilities as held for sale were met during the three months ended September 30, 2009. Assets and liabilities held for sale are measured at the lower of carrying value or fair value less cost to sell. Prior to measuring the Acquired Companies' assets and liabilities to be held for sale at the lower of cost of fair value less cost to sell, we adjusted the carrying values of the assets and liabilities, including goodwill. During the three months ended September 30, 2009, we reallocated goodwill and assessed the goodwill for impairment.

The goodwill allocations were based on the relative fair values of the West Operations, the Northeast Operations to be sold (Acquired Companies) and the Northeast Operations reporting unit to be retained to provide administrative services to United and its affiliates.

Our fair value measurements are based on a combination of the market approach and the income approach. The market approach uses a market valuation methodology which includes the selection of companies engaged in

a line (or lines) of business similar to ours to be valued and an analysis of our comparative operating results and future prospects in relation to those of the guideline companies selected. The income approach is based on the discounted cash flow methodology. The discounted cash flow methodology is based on converting expected cash flows to their present value. Annual cash flows are estimated each year of a defined multi-year period until the growth pattern becomes stable. The interim cash flows expected after the growth pattern becomes stable are calculated using an appropriate capitalization technique and then discounted. There are numerous assumptions and estimates underlying the determination of the estimated fair values, including assumptions and estimates related to future earnings and membership levels based on current and future plans and initiatives, long-term strategies and our annual planning and forecasting processes, as well as the expected weighted average cost of capital used in the discount process. If the planned initiatives do not accomplish their targeted objectives, the assumptions and estimates underlying the goodwill impairment tests could be adversely affected and have a material effect upon our financial condition, results of operations, or liquidity.

In connection with the goodwill allocation and related impairment testing, our fair value estimates contemplated the consideration expected to be received in connection with the Northeast Sale, including the cash proceeds, contingent consideration for membership renewal, the receivable for the remaining adjusted tangible net equity and the other deliverables which are part of the Stock Purchase Agreement (see Note 3 to our consolidated financial statements).

After the reallocation of the goodwill, we performed a two-step impairment test to determine the existence of impairment and the amount of the impairment. In the first step, we compared the fair values of our reporting units to the related carrying values and concluded that the carrying value of the Acquired Companies was impaired; however, we determined that the carrying value of the Northeast retained business and the West Operations were not impaired. In the second step we measured the amount of the impairment by comparing the implied value of the Acquired Companies' goodwill to the carrying amount of such goodwill. Based on the results of our Step 2 test, we concluded that the implied value of the goodwill allocated to the Acquired Companies was zero, which resulted in an impairment charge for the total carrying value of the allocated goodwill of $137 million. We updated our goodwill impairment assessment test performed as of September 30, 2009 to December 11, 2009 and no additional impairment was indicated.

After impairing the goodwill, we compared the Acquired Companies' adjusted carrying value to its estimated fair value less cost to sell. The carrying value of the assets and liabilities held for sale exceeded the fair value less cost to sell by approximately $6 million. As of September 30, 2009, the assets and liabilities held for sale included $46.2 million in other intangible assets and we reduced the carrying value of these intangibles by the $6 million. Additionally, upon classifying the Acquired Companies' assets and liabilities as held for sale we ceased recording amortization expense related to these intangible assets.

On December 11, 2009, we completed the Northeast Sale (See Note 3 to the consolidated financial statements for information regarding the Northeast Sale).

Recoverability of Long-Lived Assets and Investments

We periodically assess the recoverability of our long-lived assets including property and equipment and other long-term assets and investments where events and changes in circumstances would indicate that we might not recover the carrying value as follows:

Long-lived Assets Held and Used

We test long-lived assets or asset groups for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. Circumstances which could trigger a review include, but are not limited to: significant decreases in the market price of the asset, significant adverse changes in the business climate or legal factors, current period cash flow or operating losses combined with a history of losses

or a forecast of continuing losses associated with the use of the asset and current expectation that the asset will more likely than not be sold or disposed of significantly before the end of its estimated useful life.

If we identify an indicator of impairment, we assess recoverability by comparing the carrying amount of the asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and is measured as the excess of carrying value over fair value.

During the year ended December 31, 2009, we recorded such impairments totaling $35.1 million, including $31.6 million in property and equipment in connection with the Northeast Sale (see Note 3 to our consolidated financial statements), $3.4 million in connection with our operations strategy and an other-than-temporary impairment of $60,000 of investment securities.

Income Taxes

We record deferred tax assets and liabilities based on differences between the book and tax bases of assets and liabilities. The deferred tax assets and liabilities are calculated by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. We establish a valuation allowance in accordance with the provisions of the Income Taxes Topic of Financial Accounting Standards Board (FASB) Accounting Standards Codification. We continually review the adequacy of the valuation allowance and recognize the benefits from our deferred tax assets only when an analysis of both positive and negative factors indicate that it is more likely than not that the benefits will be realized.

We file tax returns in many tax jurisdictions. Often, application of tax rules within the various jurisdictions is subject to differing interpretation. Despite our belief that our tax return positions are fully supportable, we believe that it is probable certain positions will be challenged by taxing authorities, and we may not prevail on the positions as filed. Accordingly, we maintain a liability for the estimated amount of contingent tax challenges by taxing authorities upon examination, in accordance with the Income Taxes Topic of the FASB Accounting Standards Codification The interpretation requires us to analyze the amount at which each tax position meets a “more likely than not” standard for sustainability upon examination by taxing authorities. Only tax benefit amounts meeting or exceeding this standard will be reflected in tax provision expense and deferred tax asset balances. The interpretation also requires that any differences between the amounts of tax benefits reported on tax returns and tax benefits reported in the financial statements be recorded in a liability for unrecognized tax benefits. The liability for unrecognized tax benefits is reported separately from deferred tax assets and liabilities and classified as current or noncurrent based upon the expected period of payment.

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

We are exposed to interest rate and market risk primarily due to our investing and borrowing activities. Market risk generally represents the risk of loss that may result from the potential change in the value of a financial instrument as a result of fluctuations in interest rates and in equity prices. Interest rate risk is a consequence of maintaining variable interest rate earning investments and fixed rate liabilities or fixed income investments and variable rate liabilities. We are exposed to interest rate risks arising from changes in the level or volatility of interest rates, prepayment speeds and/or the shape and slope of the yield curve. In addition, we are exposed to the risk of loss related to changes in credit spreads. Credit spread risk arises from the potential changes in an issuer’s credit rating or credit perception that will affect the value of financial instruments.

We attempt to manage the interest rate risks related to our investment portfolios by actively managing the asset duration of our investment portfolios. The overall goal for the investment portfolios is to provide a source of liquidity and support the ongoing operations of our business units. Our philosophy is to actively manage assets to maximize total return over a multiple-year time horizon, subject to appropriate levels of risk. Each business unit has additional requirements with respect to liquidity, current income and contribution to surplus. We manage

these risks by setting risk tolerances, targeting asset-class allocations, diversifying among assets and asset characteristics, and using performance measurement and reporting.

We use a value-at-risk (VAR) model, which follows a variance/co-variance methodology, to assess the market risk for our investment portfolio. VAR is a method of assessing investment risk that uses standard statistical techniques to measure the worst expected loss in the portfolio over an assumed portfolio disposition period under normal market conditions. The determination is made at a given statistical confidence level.

We assumed a portfolio disposition period of 30 days with a confidence level of 95% for the computation of VAR for 2009. The computation further assumes that the distribution of returns is normal. Based on such methodology and assumptions, the computed VAR was approximately $24.1 million as of December 31, 2009.

Our calculated VAR exposure represents an estimate of reasonably possible net losses that could be recognized on our investment portfolios assuming hypothetical movements in future market rates and are not necessarily indicative of actual results which may occur. It does not represent the maximum possible loss nor any expected loss that may occur, since actual future gains and losses will differ from those estimated, based upon actual fluctuations in market rates, operating exposures, and the timing thereof, and changes in our investment portfolios during the year.

Except for those securities held by trustees or regulatory agencies (see Note 2 to our consolidated financial statements), all of our investment securities are designated as “available-for-sale” assets. As such, they are reflected at their estimated fair value, with the difference between cost and estimated fair value reflected in accumulated other comprehensive income, a component of Stockholders’ Equity (see Note 4 to the consolidated financial statements). Virtually, all of our investment securities are fixed income securities. Approximately 40% of our available-for-sale investment securities are mortgage-backed securities (MBS) and include both current and non-current investments. Approximately 89% of the MBS are agency securities. Therefore, we believe that our exposure to credit-related market value risk for our MBS is limited. Generally, in a rising interest rate environment, the estimated fair value of fixed income securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of fixed income securities would be expected to increase. However, these securities may be negatively impacted by illiquidity in the market. The recent disruptions in the credit markets have negatively impacted the liquidity of investments. However, such disruptions did not have a material impact to the liquidity of our investments. A worsening of credit market disruptions or sustained market downturns could have negative effects on the liquidity and value of our investment assets.

Borrowings under our revolving credit facility, which totaled $100.0 million as of December 31, 2009, are subject to variable interest rates. For additional information regarding our revolving credit facility, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources.” Our floating rate borrowings, if any, are presumed to have equal book and fair values because the interest rates paid on these borrowings, if any, are based on prevailing market rates.

The fair value of our fixed rate borrowings, including our Senior Notes and financing facility as of December 31, 2009, was approximately $468.0 million, which was based on quoted market prices. Where quoted market prices were not readily available, fair values were estimated using valuation methodologies based on available and observable market information. Such valuation methodologies include reviewing the value ascribed to the most recent financing, comparing the security with securities of publicly traded companies in a similar line of business, and reviewing the underlying financial performance including estimating discounted cash flows. The following table presents the expected cash outflows relating to market risk sensitive debt obligations as of

December 31, 2009. These cash outflows include expected principal and interest payments consistent with the terms of the outstanding debt as of December 31, 2009.

	2010	2011	2012	2013	2014	Thereafter	Total
				(Amounts in millions)			
Fixed-rate borrowings:							
Principal	$ 35.0	$35.0	$35.0	$ 7.8	$ —	$400.0	$512.8
Interest	25.5	25.5	25.5	25.5	25.5	60.7	188.2
Valuation of interest rate swap contracts	(2.2)	(1.5)	(0.7)	—	—	—	(4.4)
Cash outflow on fixed-rate borrowings	$ 58.3	$59.0	$59.8	$33.3	$25.5	$460.7	$696.6
Floating-rate borrowings:							
Principal	$100.0	$ —	$ —	$ —	$ —	$ —	$100.0
Interest	0.3	—	—	—	—	—	0.3
Cash outflow on floating-rate borrowings	$100.3	$ —	$ —	$ —	$ —	$ —	$100.3
Total cash outflow on borrowings	$158.6	$59.0	$59.8	$33.3	$25.5	$460.7	$796.9

Item 8. Financial Statements and Supplementary Data.

The financial statements listed on the accompanying Index to Consolidated Financial Statements set forth on page F-1 and covered by the Report of Independent Registered Public Accounting Firm are incorporated in this Item 8 by reference and filed as part of this Annual Report on Form 10-K.

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

Not applicable.

Item 9A. Controls and Procedures.

Evaluation of Disclosure Controls and Procedures

We maintain disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) that are designed to ensure that information required to be disclosed in the reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and our Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

As required by Rule 13a-15(b) under the Exchange Act, we carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and our Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based upon the evaluation of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of the end of such period.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our management,

under the supervision and with the participation of our principal executive officer and principal financial officer, conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on its evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2009.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Projections of any evaluation of effectiveness to future periods are subject to the risks that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP, the independent registered public accounting firm that audited the financial statements included in this 2009 Annual Report on Form 10-K, has issued an attestation report on our internal control over financial reporting as of December 31, 2009, which is included herein.

Changes in Internal Control Over Financial Reporting

There have not been any changes in the Company's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the fourth quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting, except as indicated below.

During the fourth quarter of 2009, the Company transitioned the responsibility for the calculation of its outstanding claims liability to a third-party actuarial firm. Management has retained responsibility for the approval and recording of the outstanding claims liability.

During the first quarter of 2009, the Company also outsourced its internal information technology (IT) environment, including mainframe services, server services, help desk services, end user services, data network services, voice network services and cross functional services, to a third party. This IT infrastructure outsourcing was completed in February 2009, except for the data center migration, which was completed in all material respects as it relates to the Company's financial reporting practices in the fourth quarter of 2009. While outsourcing these IT activities, the Company adopted a detailed transition model involving extensive transition planning activities and relevant training, guided support, evaluation of quality measures and increased oversight activities.

We are not currently aware of any material adverse impacts on our internal control over financial reporting as a result of these changes. Management performed an evaluation of the effectiveness of our internal control over financial reporting as of the year ended December 31, 2009. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. There have been no other significant changes in the Company's internal control over financial reporting that occurred during the quarter ended December 31, 2009 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Health Net, Inc.
Woodland Hills, California

We have audited the internal control over financial reporting of Health Net, Inc., and subsidiaries ("the Company") as of December 31, 2009, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2009, based on the criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements and financial statement schedules as of and for the year ended December 31, 2009 of the Company and our report dated February 26, 2010 expressed an unqualified opinion on those financial statements and financial statement schedules.

/s/ DELOITTE & TOUCHE, LLP

Los Angeles, California
February 26, 2010

Item 9B. Other Information.

None.

PART III

Item 10. Directors, Executive Officers of the Registrant and Corporate Governance.

The information required by this Item as to (1) directors and executive officers of the Company and (2) compliance with Section 16(a) of the Securities Exchange Act of 1934 is set forth in the Company's definitive proxy statement, which will be filed with the SEC within 120 days of December 31, 2009. Such information is incorporated herein by reference and made a part hereof.

On June 16, 2009, the Company submitted to the New York Stock Exchange the Annual CEO Certification required pursuant to Section 303A.12(a) of the New York Stock Exchange Listed Company Manual.

We have adopted a Code of Business Conduct and Ethics that applies to our employees, directors and officers, including our principal executive officer, principal financial officer and principal accounting officer. The Code of Business Conduct and Ethics is posted on our Internet web site, *www.healthnet.com.* We intend to post on our Internet web site any amendment to or waiver from the Code of Business Conduct and Ethics that applies to our principal executive officer, principal financial officer or principal accounting officer and that is required to be disclosed under applicable rules and regulations of the SEC.

Item 11. Executive Compensation.

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the SEC within 120 days of December 31, 2009. Such information is incorporated herein by reference and made a part hereof.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the SEC within 120 days of December 31, 2009. Such information is incorporated herein by reference and made a part hereof.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the SEC within 120 days of December 31, 2009. Such information is incorporated herein by reference and made a part hereof.

Item 14. Principal Accountant Fees and Services.

The information required by this Item is set forth in the Company's definitive proxy statement, which will be filed with the SEC within 120 days of December 31, 2009. Such information is incorporated herein by reference and made a part hereof.

PART IV

Item 15. Exhibits and Financial Statement Schedules.

(a) Financial Statements, Schedules and Exhibits

1. Financial Statements

The financial statements listed on the accompanying Index to Consolidated Financial Statements set forth on page F-1 and covered by the Report of Independent Registered Public Accounting Firm are incorporated into this Item 15(a) by reference and filed as part of this Annual Report on Form 10-K.

2. Financial Statement Schedules

The financial statement schedules listed on the accompanying Index to Consolidated Financial Statements set forth on page F-1 and covered by the Report of Independent Registered Public Accounting Firm are incorporated into this Item 15(a) by reference and filed as part of this Annual Report on Form 10-K.

3. Exhibits

The exhibits listed in the Exhibit Index, which appears immediately following the Consolidated Financial Statements Schedules and is incorporated herein by reference, are filed as part of this Annual Report on Form 10-K.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

HEALTH NET, INC.

By: /s/ JOSEPH C. CAPEZZA
Joseph C. Capezza
Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ JAY M. GELLERT **Jay M. Gellert**	President and Chief Executive Officer and Director (Principal Executive Officer)	February 22, 2010
/s/ JOSEPH C. CAPEZZA **Joseph C. Capezza**	Chief Financial Officer (Principal Financial Officer)	February 22, 2010
/s/ BRET A. MORRIS **Bret A. Morris**	Senior Vice President and Corporate Controller (Principal Accounting Officer)	February 22, 2010
/s/ MARY ANNE CITRINO **Mary Anne Citrino**	Director	February 22, 2010
/s/ THEODORE F. CRAVER, JR. **Theodore F. Craver, Jr.**	Director	February 22, 2010
/s/ VICKI B. ESCARRA **Vicki B. Escarra**	Director	February 22, 2010
/s/ THOMAS T. FARLEY **Thomas T. Farley**	Director	February 22, 2010
/s/ GALE S. FITZGERALD **Gale S. Fitzgerald**	Director	February 22, 2010
/s/ PATRICK FOLEY **Patrick Foley**	Director	February 22, 2010
/s/ ROGER F. GREAVES **Roger F. Greaves**	Director	February 22, 2010
/s/ BRUCE G. WILLISON **Bruce G. Willison**	Director	February 22, 2010
/s/ FREDERICK C. YEAGER **Frederick C. Yeager**	Director	February 22, 2010

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

The following consolidated financial statements and financial statement schedules are filed as part of this Annual Report on Form 10-K:

Consolidated Financial Statements

Report of Independent Registered Public Accounting Firm F-2
Consolidated Statements of Operations for each of the three years in the period ended December 31, 2009 . . . . . F-3
Consolidated Balance Sheets as of December 31, 2009 and 2008 . . . . . F-4
Consolidated Statements of Stockholders' Equity for each of the three years in the period ended December 31, 2009 . . . . . F-5
Consolidated Statements of Cash Flows for each of the three years in the period ended December 31, 2009 . . . . . F-6
Notes to Consolidated Financial Statements F-7

Financial Statement Schedules

Schedule I—Condensed Financial Information of Registrant (Parent Company Only) F-54
Schedule II—Valuation and Qualifying Accounts and Reserves F-59

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Health Net, Inc.
Woodland Hills, California

We have audited the accompanying consolidated balance sheets of Health Net, Inc. and subsidiaries (the "Company") as of December 31, 2009 and 2008, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2009. Our audits also included the financial statement schedules listed in the Index at Page F-1. These financial statements and financial statement schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statements and financial statement schedules based on our audits.

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

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Health Net, Inc. and subsidiaries at December 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2009, in conformity with accounting principles generally accepted in the United States of America. Also, in our opinion, such financial statement schedules, when considered in relation to the basic consolidated financial statements taken as a whole, present fairly, in all material respects, the information set forth therein.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2010 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Los Angeles, California
February 26, 2010

HEALTH NET, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Amounts in thousands, except per share data)

	Year Ended December 31,		
	2009	**2008**	**2007**
Revenues			
Health plan services premiums	$12,440,589	$12,392,006	$11,435,314
Government contracts	3,104,700	2,835,261	2,501,677
Net investment income	105,930	91,042	120,176
Administrative services fees and other income	62,022	48,280	51,104
Total revenues	15,713,241	15,366,589	14,108,271
Expenses			
Health plan services (excluding depreciation and amortization)	10,731,951	10,762,657	9,762,896
Government contracts	2,939,722	2,702,573	2,307,610
General and administrative	1,361,956	1,291,059	1,275,555
Selling	330,112	360,381	327,827
Depreciation and amortization	53,042	59,878	42,982
Interest	40,887	42,909	32,497
Asset impairment on Northeast operations	174,879	—	—
Loss on sale of Northeast health plan subsidiaries	105,931	—	—
Total expenses	15,738,480	15,219,457	13,749,367
(Loss) income from operations before income taxes	(25,239)	147,132	358,904
Income tax provision	23,765	52,129	165,207
Net (loss) income	$ (49,004)	$ 95,003	$ 193,697
Net (loss) income per share:			
Basic	$ (0.47)	$ 0.89	$ 1.74
Diluted	$ (0.47)	$ 0.88	$ 1.70
Weighted average shares outstanding:			
Basic	103,849	106,532	111,316
Diluted	103,849	107,610	113,829

See accompanying notes to consolidated financial statements.

HEALTH NET, INC.

CONSOLIDATED BALANCE SHEETS
(Amounts in thousands, except per share data)

	December 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 682,803	$ 668,201
Investments—available for sale (amortized cost: 2009—$1,372,090, 2008—$1,516,316)	1,376,142	1,504,658
Premiums receivable, net of allowance for doubtful accounts (2009—$6,283, 2008—$13,567)	288,719	307,529
Amounts receivable under government contracts	270,810	241,269
Incurred but not reported (IBNR) health care costs receivable under TRICARE North contract	281,140	302,022
Other receivables	111,608	254,026
Deferred taxes	46,527	87,712
Other assets	187,086	179,649
Total current assets	3,244,835	3,545,066
Property and equipment, net	131,480	202,356
Goodwill	611,886	751,949
Other intangible assets, net	28,108	91,289
Deferred taxes	89,479	81,771
Investments-available for sale-noncurrent (amortized cost: 2009—$23,626, 2008—$0)	20,870	—
Other noncurrent assets	155,993	143,919
Total Assets	$ 4,282,651	$ 4,816,350
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Reserves for claims and other settlements	$ 951,655	$ 1,338,149
Health care and other costs payable under government contracts	90,815	69,876
IBNR health care costs payable under TRICARE North contract	281,140	302,022
Unearned premiums	135,772	180,548
Loans payable and other financing arrangement	104,007	27,335
Accounts payable and other liabilities	366,125	294,840
Total current liabilities	1,929,514	2,212,770
Senior notes payable	398,480	398,276
Borrowings under amortizing financing facility	—	103,992
Borrowings under revolving credit facility	100,000	150,000
Other noncurrent liabilities	158,874	199,186
Total Liabilities	2,586,868	3,064,224
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock ($0.001 par value, 10,000 shares authorized, none issued and outstanding)	—	—
Common stock ($0.001 par value, 350,000 shares authorized; issued 2009—144,175 shares; 2008—143,753)	154	144
Additional paid-in capital	1,190,203	1,182,067
Treasury common stock, at cost (2009- 41,020 shares of common stock; 2008—40,045 shares of common stock)	(1,389,722)	(1,367,319)
Retained earnings	1,895,096	1,944,100
Accumulated other comprehensive income (loss)	52	(6,866)
Total Stockholders' Equity	1,695,783	1,752,126
Total Liabilities and Stockholders' Equity	$ 4,282,651	$ 4,816,350

See accompanying notes to consolidated financial statements.

HEALTH NET, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Amounts in thousands)

	Common Stock		Additional Paid-In Capital	Common Stock Held in Treasury		Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount		Shares	Amount			
Adjusted balance as of January 1, 2007	140,690	$140	$1,027,878	(28,815)	$ (891,294)	$1,655,400	$(11,237)	$1,780,887
Comprehensive income:								
Net income						193,697		193,697
Change in unrealized loss on investments, net of tax impact of $5,738							8,885	8,885
Defined benefit pension plans:								
Prior service cost and net loss							1,192	1,192
Total comprehensive income								203,774
Exercise of stock options	2,657	4	73,005					73,009
Share-based compensation expense			24,294					24,294
Tax benefit related to equity compensation plans			26,197					26,197
Repurchases of common stock and accelerated stock repurchase settlement	133		(125)	(4,363)	(232,456)			(232,581)
Forfeiture of restricted stock	(3)		(94)					(94)
Amortization of restricted stock grants			96					96
Balance as of January 1, 2008	143,477	$144	$1,151,251	(33,178)	$(1,123,750)	$1,849,097	$ (1,160)	$1,875,582
Comprehensive income:								
Net income						95,003		95,003
Change in unrealized loss on investments, net of tax impact of $4,319							(7,207)	(7,207)
Defined benefit pension plans:								
Prior service cost and net loss							1,501	1,501
Total comprehensive income								89,297
Exercise of stock options and vesting of restricted stock units	276		6,679					6,679
Share-based compensation expense			24,065					24,065
Tax benefit related to equity compensation plans			72					72
Repurchases of common stock and accelerated stock repurchase agreement				(6,867)	(243,569)			(243,569)
Balance as of January 1, 2009	143,753	$144	$1,182,067	(40,045)	$(1,367,319)	$1,944,100	$ (6,866)	$1,752,126
Comprehensive income:								
Net loss						(49,004)		(49,004)
Change in unrealized loss on investments, net of tax impact of $4,882							8,241	8,241
Defined benefit pension plans:								
Prior service cost and net loss							(1,323)	(1,323)
Total comprehensive income								(42,086)
Exercise of stock options and vesting of restricted stock units	422	10	1,344					1,354
Share-based compensation expense			11,714					11,714
Tax detriment related to equity compensation plans			(4,922)					(4,922)
Repurchases of common stock				(975)	(22,403)			(22,403)
Balance as of December 31, 2009	144,175	$154	$1,190,203	(41,020)	$(1,389,722)	$1,895,096	$ 52	$1,695,783

See accompanying notes to consolidated financial statements.

HEALTH NET, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31,		
	2009	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net (loss) income	$ (49,004)	$ 95,003	$ 193,697
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Amortization and depreciation	53,042	59,878	42,982
Asset and investment impairment charges	187,263	47,869	—
Loss on sale of business	105,931	—	—
Share-based compensation expense	11,714	24,065	24,298
Deferred income taxes	(1,913)	15,420	(98,629)
Excess tax benefit on share-based compensation	(23)	(815)	(17,987)
Net realized (gain) loss on investments	(45,319)	4,331	(4,957)
Other changes	26,690	(10,307)	(2,998)
Changes in assets and liabilities, net of effects of acquisitions and dispositions:			
Premiums receivable and unearned premiums	(26,644)	(39,271)	(74,184)
Other current assets, receivables and noncurrent assets	164,740	(153,310)	143,783
Amounts receivable/payable under government contracts	(8,602)	(50,431)	26,223
Reserves for claims and other settlements	(162,735)	37,717	251,636
Accounts payable and other liabilities	(7,607)	(189,111)	121,618
Net cash provided by (used in) operating activities	247,533	(158,962)	605,482
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales of investments	1,785,741	1,219,291	807,649
Maturities of investments	191,597	257,149	213,833
Purchases of investments	(1,923,692)	(1,473,664)	(1,180,854)
Sales of property and equipment	3,847	4	96,748
Purchases of property and equipment	(25,342)	(95,641)	(64,850)
Cash divested related to the sale of businesses, net of cash received	(173,422)	—	—
Cash paid related to the acquisition of businesses	—	—	(80,277)
Sales (purchases) of restricted investments and other	6,097	24,990	(22,444)
Net cash used in investing activities	(135,174)	(67,871)	(230,195)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from exercise of stock options and employee stock purchases	1,354	6,636	72,622
Excess tax benefit on share-based compensation	23	815	17,987
Repurchases of common stock	(14,150)	(243,172)	(232,220)
Borrowings under financing arrangements	80,000	520,000	668,535
Repayment of borrowings under financing arrangements	(164,984)	(396,262)	(600,000)
Net cash used in financing activities	(97,757)	(111,983)	(73,076)
Net increase (decrease) in cash and cash equivalents	14,602	(338,816)	302,211
Cash and cash equivalents, beginning of year	668,201	1,007,017	704,806
Cash and cash equivalents, end of year	$ 682,803	$ 668,201	$ 1,007,017
SUPPLEMENTAL CASH FLOWS DISCLOSURE:			
Interest paid	$ 27,904	$ 31,330	$ 42,495
Income taxes paid	71,396	97,715	183,843
SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING AND FINANCING ACTIVITIES:			
Imputed interest discounts and deferred revenues	$ 31,581	$ —	$ 27,637
Amortization of discounts into earnings	8,790	10,228	—
Accretion of deferred revenues into earnings	7,664	10,228	—

See accompanying notes to consolidated financial statements.

Note 1—Description of Business

Health Net, Inc. (referred to herein as the Company, we, us, our or HNT) is an integrated managed care organization that delivers managed health care services. We are among the nation's largest publicly traded managed health care companies. Our health plans and government contracts subsidiaries provide health benefits through our health maintenance organizations (HMOs), insured preferred provider organizations (PPOs) and point of service (POS) plans to approximately 6.1 million individuals across the country through group, individual, Medicare (including the Medicare prescription drug benefit commonly referred to as "Part D"), Medicaid and TRICARE programs. Our subsidiaries also offer managed health care products related to behavioral health and prescription drugs. We also own health and life insurance companies licensed to sell exclusive provider organization (EPO), PPO, POS and indemnity products as well as auxiliary non-health products such as life and accidental death and dismemberment, dental, vision, behavioral health and disability insurance. These products are offered by our health and life insurance subsidiaries, which are licensed to sell insurance in 49 states and the District of Columbia.

We currently operate within three reportable segments: West Operations, Northeast Operations and Government Contracts, each of which is described below (see Note 14). Prior to the third quarter ended September 30, 2009, we operated within two reportable segments, Health Plan Services and Government Contracts.

Our West Operations reportable segment includes the operations of our commercial, Medicare (including Part D) and Medicaid health plans, the operations of our health and life insurance companies and our behavioral health and pharmaceutical services subsidiaries in Arizona, California and Oregon.

On December 11, 2009, we completed the sale (the Northeast Sale) of all of the outstanding shares of capital stock of our New York, New Jersey, Connecticut and Bermuda subsidiaries that conducted business in our Northeast Operations (the Acquired Companies or Northeast business). The sale was made pursuant to a Stock Purchase Agreement (the Stock Purchase Agreement), dated as of July 20, 2009, by and among the Company, Health Net of the Northeast, Inc. (HNNE), Oxford Health Plans, LLC (Buyer) and, solely for the purposes of guaranteeing Buyer's obligations thereunder, UnitedHealth Group Incorporated (United). At the closing of the Northeast Sale, affiliates of United also acquired membership renewal rights for certain health care business conducted by our subsidiary, Health Net Life Insurance Company, in the states of Connecticut and New Jersey. We will continue to serve the members of the Acquired Companies under Administrative Services Agreements we entered into with United and certain of its affiliates (the United Administrative Services Agreements), until all members are either transitioned to a legacy United entity or non-renewed. We expect the United Administrative Services Agreements to be in effect for approximately two years following the closing of the transaction (see Note 3 for more information on the Northeast Sale). Prior to the Northeast Sale, our Northeast Operations reportable segment included our commercial, Medicare and Medicaid health plans, the operations of our HMOs in Connecticut, New York and New Jersey and our New York insurance company. See Note 14 for our reportable segment information. Following the Northeast Sale, our Northeast Operations reportable segment includes the operations of our businesses that are providing administrative services to United and its affiliates pursuant to the United Administrative Services Agreements.

Our Government Contracts reportable segment includes government-sponsored managed care plans through the TRICARE program and other health care-related government contracts, including our behavioral health contracts with the Department of Defense. The Government Contracts reportable segment administers a large managed care contract with the U.S. Department of Defense under the TRICARE program in the North Region. The North Region covers Connecticut, Delaware, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island,

Vermont, Virginia, West Virginia, Wisconsin and the District of Columbia and a small portion of Tennessee, Missouri and Iowa. The Company administers health care programs covering approximately 3.0 million eligible individuals in the Military Health System under the TRICARE contract.

The five-year North Region contract is subject to annual renewals on April 1 of each year at the option of the Department of Defense. In 2007, Congress passed legislation allowing for up to two additional years worth of extensions for all TRICARE regions, including the North Region contract, at the Department of Defense's option. Subsequent to the passage of this legislation, we negotiated the terms, including administrative prices and health care target costs, of the North Region contract for the following three option periods with the Department of Defense: option period 6 (April 1, 2009—March 31, 2010), option period 7 (April 1, 2010—September 30, 2010), and option period 8 (October 1, 2010—March 31, 2011). We are currently in the sixth option period of health care operations which is scheduled to conclude on March 31, 2010 unless extended by the Department of Defense. The Department of Defense has formally indicated its intent to exercise option periods 7 and 8 under our current contract for the North Region.

Note 2—Summary of Significant Accounting Policies

Consolidation and Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany transactions have been eliminated in consolidation.

In accordance with the Generally Accepted Accounting Principles Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (codification), we adopted the codification as of July 1, 2009. The codification became the source of authoritative accounting principles generally accepted in the United States of America (GAAP) recognized by the FASB and is effective for financial statements issued for interim and annual reporting periods ending after September 15, 2009. The codification supersedes all then-existing non-SEC accounting and reporting standards and the FASB will not issue any new standards in the form of Statements, FASB Staff Positions (FSPs) and Emerging Issues Task Force (EITF) consensuses. Instead, it will issue Accounting Standards Updates.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. These estimates require the Company to apply complex assumptions and judgments, and often the Company must make estimates about effects of matters that are inherently uncertain and will likely change in subsequent periods. Actual results could differ from those estimates. Principal areas requiring the use of estimates include the determination of Medicare risk factor adjustments, risk sharing revenues, allowances for doubtful accounts, reserves for claims and other settlements, reserves for contingent liabilities (including litigation and workers' compensation reserves), amounts receivable or payable under government contracts, income taxes and assumptions when determining net realizable values on long-lived assets.

Revenue Recognition

Health plan services premium revenues include HMO, POS and PPO premiums from employer groups and individuals and from Medicare recipients who have purchased supplemental benefit coverage, for which premiums are based on a predetermined prepaid fee, Medicaid revenues based on multi-year contracts to provide care to Medicaid recipients, and revenue under Medicare risk contracts to provide care to enrolled Medicare

recipients, and revenues from behavioral health services. Revenue is recognized in the month in which the related enrollees are provided health care services. Premiums collected in advance are recorded as unearned premiums.

The TRICARE contract for the North Region is made up of two major revenue components, health care services and administrative services. Health care services revenue includes health care costs, including paid claims and estimated incurred but not reported (IBNR) expenses, for care provided for which we are at risk and underwriting fees earned for providing the health care and assuming underwriting risk in the delivery of care. Administrative services revenue encompasses all other services provided to both the government customer and to beneficiaries, including services such as medical management, claims processing, enrollment, customer services and other services unique to the managed care support contracts with the government. Revenue is recognized as earned when the services are provided.

Other government contracts revenues are recognized in the month in which the eligible beneficiaries are entitled to health care services or in the month in which the administrative services are performed or the period that coverage for services is provided.

Amounts receivable under government contracts are comprised primarily of contractually defined billings, deferred underwriting fees under the terms of the contract and change orders for services not originally specified in the contracts. Change orders arise because the government often directs us to implement changes to our contracts before the scope and/or value is defined or negotiated. We start to incur costs immediately, before we have proposed a price to the government. In these situations, we make no attempt to estimate and record revenue. Our policy is to defer the costs as incurred until we have submitted a cost proposal to the government, at which time we will record the costs and the appropriate value for revenue, using our best estimate of what will ultimately be negotiated.

We provide administrative services only (ASO) products to large employer groups in California. Prior to the Northeast Sale, we provided ASO services to our health plans in Connecticut, New Jersey and New York. Subsequent to the sale, we provided ASO services to United and its affiliates from December 11, 2009 through December 31, 2009 and recorded ASO revenue of $15.1 million. Under these arrangements, we provide claims processing, customer services, medical management, provider network access and other administrative services. Administrative services fees are recognized as revenue in the period services are provided.

Health Care Services and Government Contract Expenses

The cost of health care services is recognized in the period in which services are provided and includes an estimate of the cost of services that have been incurred but not yet reported. Such costs include payments to primary care physicians, specialists, hospitals, outpatient care facilities and the costs associated with managing the extent of such care. Our health care cost can also include from time to time remediation of certain claims as a result of periodic reviews by various regulatory agencies. We estimate the amount of the provision for service costs incurred but not reported (IBNR) using standard actuarial methodologies based upon historical data including the period between the date services are rendered and the date claims are received and paid, denied claim activity, expected medical cost inflation, seasonality patterns and changes in membership. The estimates for service costs incurred but not reported are made on an accrual basis and adjusted in future periods as required. Any adjustments to the prior period estimates are included in the current period. Such estimates are subject to the impact of changes in the regulatory environment and economic conditions. Given the inherent variability of such estimates, the actual liability could differ significantly from the amounts provided. While the ultimate amount of claims and losses paid are dependent on future developments, management is of the opinion that the recorded reserves are adequate to cover such costs. These estimated liabilities are reduced by estimated amounts recoverable from third parties for subrogation.

Our HMOs, primarily in California, generally contract with various medical groups to provide professional care to certain of their members on a capitated, or fixed per member per month fee basis. Capitation contracts generally include a provision for stop-loss and non-capitated services for which we are liable. Professional capitated contracts also generally contain provisions for shared risk, whereby the Company and the medical groups share in the variance between actual costs and predetermined goals. Additionally, we contract with certain hospitals to provide hospital care to enrolled members on a capitation basis. Our HMOs also contract with hospitals, physicians and other providers of health care, pursuant to discounted fee-for-service arrangements, hospital per diems, and case rates under which providers bill the HMOs for each individual service provided to enrollees.

Approximately 39%, 37%, and 35% in 2009, 2008 and 2007, respectively, of our health plan services premium revenues were generated under Medicare and Medicaid/Medi-Cal contracts. These revenues are subject to audit and retroactive adjustment by the respective fiscal intermediaries. Laws and regulations governing these programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount.

We assess the profitability of contracts for providing health care services when operating results or forecasts indicate probable future losses. Contracts are grouped in a manner consistent with the method of determining premium rates. Losses are determined by comparing anticipated premiums to estimates for the total of health care related costs less reinsurance recoveries, if any, and the cost of maintaining the contracts. Losses, if any, are recognized in the period the loss is determined and are classified as Health Plan Services cost. We held no premium deficiency reserves as of December 31, 2009 and 2008.

Under the TRICARE contract for the North Region, we record amounts receivable and payable for estimated health care IBNR expenses and report such amounts separately on the accompanying consolidated balance sheet. These amounts are equal since the estimated health care IBNR expenses incurred are offset by an equal amount of revenues earned.

Medicare Part D

We offer the Medicare Part D benefit as a fully insured product to our existing and new Medicare members. The Part D benefit consists of pharmacy benefits for Medicare beneficiaries. Part D renewal occurs annually, but it is not a guaranteed renewable product. We report Part D as part of our West Operations reportable segment.

Part D offers two types of plans: Prescription Drug Plan (PDP) and Medicare Advantage Plus Prescription Drug (MAPD). PDP covers only prescription drugs and can be combined with traditional Medicare, certain Medicare Advantage Plans or Medicare supplemental plans. MAPD covers both prescription drugs and medical care. The majority of our Part D members in the PDP fall into the low-income category.

Health Net has two primary contracts under Part D, one with the Centers for Medicare and Medicaid Services (CMS) and one with the Part D enrollees. The CMS contract covers the portions of the revenue and expenses that will be paid for by CMS. The enrollee contract covers the services to be performed by Health Net for the premiums paid by the enrollees. The insurance contracts are directly underwritten with the enrollees, not CMS, and therefore there is a direct insurance relationship with the enrollees. The premiums are received directly from the enrollees and from CMS for low-income subsidy members.

The revenue recognition of the revenue and cost reimbursement components under Part D is described below:

CMS Premium Direct Subsidy—Health Net receives a monthly premium from CMS based on an original bid amount. This payment for each individual is a fixed amount per member for the entire plan year and is based upon that individual's risk score status. The CMS premium is recognized evenly over the contract period and reported as part of health plan services premium revenue.

Member Premium—Health Net receives a monthly premium from members based on the original bid submitted to CMS. The member premium, which is fixed for the entire plan year is recognized evenly over the contract period and reported as part of health plan services premium revenue.

Low-Income Premium Subsidy—For qualifying low-income members, CMS will reimburse Health Net, on the member's behalf, some or all of the monthly member premium depending on the member's income level in relation to the Federal Poverty Level. The low-income premium subsidy is recognized evenly over the contract period and reported as part of health plan services premium revenue.

Catastrophic Reinsurance Subsidy—CMS will reimburse Health Net for 80% of the drug costs after a member reaches his or her out of pocket catastrophic threshold of $4,350, $4,050 and $3,850 for the years ended December 31, 2009, 2008 and 2007, respectively. The CMS prospective payment (a flat PMPM cost reimbursement estimate) is received monthly based on the original CMS bid. After the year is complete, a settlement is made based on actual experience. The catastrophic reinsurance subsidy is accounted for as deposit accounting.

Low-Income Member Cost Sharing Subsidy—For qualifying low-income members, CMS will reimburse Health Net, on the member's behalf, some or all of a member's cost sharing amounts (e.g. deductible, co-pay/ coinsurance). The amount paid for the member by CMS is dependent on the member's income level in relation to the Federal Poverty Level. Health Net receives prospective payments on a monthly basis, and they represent a cost reimbursement that is finalized and settled after the end of the year. The low-income member cost sharing subsidy is accounted for as deposit accounting.

CMS Risk Share—Premiums from CMS are subject to risk corridor provisions which compare costs targeted in our annual bids to actual prescription drug costs, limited to actual costs that would have been incurred under the standard coverage as defined by CMS. Variances of more than 5% above or below the original bid submitted by us may result in CMS making additional payments to us or require us to refund to CMS a portion of the premiums we received. We estimate and recognize an adjustment to premium revenues related to the risk corridor payment settlement based upon pharmacy claims experience. The estimate of the settlement associated with these risk corridor provisions requires us to consider factors that may not be certain including member eligibility status differences with CMS. The risk-share adjustment, if any, is recorded as an adjustment to premium revenues and premiums receivable.

Health care costs and general and administrative expenses associated with Part D are recognized as the costs and expenses are incurred.

CMS Risk Factor Adjustments

We have an arrangement with CMS for certain of our Medicare products whereby periodic changes in our risk factor adjustment scores for certain diagnostic codes result in changes to our health plan services premium revenues. We recognize such changes when the amounts become determinable, supportable and the collectibility

is reasonably assured. Because the recorded revenue is based on our best estimate at the time, the actual payment we receive from CMS for risk adjustment reimbursement settlements may be different than the amounts we have initially recognized on our financial statements. The change in our estimate for the risk adjustment in the years ended December 31, 2009 and 2008 was not significant. For the year ended December 31, 2007, the change in estimate was $67.9 million.

TRICARE Contract Target Costs

Our TRICARE contract for the North Region includes a target cost and price for reimbursed health care costs, which is negotiated annually during the term of the contract with underruns and overruns of our target cost borne 80% by the government and 20% by us. In the normal course of contracting with the federal government, we recognize changes in our estimate for the target cost underruns and overruns when the amounts become determinable, supportable, and the collectibility is reasonably assured. As a result of changes in the estimate during the year ended December 31, 2009, we recognized an increase in revenue of $40 million and an increase in cost of $49 million. As a result of changes in the estimate during the year ended December 31, 2008, we recognized an increase in revenue of $17 million and an increase in cost of $22 million. As a result of changes in the estimate during the year ended December 31, 2007, we recognized a decrease in revenue of $58 million, and a decrease in cost of $75 million. In addition, 2007 included a $36.5 million favorable settlement with the Federal Government regarding prior Option Period 1 health care cost targets. The administrative price is paid on a monthly basis, one month in arrears and certain components of the administrative price are subject to volume-based adjustments.

Share-Based Compensation Expense

As of December 31, 2009, we had various long-term incentive plans that permit the grant of stock options and other equity awards to certain employees, officers and non-employee directors, which are described more fully in Note 8.

The compensation cost that has been charged against income under our various long-term incentive plans was $11.7 million, $24.1 million and $24.3 million during the years ended December 31, 2009, 2008 and 2007, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $4.5 million, $9.3 million and $9.4 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Cash flows resulting from the tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) are classified as financing cash flows and such amounts are approximately $23 thousand, $0.8 million and $18.0 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Forfeiture rates for share based awards are estimated up front and true-up adjustments are recorded for the actual forfeitures.

Cash and Cash Equivalents

Cash equivalents include all highly liquid investments with maturity of three months or less when purchased.

Investments

Investments classified as available-for-sale, which consist primarily of debt securities, are stated at fair value. Unrealized gains and losses are excluded from earnings and reported as other comprehensive income, net of income tax effects. The cost of investments sold is determined in accordance with the specific identification

method and realized gains and losses are included in net investment income. We periodically assess our available-for-sale investments for other-than-temporary impairment. Any such other-than-temporary impairment from credit loss is recognized as a realized loss and measured as the excess of carrying value over fair value at the time the assessment is made. During the year ended December 31, 2009, we recognized a $60,000 loss from other-than-temporary impairments. During the year ended December 31, 2008, we recognized a $14.6 million loss from other-than-temporary impairments. During the year ended December 31, 2007 we had no other-than-temporary impairment loss (see Note 4 for additional information regarding our loss from other-than-temporary impairments).

Fair Value of Financial Instruments

The estimated fair value amounts of cash equivalents, investments available for sale, trade accounts and notes receivable and notes payable have been determined by us using available market information and appropriate valuation methodologies. The carrying amounts of cash equivalents approximate fair value due to the short maturity of those instruments. Fair values for debt and equity securities are generally based upon quoted market prices. Where quoted market prices were not readily available, fair values were estimated using valuation methodologies based on available and observable market information. Such valuation methodologies include reviewing the value ascribed to the most recent financing, comparing the security with securities of publicly traded companies in a similar line of business, and reviewing the underlying financial performance including estimating discounted cash flows. The carrying value of trade receivables, long-term notes receivable and nonmarketable securities approximate the fair value of such financial instruments. The fair value of notes payable is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to us for debt with the same remaining maturities. The fair value of our fixed rate borrowings, including our Senior Notes and financing facility was $468.0 million as of December 31, 2009. The fair value of our fixed rate borrowings, including our Senior Notes and financing facility was $291.3 million as of December 31, 2008. The fair value of our variable rate borrowings, from our revolving credit facility, as of December 31, 2009 was $100.0 million, which was equal to the carrying value because the interest rates paid on these borrowings were based on prevailing market rates. See Note 6 for our financing arrangements.

Restricted Assets

We and our consolidated subsidiaries are required to set aside certain funds which may only be used for certain purposes pursuant to state regulatory requirements. We have discretion as to whether we invest such funds in cash and cash equivalents or other investments. As of December 31, 2009 and December 31, 2008, the restricted cash and cash equivalents balances totaled $5.6 million and $63.5 million, respectively, and are included in other noncurrent assets. Investment securities held by trustees or agencies were $9.9 million and $55.3 million as of December 31, 2009 and 2008, respectively, and are included in investments available-for-sale.

Interest Rate Swap Contracts

We are exposed to certain risks relating to our ongoing business operations. Some of those risks can be managed by using derivative instruments. We enter into interest rate swaps from time to time to help manage interest rate risk associated with our variable rate borrowings. On December 19, 2007, we entered into a five-year, $175 million amortizing financing facility with a non-U.S. lender (see Note 6 to our consolidated financial statements). In connection with the financing facility, we entered into an interest rate swap agreement (2007 Swap) under which we pay an amount equal to LIBOR times a notional principal amount and receive in return an amount equal to 4.294% times the same notional principal amount. The 2007 Swap does not qualify for hedge

accounting. Accordingly, the 2007 Swap is reflected at fair value of $5.8 million as of December 31, 2009 in other current assets in our consolidated balance sheet with an offset included in net investment income in our consolidated statement of operations of $1.1 million which reflect the interest and change in value during the year ended December 31, 2009.

On March 12, 2009, we entered into an interest rate swap agreement (2009 Swap) under which we pay an amount equal to 2.245% times a notional principal amount and in return we receive an amount equal to LIBOR times the same notional principal amount. The 2009 Swap is designed to reduce variability in our net income due to changes in variable interest rates. The 2009 Swap does not qualify for hedge accounting. Accordingly, the 2009 Swap is reflected at a fair value of $(1.3) million in other noncurrent liabilities in our consolidated balance sheet with an offset included in net investment income in our consolidated statement of operations of $(2.3) million which reflect the interest and change in value during the year ended December 31, 2009.

Property and Equipment

Property and equipment are stated at historical cost less accumulated depreciation. Depreciation is computed using the straight-line method over the lesser of estimated useful lives of the various classes of assets or the remaining lease term, in the case of leasehold improvements. The useful life for buildings and improvements is estimated at 35 to 40 years, and the useful lives for furniture, equipment and software range from three to ten years (see Note 5).

We capitalize certain consulting costs, payroll and payroll-related costs for employees related to computer software developed for internal use. We generally amortize such costs over a three to five-year period. Expenditures for maintenance and repairs are expensed as incurred. Major improvements, which increase the estimated useful life of an asset, are capitalized. Upon the sale or retirement of assets, the recorded cost and the related accumulated depreciation are removed from the accounts, and any gain or loss on disposal is reflected in operations.

We periodically assess long-lived assets or asset groups including property and equipment for recoverability when events or changes in circumstances indicate that their carrying amount may not be recoverable. If we identify an indicator of impairment, we assess recoverability by comparing the carrying amount of the asset to the sum of the undiscounted cash flows expected to result from the use and the eventual disposal of the asset. An impairment loss is recognized when the carrying amount is not recoverable and is measured as the excess of carrying value over fair value. Long-lived assets are classified as held for sale and included as part of current assets when certain criteria are met. We measure long-lived assets to be disposed of by sale at the lower of carrying amount or fair value less cost to sell. Fair value is determined using quoted market prices or the anticipated cash flows discounted at a rate commensurate with the risk involved. During the year ended December 31, 2009, we recorded $35.0 million in impairment charges, including $31.6 million in connection with the Northeast Sale (see Note 3) and $3.4 million in connection with our operations strategy recorded in general and administrative expenses. During the years ended December 31, 2008 and 2007, we recorded $26.9 million and $0, respectively, in impairment charges.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets arise primarily as a result of various business acquisitions and consist of identifiable intangible assets acquired and the excess of the cost of the acquisitions over the tangible and intangible assets acquired and liabilities assumed (goodwill). Identifiable intangible assets primarily consist of the value of employer group contracts, provider networks and customer relationships, which are all subject to amortization.

We perform our annual impairment test on our recorded goodwill as of June 30 or more frequently if events or changes in circumstances indicate that we might not recover the carrying value of these assets for each of our reporting units. Health Plan Services was our only reporting unit with goodwill as of December 31, 2008. During the three months ended September 30, 2009, upon the execution of the Stock Purchase Agreement as discussed in Note 3, we determined that we needed to expand our reportable segments to the West Operations, Northeast Operations and Government Contracts (See Note 14 to our consolidated financial statements for more information on our segment changes). Also, at the time we entered into the Stock Purchase Agreement, it became more likely than not that the Acquired Companies would be sold within a year. As a result, we determined that the requirements to classify the Acquired Companies' assets and liabilities as held for sale were met during the three months ended September 30, 2009. Assets and liabilities held for sale are measured at the lower of carrying value or fair value less cost to sell. Prior to measuring the Acquired Companies' assets and liabilities to be held for sale at the lower of cost of fair value less cost to sell, we adjusted the carrying values of the assets and liabilities, including goodwill. During the three months ended September 30, 2009, we reallocated goodwill and assessed the goodwill for impairment.

The goodwill allocations were based on the relative fair values of the West Operations, the Northeast Operations to be sold (Acquired Companies) and the Northeast Operations reporting unit to be retained to provide administrative services to United and its affiliates.

Our fair value measurements are based on a combination of the market approach and the income approach. The market approach uses a market valuation methodology which includes the selection of companies engaged in a line (or lines) of business similar to ours to be valued and an analysis of our comparative operating results and future prospects in relation to those of the guideline companies selected. The income approach is based on the discounted cash flow methodology. The discounted cash flow methodology is based on converting expected cash flows to their present value. Annual cash flows are estimated each year of a defined multi-year period until the growth pattern becomes stable. The interim cash flows expected after the growth pattern becomes stable are calculated using an appropriate capitalization technique and then discounted. There are numerous assumptions and estimates underlying the determination of the estimated fair values, including assumptions and estimates related to future earnings and membership levels based on current and future plans and initiatives, long-term strategies and our annual planning and forecasting processes, as well as the expected weighted average cost of capital used in the discount process. If the planned initiatives do not accomplish their targeted objectives, the assumptions and estimates underlying the goodwill impairment tests could be adversely affected and have a material effect upon our financial condition, results of operations, or liquidity.

In connection with the goodwill allocation and related impairment testing, our fair value estimates contemplated the consideration expected to be received in connection with the Northeast Sale, including the cash proceeds, contingent consideration for membership renewal, the receivable for the remaining adjusted tangible net equity and the other deliverables which are part of the Stock Purchase Agreement (see Note 3 to our consolidated financial statements).

After the reallocation of the goodwill, we performed a two-step impairment test to determine the existence of impairment and the amount of the impairment. In the first step, we compared the fair values of our reporting units to the related carrying values and concluded that the carrying value of the Acquired Companies was impaired; however, we determined that the carrying value of the Northeast retained business and the West Operations were not impaired. In the second step we measured the amount of the impairment by comparing the implied value of the Acquired Companies' goodwill to the carrying amount of such goodwill. Based on the results of our Step 2 test, we concluded that the implied value of the goodwill allocated to the Acquired Companies was zero, which resulted in an impairment charge for the total carrying value of the allocated

goodwill of $137 million. We updated our goodwill impairment assessment test performed as of September 30, 2009 to December 11, 2009 and no additional impairment was indicated.

After impairing the goodwill, we compared the Acquired Companies' adjusted carrying value to its estimated fair value less cost to sell. The carrying value of the assets and liabilities held for sale exceeded the fair value less cost to sell by approximately $6 million. As of September 30, 2009, the assets and liabilities held for sale included $46.2 million in other intangible assets and we reduced the carrying value of these intangibles by the $6 million. Additionally, upon classifying the Acquired Companies' assets and liabilities as held for sale we ceased recording amortization expense related to these intangible assets.

On December 11, 2009, we completed the Northeast Sale (see Note 3 to the consolidated financial statements for information regarding the Northeast Sale).

We also evaluated the recoverability of other long-lived assets held and used in the retained portion of the Northeast Operations, including property and equipment. In the year ended December 31, 2009, we impaired all property and equipment owned and used by the Northeast health plan operations totaling $31.6 million based on our fixed assets redeployment strategy and our impairment assessments.

The carrying amount of goodwill by reporting unit is as follows:

	West Operations	Northeast Operations-Sold	Northeast Operations-Retained	Total
		(Dollars in millions)		
Balance as of December 31, 2008				$ 752.0
Reallocation	$609.0	$ 137.0	$ 6.0	
Impairment related to Northeast Sale	—	(137.0)	—	(137.0)
Other impairment	(3.1)	—	—	(3.1)
Balance as of December 31, 2009	$605.9	$ —	$ 6.0	$ 611.9

The intangible assets that continue to be subject to amortization using the straight-line method over their estimated lives are as follows:

	Gross Carrying Amount	Accumulated Amortization	Intangible Assets Sold	Fair Value Adjustment	Net Balance	Weighted Average Life (in years)
			(Dollars in millions)			
As of December 31, 2008:						
Provider networks	$ 40.5	$(30.1)	$ —	$—	$10.4	19.4
Employer groups (Note 3)	76.8	(18.3)	—	—	58.5	6.5
Customer relationships and other (Note 3)	29.5	(7.6)	—	—	21.9	11.1
Trade name (Note 3)	3.2	(3.2)	—	—	—	1.5
Covenant not-to-compete (Note 3)	2.2	(1.7)	—	—	0.5	2.0
	$152.2	$(60.9)	$ —	$—	$91.3	
As of December 31, 2009:						
Provider networks	$ 40.5	$(31.5)	$ —	$—	$ 9.0	19.4
Employer groups (Note 3)	76.8	(24.3)	(46.2)	(6.3)	—	—
Customer relationships and other	29.5	(10.4)	—	—	19.1	11.1
Trade name	3.2	(3.2)	—	—	—	1.5
Covenant not-to-compete	2.2	(2.2)	—	—	—	2.0
	$152.2	$(71.6)	$(46.2)	$(6.3)	$28.1	

The amortization expense was $10.7 million, $20.0 million and $12.7 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Estimated annual pretax amortization expense for other intangible assets for each of the next five years ending December 31 is as follows (dollars in millions):

Year	Amount
2010	$3.8
2011	3.5
2012	3.4
2013	3.4
2014	2.8

Policy Acquisition Costs

Policy acquisition costs are those variable costs that relate to the acquisition of new and renewal commercial health insurance business. Such costs include broker commissions, costs of policy issuance and underwriting, and other costs we incur to acquire new commercial business or renew existing business. Our commercial health insurance business typically has a one-year term and may be canceled upon a 30-day notice. We expense these costs as incurred in accordance with the *Health Care Organization Audit and Accounting Guide* and report them as selling expenses in our consolidated statements of operations.

Reserves for Contingent Liabilities

In the course of our operations, we are involved on a routine basis in various disputes with members, health care providers, and other entities, as well as audits or investigations by government agencies and elected officials that relate to our services and/or business practices that expose us to potential losses.

We recognize an estimated loss, which may represent damages, assessment of regulatory fines or penalties, settlement costs, future legal expenses or a combination of the foregoing, as appropriate, from such loss contingencies when it is both probable that a loss will be incurred and that the amount of the loss can be reasonably estimated. Our loss estimates are based in part on an analysis of potential results, the stage of the proceedings, consultation with outside counsel and any other relevant information available.

Insurance Programs

The Company is insured for various errors and omissions, property, casualty and other risks. The Company maintains various self-insured retention amounts, or "deductibles," on such insurance coverage. The Company also maintains litigation reserves to cover those self-insured retention amounts for errors and omissions claims based on historical claims filed, as well as estimates of claims incurred but not reported.

Concentrations of Credit Risk

Financial instruments that potentially subject us to concentrations of credit risk consist primarily of cash equivalents, investments and premiums receivable. All cash equivalents and investments are managed within established guidelines, which provide us diversity among issuers. Concentrations of credit risk with respect to premiums receivable are limited due to the large number of payers comprising our customer base. Our 10 largest employer group premiums receivable balances within each of our plans accounted for 20% and 48% of our total

premiums receivable as of December 31, 2009 and 2008, respectively. Our Medicare receivable from CMS represented 26% of total receivables as of December 31, 2009, compared with 56% as of December 31, 2008. Our 10 largest employer group premiums within each of our plans accounted for 17%, 18% and 18% of our health plan services premiums for the years ended December 31, 2009, 2008 and 2007, respectively. The federal government is the only customer of our Government Contracts segment, with premiums and fees accounting for 100% of our Government Contracts revenue. In addition, the federal government is a significant customer of the Company's West Operations segment as a result of its contract with CMS for coverage of Medicare-eligible individuals. Medicare revenues accounted for 30%, 28% and 24% of our health plan premiums in 2009, 2008 and 2007, respectively. These amounts include revenues from our Northeast business through the closing date of the Northeast Sale.

Earnings Per Share

Basic earnings per share excludes dilution and reflects net income divided by the weighted average shares of common stock outstanding during the periods presented. Diluted earnings per share is based upon the weighted average shares of common stock and dilutive common stock equivalents (this reflects the potential dilution that could occur if stock options were exercised and restricted stock units (RSUs) and restricted shares were vested) outstanding during the periods presented.

Common stock equivalents arising from dilutive stock options, restricted common stock and RSUs are computed using the treasury stock method. For the years ended December 31, 2008 and 2007, this amounted to 1,078,000 and 2,513,000 shares, respectively, which include 299,000 and 239,000 aggregate common stock equivalents from dilutive RSUs and restricted common stock, respectively. For the year ended December 31, 2009, 563,000, shares of common stock equivalents, including 513,000 common stock equivalents from dilutive RSU equivalents were excluded from the computation of loss per share due to their anti-dilutive effect.

Options to purchase an aggregate of 3,051,000 and 1,256,000 shares of common stock were considered anti-dilutive during 2008 and 2007, respectively, and were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of the common stock for each respective period. These options expire at various times through April 2019 (see Note 8).

We have a $700 million stock repurchase program authorized by our Board of Directors. The remaining authorization under our stock repurchase program as of December 31, 2009 was $82.7 million (see Note 9). On November 4, 2008, we announced that our stock repurchase program was on hold as a consequence of the uncertain financial environment and the announcement by Health Net's Board of Directors that Jay Gellert, our President and Chief Executive Officer, was undertaking a review of the Company's strategic direction. On July 20, 2009, we announced the completion of our strategic review, which included entering into the Stock Purchase Agreement. For a detailed description of the Northeast Sale, see Note 3 to our consolidated financial statements. On December 8, 2009, we announced that our Board of Directors has authorized the Company to resume repurchases of its common stock under its existing stock repurchase program.

Comprehensive Income

Comprehensive income includes all changes in stockholders' equity (except those arising from transactions with stockholders) and includes net income, net unrealized appreciation (depreciation), after tax, on investments available-for-sale and prior service cost and net loss related to our defined benefit pension plan (see Note 10).

Our accumulated other comprehensive income (loss) are as follows:

	For the Years Ended December 31,	
	2009	2008
	(Dollars in millions)	
Investments:		
Unrealized losses on investments available for sale as of January 1	$ (7.3)	$ (0.1)
Net change in unrealized gains (losses) on investments available for sale	37.8	(10.1)
Reclassification of unrealized (gains) losses to earnings	(29.5)	2.9
Unrealized gains (losses) on investments available for sale as of December 31	1.0	(7.3)
Defined benefit pension plans:		
Prior service cost and net loss amortization as of January 1	0.4	(1.1)
Net change in prior service cost and net loss amortization	(1.3)	1.5
Prior service cost and net loss amortization as of December 31	(0.9)	0.4
Accumulated other comprehensive income (loss)	$ 0.1	$ (6.9)

Taxes Based on Premiums

We provide services in certain states, which require premium taxes to be paid by us based on membership or billed premiums. These taxes are paid in lieu of or in addition to state income taxes and totaled $75.7 million in 2009, $48.0 million in 2008 and $43.6 million in 2007. These amounts are recorded in general and administrative expenses on our consolidated statements of operations.

Income Taxes

We record deferred tax assets and liabilities based on differences between the book and tax bases of assets and liabilities. The deferred tax assets and liabilities are calculated by applying enacted tax rates and laws to taxable years in which such differences are expected to reverse. We establish a valuation allowance in accordance with the provisions of the Income Taxes Topic of FASB codification. We continually review the adequacy of the valuation allowance and recognize the benefits from our deferred tax assets only when an analysis of both positive and negative factors indicate that it is more likely than not that the benefits will be realized.

We file tax returns in many tax jurisdictions. Often, application of tax rules within the various jurisdictions is subject to differing interpretation. Despite our belief that our tax return positions are fully supportable, we believe that it is probable certain positions will be challenged by taxing authorities, and we may not prevail on the positions as filed. Accordingly, we maintain a liability for the estimated amount of contingent tax challenges by taxing authorities upon examination. We analyze the amount at which each tax position meets a “more likely than not” standard for sustainability upon examination by taxing authorities. Only tax benefit amounts meeting or exceeding this standard will be reflected in tax provision expense and deferred tax asset balances. Any differences between the amounts of tax benefits reported on tax returns and tax benefits reported in the financial statements is recorded in a liability for unrecognized tax benefits. The liability for unrecognized tax benefits is reported separately from deferred tax assets and liabilities and classified as current or noncurrent based upon the expected period of payment. See Note 11 to the consolidated financial statements for additional disclosures.

Note 3—Acquisitions and Dispositions

Sale of Northeast Health Plan Subsidiaries

On December 11, 2009, we completed the Northeast Sale. See Note 1 for additional information on the Northeast Sale.

At the closing, United paid to us $350 million, consisting of (i) a $60 million minimum payment for the commercial membership of the acquired business and the Medicare and Medicaid businesses of the Acquired Companies, and (ii) $290 million representing a portion of the adjusted tangible net equity of the Acquired Companies at closing. Under the Stock Purchase Agreement, we will receive one-half of the remaining amount of the closing adjusted tangible net equity of the Acquired Companies on the first anniversary of closing and the other half on the second anniversary, subject to certain adjustments.

After closing, United could pay us additional consideration as our Northeast commercial members, Medicare and/or Medicaid businesses transition to other United products to the extent such amounts exceed the initial minimum payment of $60 million (referred to as contingent membership renewal). We will continue to serve the members of the Acquired Companies under the United Administrative Services Agreements, until all members are either transitioned to a legacy United entity or non-renewed. We expect the United Administrative Services Agreements to be in effect for approximately two years following the December 11, 2009 closing date.

Under the Stock Purchase Agreement, we retain financial responsibility for the profits or losses, subject to specified adjustments, of the Acquired Companies for the period beginning on the closing date and ending on the earlier of (i) the second anniversary of the closing date and (ii) the date that all of the United Administrative Services Agreements are terminated. Under the Stock Purchase Agreement, we also will be entitled to 50% of the profits or losses associated with the Acquired Companies' Medicare business for the year ended December 31, 2010 (subject to a cap of $10 million of profit or loss). In the event that the Acquired Companies renew the Medicare contract for the acquired business for the year ended December 31, 2011, United will be entitled to all of the after tax profits and losses relating to the business for that year (subject to certain limitations). We have agreed to administer the Medicare business of the Acquired Companies for 2010 and for 2011 (only if the related Medicare contract is not transferred to United as of January 1, 2011). We expect to administer the Medicaid business of the Acquired Companies until no later than June 30, 2010, which is the termination date for the related Medicaid contract. We expect the revenues earned and expenses incurred under the United Administrative Services Agreements to be significant.

In addition, at the closing, our subsidiary, Health Net Life Insurance Company, entered into a business transition agreement with certain affiliates of United, pursuant to which the United affiliates acquired membership renewal rights for certain Health Net Life Insurance Company health care business in the states of Connecticut and New Jersey. We also entered into a non-competition agreement with Buyer at closing, pursuant to which we have agreed not to compete with the acquired business in the States of New York, New Jersey, Connecticut and Rhode Island for a period of five years, and certain other restrictive covenants. We retained the renewal rights and our ability to sell our stand-alone PDP products in Connecticut and New Jersey through Health Net Life Insurance Company.

We realized the following items as of and for the year ended December 31, 2009 related to the sale of Acquired Companies:

- Cash proceeds of $350 million;
- Amounts receivable of $69 million (net of $11 million discount) from United for the remaining adjusted tangible net equity at fair value due on the first anniversary of closing recorded as other current assets;

- Amounts receivable of $59 million (net of $21 million discount) from United for the remaining adjusted tangible net equity at fair value due on the second anniversary of closing recorded as other noncurrent assets;
- Amounts payable of $18 million to United for true-up of adjusted tangible net equity recorded as a current liability;
- Value of future services to be provided under the United Administrative Services Agreements of $48 million as deferred revenue at fair value;
- Indemnification guarantee of $5 million at fair value; and
- Pretax loss on sale of $106 million.

The fair value of the amounts receivable from United for the remaining adjusted tangible net equity was determined on the basis of discounted present value technique. That measure is based on significant Level 3 inputs that are not observable in the market. Key assumptions include (a) a discount rate of 16% and (b) a probability adjusted level of payment of $80 million in each of 2010 and 2011.

The fair value of the United Administrative Services Agreements was determined by applying the income approach and a market approach. This fair value measurement is based on significant Level 3 inputs that are not observable in the market. Key assumptions include (a) a discount rate of 12% and (b) a range of historical EBITDA multiples for the Company as well as those of companies deemed to be in similar lines of business as the Company.

A liability of $5 million has been recognized at fair value for an indemnification on certain tax positions taken by United. We expect that the majority of this expenditure, if any, will be incurred within the first years subsequent to closing.

We recognized a pretax loss of $106 million related to the sale of the Acquired Companies, which is reported as a separate line item on our consolidated statement of operations for the year ended December 31, 2009. Prior to the consummation of the sale of the Acquired Companies, we classified the Acquired Companies' assets and liabilities as available for sale. Upon the classification of the Northeast business to available for sale, we were required to assess the Northeast business' goodwill and intangibles for impairment and then adjust the carrying value of the Northeast business to equal the lower of its carrying value or its fair value less cost to sell. In determining the fair value of the Northeast business we considered the fair value of the additional contingent membership consideration expected to be received in accordance with the provisions of the Stock Purchase Agreement. This arrangement allows us to be paid additional consideration based on how many members renew with a legacy United entity after closing. Because our accounting policy is to recognize contingent consideration expected to be received in connection with a sale of a business on a deposit accounting basis, upon the consummation of the sale we did not record a receivable for the additional contingent membership consideration expected to be received and we did not include such contingent membership consideration in our loss calculation related to the Northeast Sale. Therefore, the pretax loss related to the Northeast Sale approximates the estimated fair value of the additional contingent membership consideration expected to be received under the provisions of the Stock Purchase Agreement. As such contingent consideration is received it will be realized and recognized as an adjustment to the pretax loss estimate. We expect that the majority of the membership renewal with United will occur within the first two years after closing. No portion of the loss is related to the re-measurement of any retained investment in the former subsidiary to its fair value.

We did not recognize anything for the non-competition agreement since the estimated fair value was minimal.

Effective upon the closing date of the Northeast Sale, we have deconsolidated the Acquired Companies since we do not hold a controlling financial interest in those companies. We have not classified the operating results of the Acquired Companies as discontinued operations due to our significant continuing involvement created by our obligation to provide and be financially impacted by our performance under the United Administrative Services Agreements, as well as our financial incentive based on members renewing with legacy United entities.

Upon signing the Stock Purchase Agreement, we assessed the recoverability during the third quarter of 2009 of goodwill and our long-lived assets, including other intangible assets, property and equipment and other long-term assets related to our Northeast Operations reporting unit. As a result, in the three months ended September 30, 2009, we recorded $174.9 million in total asset impairments, including goodwill impairment of $137.0 million, impairments of other intangible assets of $6.3 million and property and equipment of $31.6 million.

The Northeast Operations had approximately $2,575.4 million, $2,739.3 million and $2,727.6 million of premium revenues in the years ended December 31, 2009, 2008 and 2007, respectively, which represent 21%, 22% and 24% of our health plan services premiums for the years ended December 31, 2009, 2008 and 2007, respectively. The Northeast Operations had a combined pretax (loss) income of $(53.9) million, $16.9 million and $5.1 million for the years ended December 31, 2009, 2008 and 2007, respectively. As of December 31, 2008, we had approximately 565,000 total health plan members in the Northeast Operations. On December 11, 2009, the closing date of the Northeast Sale, we had approximately 462,000 total health plan members in the Northeast Operations.

Purchase of The Guardian Life Insurance Company of America's (The Guardian) Interest in HealthCare Solutions (HCS)

In 2007, we entered into an agreement with The Guardian to, in substance, purchase The Guardian's 50% interest in HCS (the Guardian Transaction). The Guardian Transaction included termination of all pre-existing marketing and risk sharing arrangements and acquisition of certain intangible rights from The Guardian. As a result, we recognize 100% of the HCS revenues, claims and administrative and marketing expenses. In connection with the Guardian Transaction, we paid The Guardian $80.3 million in cash, which was all allocated to acquired intangible assets with definite useful lives and was based on the future profits we expect to generate by owning 100% of the employer group contract relationships associated with the HCS business.

Note 4—Investments

We are required to evaluate whether we have the intent to sell any of our debt securities or more likely than not will be required to sell any such debt security before its anticipated recovery. Additional disclosures are required for interim and annual periods about securities in unrealized loss positions for which an other-than-temporary impairment has or has not been recognized.

Investments classified as available-for-sale, which consist primarily of debt securities, are stated at fair value. Unrealized gains and losses are excluded from earnings and reported as other comprehensive income, net of income tax effects. The cost of investments sold is determined in accordance with the specific identification method, and realized gains and losses are included in net investment income. We periodically assess our available-for-sale investments for other-than-temporary impairment. Any such other-than-temporary impairment loss is recognized as a realized loss, which is recorded through earnings, if related to credit losses.

After performing our impairment analysis, we noted that one of our prime residential mortgage-backed securities may suffer losses under certain stressed scenarios. As a result, we recognized an impairment related to

the credit loss in the amount of $60,000 during the second quarter of the year ended December 31, 2009. This amount represents the difference between the present value of the Company's best estimate of future cash flows using the latest performance indicators and the amortized cost basis.

During the year ended December 31, 2008, we recognized a $14.6 million loss from other-than-temporary impairments of our cash equivalents and available-for-sale investments. Such other-than-temporary impairments primarily were as a result of investments in corporate debt from Lehman Brothers, money market funds from The Reserve Primary Institutional Fund (The Reserve) and preferred stock from Federal National Mortgage Association (Fannie Mae) and Federal Home Loan Mortgage Corporation (Freddie Mac).

We reclassified $20.9 million from current investments available-for-sale to investments available-for-sale-noncurrent because we do not intend to sell and we believe it may take longer than a year for such impaired securities to recover. The reclassification does not affect the marketability or the valuation of the investments, which are reflected at their market value as of December 31, 2009.

As of December 31, 2009 and 2008, the amortized cost, gross unrealized holding gains and losses, and fair value of our current investments available-for-sale and our investments available-for-sale-noncurrent, after giving effect to other-than-temporary impairments were as follows:

	2009			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Carrying Value
	(Dollars in millions)			
Current:				
Asset-backed securities	$ 546.8	$ 2.1	$ (4.9)	$ 544.0
U.S. government and agencies	128.1	0.1	(2.0)	126.2
Obligations of states and other political subdivisions	391.8	6.1	(2.6)	395.3
Corporate debt securities	305.4	6.2	(1.1)	310.5
Other securities	—	0.1	—	0.1
	$1,372.1	$14.6	$(10.6)	$1,376.1

	2009			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Carrying Value
	(Dollars in millions)			
Noncurrent:				
Asset-backed securities	$23.6	$—	$(2.7)	$20.9
U.S. government and agencies	—	—	—	—
Obligations of states and other political subdivisions	—	—	—	—
Corporate debt securities	—	—	—	—
Other securities	—	—	—	—
	$23.6	$—	$(2.7)	$20.9

	2008			
	Amortized Cost	Gross Unrealized Holding Gains	Gross Unrealized Holding Losses	Carrying Value
	(Dollars in millions)			
Asset-backed securities	$ 527.4	$ 9.8	$(17.2)	$ 520.0
U.S. government and agencies	69.5	0.5	—	70.0
Obligations of states and other political subdivisions	577.9	7.3	(9.8)	575.4
Corporate debt securities	341.1	3.4	(5.8)	338.7
Other securities	0.4	0.2	—	0.6
	$1,516.3	$21.2	$(32.8)	$1,504.7

As of December 31, 2009, the contractual maturities of our current investments available-for-sale were as follows:

	Amortized Cost	Estimated Fair Value
	(Dollars in millions)	
Due in one year or less	$ 41.9	$ 42.3
Due after one year through five years	288.0	290.9
Due after five years through ten years	296.1	298.7
Due after ten years	199.3	200.1
Asset-backed securities	546.8	544.0
Other securities	—	0.1
Total available-for-sale	$1,372.1	$1,376.1

As of December 31, 2009, the contractual maturities of our investments available-for-sale—noncurrent were as follows:

	Amortized Cost	Estimated Fair Value
	(Dollars in millions)	
Due in one year or less	$ —	$ —
Due after one year through five years	—	—
Due after five years through ten years	—	—
Due after ten years	—	—
Asset-backed securities	23.6	20.9
Other securities	—	—
Total available-for-sale	$23.6	$20.9

Proceeds from sales of investments available for sale during 2009 were $1,785.7 million. Gross realized gains and losses totaled $50.2 million and $4.9 million, respectively. Included in the 2009 gross realized losses is an other-than-temporary impairment write-down of $60,000. Proceeds from sales of investments available for sale during 2008 were $1,219.3 million. Gross realized gains and losses totaled $10.5 million and $14.9 million, respectively. Included in the 2008 gross realized losses is an other-than-temporary impairment write-down of $14.6 million.

The following table shows our current investments' fair values and gross unrealized losses for individual securities that have been in a continuous loss position through December 31, 2009:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in millions)					
Asset-backed securities	$384.7	$(4.2)	$15.0	$(0.7)	$399.7	$ (4.9)
U.S. government and agencies	111.2	(2.0)	—	—	111.2	(2.0)
Obligation of states and other political subdivisions	110.9	(2.2)	11.2	(0.4)	122.1	(2.6)
Corporate debt securities	110.3	(1.1)	—	—	110.3	(1.1)
Other securities	—	—	—	—	—	—
	$717.1	$(9.5)	$26.2	$(1.1)	$743.3	$(10.6)

The following table shows our noncurrent investments' fair values and gross unrealized losses for individual securities that have been in a continuous loss position through December 31, 2009:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in millions)					
Asset-backed securities	$ 0.6	$(0.1)	$20.3	$(2.6)	$20.9	$(2.7)
U.S. government and agencies	—	—	—	—	—	—
Obligation of states and other political subdivisions	—	—	—	—	—	—
Corporate debt securities	—	—	—	—	—	—
Other securities	—	—	—	—	—	—
	$ 0.6	$(0.1)	$20.3	$(2.6)	$20.9	$(2.7)

The following table shows the number of our individual securities-current that have been in a continuous loss position at December 31, 2009:

	Less than 12 Months	12 Months or More	Total
Asset-backed securities	79	9	88
U.S. government and agencies	20	—	20
Obligation of states and other political subdivisions	38	7	45
Corporate debt securities	43	—	43
Other securities	—	—	—
	180	16	196

The following table shows the number of our individual securities-noncurrent that have been in a continuous loss position at December 31, 2009:

	Less than 12 Months	12 Months or More	Total
Asset-backed securities	1	6	7
U.S. government and agencies	—	—	—
Obligation of states and other political subdivisions	—	—	—
Corporate debt securities	—	—	—
Other securities	—	—	—
	1	6	7

The following table shows our investments' fair values and gross unrealized losses for individual securities that have been in a continuous loss position through December 31, 2008:

	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(Dollars in millions)					
Asset-backed securities	$ 91.4	$(10.7)	$ 40.7	$ (6.5)	$132.1	$(17.2)
Obligation of states and other political subdivisions	141.4	(4.9)	52.3	(4.9)	193.7	(9.8)
Corporate debt securities	111.0	(4.7)	16.0	(1.1)	127.0	(5.8)
Other securities	0.4	—	—	—	0.4	—
	$344.2	$(20.3)	$109.0	$(12.5)	$453.2	$(32.8)

The above referenced investments are interest-yielding debt securities of varying maturities. The unrealized loss position for these securities is due to market volatility. Generally, in a rising interest rate environment, the estimated fair value of fixed income securities would be expected to decrease; conversely, in a decreasing interest rate environment, the estimated fair value of fixed income securities would be expected to increase. However, these securities may be negatively impacted by illiquidity in the market.

The investments listed above are investment grade securities with an average rating of "AA+" and "Aa1" as rated by S&P and/or Moody's, respectively. At this time, there is no indication of default on interest and/or principal payments. We have the ability and current intent to hold to recovery all securities with an unrealized loss position.

Note 5—Property and Equipment

Property and equipment are comprised of the following as of December 31:

	2009	2008
	(Dollars in millions)	
Land	$ 1.7	$ 1.7
Leasehold improvements under development	0.3	4.6
Buildings and improvements	40.3	49.4
Furniture, equipment and software	243.9	304.1
	286.2	359.8
Less accumulated depreciation	(154.7)	(157.4)
Property and equipment, net	$ 131.5	$ 202.4

Our depreciation expense was $42.9 million, $40.8 million and $30.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Note 6—Financing Arrangements

Amortizing Financing Facility

On December 19, 2007, we entered into a five-year, non-interest bearing, $175 million amortizing financing facility with a non-U.S. lender, and on April 29, 2008, and November 10, 2008, we entered into amendments to the financing facility, which were administrative in nature. On March 9, 2009, we amended certain terms of the documentation relating to the financing facility to, among other things, (i) eliminate the requirement that we maintain certain minimum public debt ratings throughout the term of the financing facility and (ii) provide that the financing facility may be terminated at any time at the option of one of our wholly-owned subsidiaries or the non-U.S. lender.

As amended, the financing facility requires one of our subsidiaries to pay semi-annual distributions, in the amount of $17.5 million, to a participant in the financing facility. Unless terminated earlier, the final payment under the facility is scheduled to be made on December 19, 2012.

In conjunction with this financing arrangement, we formed certain entities for the purpose of facilitating this financing. We act as managing general partner of these entities. As of December 31, 2009, our net investment in these entities totaled $1.2 billion. The entities' net obligations are not required to be collateralized. In connection with the financing facility, we guaranteed the payment of the semi-annual distributions and any other amounts payable by one of our subsidiaries to the financing facility participants under certain circumstances. The creditors of the entities have no recourse to our general credit, and the assets of the entities are not available to satisfy any obligations to our general creditors. We consolidated these entities, since they are variable interest entities and we are their primary beneficiary.

The financing facility includes limitations (subject to specified exclusions) on certain of our subsidiaries' ability to incur debt; create liens; engage in certain mergers, consolidations and acquisitions; engage in transactions with affiliates; enter into agreements which will restrict the ability of our subsidiaries to pay dividends or other distributions with respect to any shares of capital stock or the ability to make or repay loans or advances; make dividends; and alter the character of the business we and our subsidiaries conducted on the closing date of the financing facility. In addition, the financing facility also requires that we maintain a specified consolidated leverage ratio and consolidated fixed charge coverage ratio throughout the term of the financing facility. As of December 31, 2009, we were in compliance with all of the covenants under the financing facility.

The financing facility provides that it may be terminated through a series of put and call transactions (1) at the option of one of our wholly-owned subsidiaries or the non-U.S. lender at any time, or (2) upon the occurrence of certain defined early termination events. These early termination events, include, but are not limited to:

- nonpayment of certain amounts due by us or certain of our subsidiaries under the financing facility (if not cured within the related time period set forth therein);
- a change of control (as defined in the financing facility);
- cross-acceleration and cross-default to other indebtedness of the Company in excess of $50 million, including our revolving credit facility;
- certain ERISA-related events;

- noncompliance by the Company with any material term or provision of the HMO Regulations or Insurance Regulations (as each such term is defined in the financing facility);
- events in bankruptcy, insolvency or reorganization of the Company;
- undischarged, uninsured judgments in the amount of $50 million or more against the Company; or
- certain changes in law that could adversely affect a participant in the financing facility.

In addition, in connection with the financing facility, we entered into the 2007 Swap with a non-U.S. bank affiliated with one of the financing facility participants (see Note 2 to our consolidated financial statements).

As of December 31, 2009, our entire $104.0 million amortizing financing facility payable was classified as a current liability on our consolidated balance sheet. As of December 31, 2008, our amortizing financing facility payables were classified as current and noncurrent liabilities in the amount of $27.3 million and $104.0 million, respectively.

Senior Notes

On May 18, 2007, we issued $300 million in aggregate principal amount of 6.375% Senior Notes due 2017. On May 31, 2007, we issued an additional $100 million of 6.375% Senior Notes due 2017 which were consolidated with, and constitute the same series as, the Senior Notes issued on May 18, 2007 (collectively, Senior Notes). The aggregate net proceeds from the issuance of the Senior Notes were $393.5 million and were used to repay outstanding debt.

The indenture governing the Senior Notes limits our ability to incur certain liens, or consolidate, merge or sell all or substantially all of our assets. In the event of the occurrence of both (1) a change of control of Health Net, Inc. and (2) a below investment grade rating by any two of Fitch, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Services within a specified period, we will be required to make an offer to purchase the Senior Notes at a price equal to 101% of the principal amount of the Senior Notes plus accrued and unpaid interest to the date of repurchase. As of December 31, 2009, no default or event of default had occurred under the indenture governing the Senior Notes.

The Senior Notes may be redeemed in whole at any time or in part from time to time, prior to maturity at our option, at a redemption price equal to the greater of:

- 100% of the principal amount of the Senior Notes then outstanding to be redeemed; or
- the sum of the present values of the remaining scheduled payments of principal and interest on the Senior Notes to be redeemed (not including any portion of such payments of interest accrued to the date of redemption) discounted to the date of redemption on a semiannual basis (assuming a 360-day year consisting of twelve 30-day months) at the applicable treasury rate plus 30 basis points

plus, in each case, accrued and unpaid interest on the principal amount being redeemed to the redemption date.

Each of the following will be an Event of Default under the indenture governing the Senior Notes:

- failure to pay interest for 30 days after the date payment is due and payable; provided that an extension of an interest payment period by us in accordance with the terms of the Senior Notes shall not constitute a failure to pay interest;

- failure to pay principal or premium, if any, on any note when due, either at maturity, upon any redemption, by declaration or otherwise;
- failure to perform any other covenant or agreement in the notes or indenture for a period of 60 days after notice that performance was required;
- (A) our failure or the failure of any of our subsidiaries to pay indebtedness for money we borrowed or any of our subsidiaries borrowed in an aggregate principal amount of at least $50,000,000, at the later of final maturity and the expiration of any related applicable grace period and such defaulted payment shall not have been made, waived or extended within 30 days after notice or (B) acceleration of the maturity of indebtedness for money we borrowed or any of our subsidiaries borrowed in an aggregate principal amount of at least $50,000,000, if that acceleration results from a default under the instrument giving rise to or securing such indebtedness for money borrowed and such indebtedness has not been discharged in full or such acceleration has not been rescinded or annulled within 30 days after notice; or
- events in bankruptcy, insolvency or reorganization of our Company.

Our Senior Notes payable balances were $398.5 million and $398.3 million as of December 31, 2009 and 2008, respectively.

Revolving Credit Facility

On June 25, 2007, we entered into a $900 million five-year revolving credit facility with Bank of America, N.A. as Administrative Agent, Swingline Lender, and L/C Issuer, and the other lenders party thereto. We entered into an amendment to the credit facility on April 29, 2008, which was administrative in nature. As of December 31, 2009, $100.0 million was outstanding under our revolving credit facility and the maximum amount available for borrowing under the revolving credit facility was $478.7 million (see "—Letters of Credit" below).

Amounts outstanding under our revolving credit facility will bear interest, at our option, at (a) the base rate, which is a rate per annum equal to the greater of (i) the federal funds rate plus one-half of one percent and (ii) Bank of America's prime rate (as such term is defined in the facility), (b) a competitive bid rate solicited from the syndicate of banks, or (c) the British Bankers Association LIBOR rate (as such term is defined in the facility), plus an applicable margin, which is initially 70 basis points per annum and is subject to adjustment according to our credit ratings, as specified in the facility.

Our revolving credit facility includes, among other customary terms and conditions, limitations (subject to specified exclusions) on our and our subsidiaries' ability to incur debt; create liens; engage in certain mergers, consolidations and acquisitions; sell or transfer assets; enter into agreements which restrict the ability to pay dividends or make or repay loans or advances; make investments, loans, and advances; engage in transactions with affiliates; and make dividends. In addition, we are required to maintain a specified consolidated leverage ratio and consolidated fixed charge coverage ratio throughout the term of the revolving credit facility.

Our revolving credit facility contains customary events of default, including nonpayment of principal or other amounts when due; breach of covenants; inaccuracy of representations and warranties; cross-default and/or cross-acceleration to other indebtedness of the Company or our subsidiaries in excess of $50 million; certain ERISA-related events; noncompliance by us or any of our subsidiaries with any material term or provision of the Health Maintenance Organization (HMO) Regulations or Insurance Regulations (as each such term is defined in the facility); certain voluntary and involuntary bankruptcy events; inability to pay debts; undischarged, uninsured judgments greater than $50 million against us and/or our subsidiaries; actual or asserted invalidity of any loan

document; and a change of control. If an event of default occurs and is continuing under the revolving credit facility, the lenders thereunder may, among other things, terminate their obligations under the facility and require us to repay all amounts owed thereunder.

Letters of Credit

We can obtain letters of credit in an aggregate amount of $400 million under our revolving credit facility. The maximum amount available for borrowing under our revolving credit facility is reduced by the dollar amount of any outstanding letters of credit. As of December 31, 2009 and 2008, we had outstanding letters of credit for $321.3 million and $322.9 million, respectively, resulting in the maximum amount available for borrowing under the revolving credit facility of $478.7 million and $427.1 million, respectively. As of December 31, 2009 and 2008, no amounts have been drawn on any of these letters of credit.

Note 7—Fair Value Measurements

We record assets and liabilities at fair value in the consolidated balance sheets and categorize them based upon the level of judgment associated with the inputs used to measure their fair value and the level of market price observability. We also estimate fair value when the volume and level of activity for the asset or liability have significantly decreased or in those circumstances that indicate when a transaction is not orderly.

Investments measured and reported at fair value using Level inputs, as defined in the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, are classified and disclosed in one of the following categories:

Level 1—Quoted prices are available in active markets for identical investments as of the reporting date. The type of investments included in Level I include U.S. treasury securities and listed equities. As required by the Fair Value Measurements and Disclosures Topic of the FASB Accounting Standards Codification, we do not adjust the quoted price for these investments, even in situations where we hold a large position and a sale could reasonably impact the quoted price.

Level 2—Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting date, and fair value is determined through the use of models or other valuation methodologies. Investments that are generally included in this category include asset-backed securities, corporate bonds and loans, municipal bonds, auction rate securities and interest rate swap asset.

Level 3—Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the investment.

The following table presents information about our assets and liabilities measured at fair value on a recurring basis at December 31, 2009, and indicate the fair value hierarchy of the valuation techniques utilized by us to determine such fair value (dollars in millions):

	Level 1	Level 2-current	Level 2-noncurrent	Level 3	Total
Assets:					
Investments—available-for-sale					
Asset-backed securities	$ —	$ 544.0	$20.9	$ —	$ 564.9
U.S. government and agencies	26.7	99.5	—	—	126.2
Obligations of states and other political subdivisions	—	385.3	—	10.0	395.3
Corporate debt securities	—	310.5	—	—	310.5
Other securities	0.1	—	—	—	0.1
	26.8	1,339.3	20.9	10.0	1,397.0
Amounts receivable from UnitedHealth (see Note 3)	—	—	—	128.0	128.0
Interest rate swap net asset	—	4.5	—	—	4.5
Total assets at fair value	$26.8	$1,343.8	$20.9	$138.0	$1,529.5

The changes in the balances of Level 3 financial assets for the year ended December 31, 2009 were as follows (dollars in millions):

	2009
Beginning balance	$ 10.2
Total gains and losses	
Realized in net income	—
Unrealized in accumulated other comprehensive income	—
Purchases, sales, issuances and settlements	127.8
Transfers into Level 3	—
Ending balance	$138.0
Change in unrealized gains (losses) included in net income related to assets still held	$ —

During the year ended December 31, 2009, certain auction rate securities experienced "failed" auctions. As a result, these securities' fair values were determined to be equal to their par values due to the short time periods between coupon resets and the issuers' credit worthiness.

Note 8—Long-Term Equity Compensation

For the year ended December 31, 2009, the compensation cost that has been charged against income under our various stock option and long-term incentive plans (the Plans) was $11.7 million. The total income tax benefit recognized in the income statement for share-based compensation arrangements was $4.5 million (See Note 2).

The Plans permit the grant of stock options and other equity awards, including but not limited to restricted stock, restricted stock units (RSUs) and performance share units (PSUs) to certain employees, officers and non-employee directors. The grant of RSUs and PSUs under our 2006 Long-Term Incentive Plan reduces the number of shares of common stock available for issuance under that Plan by 1.75 shares of common stock for each award and is deemed to be an award of 1.75 shares of common stock for each share subject to the award.

RSUs and PSUs granted prior to May 21, 2009 reduce the number of shares of common stock available for issuance under the 2006 Long-Term Incentive Plan by two shares of common stock.

Stock options are granted with an exercise price at or above the fair market value of the Company's common stock on the date of grant. Effective May 21, 2009, stock option grants carry a maximum term of seven years, and, in general, stock options and other equity awards vest based on one to five years of continuous service, except for certain awards where vesting may be accelerated by virtue of attaining certain performance targets. Stock option grants made prior to May 21, 2009 carry a maximum term of ten years. As of December 31, 2009, there were no outstanding options or awards that had market or performance condition accelerated vesting provisions. Certain stock options and other equity awards also provide for accelerated vesting under the circumstances set forth in the Plans and equity award agreements upon the occurrence of a change in control (as defined in the Plans). At the end of the maximum term, unexercised stock options are set to expire.

Performance share awards were granted in 2007, 2008 and 2009 with 100% cliff vesting at the end of a three-year performance period and provide for vesting at 0% to 200% of shares granted. Shares delivered pursuant to each performance share award will take into account the Company's attainment of specific performance conditions as outlined in each performance share award agreement.

As of December 31, 2009, we have reserved up to an aggregate of 16.4 million shares of our common stock for issuance under the Plans.

The fair value of each option award is estimated on the date of grant using a closed-form option valuation model (Black-Scholes) based on the assumptions noted in the following table. Expected volatilities are based on implied volatilities from traded options on our stock and historical volatility of our stock. We estimated the expected term of options by using historical data to estimate option exercise and employee termination within a lattice-based valuation model; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The expected term of options granted is derived from a lattice-based option valuation model and represents the period of time that options granted are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury Strip yields in effect at the time of grant with maturity dates approximately equal to the expected life of the option at the grant date.

The following table provides the weighted-average values of assumptions used in the calculation of grant-date fair values during the years ended December 31:

	2009	2008	2007
Risk-free interest rate	2.76%	2.96%	4.53%
Expected option lives (in years)	5.3	5.3	4.8
Expected volatility for options	39.2%	34.2%	27.3%
Expected dividend yield	None	None	None

The weighted-average grant-date fair values for options granted during 2009, 2008 and 2007 were $6.73, $8.56 and $16.91, respectively. The total intrinsic value of options exercised was $1.1 million, $3.9 million and $69.4 million during the years ended December 31, 2009, 2008 and 2007, respectively.

A summary of option activity under our various plans as of December 31, 2009, and changes during the year then ended is presented below:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	6,130,513	$29.77		
Granted	250,552	16.76		
Exercised	(131,641)	10.29		
Forfeited or expired	(498,376)	33.34		
Outstanding at December 31, 2009	5,751,048	$29.33	4.19	$3,971,163
Vested or expected to vest at December 31, 2009 (reflecting estimated forfeiture rates effective in 2009)	5,660,042	$29.33	4.14	$3,671,250
Exercisable at December 31, 2009	4,824,930	$28.43	3.65	$1,524,718

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted Average Remaining Contractual Life (Years)	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
$ 7.78 – 20.00	338,700	6.26	$13.97	62,525	$11.54
20.01 – 25.00	2,651,299	2.56	23.24	2,584,672	23.24
25.01 – 30.00	1,267,617	4.78	28.64	1,165,103	28.69
30.01 – 40.00	419,009	5.13	33.64	404,603	33.67
40.01 – 50.00	884,010	6.26	47.09	497,893	46.95
50.01 – 58.07	190,413	7.16	54.20	110,134	54.19
$ 7.78 – 58.07	5,751,048	4.19	$29.33	4,824,930	$28.43

We have entered into restricted stock, RSU and PSU agreements with certain employees. We have awarded shares of restricted common stock under the restricted stock agreements and rights to receive common stock under the RSU and PSU agreements to certain employees. Each RSU and each PSU represents the right to receive, upon vesting, one share of common stock. Awards of restricted stock, RSUs and PSUs are subject to restrictions on transfer and forfeiture prior to vesting. During the years ended December 31, 2009, 2008 and 2007, we did not award any restricted stock. During the years ended December 31, 2009, 2008 and 2007, we awarded 926,649, 1,000,699 and 945,479 RSUs and PSUs, respectively.

As of December 31, 2009 and 2008, we had no restricted common stock awards outstanding.

A summary of RSU and PSU activity under our various plans as of December 31, 2009, and changes during the year then ended is presented below:

	Number of Restricted Stock Units and Performance Share Units	Weighted Average Grant-Date Fair Value	Weighted Average Purchase Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding at January 1, 2009	1,969,079	$49.59	$0.001		
Granted	926,649	16.81	0.001		
Vested	(290,792)	53.61	0.001		
Forfeited	(195,875)	44.79	0.001		
Outstanding at December 31, 2009	2,409,061	$37.06	$0.001	8.14	$56,104,622
Expected to vest at December 31, 2009 (reflecting estimated forfeiture rates effective in 2009)	2,085,008	$37.78	$0.001	8.08	$48,557,755

The fair values of restricted common stock, RSUs and PSUs are determined based on the market value of the shares on the date of grant. We did not grant any restricted common stock during the years ended December 31, 2009, 2008 and 2007. The aggregate intrinsic values of restricted shares vested during the years ended December 31, 2009, 2008 and 2007, were $0, $40 thousand and $4.6 million, respectively. The weighted-average grant-date fair values of RSUs and PSUs granted during the years ended December 31, 2009, 2008 and 2007 were $16.81, $47.47 and $54.13, respectively. The aggregate intrinsic values of RSUs and PSUs vested during the years ended December 31, 2009, 2008 and 2007, were $4.5 million, $0.5 million and $10 thousand, respectively.

During the years ended December 31, 2009, 2008 and 2007, compensation expense recorded for stock options was $2.9 million, $4.8 million and $9.3 million, respectively. During the years ended December 31, 2009, 2008 and 2007, compensation expense recorded for restricted common stock was $0, $2,000 and $2,000, respectively. During the years ended December 31, 2009, 2008 and 2007, compensation expense recorded for RSUs and PSUs was $8.8 million, $19.3 million and $15.0 million, respectively. As of December 31, 2009, the total remaining unrecognized compensation cost related to non-vested stock options and RSUs and PSUs was $1.4 million and $19.3 million, respectively, which is expected to be recognized over a weighted-average period of 1.19 years and 1.26 years, respectively.

Under the Plans, employees and non-employee directors may elect for the Company to withhold shares to satisfy minimum statutory federal, state and local tax withholding and/or exercise price obligations, as applicable, arising from the exercise of stock options. For certain other equity awards, the Company has the right to withhold shares to satisfy any tax obligations that may be required to be withheld or paid in connection with such equity award, including any tax obligation arising on the vesting date. During the year ended December 31, 2009, we withheld 114,678 shares of common stock to satisfy tax withholding and exercise price obligations arising from stock option exercises and the vesting of RSUs.

We become entitled to an income tax deduction in an amount equal to the taxable income reported by the holders of the stock options, restricted shares, RSUs and PSUs when vesting occurs, the restrictions are released and the shares are issued. Stock options, restricted common stock, RSUs and PSUs are forfeited if the employees terminate their employment prior to vesting.

Note 9—Capital Stock

As of December 31, 2009, there were 144,175,000 shares of our common stock issued and 41,020,000 shares of Common Stock held in treasury, resulting in 103,155,000 shares of our common stock outstanding.

Shareholder Rights Plan

On July 27, 2006, our Board of Directors adopted a shareholder rights plan pursuant to a Rights Agreement with Wells Fargo Bank, N.A. (the "Rights Agent"), dated as of July 27, 2006 (the Rights Agreement).

In connection with the Rights Agreement, on July 27, 2006, our Board of Directors declared a dividend distribution of one right (a Right) for each outstanding share of Common Stock to stockholders of record at the close of business on August 7, 2006 (the Record Date). Our Board of Directors also authorized the issuance of one Right for each share of common stock issued after the Record Date and prior to the earliest of the Distribution Date (as defined below) the redemption of the Rights and the expiration of the Rights and, in certain circumstances, after the Distribution Date. Subject to certain exceptions and adjustment as provided in the Rights Agreement, each Right entitles the registered holder to purchase from us one one-thousandth ($1/1000^{th}$) of a share of Series A Junior Participating Preferred Stock, par value of $0.001 per share, at a purchase price of $170.00 per Right (the Purchase Price). The terms of the Rights are set forth in the Rights Agreement.

Rights will attach to all common stock certificates representing shares then outstanding and no separate Rights certificates will be distributed. Subject to certain exceptions contained in the Rights Agreement, the Rights will separate from the common stock on the date that is 10 business days following (i) any person, together with its affiliates and associates (an Acquiring Person), becoming the beneficial owner of 15% or more of the outstanding common stock, (ii) the commencement of a tender or exchange offer that would result in any person, together with its affiliates and associates, becoming the beneficial owner of 15% or more of the outstanding common stock or (iii) the determination by the Board of Directors that a person, together with its affiliates and associates, has become the beneficial owner of 10% or more of the common stock and that such person is an "Adverse Person," as defined in the Rights Agreement (the earliest of such dates being called the Distribution Date). The Rights Agreement provides that certain passive institutional investors that beneficially own less than 20% of the outstanding shares of our common stock shall not be deemed to be Acquiring Persons.

The Rights will first become exercisable on the Distribution Date and will expire at the close of business on July 31, 2016 unless such date is extended or the Rights are earlier redeemed by us as described below.

Subject to certain exceptions contained in the Rights Agreement, in the event that any person shall become an Acquiring Person or be declared to be an Adverse Person, then the Rights will "flip-in" and entitle each holder of a Right, other than any Acquiring Person or Adverse Person and such person's affiliates and associates, to purchase, upon exercise at the then-current exercise price of such Right, that number of shares of common stock having a market value of two times such exercise price.

In addition, and subject to certain exceptions contained in the Rights Agreement, in the event that we are acquired in a merger or other business combination in which the common stock does not remain outstanding or is changed or 50% of the assets, cash flow or earning power of the Company is sold or otherwise transferred to any other person, the Rights will "flip-over" and entitle each holder of a Right, other than an Acquiring Person or an Adverse Person and such person's affiliates and associates, to purchase, upon exercise at the then current exercise price of such Right, such number of shares of common stock of the acquiring company which at the time of such transaction would have a market value of two times such exercise price.

We may redeem the Rights at any time until the earlier of (i) 10 days following the date that any Acquiring Person becomes the beneficial owner of 15% or more of the outstanding common stock and (ii) the date the Rights expire at a price of $.01 per Right. In addition, at any time after a person becomes an Acquiring Person or is determined to be and Adverse Person and prior to such person becoming (together with such person's affiliates and associates) the beneficial owner of 50% or more of the outstanding common stock, at the election of our Board of Directors, the outstanding Rights (other than those beneficially owned by an Acquiring Person, Adverse Person or an affiliate or associate of an Acquiring Person or Adverse Person) may be exchanged, in whole or in part, for shares of common stock, or shares of preferred stock of the Company having essentially the same value or economic rights as such shares.

Stock Repurchase Program

We have a $700 million stock repurchase program authorized by our Board of Directors. Subject to Board approval, additional amounts are added to the repurchase program from time to time based on exercise proceeds and tax benefits the Company receives from employee stock options. On November 4, 2008, we announced that our stock repurchase program was on hold as a consequence of the uncertain financial environment and the announcement by Health Net's Board of Directors that Jay Gellert, our President and Chief Executive Officer, was undertaking a review of the Company's strategic direction. On July 20, 2009, we announced the completion of our strategic review, which included entering into the Stock Purchase Agreement. For a detailed description of the Northeast Sale, see Note 3 to our consolidated financial statements. On December 8, 2009, we announced that our Board of Directors has authorized the Company to resume repurchases of its common stock under its existing stock repurchase program.

During the year ended December 31, 2009, we repurchased 860,737 shares of our common stock for aggregate consideration of approximately $20.6 million.

The remaining authorization under our stock repurchase program as of December 31, 2009 was $82.7 million. As of December 31, 2009, we had repurchased a cumulative aggregate of 37,484,084 shares of our common stock under our stock repurchase program at an average price of $34.16 per share for aggregate consideration of $1,280.4 million. We used net free cash available, including proceeds from the Northeast Sale, to fund the share repurchases.

We may repurchase shares of our common stock under the stock repurchase program from time to time in open market transactions, privately negotiated transactions, or through accelerated share repurchase programs, or by any combination of such methods. The timing of any repurchases and the actual number of shares repurchased will depend on a variety of factors, including our stock price, corporate and regulatory requirements, restrictions under our debt obligations, and other market and economic conditions.

Our stock repurchase program does not have an expiration date. The stock purchase program may be suspended or discontinued at any time.

Note 10—Employee Benefit Plans

Defined Contribution Retirement Plans

We and certain of our subsidiaries sponsor defined contribution retirement plans intended to qualify under Sections 401(a) and 401(k) of the Internal Revenue Code of 1986, as amended (the Code). The plans were amended in December 2008 to comply with, among other things, Section 415 of the Code. Participation in the plans is available to substantially all employees who meet certain eligibility requirements and elect to participate.

Employees may contribute up to the maximum limits allowed by Sections 401(k) and 415 of the Code, with Company contributions based on matching or other formulas. Our expense under these plans totaled $18.1 million, $19.8 million and $20.6 million for the years ended December 31, 2009, 2008 and 2007, respectively, and is included in general and administrative expense in our consolidated statements of operations.

Deferred Compensation Plans

We have a voluntary deferred compensation plan pursuant to which certain management and highly compensated employees are eligible to defer a certain portion of their regular compensation and bonuses (the Employee Plan). In addition, we have a voluntary deferred compensation plan pursuant to which the Health Net, Inc. non-employee Board of Directors are eligible to defer a certain portion of their meeting fees and other cash remuneration (the BOD Plan). The compensation deferred under these plans is credited with earnings or losses measured by the mirrored rate of return on investments elected by plan participants. These plans are unfunded. Each plan participant is fully vested in all deferred compensation and earnings credited to his or her account. In December 2008, these plans were amended to comply with, among other things, Section 409A of the Code. The BOD Plan was amended and restated effective December 31, 2009 and the Employee Plan was amended and restated effective January 1, 2010.

As of December 31, 2009 and 2008, the liability under these plans amounted to $44.2 million and $41.5 million, respectively. These liabilities are included in other noncurrent liabilities on our consolidated balance sheets. Deferred compensation expense is recognized for the amount of earnings or losses credited to participant accounts. Our expense under these plans totaled $6.2 million, $5.7 million and $3.3 million for the years ended December 31, 2009, 2008 and 2007, respectively, and is included in general and administrative expense in our consolidated statements of operations.

Pension and Other Postretirement Benefit Plans

Pension Plans—We have an unfunded non-qualified defined benefit pension plan, the Supplemental Executive Retirement Plan. The plan was amended and restated effective in January 2008 to comply with Section 409A of the Code. This plan is noncontributory and covers key executives as selected by the Board of Directors. Benefits under the plan are based on years of service and level of compensation during the final five years of service.

Postretirement Health and Life Plans—Certain of our subsidiaries sponsor postretirement defined benefit health care and life insurance plans that provide postretirement medical and life insurance benefits to directors, key executives, employees and dependents who meet certain eligibility requirements. The Health Net health care plan is non-contributory for employees retired prior to December 1, 1995 who have attained the age of 62; employees retiring after December 1, 1995 who have attained age 62 contribute from 25% to 100% of the cost of coverage depending upon years of service. The plan was amended in 2008 to vest benefits for eligible associates who were terminated in connection with the Company's operations strategy. We have two other benefit plans that we have acquired as part of the acquisitions made in 1997. One of the plans is frozen and non-contributory, whereas the other plan is contributory by certain participants. Under these plans, we pay a percentage of the costs of medical, dental and vision benefits during retirement. The plans include certain cost-sharing features such as deductibles, co-insurance and maximum annual benefit amounts that vary based principally on years of credited service.

The following table sets forth the plans' obligations and funded status at December 31:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(Dollars in millions)			
Change in benefit obligation:				
Benefit obligation, beginning of year	$ 25.7	$ 26.2	$ 10.1	$ 9.5
Service cost	1.0	1.2	0.2	0.2
Interest cost	1.7	1.6	0.7	0.6
Benefits paid	(0.9)	(1.0)	(0.6)	(0.5)
Actuarial (gain) loss	2.1	(2.3)	0.6	0.3
Benefit obligation, end of year	$ 29.6	$ 25.7	$ 11.0	$ 10.1
Change in fair value of plan assets:				
Plan assets, beginning of year	$ —	$ —	$ —	$ —
Employer contribution	0.9	1.0	0.6	0.5
Benefits paid	(0.9)	(1.0)	(0.6)	(0.5)
Plan assets, end of year	$ —	$ —	$ —	$ —
Underfunded status, end of year	$(29.6)	$(25.7)	$(11.0)	$(10.1)

Amounts recognized in our consolidated balance sheet as of December 31 consist of:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(Dollars in millions)			
Noncurrent assets	—	—	—	—
Current liabilities	$ (1.0)	$ (1.0)	$ (0.5)	$ (0.6)
Noncurrent liabilities	(28.6)	(24.7)	(10.5)	(9.5)
Net amount recognized	$(29.6)	$(25.7)	$(11.0)	$(10.1)

Amounts recognized in accumulated other comprehensive income as of December 31 consist of:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(Dollars in millions)			
Prior service cost	$0.2	$ 0.5	$—	$0.1
Net loss (gain)	0.2	(1.0)	0.5	0.1
	$0.4	$(0.5)	$ 0.5	$0.2

The following table sets forth our plans with an accumulated benefit obligation in excess of plan assets at December 31:

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
	(Dollars in millions)			
Projected benefit obligation	$29.6	$25.7	$11.0	$10.1
Accumulated benefit obligation	21.7	18.4	11.0	10.1
Fair value of plan assets	$ —	$ —	$ —	$ —

Components of net periodic benefit cost recognized in our consolidated statements of operations as general and administrative expense for years ended December 31:

	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
	(Dollars in millions)					
Service Cost	$ 1.0	$ 1.2	$ 1.3	$ 0.2	$ 0.2	$ 0.3
Interest Cost	1.7	1.6	1.4	0.7	0.6	0.5
Amortization of prior service cost	0.5	0.5	0.5	—	—	—
Amortization of net (gain) loss	—	—	—	0.1	—	0.1
Net periodic benefit cost	$ 3.2	$ 3.3	$ 3.2	$ 1.0	$ 0.8	$ 0.9

The estimated net (gain) loss and prior service cost for the defined benefit pension plans that will be amortized from accumulated other comprehensive income into net periodic benefit cost over the next fiscal year are $0 and $0.4 million, respectively.

All of our pension and other postretirement benefit plans are unfunded. Employer contributions equal benefits paid during the year. Therefore, no return on assets is expected.

Additional Information

	Pension Benefits		Other Benefits	
	2009	2008	2009	2008
Assumptions				
Weighted average assumptions used to determine benefit obligations at December 31:				
Discount rate	5.9%	6.6%	6.0%	6.6%
Rate of compensation increase	6.0%	5.9%	N/A	N/A

	Pension Benefits			Other Benefits		
	2009	2008	2007	2009	2008	2007
Weighted average assumptions used to determine net cost for years ended December 31:						
Discount rate	6.6%	6.5%	5.8%	6.6%	6.5%	5.8%
Rate of compensation increase	5.9%	5.9%	5.9%	N/A	N/A	N/A

The discount rates we used to measure our obligations under our pension and other post-retirement plans at December 31, 2009 and 2008 mirror the rate of return expected from high-quality fixed income investments.

	2009	2008
Assumed Health Care Cost Trend Rates at December 31:		
Health care cost trend rate assumed for next year	9.0%	10.0%
Rate to which the cost trend rate is assumed to decline (the ultimate trend rate)	5.0%	5.0%
Year that the rate reaches the ultimate trend rate	2016	2016

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects for the year ended December 31, 2009:

	1-Percentage Point Increase	1-Percentage Point Decrease
	(Dollars in millions)	
Effect on total of service and interest cost	$0.1	$(0.1)
Effect on postretirement benefit obligation	$1.3	$(1.1)

Contributions

We expect to contribute $977,000 to our pension plan and $516,000 to our postretirement health and life plans throughout 2010. The entire amount expected to be contributed, in the form of cash, to the defined benefit pension and postretirement health and life plans during 2010 is expected to be paid out as benefits during the same year.

Estimated Future Benefit Payments

We estimate that benefit payments related to our pension and postretirement health and life plans over the next ten years will be as follows:

	Pension Benefits	Other Benefits
	(Dollars in millions)	
2010	$ 1.0	$0.5
2011	1.1	0.6
2012	1.2	0.7
2013	1.4	0.8
2014	2.5	0.8
Years 2015—2019	12.0	3.6

Note 11—Income Taxes

Significant components of the provision for income taxes are as follows for the years ended December 31:

	2009	2008	2007
	(Dollars in millions)		
Current tax expense:			
Federal	$25.2	$37.2	$223.6
State	2.5	(0.1)	40.3
Total current tax expense	27.7	37.1	263.9
Deferred tax expense (benefit)	(1.9)	15.4	(98.6)
Interest expense, gross of related tax effects	(2.0)	(0.4)	(0.1)
Total income tax provision	$23.8	$52.1	$165.2

A reconciliation of the statutory federal income tax rate and the effective income tax rate on income is as follows for the years ended December 31:

	2009	2008	2007
Statutory federal income tax rate	(35.0)%	35.0%	35.0%
State and local taxes, net of federal income tax effect	14.0	4.8	5.1
Tax exempt interest income	(18.8)	(4.1)	(1.4)
Goodwill impairment	194.2	—	—
Fines and penalties	3.6	1.1	0.2
Class action lawsuit expenses	—	(3.0)	2.4
Valuation allowance against net operating losses and tax credits	8.3	—	5.3
Sale of subsidiaries	(67.9)	—	—
Interest	(6.8)	—	—
Other, net	2.6	1.6	(0.6)
Effective income tax rate	94.2%	35.4%	46.0%

Significant components of our deferred tax assets and liabilities as of December 31 are as follows:

	2009	2008
	(Dollars in millions)	
DEFERRED TAX ASSETS:		
Accrued liabilities	$118.4	$138.0
Insurance loss reserves and unearned premiums	16.4	22.5
Tax credit carryforwards	0.2	4.4
Accrued compensation and benefits	68.8	72.0
Deferred gain and revenues	81.0	31.3
Net operating and capital loss carryforwards	50.9	57.6
Other	1.1	5.4
Deferred tax assets before valuation allowance	336.8	331.2
Valuation allowance	(60.1)	(50.4)
Net deferred tax assets	$276.7	$280.8
DEFERRED TAX LIABILITIES:		
Depreciable and amortizable property	$ 37.8	$ 27.2
Deferred revenue	86.2	45.1
Discount on notes	3.9	6.9
Other	12.8	32.1
Deferred tax liabilities	$140.7	$111.3

On December 11, 2009, we completed the Northeast Sale (see Note 3). The Northeast Sale resulted in a total federal and state income tax benefit of $60.6 million. In connection with this sale during the third quarter of 2009, we assessed the recoverability of goodwill and long-lived assets related to the Northeast Operations reporting unit that included the Acquired Companies. We recorded goodwill impairment of $137.0 million as a result of our assessment. This impairment of goodwill was treated as a nondeductible expense.

The Northeast Sale also resulted in deferred tax assets for capital loss carryovers having a potential future federal and state tax benefit of $35.6 million. A valuation allowance was established for the full amount of these deferred tax assets, as we determined that the future realizability of these benefits could not be assumed.

During 2009, our total valuation allowance increased by $9.7 million as result of the $35.6 million related to the aforementioned capital loss carryforward and $15 million related to net operating loss carryforwards and other deferred tax assets for which the future realization became uncertain, offset by a reduction of $40.8 million related primarily to the elimination of net operating loss carryforwards and other assets that occurred with the sale.

For 2009, 2008 and 2007 the income tax benefit realized from share-based award exercises was $2.2 million, $1.7 million and $28.5 million, respectively. Of the tax benefit realized, $(4.9) million, $0.1 million and $26.2 million were allocated to stockholders' equity in 2009, 2008 and 2007, respectively.

As of December 31, 2009, we had federal and state net operating loss carryforwards of approximately $6.0 million and $204.9 million, respectively. The net operating loss carryforwards expire at various dates through 2029.

Limitations on utilization may apply to approximately $6.0 million and $155.1 million of the federal and state net operating loss carryforwards, respectively. Accordingly, valuation allowances have been provided to account for the potential limitations on utilization of these tax benefits. In 2008, $13.1 million of the $50.4 million valuation allowance would have been allocated to reduce goodwill in the event the deferred tax assets for the net operating loss carryforwards from a prior acquisition were realized. The subsidiary to which this valuation allowance related was sold during 2009, therefore, no portion of the 2009 valuation allowance remains that would be allocated to reduce goodwill.

We maintain a liability for unrecognized tax benefits that includes the estimated amount of contingent adjustments that may be sustained by taxing authorities upon examination. A reconciliation of the beginning and ending amount of unrecognized tax benefits, exclusive of related interest, is as follows:

	2009	2008	2007
	(Dollars in millions)		
Gross unrecognized tax benefits at beginning of year	$ 53.2	$55.1	$105.5
Decreases in unrecognized tax benefits related to a prior year	(28.6)	(0.5)	(38.4)
Increases in unrecognized tax benefits related to the current year	(0.5)	3.2	7.9
Settlements with taxing authorities	(4.7)	—	(16.2)
Lapse in statute of limitations for assessment	1.5	(4.6)	(3.7)
Gross unrecognized tax benefits at end of year	$ 20.9	$53.2	$ 55.1

Of the $23.0 million total liability at December 31, 2009 for unrecognized tax benefits, including interest and penalties, approximately $4.5 million would, if recognized, impact the Company's effective tax rate. The remaining $18.5 million would impact deferred tax assets. Of the $58.1 million total liability at December 31, 2008 for unrecognized tax benefits, approximately $18.4 million would, if recognized, impact the Company's effective tax rate. The remaining $39.7 million would impact deferred tax assets.

We recognized interest and any applicable penalties, which could be assessed related to unrecognized tax benefits in income tax provision expense. Accrued interest and penalties are included within the related tax liability in the consolidated balance sheet. During 2009, 2008 and 2007, $(2.0) million, $(0.4) million and $(0.1) million of interest was recorded as income tax provision benefit, respectively. We reported interest accruals of $1.1 million and $4.8 million at December 31, 2009 and 2008, respectively. Provision expense and accruals for penalties were immaterial in all reporting periods.

We file tax returns in the federal as well as several state tax jurisdictions. As of December 31, 2009, tax years subject to examination in the federal jurisdiction are 2008 and forward. The most significant state tax

jurisdiction for the Company is California, and tax years subject to examination by that jurisdiction are 2004 and forward. Presently we are under examination by various state taxing authorities. We do not believe that any ongoing examination will have a material impact on our consolidated balance sheet. In addition, we do not anticipate any significant changes to our liability for unrecognized tax benefits within the next 12 months.

Note 12—Regulatory Requirements

All of our health plans as well as our insurance subsidiaries are required to maintain minimum capital standards and certain restricted accounts or assets, in accordance with legal and regulatory requirements. For example, under the Knox-Keene Health Care Service Plan Act of 1975, as amended, California plans must comply with certain minimum capital or tangible net equity requirements. Our non-California health plans, as well as our insurance companies, must comply with their respective state's minimum regulatory capital requirements. In addition, in California and in certain other jurisdictions, licensees are required to maintain minimum investment amounts for the restricted use of the regulators in certain limited circumstances. Within the scope of state requirements established by the regulators, we have discretion as to whether we invest such funds in cash and cash equivalents or other investments. Such restricted cash and cash equivalents, as of December 31, 2009 and 2008, totaled $5.6 million and $63.5 million, respectively. In 2008, this amount included $59.2 million of cash and cash equivalents held by our Northeast subsidiaries, compared to $0 in 2009. Investment securities held by trustees or agencies pursuant to state regulatory requirements were $9.9 million and $55.3 million as of December 31, 2009 and 2008, respectively. In 2008, this amount included $41.4 million of investment securities held by our Northeast subsidiaries, compared to $0 in 2009. See the "Restricted Assets" section in Note 2 for additional information.

As necessary, we make contributions to and issue standby letters of credit on behalf of our subsidiaries to meet risk based capital (RBC) or other statutory capital requirements under various state laws and regulations, and to meet the capital standards of credit rating agencies. During the year ended December 31, 2009, we made capital contributions of $119.5 million to various subsidiaries to increase RBC or other statutory capital to a higher level compared to the past. The capital contributions were generally not required to meet regulatory requirements, but were made to enhance the financial condition of the subsidiaries for credit rating and other purposes. As a result of the regulatory capital requirements and other requirements of state law and regulation, certain subsidiaries are subject to restrictions on their ability to make dividend payments, loans or other transfers of cash to us, or their ability to do so is conditioned upon prior regulatory approval or non-objection. Such restrictions, unless amended or waived, limit the use of any cash generated by these subsidiaries to pay our obligations. The maximum amount of dividends which can be paid by the insurance company subsidiaries to us without prior approval of the insurance departments is subject to restrictions relating to statutory surplus, statutory income and unassigned surplus. Management believes that as of December 31, 2009 all of our active health plans and insurance subsidiaries met their respective regulatory requirements in all material respects.

Note 13—Commitments and Contingencies

Legal Proceedings

Litigation Related to the Sale of Businesses

AmCareco Litigation

We are a defendant in two related litigation matters pending in Louisiana and Texas state courts, both of which relate to claims asserted by three separate state receivers overseeing the liquidation of three health plans in Louisiana, Texas and Oklahoma that were previously owned by our former subsidiary, Foundation Health Corporation (FHC), which merged into Health Net, Inc. in January 2001. In 1999, FHC sold its interest in these

plans to AmCareco, Inc. (AmCareco). We retained a minority interest in the three plans after the sale. Thereafter, the three plans became known as AmCare of Louisiana (AmCare-LA), AmCare of Oklahoma (AmCare-OK) and AmCare of Texas (AmCare-TX). In 2002, three years after the sale of the plans to AmCareco, each of the AmCare plans was placed under state oversight and ultimately into receivership. The receivers for each of the AmCare plans filed suit against us contending that, among other things, we were responsible as a "controlling shareholder" of AmCareco following the sale of the plans for post-acquisition misconduct by AmCareco and others that caused the three health plans to fail and ultimately be placed into receivership.

On June 16, 2005, a consolidated trial of the claims asserted against us by the three receivers commenced in state court in Baton Rouge, Louisiana. The claims of the receiver for AmCare-TX were tried before a jury and the claims of the receivers for the AmCare-LA and AmCare-OK were tried before the judge in the same proceeding. On June 30, 2005, the jury considering the claims of the receiver for AmCare-TX returned a verdict against us in the amount of $117.4 million, consisting of $52.4 million in compensatory damages and $65 million in punitive damages. The Court later reduced the compensatory and punitive damages awards to $36.7 million and $45.5 million, respectively, and entered judgments against us in those amounts.

The proceedings regarding the claims of the receivers for AmCare-LA and AmCare-OK concluded on July 8, 2005. On November 4, 2005, the Court issued separate judgments on those claims and awarded $9.5 million in compensatory damages to AmCare-LA and $17 million in compensatory damages to AmCare-OK, respectively. The Court later denied requests by AmCare-LA and AmCare-OK for attorneys' fees and punitive damages. We thereafter appealed both judgments, and the receivers for AmCare-LA and AmCare-OK each appealed the orders denying them attorneys' fees and punitive damages.

On December 30, 2008, the Court of Appeal issued its judgment on each of the appeals. It reversed in their entirety the trial court's judgments in favor of the AmCare-TX and AmCare-OK receivers, and entered judgment in our favor against those receivers, finding that the receivers' claims failed as a matter of law. As a result, those receivers' cross appeals were rendered moot. The Court of Appeal also reversed the trial court judgment in favor of the AmCare-LA receiver, with the exception of a single breach of contract claim, on which it entered judgment in favor of the AmCare-LA receiver in the amount of $2 million. On January 14, 2009, the three receivers filed a request for rehearing by the Court of Appeal. On February 13, 2009, the Court of Appeal denied the request for a rehearing. Following the Court of Appeal's denial of the requests for rehearing, each of the receivers filed applications for a writ with the Louisiana Supreme Court. On December 18, 2009, the Louisiana Supreme Court granted the receivers' writs, and oral argument has been scheduled for March 16, 2010.

In light of the original trial court judgments against us, on November 3, 2006, we filed a complaint in the U.S. District Court for the Middle District of Louisiana and simultaneously filed an identical suit in the 19th Judicial District Court in East Baton Rouge Parish seeking to nullify the three judgments that were rendered against us on the grounds of ill practice which resulted in the judgments entered. We have alleged that the judgments and other prejudicial rulings rendered in these cases were the result of impermissible ex parté contacts between the receivers, their counsel and the trial court during the course of the litigation. Preliminary motions and exceptions have been filed by the receivers for AmCare-TX, AmCare-OK and AmCare-LA seeking dismissal of our claim for nullification on various grounds. The federal judge dismissed Health Net's federal complaint and Health Net appealed to the U.S. Fifth Circuit Court of Appeals. On July 8, 2008, the Fifth Circuit issued an opinion affirming the district court's dismissal of the federal complaint, albeit on different legal grounds from those relied upon by the district court. The state court nullity action has been stayed pending the resolution of Health Net's jurisdictional appeal in the federal action and has remained stayed during the pendency of the appeal of the underlying judgments.

These proceedings are subject to many uncertainties, and, given their complexity and scope, their outcome, including the outcome of any appeal, cannot be predicted at this time. It is possible that in a particular quarter or annual period our results of operations, cash flow and/or liquidity could be materially affected by an ultimate unfavorable resolution of these proceedings depending, in part, upon the results of operations or cash flow for such period. However, at this time, management believes that the ultimate outcome of these proceedings should not have a material adverse effect on our financial condition.

Miscellaneous Proceedings

In the ordinary course of our business operations, we are also subject to periodic reviews by various regulatory agencies with respect to our compliance with a wide variety of rules and regulations applicable to our business, including, without limitation, rules relating to pre-authorization penalties, payment of out-of-network claims and timely review of grievances and appeals, which may result in remediation of certain claims and the assessment of regulatory fines or penalties.

In addition, in the ordinary course of our business operations, we are also party to various other legal proceedings, including, without limitation, litigation arising out of our general business activities, such as contract disputes, employment litigation, wage and hour claims, real estate and intellectual property claims, claims brought by members seeking coverage or additional reimbursement for services allegedly rendered to our members, but which allegedly were either denied, underpaid or not paid, and claims arising out of the acquisition or divestiture of various business units or other assets. We are also subject to claims relating to the performance of contractual obligations to providers, members, employer groups and others, including the alleged failure to properly pay claims and challenges to the manner in which we process claims. In addition, we are subject to claims relating to the insurance industry in general, such as claims relating to reinsurance agreements, information security breaches, rescission of coverage and other types of insurance coverage obligations.

These other regulatory and legal proceedings are subject to many uncertainties, and, given their complexity and scope, their final outcome cannot be predicted at this time. It is possible that in a particular quarter or annual period our results of operations and cash flow could be materially affected by an ultimate unfavorable resolution of any or all of these other regulatory and legal proceedings depending, in part, upon the results of operations or cash flow for such period. However, at this time, management believes that the ultimate outcome of the regulatory and legal proceedings currently pending against us, after consideration of applicable reserves and potentially available insurance coverage benefits, should not have a material adverse effect on our financial condition and liquidity.

Potential Settlements

We regularly evaluate litigation matters pending against us, including those described above, to determine if settlement of such matters would be in the best interests of the Company and its stockholders. The costs associated with any such settlement could be substantial and, in certain cases, could result in a significant earnings charge in any particular quarter in which we enter into a settlement agreement. We have recorded reserves and accrued costs for future legal costs for certain significant matters described above. These reserves and accrued costs represent our best estimate of probable loss, including related future legal costs for such matters, both known and incurred but not reported, although our recorded amounts might ultimately be inadequate to cover such costs. Therefore, the costs associated with the various litigation matters to which we are subject and any earnings charge recorded in connection with a settlement agreement could have a material adverse effect on our financial condition or results of operations.

Operating Leases and Long-Term Purchase Obligations

Operating Leases

We lease administrative office space throughout the country under various operating leases. Certain leases contain renewal options and rent escalation clauses. Certain leases are cancelable with substantial penalties.

On March 29, 2007, we sold our 68-acre commercial campus in Shelton, Connecticut (the Shelton Property) to The Dacourt Group, Inc. (Dacourt) and leased it back from Dacourt under an operating lease agreement for an initial term of ten years with an option to extend for two additional terms of ten years each. The total future minimum lease commitments under the lease are approximately $62.5 million.

Effective January 1, 2005, we entered into an operating lease agreement to renew our leased office space in Woodland Hills, California for our corporate headquarters. The new lease is for a term of 10 years and has provisions for space reduction at specific times over the term of the lease, but it does not provide for complete cancellation rights. The total future minimum lease commitments under the lease are approximately $16.2 million.

Long-Term Purchase Obligations

We have entered into long-term agreements to purchase various services, which may contain certain termination provisions and have remaining terms in excess of one year as of December 31, 2009.

We have entered into long-term agreements to receive services related to pharmacy benefit management, pharmacy claims processing services and health quality/risk scoring enhancement services with external third-party service providers. The remaining terms are approximately three years for each of these contracts. Termination of these agreements is subject to certain termination provisions. The total future minimum commitments under these agreements are $131.7 million and are included in the table below.

On August 19, 2008, we entered into an agreement with International Business Machines Corporation (IBM) to outsource our IT infrastructure management services including data center services, IT security management and help desk support. The remaining term of this contract is approximately four years, and the total future minimum commitments under the agreement are approximately $225.4 million.

On September 30, 2008, we entered into an agreement with Cognizant Technology Solutions U.S. Corporation (Cognizant) to outsource our software applications development and management activities to Cognizant. Under the terms of the agreement, Cognizant will, among other things, provide us with services including the following: application development, testing and monitoring services, application maintenance and support services, project management services and cross functional services. The remaining term of this contract is approximately four years, and the total estimated future commitments under the agreement are approximately $84.7 million.

On January 23, 2009, we also entered into another agreement with Cognizant to outsource a substantial portion of our claims processing activities to Cognizant. Under the terms of the agreement, Cognizant will, among other things, provide us with claims adjudication, adjustment, audit and process improvement services. The remaining term of this contract is approximately five years, and the total estimated future commitments under the agreement are approximately $13.0 million.

We have also entered into contracts with our health care providers and facilities, the federal government, other IT service companies and other parties within the normal course of our business for the purpose of providing health care services. Certain of these contracts are cancelable with substantial penalties.

As of December 31, 2009, future minimum commitments for operating leases and long-term purchase obligations for the years ending December 31 are as follows:

	Operating Leases	Long-Term Purchase Obligations
	(Dollars in millions)	
2010	$ 64.2	$154.7
2011	53.0	147.1
2012	34.4	93.5
2013	27.5	69.2
2014	26.0	7.2
Thereafter	34.5	0.1
Total minimum commitments	$239.6	$471.8

Lease expense totaled $63.1 million, $71.1 million and $70.7 million for the years ended December 31, 2009, 2008 and 2007, respectively. Long-term purchase obligation expenses totaled $127.6 million, $33.9 million and $39.3 million for the years ended December 31, 2009, 2008 and 2007, respectively.

Surety Bonds

During December 2005, the Company elected to post $114.7 million of surety bonds to suspend the effect, and secure appeal, of the final judgment entered against the Company in connection with the AmCareco litigation. The surety bonds are secured by $88.1 million of irrevocable standby letters of credit (the "LC") issued under the Company's revolving credit facility in favor of the issuers of the surety bonds.

Under the surety bond and LC arrangement, if the Company were to fail to pay the amount, if any, of a final judgment in connection with the AmCareco litigation following appeal, the issuers of the surety bonds would make payment in satisfaction of the judgment. The Company would, in turn, be responsible for reimbursing the issuing bank under the LC to the extent that the issuers of the surety bonds were to draw on the LC. To the extent the Company incurs liabilities as a result of the arrangements under the surety bonds or the LC, such liabilities would be included on the Company's consolidated balance sheet.

We will recognize a liability for any amounts actually, or expected to be, funded to these surety bonds or drawn down from the letters of credit. At this time, the Company does not believe it will be required to fund or draw down any amounts related to the surety bonds or the LC. Accordingly, no liability related to the surety bonds or the LC has been recognized in the Company's financial statements as of December 31, 2009 and 2008.

Note 14—Segment Information

During the year ended December 31, 2009, we reviewed our reportable segments following the execution of the Stock Purchase Agreement to sell our Northeast business as discussed in Note 3. The sale was completed on December 11, 2009. As a result of the Northeast Sale and the entry into the United Administrative Services Agreements to provide administrative services post-closing, we operate the Northeast business in a manner that is different than the rest of our health plans. Under the terms of the United Administrative Service Agreements, we

assist United and its affiliates in operating the Acquired Companies, including winding-down and dissolving the entities. The rest of our health plans are operated as continuing core health plans. Accordingly, the aggregation criteria that we had been applying to aggregate all of our health plan operating components into a single reportable segment is no longer applicable. As a result of our review of the reportable segments, we have determined that they need to be expanded to West Operations, Northeast Operations, and Government Contracts. There have not been any changes to our Government Contracts reportable segment.

Our reportable segments are determined by applying the aggregation criteria in the Segment Reporting Topic of the FASB Accounting Standards Codification. The financial results of our reportable segments are reviewed on a monthly basis by our executive operating team which comprises the chief operating decision maker (CODM). We continuously monitor our reportable segments to ensure that they reflect how our CODM manages our company. Although our health plan services operating components can no longer be aggregated into one reporting unit and operating segment, as previously done, these operating components can be grouped into two operating segments: West Operations and Northeast Operations. Within each of these two operating segments, the operating components have similar economic characteristics and they meet the additional following five aggregation criteria:

- Similar managed health care products and services including HMO, PPO and POS,
- Similar production process as they support similar customer groups and products,
- Same type of customers, individuals within large and small employer groups and senior and commercial individuals,
- Similar distribution channels primarily consisting of insurance brokers, and
- Similar regulatory environment in that the health care industry is highly regulated at both the federal and state levels.

Our West Operations operating and reportable segment includes the operations of our commercial, Medicare (including Part D) and Medicaid health plans, the operations of our health and life insurance companies and our behavioral health and pharmaceutical services subsidiaries in Arizona, California and Oregon. Our Northeast Operations operating and reportable segment includes the operations of our businesses that are providing administrative services to United and its affiliates pursuant to the United Administrative Services Agreements. Prior to this change in our reportable segments, the West Operations and the Northeast Operations had been aggregated into a single reportable segment called Health Plan Services. Our Government Contracts reportable segment has not changed and continues to include government-sponsored managed care plans through the TRICARE program and other health care-related government contracts. Our Government Contracts segment administers one large, multi-year managed health care government contract and other health care-related government contracts.

We evaluate performance and allocate resources based on segment pretax income. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies (see Note 2), except that intersegment transactions are not eliminated. We include investment income, administrative services fees and other income and expenses associated with our corporate shared services and other costs in determining our West Operations and Northeast Operations segments' pretax income to reflect the fact that these revenues and expenses are primarily used to support our West Operations and Northeast Operations.

Asset impairment on Northeast operations and loss on sale of Northeast health plan subsidiaries are excluded from our measurement of segment performance since they are not managed within either of our reportable segments.

Presented below are segment data for the three years ended December 31,

2009

	West Operations	Northeast Operations	Government Contracts	Eliminations	Total
	(Dollars in millions)				
Revenues from external sources	$9,865.2	$2,575.4	$3,104.7	$ —	$15,545.3
Intersegment revenues	51.2	0.3	0.4	(51.9)	—
Net investment income	67.6	38.3	—	—	105.9
Administrative services fees and other income	38.8	23.2	—	—	62.0
Interest expense	40.7	0.2	—	—	40.9
Depreciation and amortization	36.8	16.2	—	—	53.0
Share-based compensation expense	9.6	0.9	1.2	—	11.7
Segment pretax income (loss)	144.5	(53.9)	165.0	—	255.6
Segment assets	$3,745.2	$ —	$ 537.5	—	$ 4,282.7

2008

	West Operations	Northeast Operations	Government Contracts	Eliminations	Total
	(Dollars in millions)				
Revenues from external sources	$9,652.7	$2,739.3	$2,835.3	$ —	$15,227.3
Intersegment revenues	91.4	4.5	0.2	(96.1)	—
Net investment income	64.8	26.2	—	—	91.0
Administrative services fees and other income	32.5	15.8	—	—	48.3
Interest expense	41.0	1.9	—	—	42.9
Depreciation and amortization	34.9	25.0	—	—	59.9
Share-based compensation expense	18.8	3.1	2.2	—	24.1
Segment pretax income (loss)	(2.5)	16.9	132.7	—	147.1
Segment assets	$3,356.5	$ 943.9	$ 515.9	—	$ 4,816.3

2007

	West Operations	Northeast Operations	Government Contracts	Eliminations	Total
	(Dollars in millions)				
Revenues from external sources	$8,707.7	$2,727.6	$2,501.7	$ —	$13,937.0
Intersegment revenues	50.1	3.9	—	(54.0)	—
Net investment income	86.2	34.0	—	—	120.2
Administrative services fees and other income	29.4	21.7	—	—	51.1
Interest expense	30.7	1.8	—	—	32.5
Depreciation and amortization	32.4	10.6	—	—	43.0
Share-based compensation expense	22.7	—	1.6	—	24.3
Segment pretax income	159.7	5.1	194.1	—	358.9
Segment assets	$3,409.3	$1,070.2	$ 453.6	—	$ 4,933.1

Our health plan services premium revenue by line of business is as follows:

	Year Ended December 31,		
	2009	2008	2007
	(Dollars in millions)		
Commercial premium revenue	$ 7,562.4	$ 7,797.5	$ 7,468.0
Medicare Risk premium revenue	3,672.9	3,521.5	2,778.9
Medicaid premium revenue	1,205.3	1,073.0	1,188.4
Total Health Plan Services premiums	$12,440.6	$12,392.0	$11,435.3

A reconciliation of the total reportable segments' measures of profit to the Company's consolidated income (loss) from continuing operations before income taxes and cumulative effect of a change in accounting principle for the years ended December 31, 2009, 2008 and 2007 is as follows:

	2009	2008	2007
	(Dollars in millions)		
Pretax income:			
West Operations	$ 144.5	$ (2.5)	$159.7
Northeast Operations	(53.9)	16.9	5.1
Government Contracts	165.0	132.7	194.1
Total segment pretax income	$ 255.6	$147.1	$358.9
Loss on sale of Northeast health plan subsidiaries	(105.9)	—	—
Asset impairment on Northeast operations	(174.9)	—	—
(Loss) income from continuing operations before income taxes as reported	$ (25.2)	$147.1	$358.9

Note 15—Reserves for Claims and Other Settlements

Reserves for claims and other settlements include reserves for claims (IBNR claims and received but unprocessed claims), and other liabilities including capitation payable, shared risk settlements, provider disputes, provider incentives and other reserves for our health plan services. The table below provides a reconciliation of changes in reserve for claims for the years ended December 31, 2009, 2008 and 2007.

	Health Plan Services Year Ended December 31,		
	2009	2008	2007
	(Dollars in millions)		
Reserve for claims (a), beginning of period	$ 957.1	$ 838.7	$ 754.2
Incurred claims related to:			
Current year	6,422.8	6,372.2	5,790.7
Prior years (c)	(80.0)	(8.3)	0.6
Total incurred (b)	6,342.8	6,363.9	5,791.3
Paid claims related to:			
Current year	5,572.2	5,443.2	4,972.3
Prior years	857.8	802.3	734.5
Total paid (b)	6,430.0	6,245.5	5,706.8
Less divested businesses	(177.7)	—	—
Reserve for claims (a), end of period	692.2	957.1	838.7
Add:			
Claims payable	165.6	187.8	161.9
Claims-related remediations (e)	—	93.1	201.5
Reserve for provider disputes	—	3.9	2.2
Other (d)	93.9	96.2	96.1
Reserves for claims and other settlements, end of period	$ 951.7	$1,338.1	$1,300.4

(a) Consists of IBNR claims and received but unprocessed claims and reserves for loss adjustment expenses.

(b) Includes medical claims only. Capitation, pharmacy and other payments including provider settlements are not included.

(c) This line represents the change in reserves attributable to the difference between the original estimate of incurred claims for prior years and the revised estimate. In developing the revised estimate, there have been no changes in the approach used to determine the key actuarial assumptions, which are the completion factor and medical cost trend. Claims liabilities are estimated under actuarial standards of practice and GAAP. The majority of the reserve balance held at each quarter-end is associated with the most recent months' incurred services because these are the services for which the fewest claims have been paid. The degree of uncertainty in the estimates of incurred claims is greater for the most recent months' incurred services. Revised estimates for prior years are determined in each quarter based on the most recent updates of paid claims for prior years. As of December 31, 2009, incurred claims related to prior years were estimated to be $80.0 million lower than originally estimated at December 31, 2008. The majority of this amount was due to adjustments to our reserves that related to variables and uncertainties associated with our assumptions. In 2009, as our reserve balance for older months of service decreased, and estimates of our incurred costs for older dates of service became more certain and predictable, our estimates of incurred claims related to prior periods were adjusted accordingly. Actual claim experience was more favorable than our estimate.

As of December 31, 2008, incurred claims related to prior years were estimated to be $8.3 million lower than originally estimated at December 31, 2007.

As of December 31, 2007, incurred claims related to prior years were estimated to be $0.6 million higher than originally estimated at December 31, 2006.

(d) Includes accrued capitation, shared risk settlements and other reserve items.

(e) Includes charges for claims-related matters, class disbursements and remediations recognized during 2007 and 2008. See Note 13 for further information on this class action litigation.

The following table shows the Company's health plan services capitated and non-capitated expenses for the years ended December 31:

	Health Plan Services		
	2009	2008	2007
	(Dollars in millions)		
Total incurred claims	$ 6,342.8	$ 6,363.9	$5,791.3
Capitated expenses and shared risk	2,782.0	2,644.5	2,398.5
Pharmacy and other	1,607.2	1,754.3	1,573.1
Health plan services	$10,732.0	$10,762.7	$9,762.9

For the years ended December 31, 2009, 2008 and 2007, the Company's capitated, shared risk, pharmacy and other expenses represented 41%, 41% and 41%, respectively, of the Company's total health plan services.

Note 16—Quarterly Information (Unaudited)

The following interim financial information presents the 2009 and 2008 results of operations on a quarterly basis:

2009

	March 31	June 30	September 30	December 31
	(Dollars in millions, except per share data)			
Total revenues (6), (7), (8)	$3,932.8	$4,013.7	$3,968.7	$3,798.1(9)
Health plan services costs (6)	2,721.8	2,718.0	2,735.0	2,557.2
Government contracts costs (7)	725.0	791.0	716.3	707.4
Income (loss) from operations before income taxes	24.1	63.8	(78.9)	(34.3)
Net income (loss)	22.0(1)	40.1(2)	(66.0)(3)	(45.2)(4)
Basic earnings (loss) per share	$ 0.21	$ 0.39	$ (0.64)	$ (0.43)
Diluted earnings (loss) per share (5)	$ 0.21	$ 0.38	$ (0.64)	$ (0.43)

(1) Includes a $44.8 million charge related to litigation and regulatory-related matters and our operations strategy, and $7 million decrease in reserve for uncertain tax positions.

(2) Includes a $17.6 million charge related to litigation and regulatory-related matters and our operations strategy, and $4 million decrease in reserve for uncertain tax positions.

(3) Includes a $18.9 million charge related to litigation, regulatory-related matters and our operations strategy and a $170.6 million pretax asset impairment charge related to the Northeast Sale (see Note 3 for more information), $3 million decrease in reserve for uncertain tax positions, and $9 million decrease in share-based compensation expense due to change in forfeiture assumptions.

(4) Includes a $42.4 million charge related to litigation and regulatory-related matters and our operations strategy, an $4.3 million asset impairment charge and a $105.9 million loss on sale of our Northeast health plan subsidiaries (see Note 3 for more information).

(5) The sum of the quarterly amounts may not equal the year-to-date amounts due to rounding.
(6) Includes $55 million, $60 million, $24 million, and $25 million of health plan services premium revenues and $15 million, $17 million, $6 million, and $7 million of health plan services costs related to Medicare risk factor estimated amounts to be received from CMS as of the quarters ended March 31, June 30, September 30, and December 31, 2009, respectively.
(7) Includes $7 million, $26 million, $9 million, and $(1) million of government contracts revenue and $8 million, $35 million, $9 million, and $(2) million of government contracts cost due to TRICARE estimated health care cost adjustments for the quarters ended March 31, June 30, September 30, and December 31, 2009, respectively.
(8) Includes $(0.8) million, $(0.4) million, $0.1 million, and $(0.1) million of interest and changes in the interest rate swap valuations for the quarters ended March 31, June 30, September 30, and December 31, 2009, respectively.
(9) Includes $10 million payment received for interest on premium rate settlement and $15 million of fees earned under the United Administrative Services Agreements.

2008

	March 31	June 30	September 30	December 31
	(Dollars in millions, except per share data)			
Total revenues (6), (7), (9)	$3,836.8	$3,841.5	$3,818.9	$3,869.4(8)
Health plan services costs (6)	2,788.4	2,655.1	2,689.8	2,629.4
Government contracts costs (7)	637.6	658.3	687.8	718.9
(Loss) income from operations before income taxes	(51.0)	118.1	26.1	54.0
Net (loss) income	(35.7)(1)	76.7(2)	18.5(3)	35.5(4)
Basic (loss) earnings per share	$ (0.33)	$ 0.71	$ 0.17	$ 0.34
Diluted (loss) earnings per share (5)	$ (0.33)	$ 0.71	$ 0.17	$ 0.34

(1) Includes a $82.4 million charge related to litigation and regulatory-related matters and our operations strategy.
(2) Includes a $13.0 million charge related to litigation and regulatory-related matters and our operations strategy.
(3) Includes a $17.2 million charge related to our operations strategy and a $14.6 million charge related to other-than-temporary impairment of investment securities.
(4) Includes a $47.9 million charge related to litigation and regulatory-related matters and our operations strategy.
(5) The sum of the quarterly amounts may not equal the year-to-date amounts due to rounding.
(6) Includes $41 million, $48 million, $20 million, and $29 million of health plan services premium revenues and $13 million, $11 million, $4 million, and $5 million of health plan services costs related to Medicare risk factor estimated amounts to be received from CMS as of the quarters ended March 31, June 30, September 30, and December 31, 2008, respectively.
(7) Includes $(4) million, $4 million, $48 million, and $(31) million of government contracts revenue and $(6) million, $5 million, $62 million, and $(39) million of government contracts cost due to TRICARE estimated health care cost adjustments for the quarters ended March 31, June 30, September 30, and December 31, 2008, respectively.
(8) Includes $19 million of 2001-2002 California Medi-Cal premium rate adjustments in the quarter ended December 31, 2008.
(9) Includes $4.1 million, $(3.6) million, $1.0 million, and $5.4 million of changes in the interest rate swap valuations for the quarters ended March 31, June 30, September 30, and December 31, 2008, respectively.

SUPPLEMENTAL SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY ONLY)

HEALTH NET, INC.

CONDENSED STATEMENTS OF OPERATIONS
(Amounts in thousands)

	Year Ended December 31,		
	2009	2008	2007
		As restated See Note 2	
REVENUES:			
Net investment (loss) income	$ (50)	$ 10,359	$ 8,294
Other income (loss)	(6,580)	(51,872)	2,641
Administrative service fees	464,840	430,499	411,232
Total revenues	458,210	388,986	422,167
EXPENSES:			
General and administrative	510,487	493,330	643,971
Depreciation and amortization	40,856	36,661	21,263
Interest	41,938	37,620	32,005
Asset impairments	24,561	—	—
Total expenses	617,842	567,611	697,239
Loss from operations before income taxes and equity in net income of subsidiaries	(159,632)	(178,625)	(275,072)
Income tax benefit	150,309	63,288	126,615
Equity in net (loss) income of subsidiaries	(39,681)	210,340	342,154
Net (loss) income	$ (49,004)	$ 95,003	$ 193,697

See accompanying notes to condensed financial statements.

SUPPLEMENTAL SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY ONLY)

HEALTH NET, INC.

CONDENSED BALANCE SHEETS
(Amounts in thousands)

	December 31, 2009	December 31, 2008 As restated See Note 2
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 450,980	$ 82,238
Investment—available for sale	7,507	69,806
Other assets	31,077	22,162
Deferred taxes	32,068	39,444
Due from subsidiaries	115,850	70,117
Total current assets	637,482	283,767
Property and equipment, net	100,014	151,760
Goodwill	350,233	394,783
Other intangible assets, net	3,698	4,323
Investment in subsidiaries	3,690,727	3,727,450
Other deferred taxes	29,668	45,382
Notes receivable due from subsidiaries	—	10,000
Other assets	61,231	69,732
Total Assets	$ 4,873,053	$ 4,687,197
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Due to subsidiaries	$ 227,577	$ 229,936
Other liabilities	207,455	172,860
Total current liabilities	435,032	402,796
Intercompany notes payable—long term	2,156,087	1,856,443
Long term debt	498,480	548,276
Other liabilities	87,671	127,556
Total Liabilities	3,177,270	2,935,071
Commitments and contingencies		
Stockholders' Equity:		
Common stock	154	144
Additional paid-in capital	1,190,203	1,182,067
Treasury common stock, at cost	(1,389,722)	(1,367,319)
Retained earnings	1,895,096	1,944,100
Accumulated other comprehensive income (loss)	52	(6,866)
Total Stockholders' Equity	1,695,783	1,752,126
Total Liabilities and Stockholders' Equity	$ 4,873,053	$ 4,687,197

See accompanying notes to condensed financial statements.

SUPPLEMENTAL SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY ONLY)

HEALTH NET, INC.

CONDENSED STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Year Ended December 31,		
	2009	2008	2007
NET CASH FLOWS PROVIDED BY (USED IN) OPERATING ACTIVITIES	$ 125,872	$ (11,656)	$ 216,043
CASH FLOWS FROM INVESTING ACTIVITIES:			
Sales on investments	62,299	—	—
Maturities of investments	—	124,825	—
Purchases of investments	—	(194,631)	—
Sales of property and equipment	2,799	—	34
Purchases of property and equipment	(25,401)	(62,198)	(52,198)
Notes receivable due from subsidiaries	10,000	—	—
Cash (paid) received related to the (acquisition) sale of businesses	—	—	(79,484)
Capital contributions returned to Parent	350,707	304,543	—
Capital contributions to subsidiaries	(394,500)	(240,630)	(1,002,273)
Sales (purchases) of restricted investments and other	—	—	(5,915)
Net cash provided by (used in) investing activities	5,904	(68,091)	(1,139,836)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net increase (decrease) in checks outstanding, net of deposits	95	(2,240)	2,240
Excess tax benefit on share-based compensation	23	242	10,912
Net borrowings from subsidiaries	299,644	(20,493)	1,241,551
Proceeds from exercise of stock options and employee stock purchases	1,354	6,636	72,622
Proceeds from issuance of notes and other financing arrangements	80,000	520,000	493,535
Repayment of debt under financing arrangements	(130,000)	(370,000)	(600,000)
Repurchase of common stock	(14,150)	(243,172)	(232,220)
Net cash provided by (used in) financing activities	236,966	(109,027)	988,640
Net increase (decrease) in cash and cash equivalents	368,742	(188,774)	64,847
Cash and cash equivalents, beginning of period	82,238	271,012	206,165
Cash and cash equivalents, end of period	$ 450,980	$ 82,238	$ 271,012
SUPPLEMENTAL CASH FLOWS DISCLOSURE:			
Interest paid	$ 27,904	$ 31,330	$ 42,495
Income taxes paid	71,396	97,715	183,843

See accompanying notes to condensed financial statements.

SUPPLEMENTAL SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT (PARENT COMPANY ONLY)

HEALTH NET, INC.

NOTE TO CONDENSED FINANCIAL STATEMENTS

Note 1—Basis of Presentation

Health Net, Inc.'s (HNT) investment in subsidiaries is stated at cost plus equity in undistributed earnings (losses) of subsidiaries. HNT's share of net income (loss) of its unconsolidated subsidiaries is included in consolidated income using the equity method.

This condensed financial information of registrant (parent company only) should be read in conjunction with the consolidated financial statements of Health Net, Inc. and subsidiaries.

Note 2—Restatement

Subsequent to the issuance of the 2008 condensed financial statements of HNT, management determined that it had not accounted for the fair value of an interest rate swap. During 2008, HNT entered into an interest rate swap contract with one of its wholly-owned subsidiaries where HNT receives an amount equal to LIBOR times an indexed notional principal amount and pays an amount equal to 3.925% times the same notional principal amount. The interest rate swap agreement does not qualify for hedge accounting. Accordingly, the interest rate swap should have been reflected at fair value on the condensed balance sheet with an offset to net investment income and equity in net income of subsidiaries. As a result, the accompanying condensed balance sheet as of December 31, 2008 and the condensed statement of operations for the year ended December 31, 2008 has been restated to correct the accounting for this interest rate swap. This restatement has no impact on net income nor on the condensed statement of cash flows as previously reported.

The following table summarizes the restatement adjustments and their impact on our condensed statement of operations as previously reported for the year ended December 31, 2008 (in thousands):

Other income as previously reported	$ 2,117
Interest rate swap fair value adjustment	(53,989)
Other loss as restated	$ (51,872)
Total revenues as previously reported	$ 442,975
Interest rate swap fair value adjustment	(53,989)
Total revenues as restated	$ 388,986
Loss from operations before income tax benefit and equity in net income of subsidiaries as previously reported	$(124,636)
Interest rate swap fair value adjustment	(53,989)
Loss from operations before income tax benefit and equity in net income of subsidiaries as previously reported	$(178,625)
Income tax benefit as previously reported	$ 44,159
Interest rate swap fair value adjustment	19,129
Income tax benefit as restated	$ 63,288
Equity in net income of subsidiaries as previously reported	$ 175,480
Interest rate swap fair value adjustment	34,860
Equity in net income of subsidiaries as restated	$ 210,340

SUPPLEMENTAL SCHEDULE I

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
(PARENT COMPANY ONLY)

HEALTH NET, INC.

NOTE TO CONDENSED FINANCIAL STATEMENTS—(Continued)

The following table summarizes the restatement adjustments and their impact on our condensed balance sheet as previously reported for the year ended December 31, 2008 (in thousands):

Investment in subsidiaries as previously reported	$3,692,590
Interest rate swap fair value adjustment	34,860
Investment in subsidiaries as restated	$3,727,450
Other deferred taxes as previously reported	$ 26,253
Interest rate swap fair value adjustment	19,129
Other deferred taxes as restated	$ 45,382
Total assets as previously reported	$4,633,208
Interest rate swap fair value adjustment	53,989
Total assets as restated	$4,687,197
Other current liabilities as previously reported	$ 118,871
Interest rate swap fair value adjustment	53,989
Other current liabilities as restated	$ 172,860
Total current liabilities as previously reported	$ 348,807
Interest rate swap fair value adjustment	53,989
Total current liabilities as restated	$ 402,796
Total liabilities as previously reported	$2,881,082
Interest rate swap fair value adjustment	53,989
Total liabilities as restated	$2,935,071

SUPPLEMENTAL SCHEDULE II

VALUATION AND QUALIFYING ACCOUNTS AND RESERVES

HEALTH NET, INC.
(Amounts in thousands)

	Balance at Beginning of Period	Charged to Costs and Expenses	Credited to Other Accounts (1)	Deductions Northeast entities sold	Balance at End of Period
2009:					
Allowance for doubtful accounts:					
Premiums receivable	$13,567	$13,267	$(17,476)	$(3,075)	$ 6,283
2008:					
Allowance for doubtful accounts:					
Premiums receivable	$ 6,724	$20,332	$(13,489)	$ —	$13,567
2007:					
Allowance for doubtful accounts:					
Premiums receivable	$ 7,526	$10,102	$(10,904)	$ —	$ 6,724

(1) Credited to premiums receivable on the Consolidated Balance Sheets.

EXHIBIT INDEX

Exhibit Number	Description
^2.1	Stock Purchase Agreement, dated as of July 20, 2009, by and among Health Net, Inc., Health Net of the Northeast, Inc., Oxford Health Plans, LLC and solely with respect to section 8.16 thereof, UnitedHealth Group Incorporated (filed as Exhibit 2.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-12718) and incorporated herein by reference).
^†2.2	Restated Amendment No. 1 to Stock Purchase Agreement, effective as of December 11, 2009, by and among Health Net, Inc., Health Net of the Northeast, Inc., Oxford Health Plans, LLC and UnitedHealth Group Incorporated, a copy of which is filed herewith.
3.1	Sixth Amended and Restated Certificate of Incorporation of Health Net, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on July 28, 2006 and incorporated herein by reference).
3.2	Ninth Amended and Restated Bylaws of Health Net, Inc. (filed as Exhibit 3.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 and incorporated herein by reference).
3.3	Amendment Number One to Ninth Amended and Restated Bylaws of Health Net, Inc. (filed as Exhibit 3.1 to the Company's Current Report on Form 8-K filed with the Commission on March 7, 2005 (File No. 1-12718) and incorporated herein by reference).
4.1	Specimen Common Stock Certificate (filed as Exhibit 8 to the Company's Registration Statement on Form 8-A/A (Amendment No. 3) (File No. 1-12718) on July 26, 2004 and incorporated herein by reference).
4.2	Rights Agreement, dated as of July 27, 2006, by and between Heath Net, Inc. and Wells Fargo Bank, N.A., as Rights Agent (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the Commission on July 28, 2006 (File No. 1-12718) and incorporated herein by reference).
4.3	Indenture, dated as of May 18, 2007, by and between Health Net, Inc. as issuer, and The Bank of New York Trust Company, N.A., as trustee (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on May 18, 2007 (File No. 1-12718) and incorporated herein by reference).
4.4	Officer's Certificate, dated May 18, 2007, establishing the terms and form of the Company's $300,000,000 aggregate principal amount of its 6.375% Senior Notes due 2017 (filed as Exhibit 4.2 to the Company's Current Report on Form 8-K filed with the SEC on May 18, 2007 (File No. 1-12718) and incorporated herein by reference).
4.5	Officer's Certificate, dated May 31, 2007, establishing the terms and form of the Company's $100,000,000 aggregate principal amount of its 6.375% Senior Notes due 2017 (filed as Exhibit 4.1 to the Company's Current Report on Form 8-K filed with the SEC on May 31, 2007 (File No. 1-12718) and incorporated herein by reference).
†*10.1	Amended and Restated Employment Agreement, dated as of December 14, 2009, by and between Health Net, Inc. and Angelee F. Bouchard, a copy of which is filed herewith.
*10.2	Amended and Restated Employment Agreement, dated as of December 3, 2008, by and between Joseph C. Capezza and Health Net, Inc. (filed as Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
*10.3	Amended and Restated Employment Agreement, dated as of December 3, 2008, by and between Health Net, Inc. and Patricia T. Clarey (filed as Exhibit 10.2 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.4	Amended and Restated Employment Agreement, dated as of December 3, 2008, by and between Health Net, Inc. and Jay M. Gellert (filed as Exhibit 10.3 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.5	Amended and Restated Employment Agreement, dated as of December 3, 2008, by and between Health Net, Inc. and Karin Mayhew (filed as Exhibit 10.1 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
†*10.6	Amended and Restated Employment Agreement, dated as of February 22, 2010, by and between Health Net, Inc. and Steven Sell, a copy of which is filed herewith.
*10.7	Amended and Restated Employment Agreement, dated as of February 17, 2009, by and between Health Net, Inc. and John Sivori (filed as Exhibit 10.8 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.8	Amendment No. 1 to the Amended and Restated Employment Agreement, dated March 20, 2009, by and among Health Net, Inc. and John Sivori (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.9	Amended and Restated Employment Agreement, dated as of December 3, 2008, by and between Health Net, Inc. and Linda Tiano (filed as Exhibit 10.7 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
†*10.10	Employment Letter Agreement, dated December 14, 2009, by and between Health Net, Inc. and Linda Tiano, a copy of which is filed herewith.
*10.11	Amended and Restated Employment Agreement, dated as of February 17, 2009, by and between Health Net, Inc. and Steve Tough (filed as Exhibit 10.9 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.12	Amended and Restated Employment Agreement, dated as of December 3, 2008, by and between Health Net, Inc. and James E. Woys (filed as Exhibit 10.4 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.13	Certain Compensation Arrangements With Respect to the Company's Non-Employee Directors, as amended and restated on February 18, 2008 (filed as Exhibit 10.13 to the Company's Annual Report on Form 10-K for the year ended December 31, 2007 (File No. 1-12718) and incorporated herein by reference).
†*10.14	Form of Nonqualified Stock Option Agreement utilized for eligible employees of Health Net, Inc. under the 2006 Long-Term Incentive Plan, as amended, a copy of which is filed herewith.
*10.15	Form of Nonqualified Stock Option Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.4 to the Company's Current Report on Form 8-K filed with the Commission on January 21, 2009 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
*10.16	Form of Nonqualified Stock Option Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on March 6, 2006 (File No. 1-12718) and incorporated herein by reference).
*10.17	Form of Nonqualified Stock Option Agreement utilized for Tier 1, 2 and 3 officers of Health Net, Inc., as amended and restated on December 21, 2005 (filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12718) and incorporated herein by reference).
*10.18	Form of Nonqualified Stock Option Agreement utilized for Tier 1, 2 and 3 officers of Health Net, Inc. (filed as Exhibit 10.20 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12718) and incorporated herein by reference).
*10.19	Form of Stock Option Agreement utilized for Tier 1 officers of Health Net, Inc. (filed as Exhibit 10.20 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-12718) and incorporated herein by reference).
*10.20	Form of Nonqualified Stock Option Agreement utilized for Tier 2 officers of Health Net, Inc. (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-12718) and incorporated herein by reference).
*10.21	Form of Nonqualified Stock Option Agreement utilized for Tier 3 officers of Health Net, Inc. (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-12718) and incorporated herein by reference).
*10.22	Form of Stock Option Agreement utilized for Tier 3 officers of Health Net, Inc. (filed as Exhibit 10.22 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (File No. 1-12718) and incorporated herein by reference).
*10.23	Form of Restricted Stock Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on January 21, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.24	Form of Restricted Stock Unit Award Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on January 21, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.25	Form of Restricted Stock Unit Award Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on March 6, 2006 (File No. 1-12718) and incorporated herein by reference).
*10.26	Form of Performance Share Award Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on January 21, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.27	Form of Performance Share Award Agreement utilized for eligible employees of Health Net, Inc. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on February 21, 2008 (File No. 1-12718) and incorporated herein by reference).
†*10.28	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the 2006 Long-Term Incentive Plan, as amended, a copy of which is filed herewith.
*10.29	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the Third Amended and Restated Non-Employee Director Stock Option Plan (filed as Exhibit 10.22 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
*10.30	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the Health Net, Inc. Amended and Restated 1998 Stock Option Plan (filed as Exhibit 10.6 to the Company's Current Report on Form 8-K filed with the Commission on January 21, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.31	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the 2006 Long-Term Incentive Plan (filed as Exhibit 10.5 to the Company's Current Report on Form 8-K filed with the Commission on January 21, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.32	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the 2006 Long-Term Incentive Plan (filed as Exhibit 10.2 to the Company's Current Report on Form 8-K filed with the Commission on May 15, 2006 (File No. 1-12718) and incorporated herein by reference).
*10.33	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the Health Net, Inc. Amended and Restated 1998 Stock Option Plan, as amended and restated on December 21, 2005 (filed as Exhibit 10.26 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12718) and incorporated herein by reference).
*10.34	Form of Nonqualified Stock Option Agreement utilized for non-employee directors under the Health Net, Inc. Amended and Restated 1998 Stock Option Plan (filed as Exhibit 10.23 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12718) and incorporated herein by reference).
†*10.35	Health Net, Inc. Deferred Compensation Plan, as amended and restated effective January 1, 2010, a copy of which is filed herewith.
†*10.36	Health Net, Inc. Deferred Compensation Plan for Directors, as amended and restated effective December 1, 2009, a copy of which is filed herewith.
*10.37	Health Net, Inc. (formerly Foundation Health Systems, Inc.) Deferred Compensation Plan Trust Agreement effective September 1, 1998 between Foundation Health Systems, Inc. and Union Bank of California (filed as Exhibit 10.31 to the Company's Annual Report on Form 10-K for the year ended December 31, 1998 (File No. 1-12718) and incorporated herein by reference).
*10.38	Amendment Number One to the Health Net, Inc. (formerly Foundation Health Systems, Inc.) Deferred Compensation Plan Trust Agreement between Health Net, Inc. and Union Bank of California, adopted January 1, 2001 (filed as Exhibit 10.27 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12718) and incorporated herein by reference).
*10.39	Foundation Health Systems, Inc. Second Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10.16 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File No. 1-12718) and incorporated herein by reference).
*10.40	Amendment to Second Amended and Restated 1991 Stock Option Plan (filed as Exhibit 10.15 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-12718) and incorporated herein by reference).
*10.41	Foundation Health Systems, Inc. 1997 Stock Option Plan (as amended and restated on May 4, 2000) (filed as Exhibit 10.45 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (File No. 1-12718) and incorporated herein by reference).
*10.42	Amendment to 1997 Stock Option Plan (filed as Exhibit 10.17 to the Company's Annual Report on Form 10-K for the year ended December 31, 2000 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
*10.43	Second Amendment to 1997 Stock Option Plan (filed as Exhibit 10.25 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (file No. 1-12718) and incorporated herein by reference).
*10.44	Foundation Health Systems, Inc. Amended and Restated 1998 Stock Option Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on August 16, 2004 (File No. 1-12718) and incorporated herein by reference).
*10.45	Amendment No. 1 to Foundation Health Systems, Inc. Amended and Restated 1998 Stock Option Plan (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on March 6, 2006 (File No. 1-12718) and incorporated herein by reference).
*10.46	Amendment No. 2 to Foundation Health Systems, Inc. Amended and Restated 1998 Stock Option Plan dated January 14, 2009 (filed as Exhibit 10.32 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.47	Foundation Health Systems, Inc. Third Amended and Restated Non-Employee Director Stock Option Plan (filed as Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997 (File No. 1-12718) and incorporated herein by reference).
*10.48	Health Net, Inc. 2002 Stock Option Plan (filed as Exhibit 10.29 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 (file No. 1-12718) and incorporated herein by reference).
*10.49	Health Net, Inc. 2005 Long-Term Incentive Plan (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on May 13, 2005 (File No. 1-12718) and incorporated herein by reference).
*10.50	Amendment No. 1 to Health Net, Inc. 2005 Long-Term Incentive Plan dated December 4, 2008 (filed as Exhibit 10.35 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.51	Amendment No. 2 to Health Net, Inc. 2005 Long-Term Incentive Plan dated January 14, 2009 (filed as Exhibit 10.36 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.52	Health Net, Inc. 2006 Long-Term Incentive Plan (as filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the Commission on May 15, 2006 and incorporated herein by reference).
*10.53	Amendment No. 1 to the Health Net, Inc. 2006 Long-Term Incentive Plan, dated January 14, 2009 (filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.54	Amendment No. 2 to the Health Net, Inc. 2006 Long-Term Incentive Plan, dated March 5, 2009 (filed as Appendix B to the Company's Definitive Proxy Statement on April 8, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.55	Health Net, Inc. Amended and Restated Executive Officer Incentive Plan (filed as Appendix A to the Company's Definitive Proxy Statement on April 8, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.56	Health Systems International, Inc. Second Amended and Restated Non-Employee Director Stock Option Plan (filed as Exhibit 10.31 to Registration Statement on Form S-4 (File No. 33-86524) on November 18, 1994 and incorporated herein by reference).
*10.57	Health Net, Inc. Management Incentive Plan, adopted December 2004 (filed as Exhibit 10.40 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
*10.58	Amendment No. 1 to the Health Net, Inc. Management Incentive Plan, dated November 12, 2008 (filed as Exhibit 10.45 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.59	Addendum A to the Health Net, Inc. Management Incentive Plan, adopted July 20, 2009 (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009 (File No. 1-12718) and incorporated herein by reference).
*10.60	Health Net, Inc. 401(k) Savings Plan, as amended and restated effective January 1, 2008 (filed as Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.61	Amended and Restated Health Net, Inc. Supplemental Executive Retirement Plan effective as of January 1, 2008 (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed December 9, 2008 (File No. 1-12718) and incorporated herein by reference).
*10.62	Amended and Restated Deferred Compensation Plan of Foundation Health Corporation (filed as Exhibit 10.99 to Foundation Health Corporation's Annual Report on Form 10-K for the year ended June 30, 1995 (File No. 1-10540) and incorporated herein by reference).
*10.63	Amendment Number One Through Three to the Amended and Restated Deferred Compensation Plan of Foundation Health Corporation (filed as Exhibit 10.49 to the Company's Annual Report on Form 10-K for the year ended December 31, 2004 (File No. 1-12718) and incorporated herein by reference).
*10.64	Foundation Health Corporation Executive Retiree Medical Plan (as amended and restated effective April 25, 1995) (filed as Exhibit 10.101 to Foundation Health Corporation's Annual Report on Form 10-K for the year ended June 30, 1995 (File No. 1-10540) and incorporated herein by reference).
*10.65	Form of Amended and Restated Indemnification Agreement for directors and executive officers of Health Net, Inc. (filed as Exhibit 10.3 to the Company's Current Report on Form 8-K filed with the Commission on December 9, 2008 (File No. 1-12718) and incorporated herein by reference).
10.66	Participation Agreement dated as of December 19, 2007, by and among Health Net Funding, Inc., Health Net, Inc., Lodgemore Holdings, Inc. ING Bank, N.V. and Health Net Financing, L.P. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on December 20, 2007 (File No. 1-12718) and incorporated herein by reference).
10.67	First Amendment to Participation Agreement, dated as of April 29, 2008, by and among Health Net, Inc., Health Net Funding, Inc., Lodgemore Holdings, Inc., ING Bank, N.V. and Health Net Financing, LP (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12718) and incorporated herein by reference).
10.68	Omnibus Amendment to Participation Agreement and Put Option Agreement, dated as of November 10, 2008, by and among Health Net Funding, Inc., Health Net, Inc., Lodgemore Holdings Inc., ING Bank N.V. and Health Net Financing, L.P. (filed as Exhibit 10.53 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
10.69	Omnibus Amendment to Participation Agreement, Put Option Agreement and Call Option Agreement, dated as of March 9, 2009, by and among Health Net Funding, Inc., Health Net, Inc., Lodgemore Holdings, Inc., ING Bank N.V. and Health Net Financing, L.P. (filed as Exhibit 10.1 to the Company's Current Report on Form 8-K filed with the SEC on March 12, 2009 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
10.70	Credit Agreement, dated as of June 25, 2007, by and among Health Net, Inc., Bank of America, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer, JP Morgan Chase Bank, N.A., as Syndication Agent, Citicorp USA, Inc., as Documentation Agent, the other lenders party thereto and Banc of America Securities LLC and J.P. Morgan Securities Inc., as Joint Lead Arrangers and as Co-Book Managers (filed as Exhibit 10 to the Company's Current Report on Form 8-K filed with the SEC on June 27, 2007 (File No. 1-12718) and incorporated herein by reference).
10.71	First Amendment to Credit Agreement, dated as of April 29, 2008, by and among Health Net, Inc., Bank of America, N.A., as Administrative Agent and the other lenders party thereto (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2008 (File No. 1-12718) and incorporated herein by reference).
^10.72	Master Agreement, dated August 19, 2008, between Health Net, Inc. and International Business Machines Corporation (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-12718) and incorporated herein by reference).
^10.73	Master Services Agreement, dated September 30, 2008, between Health Net, Inc. and Cognizant Technology Solutions U.S. Corporation (filed as Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2008 (File No. 1-12718) and incorporated herein by reference).
10.74	Lease Agreements, dated as of March 5, 2001, by and between Health Net, Inc. and Landhold, Inc. (filed as Exhibit 10.44 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-12718) and incorporated herein by reference).
10.75	Amendment No. 1 to Lease Agreement, dated as of November 22, 2002, by and between Gold Pointe C, LLC, as successor-in-interest to Landhold, Inc., and Health Net, Inc. (filed as Exhibit 10.61 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
10.76	Amendment No. 1 to Lease Agreement, dated as of November 22, 2002, by and between Gold Pointe D, LLC, as successor-in-interest to Landhold, Inc., and Health Net, Inc. (filed as Exhibit 10.63 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
10.77	Amendment No. 2 to Lease Agreement, dated as of April 28, 2006, by and between McMorgan Institutional Real Estate Fund I, LLC, as successor-in-interest to Landhold, Inc., and Health Net, Inc. (filed as Exhibit 10.62 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
10.78	Standard Lease Agreement, dated as of July 24, 2006, by and between Panattoni Development Company and Health Net, Inc. (filed as Exhibit 10.64 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
10.79	First Amendment to Lease and Acknowledgment, dated as of February 8, 2007, by and between Panattoni Development Company and Health Net of California, Inc. (filed as Exhibit 10.65 to the Company's Annual Report on Form 10-K for the year ended December 31, 2008 (File No. 1-12718) and incorporated herein by reference).
†10.80	Standard Form Office Lease, dated July 13, 2009, by and between Aerojet-General Corporation and Health Net Federal Services, LLC, a copy of which is filed herewith.
10.81	Office Lease Agreement, dated as of December 22, 2003, by and between Health Net, Inc. and Douglas Emmett Realty Fund 2000 L.P. (filed as Exhibit 10.46 to the Company's Annual Report on Form 10-K for the year ended December 31, 2003 (File No. 1-12718) and incorporated herein by reference).

Exhibit Number	Description
10.82	Office Lease, dated September 20, 2000, by and among Health Net of California, Inc., DCA Homes, Inc. and Lennar Rolling Ridge, Inc. (filed as Exhibit 10.46 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2000 (File No. 1-12718) and incorporated herein by reference).
10.83	First Amendment to Office Lease, dated May 14, 2001, by and between Health Net (a California corporation) and LNR Warner Center, LLC as successor-in-interest to DCA Homes, Inc. and Lennar Rolling Ridge, Inc. (filed as Exhibit 10.38 to the Company's Annual Report on Form 10-K for the year ended December 31, 2001 (File No. 1-12718) and incorporated herein by reference).
†10.84	Second Amendment to Office Lease, effective May 1, 2003, by and between Health Net (a California corporation) and LNR Warner Center, LLC, a copy of which is filed herewith.
†10.85	Third Amendment to Office Lease, effective October 10, 2003, by and between Health Net (a California corporation) and Warner Center OPCO, L.P. as successor-in-interest to LNR Warner Center, LLC, a copy of which is filed herewith.
†10.86	Fourth Amendment to Office Lease, effective May 31, 2006, by and between Health Net of California, Inc. as successor-in-interest to Health Net (a California corporation) and MP Warner Center, LLC as successor-in-interest to Warner Center OPCO, L.P., a copy of which is filed herewith.
†10.87	Fifth Amendment to Office Lease, effective August 16, 2006, by and between Health Net of California, Inc. and MP Warner Center, LLC, a copy of which is filed herewith.
10.88	Office Lease Agreement, dated August 18, 2000, by and between Physicians Health Services of Connecticut, Inc. (predecessor to Health Net of Connecticut, Inc.) and Beard Sawmill, LLC (filed as Exhibit 10.68 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12718) and incorporated herein by reference).
10.89	First Amendment to Office Lease Agreement, dated December 23, 2002, by and between Health Net of Connecticut, Inc. and Beard Sawmill, LLC (filed as Exhibit 10.67 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12718) and incorporated herein by reference).
10.90	Second Amendment to Office Lease Agreement, dated June 14, 2004, by and between Health Net of Connecticut, Inc. and Beard Sawmill, LLC (filed as Exhibit 10.66 to the Company's Annual Report on Form 10-K for the year ended December 31, 2005 (File No. 1-12718) and incorporated herein by reference).
†10.91	Third Amendment of Lease, dated October 16, 2006, by and between Beard Sawmill, LLC and Health Net of the Northeast, Inc. as successor-in-interest to Health Net of Connecticut, Inc., a copy of which is filed herewith.
10.92	Absolute Net Lease, dated as of March 29, 2007, by and between HN Property Owner LLC and Health Net of the northeast (filed as Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2007 (File No. 1-12718) and incorporated herein by reference).
†10.93	Office Lease, dated July 24, 2003, by and between Tosco Operating Company, Inc. and Health Net of Arizona, Inc., a copy of which is filed herewith.
†10.94	First Amendment to Office Lease, dated December 1, 2003, by and between ConocoPhillips Company and Health Net of Arizona, Inc., a copy of which is filed herewith.
†10.95	Second Amendment to Office Lease, dated May 31, 2004, by and between Tosco Operating Company, Inc. and Health Net of Arizona, Inc., a copy of which is filed herewith.

Exhibit Number	Description
†10.96	Third Amendment to Office Lease, dated April 13, 2006, by and between Papago Buttes Corporate, LLC as successor-in-interest to Tosco Operating Company and Health Net of Arizona, Inc., a copy of which is filed herewith.
†10.97	Fourth Amendment to Office Lease, dated June 5, 2006, by and between Papago Buttes Corporate, LLC and Health Net of Arizona, Inc., a copy of which is filed herewith.
†10.101	Office Lease, dated February 6, 2008, by and between San Rafael Land Company, LLC and Managed Health Network, Inc., a copy of which is filed herewith.
†10.102	First Amendment to Office Lease, dated December 17, 2008, by and between San Rafael Land Company, LLC and Managed Health Network, Inc., a copy of which is filed herewith.
†10.103	Office Lease, dated March 18, 2009, by and between GK Triangle Corporate Park III, LLC and Health Net Health Plan of Oregon, Inc., a copy of which is filed herewith.
†10.104	First Amendment to Office Lease, effective October 1, 2009, by and between GK Triangle Corporate Park III, LLC and Health Net Health Plan of Oregon, Inc., a copy of which is filed herewith.
+†10.106	Business Transition Agreement, dated as of December 11, 2009, by and among Health Net, Inc., Health Net of the Northeast, Inc., Health Net Life Insurance Company, Oxford Health Plans, LLC, UnitedHealthcare Insurance Company, Oxford Health Insurance, Inc., and solely with respect to Section 4.8(b) thereof, UnitedHealth Group Incorporated, a copy of which is filed herewith.
+†10.107	Transitional Trademark License Agreement, effective as of December 11, 2009, by and among Health Net, Inc., Health Net of Connecticut, Inc., Health Net of New York, Inc., Health Net Insurance of New York, Inc., FOHP, Inc., Health Net of New Jersey, Inc. and Health Net Services (Bermuda) Ltd., a copy of which is filed herewith.
+†10.108	Form of Administrative Services Agreement dated December 11, 2009, a copy of which is filed herewith.
†11	Statement relative to computation of per share earnings of the Company (included in Note 2 to the consolidated financial statements included as part of this Annual Report on Form 10-K).
†21	Subsidiaries of Health Net, Inc., a copy of which is filed herewith.
†23	Consent of Deloitte & Touche LLP, Independent Registered Public Accounting Firm, a copy of which is filed herewith.

Exhibit Number	Description
†31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, a copy of which is filed herewith.
†31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, a copy of which is filed herewith.
†32	Certification of 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, a copy of which is filed herewith.

* Management contract or compensatory plan or arrangement required to be filed (and/or incorporated by reference) as an exhibit to this Annual Report on Form 10-K pursuant to Item 15(c) of Form 10-K.

† A copy of the exhibit is being filed with this Annual Report on Form 10-K.

^ This exhibit has been redacted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

\+ Schedules and exhibits have been omitted pursuant to Item 601(b)(2) of Regulation S-K. The Company undertakes to furnish supplemental copies of any of the omitted schedules and exhibits upon request by the U.S. Securities and Exchange Commission.

Exhibit 2.2

*"***" = CONFIDENTIAL PORTIONS OF THIS DOCUMENT HAVE BEEN OMITTED AND HAVE BEEN SEPARATELY FILED WITH THE SECURITIES AND EXCHANGE COMMISSION PURSUANT TO AN APPLICATION FOR CONFIDENTIAL TREATMENT UNDER RULE 24b-2 UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS AMENDED.*

RESTATED AMENDMENT NO. 1 TO STOCK PURCHASE AGREEMENT

This Restated Amendment No. 1 to Stock Purchase Agreement (this "Amendment") effective as of December 11, 2009, is entered into by and among Health Net, Inc., a Delaware corporation ("Parent"), Health Net of the Northeast, Inc., a Delaware corporation (the "Seller"), Oxford Health Plans, LLC, a Delaware limited liability company (the "Buyer"), and UnitedHealth Group Incorporated, a Minnesota corporation ("UHG").

WHEREAS, on July 20, 2009, Buyer, Seller, Parent, and, solely with respect to Section 8.16 thereof, UHG, entered into Stock Purchase Agreement (the "Purchase Agreement"), the terms of which are incorporated herein by reference and made a part hereof; and

WHEREAS, Buyer, Seller, Parent and UHG deem it in their best interests to amend the Purchase Agreement as set forth herein.

NOW, THEREFORE, in consideration of the premises and mutual agreements herein set forth, and intending to be legally bound hereby, the parties hereto agree that the Purchase Agreement shall be and hereby is amended as follows.

1. Defined Terms. Capitalized terms used in this Amendment and not otherwise defined herein shall have the meanings given to them in the Purchase Agreement.

2. Amendment of Section 1.4(a)(iii)(G). Section 1.4(a)(iii)(G) shall be amended and replaced in its entirety with the following:

(G) "Net Business Payment Amount" means (1) all Membership Renewal Amounts previously paid (or calculated and not paid) by Buyer to Seller pursuant to Section 1.4(a)(ii), plus (2) the 2010 Estimated Medicare Revenue-Based Payment Amount paid (or calculated and not paid) by Buyer to Seller pursuant to Section 1.4(b)(iii)(A), plus (3) the 2010 Buyer Medicare Revenue True-Up Payment made (or calculated and not made) by Buyer to Seller pursuant to Section 1.4(b)(iii)(C)(1), if any, minus (4) the 2010 Seller Medicare Revenue True-Up Payment made (or calculated and not made) by Seller to Buyer pursuant to Section 1.4(b)(iii)(C)(2), if any, plus (5) the Medicaid Revenue-Based Payment Amount paid (or calculated and not paid) by Buyer to Seller pursuant to Section 1.4(c)(iv), if any.

3. Amendment of Section 1.4(b). Section 1.4(b) shall be deleted in its entirety and replaced with Section 1.4(b) as attached in Schedule 1 hereto.

4. Amendment of Section 1.4(e)(ii) and (iii). Sections 1.4(e)(ii) and (iii) shall be amended and replaced in their entirety with the following:

(ii) Notwithstanding Sections 1.4(d)(v) and 1.4(e)(i), in the event that all of the Administrative Services Agreements are terminated pursuant to their terms prior to the Transition Date (the date of such termination, the "ASA Termination Date"), (A) the Estimated Final Net Payment shall be equal to zero (0) for purposes of Section 1.4(d)(v)(E) and (F) and (B) neither Seller nor Buyer shall be obligated to make any remaining payments under Section 1.4(e)(i). In lieu thereof, however, no later than thirty (30) days after the ASA Termination Date, Seller, with the cooperation and assistance of Buyer, shall prepare or cause to be prepared an unaudited combined estimated income statement and estimated balance sheet for all of the Acquired Companies (the "Termination Date Combined Financial Statement"). The Termination Date Combined Financial Statement shall be for the period commencing on the first day following the last day of the period covered by any preceding Quarterly Combined Financial Statement for which a Quarterly Net Payment has been made (or, if no such payment has been made, the Closing Date) and ending on the ASA Termination Date. The Termination Date Combined Financial Statement shall be prepared based on the historical administrative costs of the Acquired Companies, as adjusted to take into consideration the wind-down of the Acquired Business as contemplated by the Transaction Documents. The Termination Date Combined Financial Statement shall include an actuarially determined provision for medical costs and loss adjustment expenses as of the ASA Termination Date for all claims through the winding up and running out period of the Acquired Business; provided, however, that the Termination Date Combined Financial Statement shall not include any reserves for Unreserved Claims or loss adjustment expenses related to such Unreserved Claims nor shall the Termination Date Combined Financial Statement include any reserves for loss adjustment expenses if the ASA Termination Date is the result of all of the Administrative Services Agreements terminating pursuant to Section 16.1, 16.2(b), 16.2(c) or 16.2(d) of each such Administrative Services Agreement ("Termination Date Loss Reserves"). The amount of such Termination Date Loss Reserves shall be calculated in accordance with GAAP, consistently applied in accordance with the accounting policies and practices used to prepare the unaudited combined financial statements of the Acquired Companies as of and for the year ended December 31, 2008, insofar as such accounting policies and practices are consistent with GAAP. Net income and net loss as reflected on the Termination Date Combined Financial Statement shall be determined in accordance with the last sentence of Section 1.4(e)(i). Seller shall promptly cause a copy of the Termination Date Combined Financial Statement to be delivered to Buyer within such thirty-day period, together with a calculation of the Quarterly Net Payment with respect to such period due from Buyer to Seller or from Seller to Buyer (the "Termination Date Net Payment").

(iii) Intentionally Deleted.

5. Amendment of Section 1.4(e)(iv)(B). Section 1.4(e)(iv)(B) shall be amended and replaced in its entirety with the following:

(B) All of the other cash, cash equivalents and securities of the Acquired Companies (i.e., other than the cash and cash equivalents deemed to be included in the Buyer TNE Account) shall be segregated into the "Seller Commercial Account" which shall be adjusted for each Adjusted Tangible Net Equity Payment, payment of a Capital

and Surplus Deficiency or payment under the last sentence of Section 1.4(d)(ii) made by Buyer as described above. All interest income, dividend income and realized capital gains or losses attributable to the securities deemed to be held in the Seller Commercial Account until the Transition Date shall be held for the benefit of Seller and thereafter for the benefit of Buyer.

6. Amendment of Section 1.4(e)(ix). Sections 1.4(e)(ix)(G), (H), (I), (J) and (K) shall be deleted and Section 1.4(e)(ix)(G), (H) and (I) shall be replaced in their entirety with the following:

(G) "2010 Medicare Profit (Loss)" means, with respect to the period commencing on the later of January 1, 2010 and the day after the Closing Date and ending on December 31, 2010, the amount of pre-tax income or pre-tax loss (calculated as revenues, less medical costs, less operating costs) of the Acquired Companies for such period attributable to the business conducted under the Medicare Revenue Contract, if any, and as reflected on the Quarterly Combined Financial Statements for the relevant period. For purposes of the foregoing, the operating costs corresponding to any pre-tax income or loss for a period during the 2010 Medicare Revenue Period shall equal the product of (x) the 2010 PMPM Amount, multiplied by (y) the average number of members under the Medicare Revenue Contract for the 2010 Medicare Revenue Period, multiplied by (z) the number of months (or portions thereof) during the relevant period (up to twelve (12)). Notwithstanding the foregoing, 2010 Medicare Profit (Loss) shall not include any favorable or unfavorable prior period development, risk adjustment factor developments or similar adjustments with respect to the Medicare Revenue Contract relating to any period prior to the later of January 1, 2010 and the day after the Closing Date.

(H) "2011 Buyer Non-Novated Medicare Profit (Loss)" means, with respect to the 2011 Medicare Revenue Period, either (1) if the 2011 Novation has occurred, an amount equal to zero (0) and (2) if the 2011 Novation has not occurred, the full amount of net income or loss (calculated as revenues, less medical costs, less operating costs, less imputed taxes (assuming a tax rate of thirty-five (35%)) of the Acquired Companies for such period attributable to the business conducted under the Medicare Revenue Contract, if any, and as reflected on the Quarterly Combined Financial Statements for the relevant period. For purposes of the foregoing, the operating costs corresponding to any net income or loss for a period during the 2011 Medicare Revenue Period shall equal the product of (x) the 2011 PMPM Amount, multiplied by (y) the average number of members under the Medicare Revenue Contract for the 2011 Medicare Revenue Period, multiplied by (z) the number of months (or portions thereof) during the relevant period (up to twelve (12)). Notwithstanding the foregoing, 2011 Buyer Non-Novated Medicare Profit (Loss) shall not include any favorable or unfavorable prior period development, risk adjustment factor developments or similar adjustments with respect to the Medicare Revenue Contract relating to any period prior to the later of January 1, 2010 and the day after the Closing Date.

(I) "2011 Seller Novated Medicare Profit (Loss)" means an amount equal to zero (0).

7. Amendment of Section 1.4(i). Sections 1.4(i) shall be amended and replaced in its entirety with the following:

(i) Statutory Minimum Payments. If, at any time between the Closing Date and the earlier of the Transition Date and the ASA Termination Date, the capital and surplus of any Acquired Company is less than the statutory minimum required under any applicable Laws or an applicable Governmental Entity notifies an Acquired Company in writing that it has determined that such Acquired Company has a capital and surplus deficiency (such deficiency, a "Capital and Surplus Deficiency"), Buyer shall provide written notice of such Capital and Surplus Deficiency to Parent. Promptly after Parent's receipt of any written notice of a Capital and Surplus Deficiency from Buyer, but in no event later than the earliest of the dates that are (i) twenty (20) Business Days after the date of such notice, (ii) five (5) Business Days prior to the end of the applicable quarter or (iii) five (5) Business Days prior to the date upon which such Capital and Surplus Deficiency must be cured under applicable Law (as applicable, the "Contribution Date"), Parent shall deliver to Buyer an amount (the "Capital and Surplus Contribution Amount") equal to (A) the amount of such Capital and Surplus Deficiency, minus (B) the Buyer Contribution Amount (as defined below). By the Contribution Date, Buyer shall also contribute to the applicable Acquired Company an amount (not to exceed the Capital and Surplus Deficiency) equal to the aggregate amount of cash or other assets withdrawn from the applicable Acquired Company by Buyer or its Affiliates in excess of the Adjusted Tangible Net Equity Payments made by Buyer at such date (the "Buyer Contribution Amount"). In the event that Parent does not deliver such Capital and Surplus Contribution Amount to Buyer within such time period, Buyer may, at its sole option, advance such Capital and Surplus Contribution Amount to the applicable Acquired Company and provide written notice of such advance to Parent, and Parent shall be liable to Buyer for the full Capital and Surplus Contribution Amount actually funded by Buyer.

8. Amendment of Section 1.5. The first paragraph of Section 1.5 shall be amended and replaced with the following:

Section 1.5 Dispute of Payment Amounts. Except with respect to disputes governed under Section 1.4(g), this Section 1.5 shall govern the resolution of any disputes between the parties with respect to (i) the preparation of the Initial Membership Statement, any Membership Renewal Statement, the 2010 Medicare Actual Income Statement, the Medicaid Statement of Revenues, the Closing Date Combined Balance Sheet, any Quarterly Combined Financial Statement, the Actual Final Combined Financial Statement, or the Termination Date Combined Financial Statement delivered pursuant to Section 1.4 and (ii) the calculations of the Membership Renewal Amount, the 2010 Actual Medicare Profit/Loss Amount, the 2010 Actual Medicare Revenue-Based Payment Amount, the Medicaid Revenue-Based Payment Amount, the Closing Adjusted Tangible Net Equity, the Second Anniversary Adjusted Tangible Net Equity Payment, the Quarterly Net Payments, the Actual Final Net Payment and the Termination Date Net Payment pursuant to Section 1.4 (each item under (i) or (ii), a "Calculation Statement").

9. Amendment of Sections 1.4(e)(viii), 1.4(e)(ix)(D) and 1.4(g).

(a) References in Section 1.4(e)(viii) to Section 1.4(e)(vii) shall be replaced with references to Section 1.4(e)(viii). References in Section 1.4(e)(viii) to Schedule F shall be replaced with references to Schedule 4.6(b).

(b) References in Section 1.4(e)(ix)(D) or Section 1.4(g) to Section 1.4(f) shall be replaced with references to Section 1.4(g).

10. Amendments of Section 9.1.

(a) The definition of "Adjusted Tangible Net Equity Payments" in Section 9.1 shall be amended and replaced in its entirety with the following:

"Adjusted Tangible Net Equity Payments" means the Closing Adjusted Tangible Net Equity Amount, the First Anniversary Adjusted Tangible Net Equity Payment, the Second Anniversary Adjusted Tangible Net Equity Payment, and any Excess Adjusted Tangible Net Equity Payments.

(b) The following definition shall be added to Section 9.1 in appropriate alphabetical order:

"United" means, collectively, Oxford Health Insurance, Inc. and UnitedHealthcare Insurance Company.

(c) The definition of "Unreserved Claims" in Section 9.1 shall be amended and replaced in its entirety with the following:

"Unreserved Claims" means (i) claims attributable to the business under the NJ Medicaid Contract with occurrence dates after the Medicaid Transfer Date, if applicable, or, if Buyer has made the Buyer Medicaid Election, after June 30, 2010, (ii) claims attributable to the business under the Medicare Revenue Contract with occurrence dates after the Closing Date and through December 31, 2010, taking into account Seller's entitlement to and liability for the 2010 Actual Medicare Profit/Loss Amount (except that from and after the time that the 2010 Actual Medicare Profit/Loss Amount has been paid in accordance with Section 1.4(b)(iii), it shall not be so taken into account), and (iii) claims attributable to the business under the Medicare Revenue Contract with occurrences dates on or after January 1, 2011.

11. No Further Amendment. Except as expressly amended hereby, the Purchase Agreement is in all respects ratified and confirmed and all the terms, conditions and provisions thereof shall remain in full force and effect. This Amendment is limited precisely as written and shall not be deemed to be an amendment to any other term or condition of the Purchase Agreement or any of the documents referred to therein.

12. Effect of Amendment. This Amendment shall form a part of the Purchase Agreement for all purposes, and each party thereto and hereto shall be bound hereby. From and after the execution of this Amendment by the parties hereto, any reference to the Purchase Agreement shall be deemed a reference to the Purchase Agreement as amended hereby. This Amendment shall be deemed to be in full force and effect from and after the execution of this Amendment by the parties hereto.

13. Counterparts. This Amendment may be executed via facsimile or portable data format (PDF) in one or more counterparts, any one of which need not contain the signatures of more than one party, but all such counterparts taken together shall constitute one and the same instrument.

14. Governing Law. The internal law, without regard to conflicts of laws principles, of the State of New York shall govern all questions concerning the construction, validity and interpretation of this Amendment and the performance of the obligations imposed by this Amendment.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, Buyer, Parent, Seller and UHG have caused this Amendment to be signed by their respective duly authorized officers as of the date first above written.

HEALTH NET, INC.

/s/ Jay M. Gellert
By: Jay M. Gellert
Its: President and Chief Executive Officer

HEALTH NET OF THE NORTHEAST, INC.

/s/ Paul Lambdin
By: Paul Lambdin
Its: President

OXFORD HEALTH PLANS, LLC

/s/ Jeffrey D. Alter

By: Jeffrey D. Alter
Its: President and Chief Executive Officer

UNITEDHEALTH GROUP INCORPORATED

/s/ G. Mike Mikan

By: G. Mike Mikan
Its: Executive Vice President and Chief Financial Officer

Schedule 1

Section 1.4(b)

(b) Medicare-Based Payments.

(i) Certain Definitions. For purposes of this Section 1.4(b):

(A) "2010 Actual Medicare GAAP Revenues" means the GAAP revenues for 2010 Medicare Revenue Period attributable to the Medicare Revenue Contract, as reflected on the 2010 Medicare Actual Income Statement.

(B) "2010 Actual Medicare Profit/Loss Amount" means an amount equal to 50% of the pre-tax income or loss for the 2010 Medicare Revenue Period attributable to the Medicare Revenue Contract (up to a maximum pre-tax income or loss of *** such that the amount under this subparagraph (B) shall not be greater than *** of pre-tax income or loss) as reflected on the 2010 Medicare Actual Income Statement; provided that, such amounts shall be pro-rated based on the actual number of days commencing on the later of January 1, 2010 and the day after the Closing Date and ending on December 31, 2010 (up to 365). Notwithstanding the foregoing, 2010 Actual Medicare Profit/Loss Amount shall not include any favorable or unfavorable prior period development, risk adjustment factor developments or similar adjustments with respect to the Medicare Revenue Contract relating to any pre-Closing period or any period prior to January 1, 2010.

(C) "2010 Actual Medicare Revenue-Based Payment Amount" means an amount equal to 6.75% of the 2010 Actual Medicare GAAP Revenues.

(D) "2010 Estimated Medicare GAAP Revenues" means the GAAP revenues for 2010 Medicare Revenue Period attributable to the Medicare Revenue Contract, as reflected on the 2010 Medicare Estimated Income Statement.

(E) "2010 Estimated Medicare Profit/Loss Amount" means an amount equal to 50% of the pre-tax income or loss for the 2010 Medicare Revenue Period attributable to the Medicare Revenue Contract (up to a maximum pre-tax income or loss of *** such that the amount under this subparagraph (E) shall not be greater than *** of pre-tax income or loss) as reflected on the 2010 Medicare Estimated Income Statement; provided that, such amounts shall be pro-rated based on the actual number of days commencing on the later of January 1, 2010 and the day after the Closing Date and ending on December 31, 2010 (up to 365). Notwithstanding the foregoing, 2010 Estimated Medicare Profit/Loss Amount shall not include any favorable or unfavorable prior period development, risk adjustment factor developments or similar adjustments with respect to the Medicare Revenue Contract relating to any pre-Closing period or any period prior to January 1, 2010.

(F) "2010 Estimated Medicare Revenue-Based Payment Amount" shall mean an amount equal to 6.75% of the 2010 Estimated Medicare GAAP Revenues.

(G) "2010 Medicare Actual Income Statement" means an income statement, including actual GAAP revenues, medical costs, 2010 Operating Costs and the corresponding pre-tax income or loss for the 2010 Medicare Revenue Period attributable to the Medicare Revenue Contract.

(H) "2010 Medicare Estimated Income Statement" means an income statement, including projected GAAP revenues, medical costs, 2010 Operating Costs and the corresponding pre-tax income or loss for the 2010 Medicare Revenue Period attributable to the Medicare Revenue Contract.

(I) "2010 Medicare Revenue Period" means the 12 month period ending on December 31, 2010.

(J) "2010 Operating Costs" means an amount equal to the product of (1) the 2010 PMPM Amount, multiplied by (2) the average number of members under the Medicare Revenue Contract for the 2010 Medicare Revenue Period, multiplied by (3) twelve (12).

(K) "2010 PMPM Amount" means *** per member per month of selling, general and administrative costs, which amount includes *** per member per month for product development, marketing and sales during 2010 for the 2011 fiscal year.

(L) "2011 Medicare Revenue Period" means the 12-month period ending on December 31, 2011.

(M) "2011 Operating Costs" means an amount equal to the product of (1) the 2011 PMPM Amount, multiplied by (2) the average number of members under the Medicare Revenue Contract for the 2011 Medicare Revenue Period, multiplied by (3) twelve (12).

(N) "2011 PMPM Amount" means the amount per member per month of selling, general and administrative costs set forth in the 2011 Medicare Bid (including, for the avoidance of doubt, allocated overhead of Parent and its Subsidiaries to the extent the amount thereof has been calculated in a manner consistent with the cost allocation methodology of Parent, on an enterprise-wide basis, as of the date of submission of the 2011 Medicare Bid). The 2011 PMPM Amount shall be agreed upon in good faith by the parties based on the parameters set forth in this definition.

(O) "Medicare Revenue Contract" means the Contract H0755, effective as of October 6, 2005, by and between CMS and Health Net of Connecticut (or any successor contracts thereto as the same may have been renewed prior to, in connection with or after the Closing).

(ii) Closing Deliveries. No later than three (3) Business Days prior to the Closing Date, Seller shall deliver to Buyer (A) the 2010 Medicare Estimated Income Statement and the calculations of the 2010 Estimated Medicare Revenue-Based Payment Amount and the 2010 Estimated Medicare Profit/Loss Amount, and (B) a certificate of a duly authorized officer of Seller certifying that the deliveries in clause (A) above have been prepared in good faith.

(iii) Payments.

(A) Subject to clause (E) below, Buyer shall pay to Seller an amount equal to the 2010 Estimated Medicare Revenue-Based Payment Amount.

(B) No later than January 31, 2011, Seller shall deliver to Buyer the 2010 Medicare Actual Income Statement along with a calculation of the 2010 Actual Medicare Revenue-Based Payment Amount and the 2010 Actual Medicare Profit/Loss Amount and a certificate of a duly authorized officer of Seller certifying that such deliveries have been prepared in good faith.

(C) With respect to the 2010 Actual Medicare Revenue-Based Payment Amount:

(1) Subject to clause (E) below, if the 2010 Actual Medicare Revenue-Based Payment Amount is greater than the 2010 Estimated Medicare Revenue-Based Payment Amount, then Buyer will pay the difference between the two amounts to Seller (such amount, the "2010 Buyer Medicare Revenue True-Up Payment").

(2) Subject to clause (E) below, if the 2010 Estimated Medicare Revenue-Based Payment Amount is greater than the 2010 Actual Medicare Revenue-Based Payment Amount, then Seller will pay the difference between the two amounts to Buyer (such amount, the "2010 Seller Medicare Revenue True-Up Payment").

(D) With respect to the 2010 Actual Medicare Profit/Loss Amount:

(1) If the 2010 Actual Medicare Profit/Loss Amount is greater than zero, Buyer will pay the amount of the 2010 Actual Medicare Profit/Loss Amount to Seller.

(2) If the 2010 Actual Medicare Profit/Loss Amount is less than zero, then Seller will pay the absolute value of the 2010 Actual Medicare Profit/Loss Amount to Buyer.

(E) Any 2010 Estimated Medicare Revenue-Based Payment Amount or 2010 Buyer Medicare Revenue True-Up Payment to be paid by Buyer to Seller pursuant to Section 1.4(b)(iii)(A) or Section 1.4(b)(iii)(C)(1) will be paid only to the extent that such payment would cause the Net Business Payment Amount to exceed the amount of the Initial Business Payment. Any 2010

Seller Medicare Revenue True-Up Payment to be paid by Seller to Buyer pursuant to Section 1.4(b)(iii)(C)(2) shall not be paid to the extent that such payment would cause the Net Business Payment Amount to be less than the amount of the Initial Business Payment.

(F) Buyer shall use its best efforts to novate, assign or otherwise transfer the business operated under the Medicare Revenue Contract to a Legacy United Entity as of January 1, 2011 (a "2011 Novation"). In the event that a 2011 Novation does not occur, Buyer shall use commercially reasonable efforts to novate, assign or otherwise transfer the business operated under the Medicare Revenue Contract to a Legacy United Entity as of January 1, 2012. Unless the business operated under the Medicare Revenue Contract has been novated, assigned or otherwise transferred to a Legacy United Entity, Buyer shall not, and shall cause its Affiliates (including the Acquired Companies) not to, renew the Medicare Revenue Contract for any period commencing on or after January 1, 2012.

(G) In the event that a 2011 Novation has not occurred, (1) Parent and Seller shall continue to administer the business related to the Medicare Revenue Contract pursuant to the applicable Administrative Services Agreements in accordance with the terms of the 2011 Medicare Bid, including, without limitation, the 2011 Operating Costs, and (2) Buyer shall prepare and submit the 2011 Medicare Bid and Seller agrees to cooperate with Buyer in the preparation and submission of such 2011 Medicare Bid. "2011 Medicare Bid" means the bid submitted to renew the Medicare Revenue Contract for the 2011 calendar year.

(H) For the avoidance of doubt, other than the Medicare-based payments referred to in this Section 1.4(b)(iii), the parties acknowledge and agree that there shall be no other payments under this Agreement as consideration for the Medicare Revenue Contract.

(I) For the avoidance of doubt, all net income or loss attributable to the Medicare Revenue Contract for the period commencing on the day after the Closing Date and ending on December 31, 2009 shall be included in the calculation of the Quarterly Net Payment for such period, including any favorable or unfavorable prior period development, risk adjustment factor developments or similar adjustments with respect to the Medicare Revenue Contract relating to any period prior to January 1, 2010.

Exhibit 10.1

ANGELEE F. BOUCHARD
AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of December 14, 2009 (the "Effective Date"), by and between Health Net, Inc., a Delaware corporation (the "Company"), with its principal place of business located at 21650 Oxnard Street, Woodland Hills, California 91367, and Angelee F. Bouchard ("Executive"). This Agreement amends and restates in its entirety the Prior Agreement (as defined below).

RECITALS

WHEREAS, the Company and Executive previously entered into that certain Employment Agreement dated March 26, 2003, which set forth the terms of Executive's employment with the Company; and

WHEREAS, the Company and Executive now desire to amend and restate the Prior Agreement on the terms and conditions set forth herein, and to supersede the Prior Agreement in all respects effective as of the Effective Date.

NOW, THEREFORE, in consideration of the following covenants, conditions and promises contained herein, and other good and valuable consideration, the Company and Executive hereby agree as follows:

1. Duties and Salary.

A. Duties. Executive's title will be Senior Vice President, General Counsel and Corporate Secretary, but may be changed at the discretion of the Company to a title that reflects a similarly situated senior executive position. Executive shall report directly to Jay Gellert, President and Chief Executive Officer of the Company, but Executive's reporting relationship may be changed from time to time at the discretion of the Company. Executive's duties and responsibilities are to act as the Company's most senior legal counsel responsible for advising the Company's Board of Directors and senior executives on matters of corporate and employee law, compliance, regulation and governance, and to oversee and direct all internal and external legal activities on behalf of the Company, but the Company reserves the right to assign Executive other duties as needed and to change Executive's duties from time to time on reasonable notice, based on Executive's skills and the needs of the Company. In the event that Executive performs any such additional duties, Executive shall not be entitled to an increase in compensation beyond that specified in this Agreement.

B. Salary. Executive will be paid a base salary at the annual rate of $400,000, which salary will be paid on a pro-rated bi-weekly basis, less applicable withholdings ("Base Salary"), covering all hours worked. Generally, Executive's Base Salary will be reviewed annually, but the Company reserves the right to change Executive's compensation from time-to-time. Pursuant to the charter of the Compensation Committee of the Company's Board of Directors (the "Committee"), any adjustment to Executive's compensation must be made with the approval of the Committee and, in the event that Executive constitutes one of the top two (2) highest paid executive officers of the Company, with the ratification of the Company's Board of Directors.

C. Disclosure of Personal Compensation Information. As an "executive officer" of the Company (as such term is defined in the rules and regulations of the Securities and Exchange Commission ("SEC")), information regarding Executive's employment arrangements with the Company, including, among other things, the terms of this Agreement and any stock option agreement, restricted stock agreement, restricted stock unit agreement, performance share agreement and/or severance agreement Executive enters into with the Company from time to time (collectively, "Personal Compensation Information"), may be disclosed in filings with the SEC, the New York Stock Exchange ("NYSE") and/or other regulatory organizations upon the occurrence of certain triggering events. Such triggering events include, but are not limited to, the execution of this Agreement and any amendments thereto, changes in Executive's Base Salary, any annual incentive payment (whether in the form of cash or equity) awarded to Executive (in the past or after the date hereof), and the establishment of performance goals under the Company's incentive plans. Executive's execution of this Agreement will serve as Executive's acknowledgement that Executive's Personal Compensation Information may be publicly disclosed from time to time in filings with the SEC, NYSE or otherwise as required by applicable law.

2. Adjustments and Changes in Employment Status. Executive understands that the Company reserves the right to make personnel decisions regarding Executive's employment, including, but not limited to, decisions regarding any promotion, salary adjustment, transfer or disciplinary action, up to and including Termination (as defined below), consistent with the needs of the business of the Company.

For purposes of this Agreement, the capitalized terms "Termination" and "Terminate," shall mean Executive's Separation from Service (as defined below) from the Company. A "Separation from Service" with respect to Executive shall mean a "separation from service," as defined in Treasury Regulation Section 1.409A-1(h).

3. Protection of Proprietary and Confidential Information. Executive agrees that Executive's employment creates a relationship of confidence and trust with the Company with respect to Proprietary and Confidential Information (as defined below) of the Company learned by Executive during Executive's employment.

A. Executive agrees not to directly or indirectly use or disclose any of the Proprietary and Confidential Information of the Company or any of its affiliates at any time except in connection with the services Executive provides to such entities. "Proprietary and Confidential Information" shall mean trade secrets, confidential knowledge, data or any other proprietary or confidential information of the Company or any of its affiliates, or of any

customers, members, employees or directors of any of such entities, but shall not include any information that (i) was publicly known and made generally available in the public domain prior to the time of disclosure to Executive by the Company or (ii) becomes publicly known and made generally available after disclosure to Executive by the Company other than as a result of a disclosure by Executive in violation of this Agreement. By way of illustration but not limitation, "Proprietary and Confidential Information" includes: (i) trade secrets, documents, memoranda, reports, files, correspondence, lists and other written and graphic records affecting or relating to any such entity's business; (ii) confidential marketing information including without limitation marketing strategies, customer and client names and requirements, services, prices, margins and costs; (iii) confidential financial information; (iv) personnel information (including without limitation employee compensation); and (v) other confidential business information.

B. Executive further agrees that at all times during Executive's employment and thereafter, Executive will keep in confidence and trust all Proprietary and Confidential Information, and that Executive will not use or disclose any Proprietary and Confidential Information or anything related to such information without the written consent of the Company, except as may be necessary in the ordinary course of performing Executive's duties to the Company.

C. All Company property, including, but not limited to, Proprietary and Confidential Information, documents, data, records, apparatus, equipment and other physical property, whether or not pertaining to Proprietary and Confidential Information, provided to Executive by the Company or any of its affiliates or produced by Executive or others in connection with Executive's providing services to the Company or any of its affiliates shall be and remain the sole property of the Company or its affiliates (as the case may be) and shall be returned promptly to such appropriate entity as and when requested by such entity. Executive shall return and deliver all such property upon termination of Executive's employment, and Executive may not take any such property or any reproduction of such property upon such termination.

D. Executive recognizes that the Company and its affiliates have received and in the future will receive information from third parties which is private, proprietary or confidential information subject to a duty on such entity's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Executive agrees that during Executive's employment, and thereafter, Executive owes such entities and such third parties a duty to hold all such private, proprietary or confidential information received from third parties in the strictest confidence and not to disclose it, except as necessary in carrying out Executive's work for such entities consistent with such entities' agreements with such third parties, and not to use it for the benefit of anyone other than for such entities or such third parties consistent with such entities' agreements with such third parties.

E. Executive's obligations under this Section 3 shall continue after the Termination of Executive's employment and any breach of this Section 3 shall be a material breach of this Agreement.

4. Drug Screening; Background Check; Physical Exam.

A. Drug Screening. Not applicable – intentionally omitted.

B. Background Check. Not applicable – intentionally omitted.

C. Physical Exam. Executive shall be required, on an annual basis, to undergo a physical examination and to send evidence that Executive has undergone such exam (but in no case the results of such exam) to the Senior Vice President of Organizational Effectiveness. The Company shall reimburse Executive for any out-of-pocket expenses relating to the physical examination that are not otherwise covered by Executive's health insurance plan.

5. Immigration Documentation. Not applicable – intentionally omitted.

6. Representations and Warranties of Executive.

A. No Violation; No Conflicts. Executive represents and warrants to the Company that the entering into of this Agreement and Executive's performance of Executive's duties hereunder, will not violate any agreements with, or trade secrets of, any other person or entity. Executive further represents and warrants that Executive does not have any relationship or commitment to any other person or entity that might be in conflict with Executive's obligations to the Company under this Agreement, including but not limited to outside employment, sales broker relationships, investments or business activities. Executive understands and agrees that while employed by the Company Executive is expected to refrain from engaging in any outside activities that might be in conflict with the business interests of the Company. In addition, Executive represents and warrants to the Company that Executive has not shared with or disclosed to, and will not share with or disclose to, the Company any proprietary or confidential information of Executive's previous employers or any other third party.

B. Legal Proceedings. Executive represents and warrants to the Company that Executive has not been arrested, indicted, convicted or otherwise involved in any criminal or civil action or legal matter that could affect Executive's ability to perform Executive's duties hereunder or that may have a negative impact on the Company, its reputation or its operations. Executive agrees, to the extent permitted by applicable law, to notify the Company's Senior Vice President of Organizational Effectiveness immediately in the event that Executive becomes party to any criminal or civil action or other legal matter in the future that could have an affect on the foregoing representation.

7. Executive Benefits.

A. Employee Benefit Programs. Executive shall be eligible to participate in the Company's various employee benefit programs and plans in place from time to time in accordance with their terms, as long as Executive remains employed by the Company and Executive meets the applicable participation requirements. These benefit programs and plans currently include paid time off ("PTO"), holidays, group medical, dental, vision, term life, and short and long term disability insurance and participation in the Company's 401(k) plan, tuition reimbursement plan and deferred compensation plan. The Company or its subsidiaries or affiliates may modify, terminate or amend any benefit or plan in its discretion, retroactively or prospectively, subject only to applicable law.

B. Required Insurance. Executive will be covered by workers' compensation insurance and state disability insurance, as required by state law.

C. Fringe Benefits. Executive will be entitled to such fringe benefits and perquisites as are provided by the Company from time to time, in accordance with the Company's policies, practices and procedures, and shall receive such additional fringe benefits and perquisites as the Company may, in its discretion, from time-to-time provide. Without limiting the generality of the foregoing, Executive will be entitled to be reimbursed up to the amount of $5,000 per year for documented costs incurred for personal financial counseling services provided to Executive, including tax preparation, as long as Executive remains employed by the Company.

D. Incentive Bonus. Executive will be eligible to participate in the Health Net, Inc. Executive Officer Incentive Plan ("EOIP") in accordance with the terms of the EOIP, which provides Executive with a target bonus for each plan year equal to 70% of Executive's Base Salary as additional compensation according to the terms of the EOIP. The actual bonus payment will range from 0% to 200% of target depending upon the actual results achieved, and specific, individually tailored measures will be established by the Company that must be achieved by Executive in order for Executive to be eligible to receive bonus payments for a given plan year. It is understood that the Committee and the Company will award bonus amounts, if any, as it deems appropriate consistent with the EOIP.

E. Expenses. Subject to and in accordance with the Company's written policies for business and travel expenses, Executive will receive reimbursement for all business travel and other out-of-pocket expenses reasonably incurred by Executive in the performance of Executive's duties pursuant to this Agreement.

8. Equity Grants.

A. Initial Equity Grant. As soon as practicable on or following the Effective Date and upon approval by the Board of Directors (or appropriate committee thereof), Executive will be granted a non-qualified stock option (the "Stock Option") to purchase 35,000 shares of Common Stock of the Company (the "Common Stock") which will become fully vested and exercisable on the third anniversary of the date of grant. All Stock Options granted to Executive will be granted under one of the Company's Long-Term Incentive Plans and will be subject to the terms and conditions set forth in such plan and the agreement executed in connection with such grant.

In addition, as soon as practicable on or following the Effective Date and upon approval by the Board of Directors (or appropriate committee thereof), Executive will be granted 20,000 restricted stock units of the Company's common stock (the "RSUs") which will vest and become non-forfeitable at the rate of one-fourth of the shares covered on each of the first, second, third and fourth anniversaries of the date of grant. The RSUs granted to Executive will be granted under one of the Company's Long-Term Incentive Plans in accordance with and subject to the terms and conditions set forth in such plan and the agreement executed in connection with such grant.

B. Future Equity Grants. Any future equity grants made to Executive will be granted under one of the Company's Long-Term Incentive Plans, and will be subject to the terms of such plan and of the agreement executed in connection with such grant. Any future equity grants to Executive will be made at the discretion of the Committee.

C. Company Stock Ownership Requirement. In accordance with the Executive Officer Stock Ownership Policy adopted by the Board of Directors of the Company, as may be amended from time to time (the "Executive Stock Ownership Policy"), Executive is currently required to own shares of Common Stock of the Company having a value of one times (1x) Executive's Base Salary in effect from time to time pursuant to this Agreement (the "Stock Ownership Requirement"). The number of shares of Common Stock Executive is required to own will be calculated based on the average NYSE closing price per share of the Company's Common Stock (as adjusted for stock splits and similar changes to the Common Stock) for the most recently completed fiscal year of the Company.

Using Executive's current salary of $400,000 and a stock price of $27.63, which is the average closing price per share of the Company's Common Stock as of December 31, 2008, Executive's current stock ownership requirement is 14,477 ("Target Amount"). The Target Amount is subject to change from time to time based on (1) changes in the average closing sales price of the Company's Common Stock on an annual basis, (2) any changes in Executive's Base Salary made pursuant to and in accordance with Section 1B of this Agreement, and (3) any changes under the terms of the Executive Stock Ownership Policy. Any shares of Company Common Stock that Executive owns, and any restricted stock units, shares of restricted stock or performance shares of the Company that Executive owns and have vested count toward the Target Amount. Stock options, unvested restricted stock units, unvested shares of restricted stock, unvested performance shares and shares of Common Stock gifted to others do not count toward the Target Amount.

Under the Executive Stock Ownership Policy as currently in effect, to the extent that Executive has not achieved the Stock Ownership Requirement, Executive must hold 75% of all "net settled shares" received from the vesting, delivery or exercise of equity awards granted under the Company's equity award (including long-term incentive) plans. For purposes of the Executive Stock Ownership Policy, "net settled shares" means those shares that remain after payment of (i) the exercise price of stock options or purchase price of other awards and all applicable withholding taxes, including shares sold or netted with respect thereto, and (ii) all applicable transaction costs.

The Committee expects that Executive will make reasonable progress toward Executive's Stock Ownership Requirement. Executive will be notified on an annual basis of any changes in Executive's Target Amount.

9. Term of Employment. Executive's employment with the Company is at the mutual consent of Executive and the Company. Nothing in this Agreement is intended to guarantee Executive's continuing employment with the Company or employment for any specific length of time. Accordingly, either Executive or the Company may terminate the employment relationship at any time and for any reason whatsoever (or for no reason), subject to certain notice requirements, to the extent applicable, as set forth herein. Upon Termination of Executive's employment for any reason, in addition to any other payments that may be payable to Executive hereunder, Executive (or Executive's beneficiaries or estate) shall be paid (in each case to the extent not theretofore paid) within thirty (30) days following Executive's date of Termination (or such shorter period that may be required by applicable law): (a) Executive's annual Base Salary through such Termination date, (b) accrued but unused PTO, (c) reimbursable expenses incurred by Executive prior to the Termination date and (d) payment of

amounts to which Executive may be entitled through such Termination date under any other compensatory plan, arrangement or program payment in accordance with the terms thereunder. This Agreement constitutes a final and fully binding integrated agreement with respect to the at-will nature of the employment relationship.

10. Termination of Employment/Severance Pay.

A. Termination Without Cause Not Following Change in Control. If Executive's employment is Terminated by the Company without "Cause" (as defined in Section 10(D) below) at any time that is not within two (2) years after a "Change in Control" (as defined below) of Health Net, Inc., Executive will be entitled to receive, within thirty (30) days following the Termination of Executive's employment, provided that Executive signs and delivers prior to the expiration of such (30) day period, and does not revoke or attempt to revoke, a Separation Agreement, Waiver and Release of Claims substantially in the form attached hereto as Exhibit A, which is incorporated into this Agreement by reference, (i) a lump sum cash payment equal to twenty-four (24) months of Executive's Base Salary in effect immediately prior to the date of Executive's Termination, (ii) the continuation of Executive's medical, dental and vision benefits (as maintained for Executive's benefit immediately prior to the date of Executive's Termination) (the "Benefits") for Executive and Executive's dependents for a period of six (6) months following the effective date of Executive's Termination, and (iii) after expiration of such six (6) months Benefits continuation period, the continuation, under COBRA, of Executive's Benefits for Executive and Executive's dependents for a period of eighteen (18) months, with premium payments paid by the Company on Executive's behalf, provided, that Executive properly elects to continue those benefits under COBRA.

For purposes of this Agreement, "Change in Control" is defined as any of the following which occurs subsequent to the effective date of Executive's employment:

(i) Any person (as such term is defined under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), corporation or other entity (other than Health Net, Inc. or any of its subsidiaries, or any employee benefit plan sponsored by Health Net, Inc. or any of its subsidiaries) is or becomes the beneficial owner (as such term is defined in Rule 13d-3 under the Exchange Act) of securities of Health Net, Inc. representing twenty percent (20%) or more of the combined voting power of the outstanding securities of Health Net, Inc. which ordinarily (and apart from rights accruing under special circumstances) have the right to vote in the election of directors (calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire Health Net, Inc.'s securities) (the "Securities");

(ii) As a result of a tender offer, merger, sale of assets or other major transaction, the persons who are directors of Health Net, Inc. immediately prior to such transaction cease to constitute a majority of the Board of Directors of Health Net, Inc. (or any successor corporations) immediately after such transaction;

(iii) Health Net, Inc. is merged or consolidated with any other person, firm, corporation or other entity and, as a result, the shareholders of Health Net, Inc., as determined immediately before such transaction, own less than eighty percent (80%) of

the outstanding Securities of the surviving or resulting entity immediately after such transaction:

(iv) A tender offer or exchange offer is made and consummated for the ownership of twenty percent (20%) or more of the outstanding Securities of Health Net, Inc.;

(v) Health Net, Inc. transfers substantially all of its assets to another person, firm, corporation or other entity that is not a wholly-owned subsidiary of Health Net, Inc.; or

(vi) Health Net, Inc. enters into a management agreement with another person, firm, corporation or other entity that is not a wholly-owned subsidiary of Health Net, Inc. and such management agreement extends hiring and firing authority over Executive to an individual or organization other than Health Net, Inc.

B. Termination Without Cause or For Good Reason Following Change in Control. If at any time within two (2) years after a Change in Control of Health Net, Inc. Executive's employment is Terminated by the Company without Cause or Executive Terminates Executive's employment for "Good Reason" (as defined below) (by giving the Company at least fourteen (14) days prior written notice of the effective date of Termination), then Executive will be entitled to receive, within thirty (30) days following the Termination of Executive's employment, provided that Executive signs and delivers prior to the expiration of such thirty (30) day period, and does not revokes or attempt to revoke, a Separation Agreement, Waiver and Release of Claims substantially in the form attached hereto as Exhibit A, which is incorporated into this Agreement by reference, (i) a lump sum payment equal to thirty-six (36) months of Executive's Base Salary in effect immediately prior to the date of Executive's Termination, and (ii) the continuation of Executive's Benefits for eighteen (18) months following Executive's date of Termination, and (iii) and after expiration of such eighteen (18) months Benefits continuation period, the continuation, under COBRA, of Benefits for Executive and Executive's dependents for a period of eighteen (18) months following the effective date of Executive's Termination with premium payments made by the Company on Executive's behalf, provided, that Executive properly elects to continue those benefits under COBRA, and provided, further, that in the event the Company requests, in writing, prior to such voluntary Termination by Executive for Good Reason that Executive continue in the employ of the Company for a period of time up to 90 days following such Change in Control, then Executive shall forfeit such severance allowance if Executive voluntarily leaves the employ of the Company prior to the expiration of such period of time.

For purposes of this Agreement, the term "Good Reason" means any of the following which occurs, without Executive's consent, subsequent to the effective date of a Change in Control as defined above:

(i) A substantial reduction in the scope of Executive's authority, duties or responsibilities with the Company, except in connection with the Termination of Executive's employment for Disability (as defined below), normal retirement or Cause or by Executive voluntarily other than for Good Reason;

(ii) A material reduction by the Company in Executive's base compensation (*i.e.*, Executive's Base Salary and/or target annual bonus) as in effect immediately prior to any such reduction;

(iii) A relocation of Executive to a work location more than fifty (50) miles from Executive's work location immediately prior to such proposed relocation; provided that such proposed relocation results in a materially greater commute for Executive based on Executive's residence immediately prior to such relocation; or

(iv) The failure of the Company to obtain an assumption agreement from any successor contemplated under Section 13 of this Agreement;

provided, however, that (a) Executive provides written notice to the Company of the existence of the condition described above within ninety (90) days of the initial existence of the condition, (b) the Company fails to cure such condition within thirty (30) days after receipt of such written notice, and (c) the date of Executive's Termination occurs no later than seventy-five (75) days after the initial occurrence of the event constituting Good Reason, in accordance with Treasury Regulation Section 1.409A-1(n)(2)(ii).

C. Voluntary Termination. Notwithstanding anything to the contrary in this Agreement, whether express or implied, Executive may at any time Terminate Executive's employment for any reason by giving the Company fourteen (14) days prior written notice of the effective date of Termination. In the event that Executive voluntarily Terminates employment with the Company (except for Good Reason within two (2) years after a Change in Control of Health Net, Inc., as described in Section 10(B) hereof), then Executive shall not be eligible to receive any payments or continuation of Benefits set forth in this Section 10).

D. Termination by the Company for Cause. The Company may Terminate Executive's employment for "Cause" at any time with or without advance notice. In the event of such Termination, Executive will not be eligible to receive any of the payments set forth in Section 10(A) or 10(B) above. For purposes of this Agreement, a Termination for "Cause" is defined as: (i) an act of dishonesty causing harm to the Company or any of its affiliates, (ii) the material breach of either the Company's Code of Business Conduct and Ethics (the "Code of Conduct") or any policy or procedure developed and published by the Company regarding compliance or ethics related to the Code of Conduct, (iii) habitual drunkenness or narcotic drug addiction, (iv) conviction of, or entry by Executive of a guilty or no contest plea to, the commission of a felony or a misdemeanor involving moral turpitude, (v) willful refusal to perform or gross neglect of the duties assigned to Executive, (vi) the willful breach of any law that, directly or indirectly, affects the Company or any of its affiliates, (vii) a material breach by Executive following a Change in Control of those duties and responsibilities of Executive that do not differ in any material respect from Executive's duties and responsibilities during the 90-day period immediately prior to such Change in Control (other than as a result of incapacity due to physical or mental illness) which is demonstrably willful and deliberate on Executive's part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company or any of its affiliates and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach, or (viii) breach of Executive's obligations hereunder (or under any Company policy) to protect the proprietary and confidential information of the Company or any of its affiliates.

E. Termination Due to Death or Disability. In the event that Executive's employment is Terminated at any time due to Executive's death or "Disability" (as defined below), Executive (or Executive's beneficiaries or estate) shall be entitled to receive, provided Executive (or Executive's beneficiaries or estate, as applicable) signs a Separation Agreement, Waiver and Release of Claims substantially in the form attached hereto as Exhibit A, which is incorporated into this Agreement by reference, (i) continuation of Executive's Benefits for a period of twelve (12) months from the date of Termination and (ii) a lump sum payment equal to twelve (12) months Executive's Base Salary in effect immediately prior to the date of Executive's Termination, to be paid within thirty (30) days following Executive's Termination of employment. For purposes of this Agreement, a Termination for "Disability" shall mean a Termination of Executive's employment due to Executive's absence from Executive's duties with the Company on a full-time basis for at least 180 consecutive days as a result of Executive's incapacity due to physical or mental illness which is determined to be total and permanent by a physician selected by the Company or its insurers.

11. Withholding. All payments required to be made by the Company hereunder to Executive or Executive's estate or beneficiaries shall be subject to the withholding of such amounts relating to taxes as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

12. Restrictive Covenants.

A. Non-Competition. Executive hereby agrees that, during (i) the six (6)-month period following a Termination of Executive's employment with the Company that entitles Executive to receive severance benefits under this Agreement or a written agreement with or policy of the Company or (ii) the twelve (12)-month period following a Termination of Executive's employment with the Company that does not entitle Executive to receive such severance benefits (the period referred to in either clause (i) or (ii), the "Restricted Period"), Executive shall not undertake any employment or activity (including, but not limited to, consulting services) with a Competitor (as defined below) in any geographic area in which the Company or any of its affiliates operate (the "Market Area"), where the loyal and complete fulfillment of the duties of the competitive employment or activity would call upon Executive to reveal, to make judgments on or otherwise use or disclose any confidential business information or trade secrets of the business of the Company or any of its affiliates to which Executive had access during Executive's employment with the Company. For purposes of this Section, "Competitor" shall refer to any health maintenance organization or insurance company that provides managed health care or related services similar to those provided by the Company or any of its affiliates.

B. Non-Solicitation. In addition, Executive agrees that, during the applicable Restricted Period following Termination of Executive's employment with the Company, Executive shall not, directly or indirectly, (i) solicit, interfere with, hire, offer to hire or induce any person, who is or was an employee of the Company or any of its affiliates at the time of such solicitation, interference, hiring, offering to hire or inducement, to discontinue his/her relationship with the Company or any of its affiliates or to accept employment by, or enter into a business relationship with, Executive or any other entity or person or (ii) solicit, interfere with or otherwise contact any customer or client of the Company or any of its affiliates.

C. Modification of Restrictions. It is hereby further agreed that if any court of competent jurisdiction shall determine that the restrictions imposed in this Section 12 are unreasonable (including, but not limited to, the definition of Market Area or Competitor or the time period during which this provision is applicable), the parties hereto hereby agree to any restrictions that such court would find to be reasonable under the circumstances.

D. Injunction Rights. Executive also acknowledges that the services to be rendered by Executive to the Company are of a special and unique character, which gives this Agreement a peculiar value to the Company or any of its affiliates, the loss of which may not be reasonably or adequately compensated for by damages in an action at law, and that a material breach or threatened breach by Executive of any of the provisions contained in this Section 12 will cause the Company or any of its affiliates irreparable injury. Executive therefore agrees that the Company may be entitled, in addition to the remedies set forth above in this Section 12 and any other right or remedy, to a temporary, preliminary and permanent injunction, without the necessity of proving the inadequacy of monetary damages or the posting of any bond or security, enjoining or restraining Executive from any such violation or threatened violations.

13. Successors; Binding Agreement.

A. Survival Following Merger, Consolidation or Asset Transfer. This Agreement shall not be terminated by any merger or consolidation of the Company whereby the Company is or is not the surviving or resulting corporation or as a result of any transfer of all or substantially all of the assets of the Company. In the event of any such merger, consolidation or transfer of assets, the provisions of this Agreement shall be binding upon the surviving or resulting corporation or the person or entity to which such assets are transferred.

B. Survivor's Assumption of Agreement. The Company agrees that concurrently with any merger, consolidation or transfer of assets referred to in this Section 13, it will cause any successor or transferee to unconditionally assume, by written instrument delivered to Executive (or Executive's beneficiary or estate), all of the obligations of the Company hereunder. Failure of the Company to obtain such assumption prior to the effectiveness of any such merger, consolidation or transfer of assets shall entitle Executive to compensation and other benefits from the Company in the same amount and on the same terms as Executive would be entitled hereunder if Executive's employment were Terminated without Cause. For purposes of implementing the foregoing, the date on which any such merger, consolidation or transfer becomes effective shall be deemed the date of Termination.

C. Enforceability. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive shall die while any amounts would be payable to Executive hereunder had Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by Executive to receive such amounts or, if no person is so appointed, to Executive's estate.

14. Limitation on Payments.

A. Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by Executive (including any payment or benefit received in connection with a Change in Control or the termination of Executive's employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 10 hereof, being hereinafter referred to as the "Total Payments") would be subject (in whole or part), to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (the "Excise Tax"), then, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, the cash severance payments shall first be reduced, and the non-cash severance payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax, but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments), is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments). The Total Payments shall be reduced by the Company in its reasonable discretion in the following order: (A) reduction of any cash severance payments otherwise payable to Executive that are exempt from Section 409A of the Code, (B) reduction of any other cash payments or benefits otherwise payable to Executive that are exempt from Section 409A of the Code, but excluding any payments attributable to the acceleration of vesting or payments with respect to any stock option or other equity award with respect to the Company's Common Stock that are exempt from Section 409A of the Code, (C) reduction of any other payments or benefits otherwise payable to Executive on a pro-rata basis or such other manner that complies with Section 409A of the Code, but excluding any payments attributable to the acceleration of vesting and payments with respect to any stock option or other equity award with respect to the Company's Common Stock that are exempt from Section 409A of the Code, and (D) reduction of any payments attributable to the acceleration of vesting or payments with respect to any stock option or other equity award with respect to the Company's Common Stock that are exempt from Section 409A of the Code.

B. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of independent auditors of nationally recognized standing ("Independent Advisors") selected by the Company, does not constitute a "parachute payment" within the meaning of Section 280G (b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the "base amount" (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit

included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G (d)(3) and (4) of the Code

15. Section 409A of the Internal Revenue Code. It is the intention of the Company and Executive that this Agreement not result in unfavorable tax consequences to Executive under Section 409A of the Code, and the Treasury Regulations and Internal Revenue Service guidance promulgated thereunder ("Section 409A") and the Agreement shall be interpreted, construed and administered as to so comply with, or be exempt from, Section 409A. Notwithstanding anything to the contrary herein, the Company and Executive agree to the provisions set forth in this Section 15 in order to comply with, or be exempt from, the requirements of Section 409A

A. If Executive is a "specified employee" (as determined under the Company's Specified Employee Policy as in effect from time to time, or, in the absence of such policy, within the meaning of Section 409A) with respect to the Company, any non-exempt non-qualified deferred compensation that is subject to Section 409A and otherwise payable to or in respect of Executive in connection with Executive's Separation from Service pursuant to this Agreement shall be delayed until the earlier of (i) the expiration of six (6) months measured from the date of Executive's Separation from Service, or (ii) the date of Executive's death. Any amount, the payment or benefit of which is delayed by application of the preceding sentence, shall be paid as soon as possible following the expiration of such period.

B. All incentive bonus payments described in Section 7(D) shall be paid to Executive, to the extent earned, in no event later than the last day of the "applicable 2-1/2 month period", as such term is defined in Treasury Regulation Section 1.409A-1(b)(4)(i)(A) with respect to such payment's treatment as a "short-term deferral" for purposes of Section 409A.

C. With respect to the Company's reimbursement obligations under Sections 7(C) and 7(E) hereof and the provision of Benefits to Executive, (i) in no event shall any such reimbursements or in-kind benefits be made or provided later than the last day of Executive's taxable year following the taxable year in which the fee or expense was incurred, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during Executive's taxable year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year of Executive, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv).

D. The Company and Executive agree to cooperate in good faith in an effort to comply with Section 409A. Under no circumstances shall the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by the Executive due to any failure to comply with Section 409A. To the extent payments and benefits under this Agreement are subject to Section 409A, and such payments and benefits do not so comply, the Company shall amend this Agreement, or take such other actions as the Company deems reasonably necessary or appropriate, to comply with Section 409A. If any provision of the Agreement would cause such payments and benefits to fail to so comply, such provision shall not be effective and shall be null and void with respect to such payments or benefits, and such provision shall otherwise remain in full force and effect.

16. Company Policies. Executive's employment with the Company is subject to the terms and conditions contained in the Company's Associate Policies located on HR Link, which can be accessed through the Company's intranet site, as in effect from time to time (the "Associate Policies"), the content of which is incorporated by reference herein. Executive shall be required to read, understand and comply with the Associate Policies.

17. Severability. If any term of this Agreement is held to be invalid, void or unenforceable, the remainder of this Agreement shall remain in full force and effect and shall in no way be affected and the parties shall use their best efforts to find an alternative way to achieve the same result.

18. Integrated Agreement. This Agreement supersedes any prior agreements, representations or promises of any kind, whether written, oral, express or implied between the parties hereto with respect to the subject matters herein. It constitutes the full, complete and exclusive agreement between Executive and the Company with respect to the subject matters herein. This Agreement cannot be changed unless in writing, signed by Executive and the Chief Executive Officer of the Company and approved by the Board of Directors of the Company (or the Committee, if permitted by the Committee's charter).

19. Waiver. No waiver of any default hereunder shall operate as a waiver of any subsequent default. Failure by either party to enforce any of the terms or conditions of this Agreement, for any length of time or from time to time, shall not be deemed to waive or decrease the rights of such party to insist thereafter upon strict performance by the other party.

20. Notices. All notices and communications required or permitted hereunder shall be in writing and shall be deemed given (a) if delivered personally, (b) upon confirmation of receipt by the sender after being sent by electronic mail, (c) one (1) business day after being sent by Federal Express or a similar commercial overnight service, or (d) three (3) business days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the following addresses, or at such other addresses as the parties may designate by written notice in the manner aforesaid:

If to the Company: Health Net, Inc.
21650 Oxnard Street, 22nd Floor
Woodland Hills, CA 91367
Attention: General Counsel

If to Executive: Angelee F. Bouchard
[ADDRESS]
[ADDRESS]

21. Governing Law. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware without regard to the principle of conflicts of laws. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which other provisions shall remain in full force and effect.

22. Survival and Enforcement. Sections 3, 9, 10, 12 and 13 of this Agreement and any rights and remedies arising out of this Agreement shall survive and continue in full force and effect in accordance with the respective terms thereof, notwithstanding any termination of this Agreement or a Termination of Executive's employment. The parties agree that the Company would be damaged irreparably in the event any provision of Sections 3, 12 and 13 of this Agreement were not performed in accordance with its terms or were otherwise breached and that money damages would be an inadequate remedy for any such nonperformance or breach. Therefore, the Company or its successors or assigns shall be entitled in addition to other rights and remedies existing in their favor, to an injunction or injunctions to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security).

23. Acknowledgement. Executive acknowledges that Executive has had the opportunity to discuss the content of this Agreement with and obtain advice from Executive's attorney, have had sufficient time to and have carefully read and fully understood all of the provisions of this Agreement, and Executive is knowingly and voluntarily entering into this Agreement. Executive further acknowledges that Executive is obligated to become familiar with and comply at all times with all written policies of the Company.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date set forth above.

Executive

By: /s/ Angelee F. Bouchard
Name: Angelee F. Bouchard
Title: SVP, General Counsel & Corporate Secretary

Health Net, Inc.

By: /s/ Karin D. Mayhew
Name: Karin D. Mayhew
Title: SVP, Organization Effectiveness

cc: Karin Mayhew
Debbie J. Colia / Angelee F. Bouchard Personnel File

EXHIBIT A

[FORM OF SEPARATION AGREEMENT, WAIVER AND RELEASE OF CLAIMS]

This SEPARATION AGREEMENT, WAIVER AND RELEASE OF CLAIMS (this "**Separation Agreement and Release**") is made and entered into as of the dates set forth on the signature pages hereto by and between Health Net, Inc. and its affiliates and subsidiaries (hereinafter referred to as the "**Company**") and **[EXECUTIVE NAME]** (hereinafter referred to as the "**Executive**").

WHEREAS, the Company and Executive are parties to an Employment Agreement dated as of **[DATE]** (the "Employment Agreement") and are entering into this Separation Agreement and Release as a condition to Executive's receipt of a severance payment thereunder (capitalized terms used but not defined herein shall have the meanings set forth in the Employment Agreement).

NOW, THEREFORE, the Company and Executive agree as follows:

1. Executive's employment with the Company will terminate on **[TERM DATE]** (the "Termination Date"). Upon termination of employment, Executive will not represent to anyone that he is an employee of the Company and will not say or do anything purporting to bind the Company. Upon Executive's termination of employment, Executive shall be deemed to have resigned from all other positions with the Company, if any, held by Executive.

2. Executive's termination of employment with the Company shall be considered a **[DESCRIBE TYPE OF TERMINATION]** under the Employment Agreement, and Executive is therefore eligible to receive **[DESCRIBE PAYMENTS AND OTHER BENEFITS TO BE RECEIVED (SEVERANCE, BENEFIT CONTINUATION/COBRA, ETC.)]**.

3. Executive acknowledges that all unused accrued vacation and unused personal absence time will be paid in Executive's final regular paycheck in keeping with the Company's policy and practice or such shorter time as may be required by applicable law. Executive further acknowledges that no further vacation/paid-time-off or other benefits will accrue after the Termination Date.

4. Executive's participation in all Company employee benefit plans as an active employee shall cease on the Termination Date, and Executive shall not be eligible to make contributions to or to receive Company matching contributions under the Health Net, Inc. 401(k) Associate Savings Plan, or to make any deferrals pursuant to any deferred compensation plan of the Company after the Termination Date (it being understood that Executive shall be entitled to all vested benefits accrued as of the date hereof under the Company's 401(k) Savings Plan and any deferred compensation plan). If, immediately prior to the Termination Date, Executive participates in any Company employee welfare benefit plan, Executive's participation in such plan shall continue on the same terms and conditions, including the same co-payment terms, until 11:59 p.m. (Pacific Time) on the last day of the month in which the Termination Date occurs.

5. In partial consideration of the Company providing Executive the payments and benefits set forth above and as a condition to receive such payments and benefits, which Executive acknowledges he is not otherwise entitled to receive, Executive freely and voluntarily enters into this Separation Agreement and Release and, by signing this Separation Agreement and Release, Executive, on his own behalf and on behalf of his heirs, beneficiaries, successors, representatives, trustees, administrators and assigns, hereby waives and releases the Company, and each of its past, present and future officers, directors, shareholders, employees, consultants, accountants, attorneys, agents, managers, insurers, sureties, parent and sister corporations, divisions, subsidiary corporations and entities, partners, joint venturers, affiliates, beneficiaries, successors, representatives and assigns, from any and all claims, demands, damages, debts, liabilities, controversies, obligations, actions or causes of action of any nature whatsoever, whether based on tort, statute, contract, indemnity, rescission or any other theory of recovery, including but not limited to claims arising under federal, state or local laws prohibiting discrimination in employment, including Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1870, as amended, claims of disability discrimination under the Americans with Disabilities Act, the Age Discrimination in Employment Act, as amended ("**ADEA**"), the Worker Adjustment and Retraining Notification Act ("**WARN**"), or claims growing out of any legal restrictions on the Company's right to terminate its employees and whether for compensatory, punitive, equitable or other relief, whether known, unknown, suspected or unsuspected, against the Company, including without limitation claims which may have arisen or may in the future arise in connection with any event which occurred on or before the date of Executive's execution of this Separation Agreement and Release. The provisions in this paragraph do not extend to any rights Executive may have to enforce the terms of this Agreement and are not intended to prohibit Executive from filing a claim for unemployment insurance.

6. Executive expressly waives any right or claim of right to assert hereafter that any claim, demand, obligation and/or cause of action has, through ignorance, oversight or error, been omitted from the terms of this Separation Agreement and Release. Executive makes this waiver with full knowledge of his rights and with specific intent to release both his known and unknown claims, and therefore specifically waives the provisions of Section 1542 of the Civil Code of California or other similar provisions of any other applicable law, which reads as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Executive understands and acknowledges the significance and consequence of this Separation Agreement and Release and of such specific waiver of Section 1542, and expressly agrees that this Agreement shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected claims, demands, obligations and causes of action herein above specified.

7. Executive shall not initiate or cause to be initiated against the Company any compliance review, suit, action, investigation or proceeding of any kind, or voluntarily participate in same, individually or as a representative, witness or member of a class, under contract,

law or regulation, federal, state or local, pertaining to any matter related to his employment with the Company, unless Executive first cooperates in making his allegations known to the Company for the Company to take corrective action at a time and place designated by the Company. Executive represents and warrants that he has not, to date, initiated (or caused to be initiated) any such review, suit, action, investigation or proceeding; provided, however, that nothing in this Section 7 shall restrict Executive's ability to challenge the validity of any release herein of ADEA claims nor to any suit or action brought by Executive to assert such a challenge. In addition, Executive shall, without further compensation, cooperate with and assist the Company in the investigation of, preparation for or defense of any actual or threatened third party claim, investigation or proceeding involving the Company or its predecessors or affiliates and arising from or relating to, in whole or in part, Executive's employment with the Company or its predecessors or affiliates for which the Company requests Executive's assistance, which cooperation and assistance shall include, but not be limited to, providing testimony and assisting in information and document gathering efforts. In this connection, it is agreed that the Company will use its reasonable best efforts to assure that any request for such cooperation will not unduly interfere with Executive's other material business and personal obligations and commitments.

8. Executive agrees he will return to the Company immediately upon termination any building keys, security passes or other access or identification cards and any Company property that was in his possession, including but not limited to any documents, credit cards, computer equipment, mobile phones or data files. Executive agrees to clear all expense accounts and pay all amounts owed on any corporate credit cards which the Company previously issued to Executive, subject to the Company's obligation to reimburse Executive for any properly reimbursable business expenses in accordance with the Company's expense policies and procedures then in effect.

9. Executive shall not, without the Company's written consent by an authorized representative, at any time prior or subsequent to the execution of this Separation Agreement and Release, disclose, use, remove or copy any confidential, trade secret or proprietary information he acquired during the course of his employment by the Company, including without limitation, any technical, actuarial, economic, financial, procurement, provider, customer, underwriting, contractual, managerial, marketing or other information of any type that has economic value in the business in which the Company is engaged, but not including any previously published information or other information generally in the public domain.

10. In addition to any other part or term of this Separation Agreement and Release or the Employment Agreement, Executive agrees that he will not, (a) for a period of one (1) year from the date of this Agreement, irrespective of the reason for the termination, either directly or indirectly, on his own behalf or on behalf of any other person: (1) make known to any person, firm, corporation or other entity of any type, the names and addresses of any of the Company's customers, enrollees or providers or any other information pertaining to them; or (2) disrupt, solicit or influence or attempt to solicit, disrupt or influence any of the Company's customers, providers, vendors, agents or independent contractors with whom Executive became acquainted during the course of employment or service for the purpose of terminating such a person's or entity's

relationship with the Company or causing such a person or entity to associate with a competitor of the Company, and (b) for **[a period of one (1) year] [the six (6) month period]** following the Termination Date undertake any employment or activity prohibited by the Employment Agreement. The prohibitions of this paragraph are not intended to deny employment opportunities within Executive's field of employment but are limited only to those prohibitions necessary to protect the Company from unfair competition. In addition, Executive agrees that, for **[a period of one (1) year] [the six (6) month period]** following the Termination Date, he shall not, directly or indirectly solicit, interfere with, hire, offer to hire or induce any person, who is or was an employee of the Company or any of its affiliates at the time of such solicitation, interference, hiring, offering to hire or inducement, to discontinue his/her relationship with the Company or any of its affiliates or to accept employment by, or enter into a business relationship with, Executive or any other entity or person.

11. Executive further agrees that, in exchange for the consideration set forth in Section 2 hereof, Executive shall not make any disparaging comments and/or statements to anyone either orally or in writing about the Company and/or its employees.

12. Nothing contained herein shall be construed as an admission of any wrongful act, including but not limited to violation of any contract, express or implied, or any federal, state or local employment laws or regulations, and nothing contained herein shall be used for any purpose except in proceedings related to the enforcement of this Separation Agreement and Release.

13. If any part or term of this Separation Agreement and Release is held invalid or unenforceable by any court or arbitrator, such invalidity or unenforceability shall not affect in any way the validity or enforceability of any other part or term of this Separation Agreement and Release. In addition, if any court of competent jurisdiction construes the covenants contained in Section 10 hereof, or any part thereof, to be unenforceable in any respect, the court may reduce the duration or scope to the extent necessary so that the provision is enforceable, and the provision, as reduced, shall then be enforceable.

14. Executive agrees and acknowledges that this Separation Agreement and Release recites all payments and benefits Executive is entitled to receive hereunder and under the Employment Agreement, and that no other payments or benefits will be asserted or requested by Executive.

15. Executive acknowledges that he has had an opportunity to consult and be represented by counsel of his own choosing in the review of this Separation Agreement and Release, and that he has been advised by the Company to do so, that Executive is fully aware of this Separation Agreement and Release and of its legal effect, that the preceding paragraphs recite the sole consideration for this Separation Agreement and Release, and that Executive enters into this Separation Agreement and Release freely, without coercion, and based on Executive's own judgment and not in reliance upon any representation or promise made by the other party, other than those contained herein. There may be no modification of the terms of this Separation Agreement and Release except in writing signed by the parties hereto including an appropriately authorized officer of the Company.

16. This Separation Agreement and Release constitutes the full, complete and exclusive agreement between Executive and the Company with respect to the subject matters herein and supersedes any prior agreements, representations or promises of any kind, whether written, oral, express or implied, with respect to the subject matters herein. This Separation Agreement and Release cannot be changed unless in writing, signed by Executive and an authorized officer of the Company.

17. If there is any dispute between the Company and Executive over the terms or obligations under this Separation Agreement and Release, that dispute shall be resolved by binding arbitration before a single neutral arbitrator who shall be a retired judge. The arbitration shall proceed in accordance with the then-current rules of the Commercial American Arbitration Association to the extent not inconsistent with this Separation Agreement and Release. The judgment of the arbitrator shall be final, binding and nonappealable, and may be entered in any state or federal court having jurisdiction thereafter. The arbitrator shall be bound to apply and follow the applicable state or federal laws in reaching a decision in this matter. Any disagreement regarding whether a dispute is required to be arbitrated pursuant to this Separation Agreement and Release shall be decided by the arbitrator. The Federal Arbitration Act, 9 U.S.C. Sections 1-16, shall govern the interpretation and enforcement of this Section 17. The prevailing party will be entitled to recover reasonable attorney's fees and costs incurred in any action to enforce or defend this Separation Agreement and Release.

18. This Separation Agreement and Release shall be construed and governed by the laws of the State of Delaware.

EXECUTIVE ACKNOWLEDGES BY SIGNING BELOW that (i) Executive has not relied upon any representations, written or oral, not set forth in this Separation Agreement and Release; (ii) at the time Executive was given this Separation Agreement and Release Executive was informed in writing by the Company that (a) Executive had at least 21 days in which to consider whether Executive would sign the Separation Agreement and Release and (b) Executive should consult with an attorney before signing the Separation Agreement and Release; and (iii) Executive had an opportunity to consult with an attorney and either had such consultations or has freely decided to sign this Separation Agreement and Release without consulting an attorney.

Executive further acknowledges that he may revoke acceptance of this Separation Agreement and Release by delivering a letter of revocation within seven (7) days after the later of the dates set forth below addressed to: Health Net, Inc., Organization Effectiveness Department, 21650 Oxnard Street, Woodland Hills, California 91367, Attention: Karin Mayhew.

Finally, Executive acknowledges that he understands that this Separation Agreement and Release will not become effective until the eighth (8th) day following his signing this Separation Agreement and Release and that if Executive does not revoke his acceptance of the terms of this Separation Agreement and Release within the seven (7) day period following the date on which Executive signs this Separation Agreement and Release as set forth above, this Separation Agreement and Release will be binding and enforceable.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Separation Agreement and Release as of the dates set forth below.

Executive	Health Net, Inc.
By: **[EXHIBIT COPY]**	By: **[EXHIBIT COPY]**
Name:	Name:
Title:	Title:
Dated: **[TO BE INSERTED]**	Dated: **[TO BE INSERTED]**

Exhibit 10.6

STEVEN SELL
AMENDED AND RESTATED EMPLOYMENT AGREEMENT

This AMENDED AND RESTATED EMPLOYMENT AGREEMENT (this "Agreement") is made and entered into as of February 22, 2010 (the "Effective Date"), by and between Health Net, Inc., a Delaware corporation (the "Company"), with its principal place of business located at 21650 Oxnard Street, Woodland Hills, California 91367, and Steven Sell ("Executive"). This Agreement amends and restates in its entirety the Prior Agreement (as defined below).

RECITALS

WHEREAS, the Company and Executive previously entered into that certain Employment Agreement dated April 6, 2009, which set forth the terms of Executive's employment with the Company (the "Prior Agreement"); and

WHEREAS, the Company and Executive now desire to amend and restate the Prior Agreement on the terms and conditions set forth herein, and to supersede the Prior Agreement in all respects effective as of the Effective Date.

NOW, THEREFORE, in consideration of the following covenants, conditions and promises contained herein, and other good and valuable consideration, the Company and Executive hereby agree as follows:

1. Duties and Salary.

A. Duties. Executive's title will be President, Western Region Health Plans, but may be changed at the discretion of the Company to a title that reflects a similarly situated senior executive position. Executive shall report directly to Jim Woys, Executive Vice President and Chief Operating Officer of the Company, but Executive's reporting relationship may be changed from time to time at the discretion of the Company. Executive's duties and responsibilities are to maximize the profitable growth of enrollment in the Company's commercial lines of business within the West Region, but the Company reserves the right to assign Executive other duties as needed and to change Executive's duties from time to time on reasonable notice, based on Executive's skills and the needs of the Company. In the event that Executive performs any such additional duties, Executive shall not be entitled to an increase in compensation beyond that specified in this Agreement.

B. Salary. Executive will be paid a base salary at the annual rate of $450,000.00 which salary will be paid on a pro-rated bi-weekly basis, less applicable withholdings ("Base Salary"), covering all hours worked. Generally, Executive's Base Salary will be reviewed annually, but the Company reserves the right to change Executive's compensation from time-to-time. Pursuant to the charter of the Compensation Committee of the Company's Board of Directors (the "Committee"), any adjustment to Executive's compensation must be made with the approval of the Committee and, in the event that Executive constitutes one of the top two (2) highest paid executive officers of the Company, with the ratification of the Company's Board of Directors.

C. Disclosure of Personal Compensation Information. As an "executive officer" of the Company (as such term is defined in the rules and regulations of the Securities and Exchange Commission ("SEC")), information regarding Executive's employment arrangements with the Company, including, among other things, the terms of this Agreement and any stock option agreement, restricted stock agreement, restricted stock unit agreement, performance share agreement and/or severance agreement Executive enters into with the Company from time to time (collectively, "Personal Compensation Information"), may be disclosed in filings with the SEC, the New York Stock Exchange ("NYSE") and/or other regulatory organizations upon the occurrence of certain triggering events. Such triggering events include, but are not limited to, the execution of this Agreement and any amendments thereto, changes in Executive's Base Salary, any annual incentive payment (whether in the form of cash or equity) awarded to Executive (in the past or after the date hereof), and the establishment of performance goals under the Company's incentive plans. Executive's execution of this Agreement will serve as Executive's acknowledgement that Executive's Personal Compensation Information may be publicly disclosed from time to time in filings with the SEC, NYSE or otherwise as required by applicable law.

2. Adjustments and Changes in Employment Status. Executive understands that the Company reserves the right to make personnel decisions regarding Executive's employment, including, but not limited to, decisions regarding any promotion, salary adjustment, transfer or disciplinary action, up to and including Termination (as defined below), consistent with the needs of the business of the Company.

For purposes of this Agreement, the capitalized terms "Termination" and "Terminate," shall mean Executive's Separation from Service (as defined below) from the Company. A "Separation from Service" with respect to Executive shall mean a "separation from service," as defined in Treasury Regulation Section 1.409A-1(h).

3. Protection of Proprietary and Confidential Information. Executive agrees that Executive's employment creates a relationship of confidence and trust with the Company with respect to Proprietary and Confidential Information (as defined below) of the Company learned by Executive during Executive's employment.

A. Executive agrees not to directly or indirectly use or disclose any of the Proprietary and Confidential Information of the Company or any of its affiliates at any time except in connection with the services Executive provides to such entities. "Proprietary and Confidential Information" shall mean trade secrets, confidential knowledge, data or any other proprietary or confidential information of the Company or any of its affiliates, or of any customers, members, employees or directors of any of such entities, but shall not include any information that (i) was publicly known and made generally available in the public domain prior to the time of disclosure to Executive by the Company or (ii) becomes publicly known and made generally available after disclosure to Executive by the Company other than as a result of a disclosure by Executive in violation of this Agreement. By way of illustration but not limitation, "Proprietary and Confidential Information" includes: (i) trade secrets, documents, memoranda, reports, files, correspondence, lists and other written and graphic records affecting or relating to

any such entity's business; (ii) confidential marketing information including without limitation marketing strategies, customer and client names and requirements, services, prices, margins and costs; (iii) confidential financial information; (iv) personnel information (including without limitation employee compensation); and (v) other confidential business information.

B. Executive further agrees that at all times during Executive's employment and thereafter, Executive will keep in confidence and trust all Proprietary and Confidential Information, and that Executive will not use or disclose any Proprietary and Confidential Information or anything related to such information without the written consent of the Company, except as may be necessary in the ordinary course of performing Executive's duties to the Company.

C. All Company property, including, but not limited to, Proprietary and Confidential Information, documents, data, records, apparatus, equipment and other physical property, whether or not pertaining to Proprietary and Confidential Information, provided to Executive by the Company or any of its affiliates or produced by Executive or others in connection with Executive's providing services to the Company or any of its affiliates shall be and remain the sole property of the Company or its affiliates (as the case may be) and shall be returned promptly to such appropriate entity as and when requested by such entity. Executive shall return and deliver all such property upon termination of Executive's employment, and Executive may not take any such property or any reproduction of such property upon such termination.

D. Executive recognizes that the Company and its affiliates have received and in the future will receive information from third parties which is private, proprietary or confidential information subject to a duty on such entity's part to maintain the confidentiality of such information and to use it only for certain limited purposes. Executive agrees that during Executive's employment, and thereafter, Executive owes such entities and such third parties a duty to hold all such private, proprietary or confidential information received from third parties in the strictest confidence and not to disclose it, except as necessary in carrying out Executive's work for such entities consistent with such entities' agreements with such third parties, and not to use it for the benefit of anyone other than for such entities or such third parties consistent with such entities' agreements with such third parties.

E. Executive's obligations under this Section 3 shall continue after the Termination of Executive's employment and any breach of this Section 3 shall be a material breach of this Agreement.

4. Drug Screening; Background Check; Physical Exam.

A. Drug Screening. Not applicable – intentionally omitted.

B. Background Check. Not applicable – intentionally omitted.

C. Physical Exam. Executive shall be required, on an annual basis, to undergo a physical examination and to send evidence that Executive has undergone such exam (but in no case the results of such exam) to the Senior Vice President of Organizational Effectiveness. The Company shall reimburse Executive for any out-of-pocket expenses relating to the physical examination that are not otherwise covered by Executive's health insurance plan.

5. Immigration Documentation. Not applicable – intentionally omitted.

6. Representations and Warranties of Executive.

A. No Violation; No Conflicts. Executive represents and warrants to the Company that the entering into of this Agreement and Executive's performance of Executive's duties hereunder, will not violate any agreements with, or trade secrets of, any other person or entity. Executive further represents and warrants that Executive does not have any relationship or commitment to any other person or entity that might be in conflict with Executive's obligations to the Company under this Agreement, including but not limited to outside employment, sales broker relationships, investments or business activities. Executive understands and agrees that while employed by the Company Executive is expected to refrain from engaging in any outside activities that might be in conflict with the business interests of the Company. In addition, Executive represents and warrants to the Company that Executive has not shared with or disclosed to, and will not share with or disclose to, the Company any proprietary or confidential information of Executive's previous employers or any other third party.

B. Legal Proceedings. Executive represents and warrants to the Company that Executive has not been arrested, indicted, convicted or otherwise involved in any criminal or civil action or legal matter that could affect Executive's ability to perform Executive's duties hereunder or that may have a negative impact on the Company, its reputation or its operations. Executive agrees, to the extent permitted by applicable law, to notify the Company's Senior Vice President of Organizational Effectiveness immediately in the event that Executive becomes party to any criminal or civil action or other legal matter in the future that could have an affect on the foregoing representation.

7. Executive Benefits.

A. Employee Benefit Programs. Executive shall be eligible to participate in the Company's various employee benefit programs and plans in place from time to time in accordance with their terms, as long as Executive remains employed by the Company and Executive meets the applicable participation requirements. These benefit programs and plans currently include paid time off ("PTO"), holidays, group medical, dental, vision, term life, and short and long term disability insurance and participation in the Company's 401(k) plan, tuition reimbursement plan and deferred compensation plan. The Company or its subsidiaries or affiliates may modify, terminate or amend any benefit or plan in its discretion, retroactively or prospectively, subject only to applicable law.

B. Required Insurance. Executive will be covered by workers' compensation insurance and state disability insurance, as required by state law.

C. Fringe Benefits. Executive will be entitled to such fringe benefits and perquisites as are provided by the Company from time to time, in accordance with the Company's policies, practices and procedures, and shall receive such additional fringe benefits and perquisites as the Company may, in its discretion, from time-to-time provide. Without limiting the generality of the foregoing, Executive will be entitled to (i) be reimbursed up to the amount of $2,500 per year for documented costs incurred for personal financial counseling services provided to Executive, including tax preparation, and (ii) receive a $1,000 per month car

allowance (a grandfathered benefit), in each case, as long as Executive remains employed by the Company. The Company or its subsidiaries or affiliates may modify, terminate or amend any fringe benefit or perquisite in its discretion, retroactively or prospectively, subject only to applicable law.

D. Incentive Bonus. Executive will be eligible to participate in the Health Net, Inc. Executive Officer Incentive Plan ("EOIP") in accordance with the terms of the EOIP, which provides Executive with a target bonus for each plan year equal to 80% of Executive's Base Salary as additional compensation according to the terms of the EOIP. The actual bonus payment will range from 0% to 200% of target depending upon the actual results achieved, and specific, individually tailored measures will be established by the Company that must be achieved by Executive in order for Executive to be eligible to receive bonus payments for a given plan year. It is understood that the Committee and the Company will award bonus amounts, if any, as it deems appropriate consistent with the EOIP.

E. Expenses. Subject to and in accordance with the Company's written policies for business and travel expenses, Executive will receive reimbursement for all business travel and other out-of-pocket expenses reasonably incurred by Executive in the performance of Executive's duties pursuant to this Agreement.

8. Equity Grants.

A. Future Equity Grants. Any future equity grants made to Executive will be granted under one of the Company's Long-Term Incentive Plans, and will be subject to the terms of such plan and of the agreement executed in connection with such grant. Any future equity grants to Executive will be made at the discretion of the Committee.

B. Company Stock Ownership Requirement. In accordance with the Executive Officer Stock Ownership Policy adopted by the Board of Directors of the Company, as may be amended from time to time (the "Executive Stock Ownership Policy"), Executive is currently required to own shares of Common Stock of the Company having a value of one times (1x) Executive's Base Salary in effect from time to time pursuant to this Agreement (the "Stock Ownership Requirement"). The number of shares of Common Stock Executive is required to own will be calculated based on the average NYSE closing price per share of the Company's Common Stock (as adjusted for stock splits and similar changes to the Common Stock) for the most recently completed fiscal year of the Company.

Using Executive's current salary of $450,000.00 and a stock price of $15.92, which is the average closing price per share of the Company's Common Stock as of December 31, 2009, Executive's current stock ownership requirement is 28,266 ("Target Amount"). The Target Amount is subject to change from time to time based on (1) changes in the average closing sales price of the Company's Common Stock on an annual basis, (2) any changes in Executive's Base Salary made pursuant to and in accordance with Section 1B of this Agreement, and (3) any changes under the terms of the Executive Stock Ownership Policy. Any shares of Company Common Stock that Executive owns, and any restricted stock units, shares of restricted stock or performance shares of the Company that Executive owns and have vested count toward the Target Amount. Stock options, unvested restricted stock units, unvested shares of restricted stock, unvested performance shares and shares of Common Stock gifted to others do not count toward the Target Amount.

Under the Executive Stock Ownership Policy as currently in effect, to the extent that Executive has not achieved the Stock Ownership Requirement, Executive must hold 75% of all "net settled shares" received from the vesting, delivery or exercise of equity awards granted under the Company's equity award (including long-term incentive) plans. For purposes of the Executive Stock Ownership Policy, "net settled shares" means those shares that remain after payment of (i) the exercise price of stock options or purchase price of other awards and all applicable withholding taxes, including shares sold or netted with respect thereto, and (ii) all applicable transaction costs.

The Committee expects that Executive will make reasonable progress toward Executive's Stock Ownership Requirement. Executive will be notified on an annual basis of any changes in Executive's Target Amount.

9. Term of Employment. Executive's employment with the Company is at the mutual consent of Executive and the Company. Nothing in this Agreement is intended to guarantee Executive's continuing employment with the Company or employment for any specific length of time. Accordingly, either Executive or the Company may terminate the employment relationship at any time and for any reason whatsoever (or for no reason), subject to certain notice requirements, to the extent applicable, as set forth herein. Upon Termination of Executive's employment for any reason, in addition to any other payments that may be payable to Executive hereunder, Executive (or Executive's beneficiaries or estate) shall be paid (in each case to the extent not theretofore paid) within thirty (30) days following Executive's date of Termination (or such shorter period that may be required by applicable law): (a) Executive's annual Base Salary through such Termination date, (b) accrued but unused PTO, (c) reimbursable expenses incurred by Executive prior to the Termination date and (d) payment of amounts to which Executive may be entitled through such Termination date under any other compensatory plan, arrangement or program payment in accordance with the terms thereunder. This Agreement constitutes a final and fully binding integrated agreement with respect to the at-will nature of the employment relationship.

10. Termination of Employment/Severance Pay.

A. Termination Without Cause. If Executive's employment is Terminated by the Company without "Cause" (as defined in Section 10(D) below), Executive will be entitled to receive, within thirty (30) days following the Termination of Executive's employment, provided that Executive signs and delivers prior to the expiration of such (30) day period, and does not revoke or attempt to revoke, a Separation Agreement, Waiver and Release of Claims substantially in the form attached hereto as Exhibit A, which is incorporated into this Agreement by reference, (i) a lump sum cash payment equal to 12 months of Executive's Base Salary in effect immediately prior to the date of Executive's Termination, and (ii) the continuation, under COBRA, of Executive's medical, dental and vision benefits (as maintained for Executive's benefit immediately prior to the date of Executive's Termination) (the "Benefits") for Executive and Executive's dependents for a period of 12 months, with premium payments paid by the Company on Executive's behalf, provided, that Executive properly elects to continue those benefits under COBRA.

B. Termination For Good Reason Following Change in Control. If at any time within two (2) years after a "Change in Control" of Health Net, Inc. Executive's employment is Terminated by Executive for "Good Reason" (each as defined below) (by giving the Company at least fourteen (14) days prior written notice of the effective date of Termination), then Executive will be entitled to receive, within thirty (30) days following the Termination of Executive's employment, provided that Executive signs and delivers prior to the expiration of such thirty (30) day period, and does not revokes or attempt to revoke, a Separation Agreement, Waiver and Release of Claims substantially in the form attached hereto as Exhibit A, which is incorporated into this Agreement by reference, (i) a lump sum payment equal to 12 months of Executive's Base Salary in effect immediately prior to the date of Executive's Termination, and (ii) the continuation, under COBRA, of Benefits for Executive and Executive's dependents for a period of 12 months following the effective date of Executive's Termination with premium payments made by the Company on Executive's behalf, provided, that Executive properly elects to continue those benefits under COBRA, and provided, further, that in the event the Company requests, in writing, prior to such Termination by Executive for Good Reason, that Executive continue in the employ of the Company for a period of time up to 90 days following such Change in Control, then Executive shall forfeit such severance allowance if Executive voluntarily leaves the employ of the Company prior to the expiration of such period of time.

For purposes of this Agreement, "Change in Control" is defined as any of the following which occurs subsequent to the effective date of Executive's employment:

(i) Any person (as such term is defined under Section 13(d)(3) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), corporation or other entity (other than Health Net, Inc. or any of its subsidiaries, or any employee benefit plan sponsored by Health Net, Inc. or any of its subsidiaries) is or becomes the beneficial owner (as such term is defined in Rule 13d-3 under the Exchange Act) of securities of Health Net, Inc. representing twenty percent (20%) or more of the combined voting power of the outstanding securities of Health Net, Inc. which ordinarily (and apart from rights accruing under special circumstances) have the right to vote in the election of directors (calculated as provided in paragraph (d) of such Rule 13d-3 in the case of rights to acquire Health Net, Inc.'s securities) (the "Securities");

(ii) As a result of a tender offer, merger, sale of assets or other major transaction, the persons who are directors of Health Net, Inc. immediately prior to such transaction cease to constitute a majority of the Board of Directors of Health Net, Inc. (or any successor corporations) immediately after such transaction;

(iii) Health Net, Inc. is merged or consolidated with any other person, firm, corporation or other entity and, as a result, the shareholders of Health Net, Inc., as determined immediately before such transaction, own less than eighty percent (80%) of the outstanding Securities of the surviving or resulting entity immediately after such transaction:

(iv) A tender offer or exchange offer is made and consummated for the ownership of twenty percent (20%) or more of the outstanding Securities of Health Net, Inc.;

(v) Health Net, Inc. transfers substantially all of its assets to another person, firm, corporation or other entity that is not a wholly-owned subsidiary of Health Net, Inc.; or

(vi) Health Net, Inc. enters into a management agreement with another person, firm, corporation or other entity that is not a wholly-owned subsidiary of Health Net, Inc. and such management agreement extends hiring and firing authority over Executive to an individual or organization other than Health Net, Inc.

For purposes of this Agreement, the term "Good Reason" means any of the following which occurs, without Executive's consent, subsequent to the effective date of a Change in Control as defined above:

(i) A substantial reduction in the scope of Executive's authority, duties or responsibilities with the Company, except in connection with the Termination of Executive's employment for Disability (as defined below), normal retirement or Cause or by Executive voluntarily other than for Good Reason;

(ii) A material reduction by the Company in Executive's base compensation (*i.e.*, Executive's Base Salary and/or target annual bonus) as in effect immediately prior to any such reduction;

(iii) A relocation of Executive to a work location more than fifty (50) miles from Executive's work location immediately prior to such proposed relocation; provided that such proposed relocation results in a materially greater commute for Executive based on Executive's residence immediately prior to such relocation; or

(iv) The failure of the Company to obtain an assumption agreement from any successor contemplated under Section 13 of this Agreement;

provided, however, that (a) Executive provides written notice to the Company of the existence of the condition described above within ninety (90) days of the initial existence of the condition, (b) the Company fails to cure such condition within thirty (30) days after receipt of such written notice, and (c) the date of Executive's Termination occurs no later than seventy-five (75) days after the initial occurrence of the event constituting Good Reason, in accordance with Treasury Regulation Section 1.409A-1(n)(2)(ii).

C. Voluntary Termination. Notwithstanding anything to the contrary in this Agreement, whether express or implied, Executive may at any time Terminate Executive's employment for any reason by giving the Company fourteen (14) days prior written notice of the effective date of Termination. In the event that Executive voluntarily Terminates employment with the Company (except for Good Reason within two (2) years after a Change in Control of Health Net, Inc., as described in Section 10(B) hereof), then Executive shall not be eligible to receive any payments or continuation of Benefits set forth in this Section 10.

D. Termination by the Company for Cause. The Company may Terminate Executive's employment for "Cause" at any time with or without advance notice. In the event of such Termination, Executive will not be eligible to receive any of the payments set forth in Section 10(A) or 10(B) above. For purposes of this Agreement, a Termination for "Cause" is

defined as: (i) an act of dishonesty causing harm to the Company or any of its affiliates, (ii) the material breach of either the Company's Code of Business Conduct and Ethics (the "Code of Conduct") or any policy or procedure developed and published by the Company regarding compliance or ethics related to the Code of Conduct, (iii) habitual drunkenness or narcotic drug addiction, (iv) conviction of, or entry by Executive of a guilty or no contest plea to, the commission of a felony or a misdemeanor involving moral turpitude, (v) willful refusal to perform or gross neglect of the duties assigned to Executive, (vi) the willful breach of any law that, directly or indirectly, affects the Company or any of its affiliates, (vii) a material breach by Executive following a Change in Control of those duties and responsibilities of Executive that do not differ in any material respect from Executive's duties and responsibilities during the 90-day period immediately prior to such Change in Control (other than as a result of incapacity due to physical or mental illness) which is demonstrably willful and deliberate on Executive's part, which is committed in bad faith or without reasonable belief that such breach is in the best interests of the Company or any of its affiliates and which is not remedied in a reasonable period of time after receipt of written notice from the Company specifying such breach, or (viii) breach of Executive's obligations hereunder (or under any Company policy) to protect the proprietary and confidential information of the Company or any of its affiliates.

E. Termination Due to Death or Disability. In the event that Executive's employment is Terminated at any time due to Executive's death or "Disability" (as defined below), Executive (or Executive's beneficiaries or estate) shall be entitled to receive, provided Executive (or Executive's beneficiaries or estate, as applicable) signs a Separation Agreement, Waiver and Release of Claims substantially in the form attached hereto as Exhibit A, which is incorporated into this Agreement by reference, (i) continuation of Executive's Benefits for a period of 12 months from the date of Termination and (ii) a lump sum payment equal to 12 months of Executive's Base Salary in effect immediately prior to the date of Executive's Termination, to be paid within thirty (30) days following Executive's Termination of employment. For purposes of this Agreement, a Termination for "Disability" shall mean a Termination of Executive's employment due to Executive's absence from Executive's duties with the Company on a full-time basis for at least 180 consecutive days as a result of Executive's incapacity due to physical or mental illness which is determined to be total and permanent by a physician selected by the Company or its insurers.

11. Withholding. All payments required to be made by the Company hereunder to Executive or Executive's estate or beneficiaries shall be subject to the withholding of such amounts relating to taxes as the Company may reasonably determine should be withheld pursuant to any applicable law or regulation.

12. Restrictive Covenants.

A. Non-Competition. Executive hereby agrees that, during (i) the six (6)-month period following a Termination of Executive's employment with the Company that entitles Executive to receive severance benefits under this Agreement or a written agreement with or policy of the Company or (ii) the twelve (12)-month period following a Termination of Executive's employment with the Company that does not entitle Executive to receive such severance benefits (the period referred to in either clause (i) or (ii), the "Restricted Period"), Executive shall not undertake any employment or activity (including, but not limited to, consulting services) with a Competitor (as defined below) in any geographic area in which the

Company or any of its affiliates operate (the "Market Area"), where the loyal and complete fulfillment of the duties of the competitive employment or activity would call upon Executive to reveal, to make judgments on or otherwise use or disclose any confidential business information or trade secrets of the business of the Company or any of its affiliates to which Executive had access during Executive's employment with the Company. For purposes of this Section, "Competitor" shall refer to any health maintenance organization or insurance company that provides managed health care or related services similar to those provided by the Company or any of its affiliates.

B. Non-Solicitation. In addition, Executive agrees that, during the applicable Restricted Period following Termination of Executive's employment with the Company, Executive shall not, directly or indirectly, (i) solicit, interfere with, hire, offer to hire or induce any person, who is or was an employee of the Company or any of its affiliates at the time of such solicitation, interference, hiring, offering to hire or inducement, to discontinue his/her relationship with the Company or any of its affiliates or to accept employment by, or enter into a business relationship with, Executive or any other entity or person or (ii) solicit, interfere with or otherwise contact any customer or client of the Company or any of its affiliates.

C. Modification of Restrictions. It is hereby further agreed that if any court of competent jurisdiction shall determine that the restrictions imposed in this Section 12 are unreasonable (including, but not limited to, the definition of Market Area or Competitor or the time period during which this provision is applicable), the parties hereto hereby agree to any restrictions that such court would find to be reasonable under the circumstances.

D. Injunction Rights. Executive also acknowledges that the services to be rendered by Executive to the Company are of a special and unique character, which gives this Agreement a peculiar value to the Company or any of its affiliates, the loss of which may not be reasonably or adequately compensated for by damages in an action at law, and that a material breach or threatened breach by Executive of any of the provisions contained in this Section 12 will cause the Company or any of its affiliates irreparable injury. Executive therefore agrees that the Company may be entitled, in addition to the remedies set forth above in this Section 12 and any other right or remedy, to a temporary, preliminary and permanent injunction, without the necessity of proving the inadequacy of monetary damages or the posting of any bond or security, enjoining or restraining Executive from any such violation or threatened violations.

13. Successors; Binding Agreement.

A. Survival Following Merger, Consolidation or Asset Transfer. This Agreement shall not be terminated by any merger or consolidation of the Company whereby the Company is or is not the surviving or resulting corporation or as a result of any transfer of all or substantially all of the assets of the Company. In the event of any such merger, consolidation or transfer of assets, the provisions of this Agreement shall be binding upon the surviving or resulting corporation or the person or entity to which such assets are transferred.

B. Survivor's Assumption of Agreement. The Company agrees that concurrently with any merger, consolidation or transfer of assets referred to in this Section 13, it will cause any successor or transferee to unconditionally assume, by written instrument delivered to Executive (or Executive's beneficiary or estate), all of the obligations of the Company

hereunder. Failure of the Company to obtain such assumption prior to the effectiveness of any such merger, consolidation or transfer of assets shall entitle Executive to compensation and other benefits from the Company in the same amount and on the same terms as Executive would be entitled hereunder if Executive's employment were Terminated without Cause. For purposes of implementing the foregoing, the date on which any such merger, consolidation or transfer becomes effective shall be deemed the date of Termination.

C. Enforceability. This Agreement shall inure to the benefit of and be enforceable by Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If Executive shall die while any amounts would be payable to Executive hereunder had Executive continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to such person or persons appointed in writing by Executive to receive such amounts or, if no person is so appointed, to Executive's estate.

14. Limitation on Payments.

A. Notwithstanding any other provisions of this Agreement, in the event that any payment or benefit received or to be received by Executive (including any payment or benefit received in connection with a Change in Control or the termination of Executive's employment, whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement) (all such payments and benefits, including the payments and benefits under Section 10 hereof, being hereinafter referred to as the "Total Payments") would be subject (in whole or part), to the excise tax imposed under Section 4999 of the Internal Revenue Code of 1986, as amended (the "Code") (the "Excise Tax"), then, after taking into account any reduction in the Total Payments provided by reason of Section 280G of the Code in such other plan, arrangement or agreement, the cash severance payments shall first be reduced, and the non-cash severance payments shall thereafter be reduced, to the extent necessary so that no portion of the Total Payments is subject to the Excise Tax, but only if (i) the net amount of such Total Payments, as so reduced (and after subtracting the net amount of federal, state and local income taxes on such reduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such reduced Total Payments), is greater than or equal to (ii) the net amount of such Total Payments without such reduction (but after subtracting the net amount of federal, state and local income taxes on such Total Payments and the amount of Excise Tax to which Executive would be subject in respect of such unreduced Total Payments and after taking into account the phase out of itemized deductions and personal exemptions attributable to such unreduced Total Payments). The Total Payments shall be reduced by the Company in its reasonable discretion in the following order: (A) reduction of any cash severance payments otherwise payable to Executive that are exempt from Section 409A (as defined below), (B) reduction of any other cash payments or benefits otherwise payable to Executive that are exempt from Section 409A, but excluding any payments attributable to the acceleration of vesting or payments with respect to any stock option or other equity award with respect to the Company's Common Stock that are exempt from Section 409A, (C) reduction of any other payments or benefits otherwise payable to Executive on a pro-rata basis or such other manner that complies with Section 409A, but excluding any payments attributable to the acceleration of vesting and payments with respect to any stock option or other equity award with respect to the Company's Common Stock that are exempt from Section 409A, and (D) reduction of any payments attributable to the acceleration of vesting or payments with respect to any stock option or other equity award with respect to the Company's Common Stock that are exempt from Section 409A.

B. For purposes of determining whether and the extent to which the Total Payments will be subject to the Excise Tax, (i) no portion of the Total Payments the receipt or enjoyment of which Executive shall have waived at such time and in such manner as not to constitute a "payment" within the meaning of Section 280G(b) of the Code shall be taken into account, (ii) no portion of the Total Payments shall be taken into account which, in the written opinion of independent auditors of nationally recognized standing ("Independent Advisors") selected by the Company, does not constitute a "parachute payment" within the meaning of Section 280G (b)(2) of the Code (including by reason of Section 280G(b)(4)(A) of the Code) and, in calculating the Excise Tax, no portion of such Total Payments shall be taken into account which, in the opinion of Independent Advisors, constitutes reasonable compensation for services actually rendered, within the meaning of Section 280G(b)(4)(B) of the Code, in excess of the "base amount" (as defined in Section 280G(b)(3) of the Code) allocable to such reasonable compensation, and (iii) the value of any non-cash benefit or any deferred payment or benefit included in the Total Payments shall be determined by the Independent Advisors in accordance with the principles of Sections 280G(d)(3) and (4) of the Code.

15. Section 409A of the Internal Revenue Code. It is the intention of the Company and Executive that this Agreement not result in unfavorable tax consequences to Executive under Section 409A of the Code, and the Treasury Regulations and Internal Revenue Service guidance promulgated thereunder ("Section 409A") and the Agreement shall be interpreted, construed and administered as to so comply with, or be exempt from, Section 409A. Notwithstanding anything to the contrary herein, the Company and Executive agree to the provisions set forth in this Section 15 in order to comply with, or be exempt from, the requirements of Section 409A

A. If Executive is a "specified employee" (as determined under the Company's Specified Employee Policy as in effect from time to time, or, in the absence of such policy, within the meaning of Section 409A) with respect to the Company, any non-exempt non-qualified deferred compensation that is subject to Section 409A and otherwise payable to or in respect of Executive in connection with Executive's Separation from Service pursuant to this Agreement shall be delayed until the earlier of (i) the expiration of six (6) months measured from the date of Executive's Separation from Service, or (ii) the date of Executive's death. Any amount, the payment or benefit of which is delayed by application of the preceding sentence, shall be paid as soon as possible following the expiration of such period.

B. All incentive bonus payments described in Section 7(D) shall be paid to Executive, to the extent earned, in no event later than the last day of the "applicable 2-1/2 month period", as such term is defined in Treasury Regulation Section 1.409A-1(b)(4)(i)(A) with respect to such payment's treatment as a "short-term deferral" for purposes of Section 409A.

C. With respect to the Company's reimbursement obligations under Sections 7(C) and 7(E) hereof and the provision of Benefits to Executive, (i) in no event shall any such reimbursements or in-kind benefits be made or provided later than the last day of Executive's taxable year following the taxable year in which the fee or expense was incurred, (ii) the amount of expenses eligible for reimbursement, or in-kind benefits provided, during Executive's taxable year may not affect the expenses eligible for reimbursement, or in-kind benefits to be provided, in any other taxable year of Executive, and (iii) the right to reimbursement or in-kind benefits is not subject to liquidation or exchange for another benefit, in accordance with Treasury Regulation Section 1.409A-3(i)(1)(iv).

D. The Company and Executive agree to cooperate in good faith in an effort to comply with Section 409A. Under no circumstances shall the Company be responsible for any taxes, penalties, interest or other losses or expenses incurred by Executive due to any failure to comply with Section 409A. To the extent payments and benefits under this Agreement are subject to Section 409A, and such payments and benefits do not so comply, the Company shall amend this Agreement, or take such other actions as the Company deems reasonably necessary or appropriate, to comply with Section 409A. If any provision of the Agreement would cause such payments and benefits to fail to so comply, such provision shall not be effective and shall be null and void with respect to such payments or benefits, and such provision shall otherwise remain in full force and effect.

16. Company Policies. Executive's employment with the Company is subject to the terms and conditions contained in the Company's Associate Policies located on HR Link, which can be accessed through the Company's intranet site, as in effect from time to time (the "Associate Policies"), the content of which is incorporated by reference herein. Executive shall be required to read, understand and comply with the Associate Policies.

17. Severability. If any term of this Agreement is held to be invalid, void or unenforceable, the remainder of this Agreement shall remain in full force and effect and shall in no way be affected and the parties shall use their best efforts to find an alternative way to achieve the same result.

18. Integrated Agreement. This Agreement supersedes any prior agreements, representations or promises of any kind, whether written, oral, express or implied between the parties hereto with respect to the subject matters herein. It constitutes the full, complete and exclusive agreement between Executive and the Company with respect to the subject matters herein. This Agreement cannot be changed unless in writing, signed by Executive and the Chief Executive Officer of the Company and approved by the Board of Directors of the Company (or the Committee, if permitted by the Committee's charter). The Company acknowledges and agrees that nothing contained herein shall be deemed to supercede, amend or otherwise modify the terms of the Indemnification Agreement dated December 14, 2009 between Executive and the Company.

19. Waiver. No waiver of any default hereunder shall operate as a waiver of any subsequent default. Failure by either party to enforce any of the terms or conditions of this Agreement, for any length of time or from time to time, shall not be deemed to waive or decrease the rights of such party to insist thereafter upon strict performance by the other party.

20. Notices. All notices and communications required or permitted hereunder shall be in writing and shall be deemed given (a) if delivered personally, (b) upon confirmation of receipt by the sender after being sent by electronic mail, (c) one (1) business day after being sent by Federal Express or a similar commercial overnight service, or (d) three (3) business days after being mailed by registered or certified mail, return receipt requested, prepaid and addressed to the

following addresses, or at such other addresses as the parties may designate by written notice in the manner aforesaid:

If to the Company: Health Net, Inc.
21650 Oxnard Street, 22nd Floor
Woodland Hills, CA 91367
Attention: General Counsel

If to Executive: Steven Sell
[ADDRESS]
[ADDRESS]

21. Governing Law. The interpretation, construction and performance of this Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of Delaware without regard to the principle of conflicts of laws. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provisions of this Agreement, which other provisions shall remain in full force and effect.

22. Survival and Enforcement. Sections 3, 9, 10, 12 and 13 of this Agreement and any rights and remedies arising out of this Agreement shall survive and continue in full force and effect in accordance with the respective terms thereof, notwithstanding any termination of this Agreement or a Termination of Executive's employment. The parties agree that the Company would be damaged irreparably in the event any provision of Sections 3, 12, and 13 of this Agreement were not performed in accordance with its terms or were otherwise breached and that money damages would be an inadequate remedy for any such nonperformance or breach. Therefore, the Company or its successors or assigns shall be entitled in addition to other rights and remedies existing in their favor, to an injunction or injunctions to prevent any breach or threatened breach of any of such provisions and to enforce such provisions specifically (without posting a bond or other security).

23. Acknowledgement. Executive acknowledges that Executive has had the opportunity to discuss the content of this Agreement with and obtain advice from Executive's attorney, have had sufficient time to and have carefully read and fully understood all of the provisions of this Agreement, and Executive is knowingly and voluntarily entering into this Agreement. Executive further acknowledges that Executive is obligated to become familiar with and comply at all times with all written policies of the Company.

[Signature Page to Follow]

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the Effective Date set forth above.

Executive

By: **/s/ Steven Sell**
Name: Steven Sell
Title: President, Health Net of California

Health Net, Inc.

By: **/s/ Karin D. Mayhew**
Name: Karin D. Mayhew
Title: SVP, Organization Effectiveness

cc: Angelee F. Bouchard
Karin D. Mayhew
Personnel File

EXHIBIT A

[FORM OF SEPARATION AGREEMENT, WAIVER AND RELEASE OF CLAIMS]

This SEPARATION AGREEMENT, WAIVER AND RELEASE OF CLAIMS (this "**Separation Agreement and Release**") is made and entered into as of the dates set forth on the signature pages hereto by and between Health Net, Inc. and its affiliates and subsidiaries (hereinafter referred to as the "**Company**") and **[EXECUTIVE NAME]** (hereinafter referred to as the "**Executive**").

WHEREAS, the Company and Executive are parties to an Employment Agreement dated as of **[DATE]** (the "Employment Agreement") and are entering into this Separation Agreement and Release as a condition to Executive's receipt of a severance payment thereunder (capitalized terms used but not defined herein shall have the meanings set forth in the Employment Agreement).

NOW, THEREFORE, the Company and Executive agree as follows:

1. Executive's employment with the Company will terminate on **[TERM DATE]** (the "Termination Date"). Upon termination of employment, Executive will not represent to anyone that he is an employee of the Company and will not say or do anything purporting to bind the Company. Upon Executive's termination of employment, Executive shall be deemed to have resigned from all other positions with the Company, if any, held by Executive.

2. Executive's termination of employment with the Company shall be considered a **[DESCRIBE TYPE OF TERMINATION]** under the Employment Agreement, and Executive is therefore eligible to receive **[DESCRIBE PAYMENTS AND OTHER BENEFITS TO BE RECEIVED (SEVERANCE, BENEFIT CONTINUATION/COBRA, ETC.]**.

3. Executive acknowledges that all unused accrued vacation and unused personal absence time will be paid in Executive's final regular paycheck in keeping with the Company's policy and practice or such shorter time as may be required by applicable law. Executive further acknowledges that no further vacation/paid-time-off or other benefits will accrue after the Termination Date.

4. Executive's participation in all Company employee benefit plans as an active employee shall cease on the Termination Date, and Executive shall not be eligible to make contributions to or to receive Company matching contributions under the Health Net, Inc. 401(k) Associate Savings Plan, or to make any deferrals pursuant to any deferred compensation plan of the Company after the Termination Date (it being understood that Executive shall be entitled to all vested benefits accrued as of the date hereof under the Company's 401(k) Savings Plan and any deferred compensation plan). If, immediately prior to the Termination Date, Executive participates in any Company employee welfare benefit plan, Executive's participation in such plan shall continue on the same terms and conditions, including the same co-payment terms, until 11:59 p.m. (Pacific Time) on the last day of the month in which the Termination Date occurs.

5. In partial consideration of the Company providing Executive the payments and benefits set forth above and as a condition to receive such payments and benefits, which Executive acknowledges he is not otherwise entitled to receive, Executive freely and voluntarily enters into this Separation Agreement and Release and, by signing this Separation Agreement and Release, Executive, on his own behalf and on behalf of his heirs, beneficiaries, successors, representatives, trustees, administrators and assigns, hereby waives and releases the Company, and each of its past, present and future officers, directors, shareholders, employees, consultants, accountants, attorneys, agents, managers, insurers, sureties, parent and sister corporations, divisions, subsidiary corporations and entities, partners, joint venturers, affiliates, beneficiaries, successors, representatives and assigns, from any and all claims, demands, damages, debts, liabilities, controversies, obligations, actions or causes of action of any nature whatsoever, whether based on tort, statute, contract, indemnity, rescission or any other theory of recovery, including but not limited to claims arising under federal, state or local laws prohibiting discrimination in employment, including Title VII of the Civil Rights Act of 1964, as amended, the Civil Rights Act of 1870, as amended, claims of disability discrimination under the Americans with Disabilities Act, the Age Discrimination in Employment Act, as amended ("**ADEA**"), the Worker Adjustment and Retraining Notification Act ("**WARN**"), or claims growing out of any legal restrictions on the Company's right to terminate its employees and whether for compensatory, punitive, equitable or other relief, whether known, unknown, suspected or unsuspected, against the Company, including without limitation claims which may have arisen or may in the future arise in connection with any event which occurred on or before the date of Executive's execution of this Separation Agreement and Release. The provisions in this paragraph do not extend to any rights Executive may have to enforce the terms of this Agreement and are not intended to prohibit Executive from filing a claim for unemployment insurance.

6. Executive expressly waives any right or claim of right to assert hereafter that any claim, demand, obligation and/or cause of action has, through ignorance, oversight or error, been omitted from the terms of this Separation Agreement and Release. Executive makes this waiver with full knowledge of his rights and with specific intent to release both his known and unknown claims, and therefore specifically waives the provisions of Section 1542 of the Civil Code of California or other similar provisions of any other applicable law, which reads as follows:

> "A general release does not extend to claims which the creditor does not know or suspect to exist in his favor at the time of executing the release, which if known by him must have materially affected his settlement with the debtor."

Executive understands and acknowledges the significance and consequence of this Separation Agreement and Release and of such specific waiver of Section 1542, and expressly agrees that this Agreement shall be given full force and effect according to each and all of its express terms and provisions, including those relating to unknown and unsuspected claims, demands, obligations and causes of action herein above specified.

7. Executive shall not initiate or cause to be initiated against the Company any compliance review, suit, action, investigation or proceeding of any kind, or voluntarily participate in same, individually or as a representative, witness or member of a class, under contract,

law or regulation, federal, state or local, pertaining to any matter related to his employment with the Company, unless Executive first cooperates in making his allegations known to the Company for the Company to take corrective action at a time and place designated by the Company. Executive represents and warrants that he has not, to date, initiated (or caused to be initiated) any such review, suit, action, investigation or proceeding; provided, however, that nothing in this Section 7 shall restrict Executive's ability to challenge the validity of any release herein of ADEA claims nor to any suit or action brought by Executive to assert such a challenge. In addition, Executive shall, without further compensation, cooperate with and assist the Company in the investigation of, preparation for or defense of any actual or threatened third party claim, investigation or proceeding involving the Company or its predecessors or affiliates and arising from or relating to, in whole or in part, Executive's employment with the Company or its predecessors or affiliates for which the Company requests Executive's assistance, which cooperation and assistance shall include, but not be limited to, providing testimony and assisting in information and document gathering efforts. In this connection, it is agreed that the Company will use its reasonable best efforts to assure that any request for such cooperation will not unduly interfere with Executive's other material business and personal obligations and commitments.

8. Executive agrees he will return to the Company immediately upon termination any building keys, security passes or other access or identification cards and any Company property that was in his possession, including but not limited to any documents, credit cards, computer equipment, mobile phones or data files. Executive agrees to clear all expense accounts and pay all amounts owed on any corporate credit cards which the Company previously issued to Executive, subject to the Company's obligation to reimburse Executive for any properly reimbursable business expenses in accordance with the Company's expense policies and procedures then in effect.

9. Executive shall not, without the Company's written consent by an authorized representative, at any time prior or subsequent to the execution of this Separation Agreement and Release, disclose, use, remove or copy any confidential, trade secret or proprietary information he acquired during the course of his employment by the Company, including without limitation, any technical, actuarial, economic, financial, procurement, provider, customer, underwriting, contractual, managerial, marketing or other information of any type that has economic value in the business in which the Company is engaged, but not including any previously published information or other information generally in the public domain.

10. In addition to any other part or term of this Separation Agreement and Release or the Employment Agreement, Executive agrees that he will not, (a) for a period of one (1) year from the date of this Agreement, irrespective of the reason for the termination, either directly or indirectly, on his own behalf or on behalf of any other person: (1) make known to any person, firm, corporation or other entity of any type, the names and addresses of any of the Company's customers, enrollees or providers or any other information pertaining to them; or (2) disrupt, solicit or influence or attempt to solicit, disrupt or influence any of the Company's customers, providers, vendors, agents or independent contractors with whom Executive became acquainted during the course of employment or service for the purpose of terminating such a person's or entity's

relationship with the Company or causing such a person or entity to associate with a competitor of the Company, and (b) for **[a period of one (1) year] [the six (6) month period]** following the Termination Date undertake any employment or activity prohibited by the Employment Agreement. The prohibitions of this paragraph are not intended to deny employment opportunities within Executive's field of employment but are limited only to those prohibitions necessary to protect the Company from unfair competition. In addition, Executive agrees that, for **[a period of one (1) year] [the six (6) month period]** following the Termination Date, he shall not, directly or indirectly solicit, interfere with, hire, offer to hire or induce any person, who is or was an employee of the Company or any of its affiliates at the time of such solicitation, interference, hiring, offering to hire or inducement, to discontinue his/her relationship with the Company or any of its affiliates or to accept employment by, or enter into a business relationship with, Executive or any other entity or person.

11. Executive further agrees that, in exchange for the consideration set forth in Section 2 hereof, Executive shall not make any disparaging comments and/or statements to anyone either orally or in writing about the Company and/or its employees.

12. Nothing contained herein shall be construed as an admission of any wrongful act, including but not limited to violation of any contract, express or implied, or any federal, state or local employment laws or regulations, and nothing contained herein shall be used for any purpose except in proceedings related to the enforcement of this Separation Agreement and Release.

13. If any part or term of this Separation Agreement and Release is held invalid or unenforceable by any court or arbitrator, such invalidity or unenforceability shall not affect in any way the validity or enforceability of any other part or term of this Separation Agreement and Release. In addition, if any court of competent jurisdiction construes the covenants contained in Section 10 hereof, or any part thereof, to be unenforceable in any respect, the court may reduce the duration or scope to the extent necessary so that the provision is enforceable, and the provision, as reduced, shall then be enforceable.

14. Executive agrees and acknowledges that this Separation Agreement and Release recites all payments and benefits Executive is entitled to receive hereunder and under the Employment Agreement, and that no other payments or benefits will be asserted or requested by Executive.

15. Executive acknowledges that he has had an opportunity to consult and be represented by counsel of his own choosing in the review of this Separation Agreement and Release, and that he has been advised by the Company to do so, that Executive is fully aware of this Separation Agreement and Release and of its legal effect, that the preceding paragraphs recite the sole consideration for this Separation Agreement and Release, and that Executive enters into this Separation Agreement and Release freely, without coercion, and based on Executive's own judgment and not in reliance upon any representation or promise made by the other party, other than those contained herein. There may be no modification of the terms of this Separation Agreement and Release except in writing signed by the parties hereto including an appropriately authorized officer of the Company.

16. This Separation Agreement and Release constitutes the full, complete and exclusive agreement between Executive and the Company with respect to the subject matters herein and supersedes any prior agreements, representations or promises of any kind, whether written, oral, express or implied, with respect to the subject matters herein. This Separation Agreement and Release cannot be changed unless in writing, signed by Executive and an authorized officer of the Company.

17. If there is any dispute between the Company and Executive over the terms or obligations under this Separation Agreement and Release, that dispute shall be resolved by binding arbitration before a single neutral arbitrator who shall be a retired judge. The arbitration shall proceed in accordance with the then-current rules of the Commercial American Arbitration Association to the extent not inconsistent with this Separation Agreement and Release. The judgment of the arbitrator shall be final, binding and nonappealable, and may be entered in any state or federal court having jurisdiction thereafter. The arbitrator shall be bound to apply and follow the applicable state or federal laws in reaching a decision in this matter. Any disagreement regarding whether a dispute is required to be arbitrated pursuant to this Separation Agreement and Release shall be decided by the arbitrator. The Federal Arbitration Act, 9 U.S.C. Sections 1-16, shall govern the interpretation and enforcement of this Section 17. The prevailing party will be entitled to recover reasonable attorney's fees and costs incurred in any action to enforce or defend this Separation Agreement and Release.

18. This Separation Agreement and Release shall be construed and governed by the laws of the State of Delaware.

EXECUTIVE ACKNOWLEDGES BY SIGNING BELOW that (i) Executive has not relied upon any representations, written or oral, not set forth in this Separation Agreement and Release; (ii) at the time Executive was given this Separation Agreement and Release Executive was informed in writing by the Company that (a) Executive had at least 21 days in which to consider whether Executive would sign the Separation Agreement and Release and (b) Executive should consult with an attorney before signing the Separation Agreement and Release; and (iii) Executive had an opportunity to consult with an attorney and either had such consultations or has freely decided to sign this Separation Agreement and Release without consulting an attorney.

Executive further acknowledges that he may revoke acceptance of this Separation Agreement and Release by delivering a letter of revocation within seven (7) days after the later of the dates set forth below addressed to: Health Net, Inc., Organization Effectiveness Department, 21650 Oxnard Street, Woodland Hills, California 91367, Attention: Karin Mayhew.

Finally, Executive acknowledges that he understands that this Separation Agreement and Release will not become effective until the eighth (8th) day following his signing this Separation Agreement and Release and that if Executive does not revoke his acceptance of the terms of this Separation Agreement and Release within the seven (7) day period following the date on which Executive signs this Separation Agreement and Release as set forth above, this Separation Agreement and Release will be binding and enforceable.

[Signature Page Follows]

IN WITNESS WHEREOF, the parties hereto have executed this Separation Agreement and Release as of the dates set forth below.

Executive	Health Net, Inc.
By: **[EXHIBIT COPY]**	By: **[EXHIBIT COPY]**
Name:	Name:
Title:	Title:
Dated: **[TO BE INSERTED]**	Dated: **[TO BE INSERTED]**

Exhibit 10.10

December 14, 2009

Ms. Linda Tiano
[Address]

Re: Terms of Employment Assignment

Dear Linda:

I am writing to confirm our recent discussions regarding changes to the terms and conditions of your employment with Health Net, Inc. (the "Company") in connection with your change of position to the position of President, Regional Health Plans, Health Net of the Northeast, Inc. ("HNNE"), in connection with the transition of our HNNE commercial membership to UnitedHealth Group Inc., pursuant to that certain stock purchase agreement dated July 20, 2009 (the "Stock Purchase Agreement"), on the terms and conditions set forth in this letter. If you agree with these terms and conditions, please sign and return the enclosed copy to me.

As you know, under your Amended and Restated Employment Agreement between the Company and you, dated as of December 3, 2008 (the "Employment Agreement"), the Company reserves the right to make personnel decisions regarding your employment, including, but not limited to, decisions regarding any promotion, salary adjustment, transfer or disciplinary action, up to and including termination, consistent with the needs of the business of the Company. The Company also reserves the right to make such other changes to the terms and conditions of your employment in its discretion as set forth in the Employment Agreement.

Pursuant to the Employment Agreement, the following terms and conditions will apply during the Term of Assignment (as defined below), including, under certain circumstances a reduction in the amount of severance pay otherwise payable under the Employment Agreement, notwithstanding any provisions of the Employment Agreement to the contrary:

1. **TITLE**: You will serve as President, Regional Health Plans, HNNE.

2. **REPORTING RELATIONSHIP**: You will report directly to Jim Woys, Executive Vice President and Chief Operating Officer.

3. **RESPONSIBILITY**: You will be primarily responsible for executive leadership and oversight to ensure a successful transition of the Health Net of the Northeast commercial membership to UnitedHealth Group Inc., pursuant to the Stock Purchase Agreement, including the attainment of the performance requirements set forth in the transition services agreement under the Stock Purchase Agreement.

4. **WORK LOCATION**: You will work at HNNE's principal office located in Shelton, CT, except for reasonable business travel to such other locations as may be necessary to fulfill your responsibilities.

5. **TERM OF ASSIGNMENT**: It is expected that the term of your employment assignment as set forth herein will commence on December 14, 2009 (the "**Commencement Date**") and continue through March 31, 2012, as may be adjusted by the Company (the "**Term of Assignment**").

6. **SALARY**: Your Base Salary (as defined in the Employment Agreement) of $500,000 will remain unchanged; provided, however, that you will not be eligible for an annual merit review relating to your base salary.

7. **INCENTIVE BONUS**: Your bonus target of 70% of annual base salary will remain unchanged. You will remain eligible to participate in the Company's Executive Incentive Plan; provided, however, that your performance goals will be adjusted to reflect your employment with HNNE during the Term of Assignment.

8. **EQUITY GRANTS**: You will not be eligible to receive any equity grants.

9. **TERMINATION WITHOUT CAUSE NOT FOLLOWING CHANGE IN CONTROL**: In lieu of the 24 months of severance pay set forth in clause (i) of the first paragraph of Section 10.A of the Employment Agreement:

    - If the Company terminates your employment without Cause due to unsatisfactory performance prior to the successful completion of your employment assignment as set forth herein, as determined by Jay Gellert, President and Chief Executive Officer, and James Woys, Executive Vice President and Chief Operating Officer, you will be entitled to receive a lump-sum cash payment equal to (i) 12 months (if the date of your termination occurs on or prior to the 12-month anniversary of the Commencement Date) or (ii) 24 months (if the date of your termination occurs after the 12-month anniversary of the Commencement Date) of your Base Salary as in effect immediately prior to the date of your termination; or

    - If the Company terminates your employment without Cause upon the successful completion of your employment assignment as set forth herein, as determined by Jay Gellert, President and Chief Executive Officer, and James Woys, Executive Vice President and Chief Operating Officer, you will be entitled to receive a lump-sum cash payment equal to 24 months of your Base Salary as in effect immediately prior to the date of your termination.

10. **TERMINATION WITHOUT CAUSE OR FOR GOOD REASON FOLLOWING CHANGE IN CONTROL**: In lieu of the 36 months of severance pay set forth in clause (i) of the first paragraph of Section 10.B of the Employment Agreement, you will be eligible to receive a lump-sum cash payment equal to 24 months of your Base Salary in effect immediately prior to the date of your qualifying termination.

11. **RELOCATION**: You will not be eligible for relocation assistance under the Company's relocation policy; provided, however, that the Company will reimburse you for any fees and expenses actually incurred in connection with (i) the early termination of your California apartment lease agreement subject to a maximum of $20,000, and (ii) any car transportation or shipment relating to your relocation subject to a maximum of $2,000, upon your submission of proper documentation in accordance with the Company's expense reimbursement policies.

12. You acknowledge and agree that the terms of your employment assignment as set forth herein shall not constitute "Good Reason" (as defined in the Employment Agreement).

13. The terms set forth herein are in furtherance of the Employment Agreement and shall supersede and replace all prior representations, warranties, agreements and understandings, both written and oral, made by the Company or you with respect to the subject matter covered hereby.

14. During the Term of Assignment, the Employment Agreement shall remain in full force and effect in accordance with the terms and conditions thereof; provided, however, that to the extent there is any conflict or inconsistency between this Agreement and the Employment Agreement, the terms of this Agreement shall govern.

If this letter meets with your approval, please sign, date and return a copy to me.

Sincerely,

Health Net, Inc.

By: /s/ Karin D. Mayhew
Name: Karin D. Mayhew
Title: SVP - OE

Accepted and Agreed,
this 14th day of December, 2009.

By: /s/ Linda Tiano
Linda Tiano

Exhibit 10.14

FORM OF
NONQUALIFIED STOCK OPTION AGREEMENT
UNDER THE [INSERT NAME OF PLAN]

This agreement (together with the Notice of Grant of Stock Options (the "Grant Notice") attached hereto and incorporated by reference herein, the "Option Agreement") is made as of the grant date set forth on the Grant Notice (the "Grant Date"), by and between Health Net, Inc., a Delaware corporation (the "Company"), and the participant identified on the Grant Notice, an employee of the Company or a Subsidiary of the Company (the "Optionee").

Pursuant to the [INSERT NAME OF PLAN], as amended (the "Plan"), the Compensation Committee of the Board of Directors of the Company (the "Committee") or an appropriate executive officer of the Company empowered by the Committee, has determined that the Optionee is to be granted, on the terms and conditions set forth in this Option Agreement, a nonqualified stock option (the "Option") to purchase shares of Common Stock of the Company, par value $.001 per share (the "Common Stock"), and hereby grants such Option. Capitalized terms used but not defined herein shall have the meanings set forth in the Plan.

1. Number of Shares and Exercise Price. The Option is to purchase the number of shares of Common Stock set forth on the Grant Notice (the "Option Shares") at a price per share set forth on the Grant Notice (the "Exercise Price"), which is equal to the Fair Market Value (as defined in the Plan) of the Option Shares as of the Grant Date.

2. Exercise of Option. Except as set forth in Sections 3 and 9, the Option shall become exercisable in cumulative installments beginning on the **[first]** anniversary of the Grant Date to the extent of **[__%]** of the Option Shares covered by the Option, and **[on each subsequent anniversary of the Grant Date to the extent of an additional __%]** of the Option Shares covered by the Option, until the Option has become exercisable as to all of the Option Shares (the "Vesting Dates"). The Option may be exercised only to purchase whole shares, and in no case may a fraction of a share be purchased.

3. Term of Option and Termination of Employment.

(a) General Term. The term of the Option and this Option Agreement shall commence on the Grant Date. The right of the Optionee to exercise the Option with respect to any Option Shares, to purchase any such Option Shares and all other rights of the Optionee with respect to any such Option Shares shall terminate on the seventh anniversary of the Grant Date, unless the Option has been earlier terminated as provided either in paragraphs (b) through (g) below or under the Plan.

(b) Death of Optionee. If the Optionee shall die prior to the exercise of the Option, then:

(i) if the Optionee dies while employed by an Employer (as defined in the Plan), then the Option (subject to subsection (g) below) may be exercised by the legatee(s) or personal representative of the Optionee at any time within one year after the Optionee's death;

(ii) if the Optionee's employment with the Employer was terminated due to a Disability (as defined in the Plan) and the Optionee dies within one year after termination of employment, then the Option (subject to subsection (g) below) may be exercised by

the legatee(s) or personal representative of the Optionee any time during the remainder of the period during which the Optionee would have been able to exercise the Option pursuant to subsection (c) below had the Optionee not died;

(iii) if the Optionee dies within three months after termination of employment by the Employer without Cause, as determined pursuant to Subsection 3(g), and clause (ii) is not applicable, then the Option (subject to subsection (g) below) may be exercised by the legatee(s) or personal representative of the Optionee at any time within one year after the Optionee's death.

(c) Disability. If the Optionee's employment with the Employer shall terminate prior to the exercise of the Option as a result of a Disability, then the Option (subject to subsection (g) below) may be exercised by the Optionee (or his or her personal representative) at any time within one year after the Optionee's termination of employment.

(d) Termination by the Employer for Cause. If the Optionee's employment with the Employer shall be terminated by the Employer prior to the exercise of the Option for Cause then the Option shall immediately terminate and shall immediately cease to be exercisable and shall be forfeited to the Company. For purposes of this Option Agreement, "Cause" shall have the meaning set forth in Section **[INSERT SECTION NUMBER]** of the Plan.

(e) Termination by the Employer Without Cause. If prior to the exercise of the Option, the Optionee's employment with the Employer shall be terminated by the Employer without Cause, then the Option (subject to subsection (g) below) held by the Optionee may be exercised at any time within three months after the Optionee's termination of employment. For purposes of this Option Agreement, if a Subsidiary by which the Optionee is employed ceases to be a Subsidiary, whether through a sale by the Company of all or a portion of the stock or assets of such Subsidiary, a merger or otherwise (a "Subsidiary Transaction"), the Optionee's employment with the Employer shall be deemed to have been terminated by the Employer without Cause as of the effective date of such Subsidiary Transaction.

(f) Termination for Other Reason. If prior to the exercise of the Option, the Optionee's employment with the Employer shall be terminated for any reason other than as set forth in paragraphs (b) through (e) above, then the Option (subject to subsection (g) below) held by the Optionee may be exercised at any time within one month after the Optionee's termination of employment.

(g) Post-Termination exercisability. Notwithstanding any other provision of this Section 3 to the contrary, following termination of employment of the Optionee for any reason: (i) the Option shall be exercisable during any of the post-employment periods described in subparagraphs (b) through (f) of this Section 3 if and only to the extent the Option was exercisable (i.e., vested) at the time of such termination of employment and (ii) no portion of the Option shall be exercisable following the seventh anniversary of the Grant Date.

4. Employment/Association with Company Competitor. The Optionee hereby agrees that, during (i) the six-month period following a termination of the Optionee's employment with an Employer that entitles the Optionee to receive severance benefits under an agreement with or the policy of the Company or (ii) the twelve-month period following a termination of the Optionee's employment with an Employer that does not entitle the Optionee to receive such severance benefits (the period referred to in either clause (i) or (ii), the "Noncompetition Period"), the Optionee shall not undertake any employment or activity (including, but not limited to, consulting services) with a Competitor (as defined below), where the loyal and complete fulfillment of the duties of the competitive employment or activity would call upon the Optionee to reveal, to make judgments on or otherwise use any confidential business

information or trade secrets of the business of the Company or any Subsidiary to which the Optionee had access during his employment with the Employer. In addition, the Optionee agrees that, during the Non-competition Period applicable to the Optionee following termination of employment with the Employer, the Optionee shall not, directly or indirectly, solicit, interfere with, hire, offer to hire or induce any person, who is or was an employee of the Company or any of its Subsidiaries during the 12 month period prior to the date of such termination of employment, to discontinue his or her relationship with the Company or any of its Subsidiaries or to accept employment by, or enter into a business relationship with, the Optionee or any other entity or person. In the event that the Optionee breaches the covenants set forth in this first paragraph of Section 4:

(a) the Option shall immediately terminate; and

(b) the Optionee shall promptly pay to the Company an amount of cash equal to the Gain Realized (as defined below) on any Option Shares acquired during the Restricted Period (as defined below).

For the purposes of this Section 4: "Restricted Period" shall refer to the period of time commencing ninety days prior to such termination of the Optionee's employment and ending (x) in the case of an Optionee terminated under clause (i) of the first paragraph of this Section 4, six months after such termination or (y) in the case of an Optionee terminated under clause (ii) of the first paragraph of this Section 4, twelve months after such termination; "Gain Realized" shall equal the difference between (x) the Exercise Price applicable to the Option Shares and (y) the greater of the Fair Market Value (as defined in the Plan) of the Option Shares (I) on the date of acquisition of such Option Shares or (II) on the date such competitive activity with a Competitor was commenced by the Optionee; and "Competitor" shall refer to any health maintenance organization or insurance company that provides managed health care or related services similar to those provided by the Company or any Subsidiary.

It is hereby further agreed that if any court of competent jurisdiction shall determine that the restrictions imposed in this Section 4 are unreasonable (including, but not limited to, the definition of Market Area or Competitor or the time period during which this provision is applicable), the parties hereto hereby agree to any restrictions that such court would find to be reasonable under the circumstances.

The Optionee acknowledges that the services to be rendered by him/her to the Company are of a special and unique character, which gives this Option Agreement a peculiar value to the Company, the loss of which may not be reasonably or adequately compensated for by damages in an action at law, and that a material breach or threatened breach by him/her of any of the provisions contained in this Section 4 will cause the Company irreparable injury. Optionee therefore agrees that the Company may be entitled, in addition to the remedies set forth above in this Section 4 and any other right or remedy, to a temporary, preliminary and permanent injunction, without the necessity of proving the inadequacy of monetary damages or the posting of any bond or security, enjoining or restraining Optionee from any such violations or threatened violations.

5. Notices. Any notice or communication given hereunder shall be in writing and shall be given electronically (*e.g.*, email), or by fax or first class mail, certified or registered with return receipt requested, and shall be deemed to have been duly given three (3) days after mailing or twenty-four (24) hours after transmission of an email or a fax to the following addresses:

To the Recipient at: Address on record at Health Net, Inc. as of the date any notice is to be delivered.

To the Company at: Health Net, Inc.
21650 Oxnard Street
Woodland Hills, California 91367
Attention: General Counsel

or to such other address as any party may have furnished to the other in writing in accordance herewith, except that notices of change of address shall be effective only upon receipt.

6. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Option Agreement or the Plan shall in no way be construed to be a waiver of such provision or of any other provision hereof.

7. Incorporation of Plan; Entire Agreement. The Plan is hereby incorporated by reference and made a part hereof, and the Option and this Option Agreement are subject to all terms and conditions of the Plan. This Option Agreement and the Plan, taken together, constitutes the entire agreement between the parties relating to or effecting the Option, and no promises, terms, conditions or obligations other than those contained in this Option Agreement or the Plan shall be valid or binding. Any prior agreements, statements or promises, either oral or written, made by any party or agent of any party relating to or effecting the Option that are not contained in the Option Agreement or the Plan are of no force or effect.

8. Rights of a Stockholder. The Optionee shall have no rights as a stockholder with respect to any Option Shares unless and until certificates for shares of Common Stock are issued to the Optionee.

9. Change of Control. Notwithstanding the provisions of Section 2 and 3 hereof, in the event that (i) there shall occur a Change in Control (as defined in the Plan) and (ii) the employment of the Optionee shall be terminated within the two year period following the Change in Control but prior to any Vesting Date either (A) by the Company without Cause or (B) under circumstances which entitle the Optionee to Change in Control severance benefits under an effective employment agreement between the Optionee and the Company or the Company's Safety Net Security Program, each Option shall become fully vested and the date of such vesting shall be deemed to be the Vesting Date hereunder; such termination shall be treated as having occurred pursuant to Section 3(e) hereof for purposes of determining the post-termination exercise period. For purposes of this Section 9, "Cause" shall have the meaning set forth in the Plan.

10. Rights to Terminate Employment. Nothing in the Plan or in this Option Agreement shall confer upon the Optionee the right to continue in the employment of an Employer or affect any right which an Employer may have to terminate the employment of the Optionee. The Optionee specifically acknowledges that the Employer intends to review Optionee's performance from time to time, and that the Company and/or the Employer has the right to terminate Optionee's employment at any time, including a time in close proximity to a Vesting Date, for any reason, with or without Cause. The Optionee acknowledges that upon his or her termination of employment with an Employer for any reason, the Option shall be exercisable only to the extent it is exercisable on the effective date of the Optionee's termination of employment and only within the period following such termination as is set forth in this Option Agreement.

11. Transferability. The Option may not be assigned, alienated, pledged, attached, sold or otherwise transferred or encumbered by the Optionee otherwise than by will or by the laws of

descent and distribution, and any such purported assignment, alienation, pledge, attachment, sale, transfer or encumbrance shall be void and unenforceable against the Company; provided that the designation of a beneficiary shall not constitute an assignment, alienation, pledge, attachment, sale, transfer or encumbrance.

12. Amendment. The Board may terminate or amend the Plan at any time; provided, however, that the termination or any modification or amendment of the Plan shall not, without the consent of the Optionee, impair the rights of the Optionee under this Option Agreement.

13. Compliance with Applicable Law. The Option is subject to the condition that if the listing, registration or qualification of the shares subject to the Option upon any securities exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action, is necessary or desirable as a condition of, or in connection with, the purchase or delivery of shares hereunder, the Option may not be exercised, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company agrees to use reasonable efforts to effect or obtain any such listing, registration, qualification, consent or approval.

14. Decisions of Board or Committee. The Board of Directors or the Committee shall have the right to resolve all questions which may arise in connection with the Option or its exercise. Any interpretation, determination or other action made or taken by the Board of Directors or the Committee regarding the Plan or this Option Agreement shall be final, binding and conclusive.

15. Failure to Execute Agreement. This Option Agreement and the Option granted hereunder is subject to the Optionee returning a counter-signed copy of this Option Agreement to the designated representative of the Company on or before 60 days after the date of its distribution to the Optionee. In the event that the Optionee fails to so return a counter-signed copy of this Option Agreement within such 60 day period, then this Option Agreement and the Option granted hereunder shall automatically become null and void and shall have no further force or effect. Electronic acceptance of this Option Agreement shall constitute an execution of the Option Agreement by the Optionee and a return of the counter-signed copy to the Company for purposes of this Section 15.

IN WITNESS WHEREOF, the parties hereto have executed this Option Agreement as of the date and year set forth above.

Health Net, Inc.

Name: _____
Title: _____

OPTIONEE HEREBY EXPRESSLY ACKNOWLEDGES AND AGREES THAT (I) HE/SHE IS AN EMPLOYEE AT WILL AND MAY BE TERMINATED BY THE EMPLOYER AT ANY TIME, WITH OR WITHOUT CAUSE, (II) THE OPTION MAY NOT BE EXERCISED WITH RESPECT TO ANY OPTION SHARES THAT ARE NOT VESTED ON THE DATE OF ANY SUCH TERMINATION AND (III) THE OPTION MAY BE EXERCISED WITH RESPECT TO OPTION SHARES THAT ARE VESTED ON THE DATE OF ANY SUCH

TERMINATION ONLY TO THE EXTENT EXPRESSLY PROVIDED IN THIS OPTION AGREEMENT.

Your acceptance of this Option Agreement indicates that you hereby accept and agree to all the terms and provisions of the foregoing Option Agreement and the attached Grant Notice, and to all the terms and provisions of the Plan incorporated by reference herein.

Notice of Grant of Stock Options
Health Net, Inc.

Plan Name: _____

Participant Name: _____

Participant ID: _____

Grant Date: _____

Grant Number: _____

Type of Options: Non-Qualified Stock Options

Option Shares Granted: _____

Exercise Price: _____

Expiration Date: _____

Vesting Template: _____

Vesting Schedule: _____

Exhibit 10.28

[DIRECTOR NAME]
[TYPE OF GRANT]

FORM OF
NONQUALIFIED STOCK OPTION AGREEMENT
FOR NON-EMPLOYEE DIRECTORS
UNDER THE HEALTH NET, INC.
2006 LONG-TERM INCENTIVE PLAN,
AS AMENDED

This agreement (the "Option Agreement") is made as of **[DATE]** (the "Grant Date"), between Health Net, Inc., a Delaware corporation (the "Company"), and **[NAME]**, a non-employee director of the Company (the "Optionee").

Pursuant to the Health Net, Inc. 2006 Long-Term Incentive Plan, as amended (the "Plan"), the Optionee is to be granted, on the terms and conditions set forth herein, a nonqualified stock option (the "Option") to purchase shares of Common Stock of the Company, par value $.001 per share (the "Common Stock").

1. Number of Shares and Option Price. The Option is to purchase **[NUMBER OF SHARES]** shares of Common Stock (the "Option Shares") at a price of **[GRANT PRICE]** per share (the "Option Price"), which is equal to the Fair Market Value (as defined in the Plan) of an Option Share as of the Grant Date.

2. Exercise of Option. The Option shall become exercisable on the date that is one year after the Grant Date to the extent of 33 1/3 % of the Option Shares covered by the Option, and shall become exercisable on each subsequent anniversary of the Grant Date to the extent of an additional 33 1/3 % of the Option Shares covered by the Option until the Option becomes fully exercisable. The Option may be exercised only to purchase whole shares, and in no case may a fraction of a share be purchased.

3. Term of Option and Termination of Service.

(a) General Term. The term of the Option and this Option Agreement shall commence on the date hereof. The right of the Optionee to exercise the Option with respect to any Option Shares, to purchase any such Option Shares and all other rights of the Optionee with respect to any such Option Shares shall terminate on the seventh anniversary of the Grant Date, unless the Option has been earlier terminated as provided in paragraphs (b) through (e) below, or under the Plan.

(b) Death of the Optionee. If the Optionee shall die prior to the exercise of the Option, then:

(i) if the Optionee dies while serving as a member of the board of directors of the Company (a "Director"), then the Option (subject to clause (g) below) may be exercised by the legatee(s) or personal representative of the Optionee at any time within one year after the Optionee's death;

(ii) if the Optionee's service as a Director was terminated due to Permanent and Total Disability (as defined in Section 22 (e)(3) of the Internal Revenue Code of

1986, as amended, or any successor thereto) (hereinafter, "Permanent and Total Disability") and the Optionee dies within one year after termination of service, then the Option (subject to clause (g) below) may be exercised by the legatee(s) or personal representative of the Optionee at any time during the remainder of the period during which the Optionee would have been able to exercise the Option had the Optionee not died; and

(iii) if the Optionee dies within three months after termination of service as a Director and clause (ii) is not applicable, then the Option (subject to clause (g) below) may be exercised by the legatee(s) or personal representative of the Optionee at any time within one year after the Optionee's death.

(c) Permanent and Total Disability. If the Optionee's service as a Director shall terminate prior to the exercise of the Option as a result of Permanent and Total Disability, then the Option (subject to clause (g) below) may be exercised by the Optionee (or his or her personal representative) at any time within one year after such termination of service as a Director.

(d) Removal by Stockholders for Cause. If the Optionee shall be removed from the board of directors of the Company by the Company's stockholders prior to the exercise of the Option for cause (for these purposes, if such termination occurs within 12 months after a Change in Control, as defined in Section 8.9 of the Plan, removal for cause shall only mean a felony conviction for fraud, misappropriation or embezzlement), then upon such removal the Option shall immediately terminate.

(e) Removal by Stockholders Without Cause and Expiration of Term of Office. If prior to the exercise of the Option, the Optionee's service as a Director shall be terminated as a result of expiration of the Director's term of office without an accompanying renomination or reelection of such Director, then the Option (subject to clause (g) below) shall become exercisable at the time of such termination and may be exercised at any time within three months after the Optionee's termination of service as a Director. If prior to the exercise of the Option, the Optionee's service as a Director shall be terminated as a result of (i) removal by the Company's stockholders without cause or (ii) the tendering of the Optionee's resignation as a Director upon expiration of his or her term of office, then the Option (subject to clause (g) below) may be exercised at any time within three months after the Optionee's termination of service as a Director.

(f) Termination for Other Reason. If prior to the exercise of the Option, the Optionee's service as a Director shall be terminated for any reason other than as set forth in subsections (b) through (e) above, including as a result of the tendering of the Optionee's resignation as a Director during his or her then current term of office, then the Option (subject to clause (g) below) held by the Optionee may be exercised at any time within one month after the Optionee's termination of service as a Director.

(g) Post-Termination Exercisability. Notwithstanding any other provision of this Section 3 to the contrary, following termination of Optionee's service as a Director for any reason: (i) the Option shall be exercisable during any of the post-termination periods described in subparagraphs (b) through (f) of this Section 3 if and only to the extent the Option was

exercisable (i.e., vested) at the time of such termination and (2) no portion of the Option shall be exercisable following the seventh anniversary of the Grant Date.

(h) Service on Subsidiary Board. Notwithstanding anything to the contrary set forth herein, if upon an Optionee's termination of service as a Director, such Optionee becomes a member of a board of directors of a subsidiary of the Company, then such Optionee's service shall not be treated as having terminated hereunder until such Optionee's termination of service as member of the board of directors of such subsidiary.

4. Notices. Any notice required or permitted under the Plan shall be deemed given when delivered personally, transmitted electronically by facsimile or email, or when deposited in a United States Post Office, postage prepaid, addressed, as appropriate, to the Optionee either at the last known address set forth in the records of the Company or such other address as the Optionee may designate in writing to the Company.

5. Failure to Enforce Not a Waiver. The failure of the Company to enforce at any time any provision of this Option Agreement or the Plan shall in no way be construed to be a waiver of such provision or of any other provision hereof or thereof.

6. Incorporation of Plan; Entire Agreement. The Plan is hereby incorporated by reference and made a part hereof, and the Option and this Option Agreement are subject to all terms and conditions of the Plan. This Option Agreement and the Plan, taken together, constitute the entire agreement between the parties relating to or effecting the Option, and no promises, terms, conditions or obligations other than those contained in this Option Agreement or the Plan shall be valid or binding. Any prior agreements, statements or promises, either oral or written, made by any party or agent of any party relating to or effecting the Option that are not contained in the Option Agreement or the Plan are of no force or effect.

7. Rights of Stockholder. The Optionee shall have no rights as a stockholder with respect to any Option Shares unless and until certificates of shares of Common Stock are issued to the Optionee.

8. Change of Control. The Option shall become immediately fully vested and exercisable upon the occurrence of a Change in Control, as such term is defined in the Plan.

9. Rights of Removal. Nothing in the Plan or in this Option Agreement shall confer upon the Optionee the right to continue as a director of the Company or affect any right which the stockholders of the Company may have to remove the Optionee as a director of the Company.

10. Amendment. The Plan may be terminated or amended pursuant to its terms at any time; provided, however, that the termination or any modification or amendment of the Plan shall not, without the consent of the Optionee, impair the rights of the Optionee under this Option Agreement.

11. Compliance with Applicable Law. The Option is subject to the condition that if the listing, registration or qualification of the shares subject to the Option upon any securities

exchange or under any law, or the consent or approval of any governmental body, or the taking of any other action, is necessary or desirable as a condition of, or in connection with, the purchase or delivery of shares hereunder, the Option may not be exercised, in whole or in part, unless such listing, registration, qualification, consent or approval shall have been effected or obtained, free of any conditions not acceptable to the Company. The Company agrees to use reasonable efforts to effect or obtain any such listing, registration, qualification, consent or approval.

12. Tax Payments. The Optionee shall be responsible for all the taxes associated with an exercise of the Option and subsequent sale of the Option Shares. No taxes on the income from the exercise of the Option and sale of the Option Shares will be deducted or withheld by the Company. In compliance with the Internal Revenue Code, the Company will issue a Form 1099-Misc during January of each year to report all non-employee compensation earned during the preceding calendar year, including income from the exercise of the Option and sale of the Option Shares. This Form 1099-Misc can be used to calculate the applicable federal and state income taxes.

IN WITNESS WHEREOF, the parties hereto have executed this Option Agreement as of the date and year set forth above.

HEALTH NET, INC.

By: _____
Name:
Title:

The undersigned hereby accepts and agrees to all the terms and provisions of the foregoing Option Agreement and to all the terms and provisions of the Health Net, Inc. 2006 Long-Term Incentive Plan, as amended, and as herein incorporated by reference.

_____ Optionee
Signature of Optionee

Exhibit 10.35

HEALTH NET, INC.
DEFERRED COMPENSATION PLAN

(as amended and restated effective January 1, 2010)

I. INTRODUCTION

The purpose of the Health Net, Inc. Deferred Compensation Plan (the "Plan") is to permit certain key employees of Health Net, Inc., a Delaware corporation (the "Company"), and certain of its subsidiaries to defer receipt of compensation payable to such employees until such times as set forth herein.

II. DEFINITIONS

For purposes of the Plan, the following capitalized terms shall have the meanings set forth in this Article.

2.1 "Account" shall mean the account kept on the books and records of the Company established on behalf of a Participant in the Plan to which amounts deferred by such Participant (and deemed earnings and losses thereon), other than amounts credited to the Participant's In-Service Withdrawal Account, are credited.

2.2 "Beneficiary" shall mean the beneficiary or beneficiaries (including any contingent beneficiary) designated pursuant to Section 4.5, except that the beneficiary or beneficiaries entitled to amounts credited to the subaccounts of an Eligible Employee's Former Account shall be the beneficiary or beneficiaries as designated pursuant to The Health Net Executive Deferral Plan and The Health Net Supplemental Credit Plan (such plans terminated effective as of December 31, 2000), unless a change to such a beneficiary is made pursuant to Section 4.5 hereof.

2.3 "Board" shall mean the Board of Directors of the Company.

2.4 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.5 "Committee" shall mean the Compensation Committee of the Board.

2.6 "Common Stock" shall mean the Class A Common Stock, $.001 par value, of the Company.

2.7 "Company" shall mean Health Net, Inc. (formerly known as Foundation Health Systems, Inc.), a Delaware corporation, or any successor thereto.

2.8 "Compensation" shall mean the total earnings paid by an Employer to an Eligible Employee and properly reportable on IRS Form W-2 for a Deferral Year (including bonuses and overtime), and all amounts not includible in such Eligible Employee's gross income for federal income tax purposes solely on account of his or her election to have compensation reduced pursuant to the Plan, a qualified cash or deferred arrangement described in Section 401(k) of the

Code or a cafeteria plan as defined in Section 125 of the Code, but excluding any reimbursements or other expenses, allowances or fringe benefits, including, without limitation, amounts relating to automobile, relocation, travel or education expenses, financial counseling or physical exams (even if includible in the Eligible Employee's gross income for federal income tax purposes).

2.9 "Deferral Year" shall mean the calendar year, except that the first Deferral Year shall be the eight-month period beginning on May 1, 1998.

2.10 "Disability" shall mean a disability within the meaning of the long-term disability plan maintained by the Employer of an Eligible Employee, pursuant to which such Eligible Employee is receiving long-term disability benefits.

2.11 "Eligible Employee" shall mean an individual (i) who is treated by an Employer as its employee, (ii) whose employment position is categorized as "director-level" or above, and (iii) whose annual base rate of salary for a Deferral Year is at least $100,000 (or such other amount determined by the Company from time to time) as of the first day of such Deferral Year.

2.12 "ERISA" shall mean the Employee Retirement Income Security Act of 1974, as amended.

2.13 "Effective Date" shall mean May 1, 1998.

2.14 "Employer" shall mean the Company or a Subsidiary, other than a Subsidiary that the Committee excludes from participation in the Plan.

2.15 "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended.

2.16 "Former Account" shall mean an account kept on the books and records of the Company established on behalf of an Eligible Employee to which shall be credited the following: (i) amounts equal to the benefits earned by such Eligible Employee as of December 31, 2000 (the "Plan Termination Date") under The Health Net Executive Deferral Plan (the "Deferral Plan") and The Health Net Supplemental Credit Plan (the "Supplemental Credit Plan") and (ii) deemed earnings and losses on such amounts after the Plan Termination Date. An Eligible Employee's Former Account shall consist of two subaccounts, *i.e.*, (x) a Deferral Plan Subaccount, to which shall be credited such Eligible Employee's benefit under the Deferral Plan as of the Plan Termination Date, and deemed earnings and losses thereon after the Plan Termination Date, and (y) a Supplemental Credit Plan Subaccount, to which shall be credited such Eligible Employee's benefit under the Supplemental Credit Plan as of the Plan Termination Date, and deemed earnings and losses thereon after the Plan Termination Date.

2.17 "In-Service Withdrawal Account" shall mean the account kept on the books and records of the Company established on behalf of a Participant to which amounts deferred by such Participant pursuant to Section 3.2(f) (and deemed earnings and losses thereon) shall be paid in a lump sum at the time or times described in Section 4.1(b).

2.18 “In-Service Withdrawal Year” shall mean the calendar year designated by a Participant on his or her deferral election form filed pursuant to Section 3.2(f), which year begins at least three years after the year in respect of which the Participant has filed such election form.

2.19 “Investment Fund” shall mean an “open-end,” “closed-end” or other collective investment fund selected by the Company from time to time as a measure for allocating deemed investment gains and losses to Participants’ accounts.

2.20 “Merger” shall mean any merger of the Company in which the holders of the Class A common stock, $.001 par value, of the Company immediately prior to the merger have the same proportionate ownership of common stock of the surviving or resulting parent corporation immediately after the merger.

2.21 “Other Compensation” shall mean an Eligible Employee’s bonuses, commissions, incentive payments and all other Compensation, but excluding any Regular Compensation, cash-settled equity awards, severance payments, compensation associated with international assignment, and certain ad-hoc or special one-time payments, including, without limitation, any signing bonus or retention payment, received or earned during, or with respect to, a Deferral Year.

2.22 “Participant” shall mean an Eligible Employee who has elected to defer, pursuant to the terms of the Plan, an amount that would otherwise be payable as Compensation during, or with respect to, a Deferral Year.

2.23 “Payment Date” shall mean the date chosen by the Company, in its sole discretion, that occurs within the 90-day period beginning immediately after the last day of a calendar year.

2.24 “Regular Compensation” shall mean an Eligible Employee’s base salary received or earned with respect to a Deferral Year.

2.25 “Subsidiary” shall mean any corporation other than the Company in an unbroken chain of corporations beginning with the Company if, at the time of reference, each of the corporations other than the last corporation in the unbroken chain owns stock possessing 50 percent or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

III. PARTICIPATION AND DEFERRALS

3.1 Participation.

(a) In General. Each Eligible Employee may participate in the Plan in a Deferral Year by irrevocably specifying on an election form filed with the Company prior to the beginning of such Deferral Year the percentage of Compensation for the Deferral Year to be deducted from such Eligible Employee’s Compensation with respect to such Deferral Year and deferred for payment at a later date pursuant to the Plan. The Company shall establish rules and procedures prescribing the time and manner in which election forms shall be filed with the Company.

(b) Initial Participation. An individual may participate in the Plan during the first Deferral Year in which the individual begins employment with an Employer, *provided* that on the individual's date of hire he or she satisfies the conditions set forth in clauses (i) and (ii) of the definition of "Eligible Employee" and his or her annual base rate of salary for such Deferral Year is at least $100,000 (or such other amount as determined by the Company from time to time). To participate in the Plan for such Deferral Year, such individual must file a deferral election form with the Company within 30 days of his or her date of hire (hereinafter, such individual is referred to as an "Eligible Employee") and may only elect to defer Compensation with respect to services performed for periods following the date of such election.

3.2 Deferral Elections.

(a) In General. Except as provided in Section 3.1(b), a deferral election form must be filed in accordance with rules and procedures prescribed by the Company prior to the Deferral Year for which the election is to be effective. A deferral election for a Deferral Year will be irrevocable as of the last day of the preceding Deferral Year. A Participant may not change a deferral election for a Deferral Year after the beginning of such Deferral Year. A Participant must file a new election form with the Company prior to each Deferral Year for which the election is to be effective. In no event shall an election under the Plan apply to Compensation earned prior to the date on which the election to participate in the Plan for a Deferral Year is effective. Any deferral election under the Plan shall be made in accordance with Section 409A(a)(4)(B) of the Code and the regulations thereunder.

(b) Deferral Amount. An Eligible Employee may elect on the election form designated by the Company to defer the receipt of (i) between 5% and 90% of the amount that would otherwise be the Eligible Employee's Regular Compensation for a Deferral Year, (ii) between 5% and 100% of Other Compensation received or earned by such Eligible Employee during, or with respect to, the Deferral Year or (iii) any combination of such percentages described in clauses (i) and (ii).

(c) Deemed Investment Election. Upon the commencement of participation in the Plan, each Participant shall specify on his or her election form any one or more of the Investment Funds in which all of the Participant's accounts under the Plan are to be deemed invested.

(d) Change of Deemed Investment Election. A Participant may elect to change his or her deemed investment election as frequently as may be designated by the Company, and in any event at least quarterly. Any such change shall specify the whole percentages (or amounts if so permitted by the Company) to be deemed invested in one or more of the then available Investment Funds. A Participant may change his or her election (i) with respect to the balance of his or her account(s) as of the effective date of the Participant's new investment election, (ii) with respect to future amounts credited to the Participant's account(s) under Section 3.3 (a) and (b) or (iii) both. A Participant's change of a deemed investment election must be made in accordance with the written rules and conditions provided by the Company to the Participants.

(e) Payment Election. Except as provided in subsection (f) of this Section 3.2, an Eligible Employee must designate on a deferral election form filed with the Company (i) a manner of payment in which the balance of his or her Account shall be paid, *provided* that such

manner of payment is permitted under Section 4.2, and (ii) whether the Account is to be paid on the Payment Date occurring immediately after (x) the calendar year in which the Eligible Employee terminates employment with the Employer, or (y) the calendar year immediately following the calendar year in which such employment terminates. The Participant's election on a deferral election form shall in no event supersede the Participant's election with respect to previously deferred amounts (and credits attributable thereto).

(f) In-Service Withdrawals. A Participant may elect for any Deferral Year on a deferral election form filed with the Company (i) to designate any percentage of the amount to be deferred to be credited to an In-Service Withdrawal Account established on behalf of the Participant and (ii) to receive payment of the balance of such In-Service Withdrawal Account in a lump-sum within 90 days after the first day of the In-Service Withdrawal Year so designated by the Participant.

3.3 Deferred Compensation Account.

(a) Crediting Deferred Compensation. Any amount otherwise payable as Compensation that is deferred by a Participant hereunder shall be credited to the applicable account of the Participant as of the date on which, absent such election, such amount would have been payable to the Participant as Compensation.

(b) Earnings. Each Participant's account(s) under the Plan shall be credited with deemed earnings, or reduced by deemed losses, equal to the earnings or losses that would have been realized or paid if assets in an amount equal to the balance of such account(s) were actually invested among the Investment Funds selected by the Participant in accordance with Section 3.2(c) and (d). Although the Company or an Employer might actually invest assets of the Company or such Employer according to the Participant's election, it is not required to do so nor to set aside any assets to provide for payments hereunder. The Company may promulgate separate accounting and administrative rules to facilitate the deemed investment in an Investment Fund.

(c) Notices. Each Participant shall receive written notice of the balance of his or her account(s) as soon as practicable following the last day of each calendar quarter.

IV. PAYMENTS OF DEFERRED COMPENSATION

4.1 Timing.

(a) In General. The balance of a Participant's Account shall be paid or shall commence to be paid on the Payment Date occurring immediately after (i) the calendar year in which the Participant terminates employment with the Employer, or (ii) the calendar year immediately following the calendar year in which such employment terminates, as elected by the Participant on the applicable election form of the Participant. Notwithstanding the foregoing, in the event that the Participant is a "specified employee" (within the meaning of Section 409A of the Code) with respect to the Company at the time of a termination of employment, the payment (or the commencement of payment) of the Participant's Account shall be delayed until the earliest date upon which such payment may be made or commenced without such payment being subject to taxation under Section 409A (the "Required Delay"). In the event that the Participant has elected

payment in substantially equal annual installments, the delay described in the preceding sentence, if applicable, shall only be applied to the installments which must be delayed in order to comply with Section 409A and shall not otherwise affect the timing of payment of subsequent installments. A Participant may irrevocably elect, at least 12 months before a scheduled payment date, to delay the payment date for a minimum period of 5 years from the originally scheduled date of payment, provided that, such irrevocable election will be effective no earlier than 12 months after the date on which such election is made; further, provided, that any such election shall be made in accordance with Section 409A(a)(4)(C) of the Code and the regulations thereunder, pursuant to procedures and rules prescribed by the Company. If a Participant has only one election form on file with the Company and terminates employment with the Employer before the expiration of twelve (12) months since the delivery of such election form, then, notwithstanding the Participant's election with respect to the timing of the payment, or commencement of payment, of his or her Account or In-Service Withdrawal Account, as the case may be, the balance of such account shall be paid or shall commence to be paid on the Payment Date for the calendar year in which the Participant's employment terminates.

(b) In-Service Withdrawals. A Participant may elect to receive any percentage of an amount deferred for a Deferral Year in any In-Service Withdrawal Year that begins at least three years after such Deferral Year. Such percentage shall be credited to an In-Service Withdrawal Account established in the Participant's name and the amount credited to such account shall be paid in a lump sum within 90 days after the first day of the In-Service Withdrawal Year as elected by the Participant. Notwithstanding the immediately preceding sentence, if a Participant terminates employment with the Employer in a calendar year prior to such In-Service Withdrawal Year, then the amount credited to the Participant's In-Service Withdrawal Account shall be paid in a lump sum on the earlier of: (i) the Payment Date for the calendar year with respect to which the Participant's Account shall be paid or shall commence to be paid, as elected by the Participant pursuant to Section 4.1 (subject to the Required Delay), or (ii) within 90 days after the first day of the In-Service Withdrawal Year as elected by the Participant.

(c) Company Deferral Discretion. Notwithstanding a Participant's election, the Company may, in its sole discretion, defer the payment of all or any portion of any account of a Participant to the extent the Company determines that the payment on such Payment Date would cause the Participant's Employer to be unable to deduct any portion of the Participant's Compensation as a result of the limitations prescribed by Section 162(m) of the Code; provided, however, that any such deferral may only be made in a manner which is in compliance with the requirements of Section 409A.

4.2 Manner of Payment. Each Participant shall receive payment of the amount credited to the Participant's Account either in a single lump sum or in substantially equal annual installments (as adjusted to reflect earnings or losses thereon) at least equal to $1,000 over a period of not less than two and not more than ten years, as elected by the Participant upon his or her commencement of participation in the Plan. Notwithstanding the foregoing sentence, such Account shall be paid to such Participant or his or her Beneficiary in the form of a single lump sum if (i) the amount credited to such Account as of the relevant Payment Date is less than the applicable dollar amount under Section 402(g)(1)(B) of the Code, (ii) the Participant has not attained age 55 as of the date of such Participant's termination of employment with an Employer or (iii) the Participant dies before all installment payments have been made.

4.3 Emergency Payments. In the event of an Unforeseeable Financial Emergency, as hereinafter defined, the Participant may file a written request with the Company to receive all or any portion of the balance of such Participant's account(s) in an immediate lump sum payment. A Participant's written request for such a payment shall describe the circumstances which the Participant believes justify the payment and an estimate of the amount necessary to eliminate the Unforeseeable Financial Emergency. An "Unforeseeable Financial Emergency" shall mean unforeseeable severe financial hardship resulting from (i) the Participant's Disability, (ii) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (iii) loss of the Participant's property due to casualty or (iv) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Company, provided that any such Unforeseeable Financial Emergency must also constitute an "unforeseeable emergency" as defined in Treasury Regulation 1.409A-3(i). Unforeseeable Financial Emergency payments shall be made only to the extent necessary to satisfy the emergency need and shall not be made to the extent the need is or may be relieved through reimbursement or compensation, by insurance or otherwise, by the Company's cessation of deferrals under the Plan or by liquidation of the Participant's assets (to the extent such liquidation itself would not cause severe financial hardship). Any Unforeseeable Financial Emergency payment from a Participant's account(s) shall be deemed to cancel any deferral election of the Participant then in effect and, unless otherwise determined by the Company, the Participant shall be suspended from making further deferral elections under the Plan during the remainder of the Deferral Year in which such payment is made and the Deferral Year immediately thereafter. Any payment as a result of an Unforeseeable Financial Emergency shall be made in accordance with Section 409A(a)(2)(A)(vi) of the Code and the regulations thereunder.

4.4 Distributions to Minor and Incompetent Persons. If a payment is to be made to a minor or to an individual who, in the opinion of the Company, is unable to manage his or her financial affairs by reason of illness or mental incompetency, such payment may be made to or for the benefit of any such individual in any of the following ways as the Company shall direct: (a) directly to any such minor individual if, in the opinion of the Company, he or she is able to manage his or her financial affairs, (b) to the legal representative of any such individual, (c) to a custodian under a Uniform Gifts to Minors Act for any such minor individual, or (d) to a relative of any such individual to be used for the latter's benefit. Neither the Company nor any Employer shall be required to see to the application by any third party of any payment made to or for the benefit of a Participant or Beneficiary pursuant to this Section.

4.5 Beneficiaries. A Participant shall have the right to designate a Beneficiary, and amend or revoke such designation at any time, in writing. Such designation, amendment or revocation shall be effective upon receipt of the Participant's written designation by the Company. If a Participant is married at the time a Beneficiary designation is submitted to the Company, the designation of a Beneficiary other than the Participant's spouse shall not be effective unless the Participant's spouse consents to such designation in writing, or it is established to the satisfaction of the Company that such consent could not be obtained because the Participant's spouse cannot be located or such other circumstances as may be considered by the Company. Subject to the preceding sentence, a Participant may from time to time, without the consent of any Beneficiary, change or cancel any such designation. Such designation and each change therein shall be made in the form prescribed by the Company and shall be filed with the Company. If no Beneficiary

survives the Participant, the Company shall direct that payment of any balance to the Participant's account(s) be made in the following order of priority:

(a) to the beneficiaries designated in the Participant's last will, if specific reference is made therein to the payment of such account(s); or if none,

(b) to the Participant's spouse; or if none,

(c) to the Participant's descendants, per stirpes; or if none,

(d) to the Participant's estate.

V. ADMINISTRATION

5.1 Administration. The Plan shall be administered by the Committee, which shall have full power and authority to interpret, construe and administer the Plan in accordance with the provisions herein set forth, except to the extent the Plan specifically provides that the Company shall carry out certain administrative duties. The Committee's interpretation and construction hereof, and actions hereunder, or the amount or recipient of the payments to be made herefrom, shall be binding and conclusive on all persons for all purposes. The Committee and the Company may delegate to any Employer, committee, individual (regardless of whether such individual is an employee of an Employer) or entity any of their respective powers or duties hereunder.

5.2 Indemnification. No officer or employee of the Company or any Employer shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan unless attributable to his or her own willful misconduct or lack of good faith, and the Company shall indemnify and hold harmless such officers and employees from and against all claims, losses, damages, causes of action and expenses, including reasonable attorney fees and court costs, incurred in connection with such interpretation and administration of the Plan. The expenses of administering the Plan shall be paid by the Employers and shall not be charged against any Participant's account(s).

5.3 Claims Procedure. The Company (i) shall provide notice in writing to any Participant or Beneficiary whose claim for benefits under the Plan has been denied, setting forth the specific reasons for such denial and written in a manner calculated to be understood by such Participant or Beneficiary and (ii) shall afford a reasonable opportunity to any Participant or Beneficiary whose claim for benefits has been denied for a full and fair review by the Committee of the decision denying the claim.

VI. MISCELLANEOUS

6.1 Unfunded Status and Application of ERISA. The Plan is intended to be an unfunded plan maintained primarily for the purpose of providing deferred compensation to a select group of management or highly compensated employees within the meaning of Sections 201(2), 301(a)(3) and 401(a)(1) of ERISA and Department of Labor Regulation § 2520.104-23. In order to meet the deferred obligations hereunder, the Company and the Employers may, but shall not be required to, establish a grantor trust and transfer thereto an amount necessary to provide payments equal to the aggregate balances of the Participants' accounts. In the event that the

Company or an Employer transfers any amounts to a grantor trust to provide payments hereunder, such amounts, and all income attributable to such amounts, shall be subject to the claims of the Company's or the Employer's general creditors. The Company's and each Employer's obligations hereunder shall constitute general, unsecured obligations, payable solely out of its general assets, and no Participant or Beneficiary shall have any right to any specific assets. The Plan constitutes a mere promise by the Company and each Employer to make benefit payments in the future.

6.2 Limitation on Rights. Neither the establishment of the Plan nor the payment of any account hereunder shall be construed as giving or granting any person any legal or equitable rights against the Company, any Employer, the Board, the Committee, or any of their officers, trustees, associates, or agents, other than such as are specifically conferred by the express terms of the Plan.

6.3 Satisfaction of Claims. The payment to a Participant, Beneficiary or other person of an account balance hereunder pursuant to the terms of the Plan shall be in full satisfaction of all claims with respect to such account that such person may have against the Company or any Employer.

6.4 Nonassignability. No amount deferred under the Plan or any amount credited to an account shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment, and any attempt to transfer or encumber the same shall be void, other than pursuant to a qualified domestic relations order as defined in Title I of ERISA.

6.5 Amendment of the Plan. The Committee may, in its sole discretion and without the consent of any Participant or Beneficiary, amend the Plan at any time and in any manner by duly adopted resolutions, adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate; *provided, however,* that no such amendment, policies and procedures, or actions shall either (i) reduce the amount credited to any account of any Participant immediately prior to such amendment, policies and procedures, or actions, or (ii) be permitted which would result in taxation of Participants pursuant to Section 409A of the Code.

6.6 Withdrawal by an Employer; Termination of the Plan. Each Employer may, in its sole discretion without the consent of any Participant or Beneficiary, terminate its participation in the Plan at any time by giving written notice thereof to the Committee and each Participant employed by such Employer. Termination of participation by an Employer shall not affect the time of payment of the Participant's Account. The Company may, in its sole discretion, terminate the Plan without the consent of, or notification to, any person. Termination of the Plan shall not affect the time of payment of the Participant's Account unless the Plan is terminated under circumstances which would permit the immediate payment to Participants of all amounts deferred under the Plan in compliance with Treasury Regulation 1.409A-3(j)(4)(ix), in which case each Participant's Account shall be paid out in full in a lump sum within 30 days following the date of the termination of the Plan.

6.7 Change in Control. If, following a Change in Control, as hereinafter defined, a Participant determines in good faith that the Company or an Employer has failed to comply with any of its obligations under the Plan or, if the Company or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny or diminish or to recover from any Participant the benefits intended to be provided hereunder, then the Company irrevocably authorizes such Participant to retain counsel of his or her choice at the expense of the Company to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company or an Employer, or any director, officer, stockholder or other person affiliated with the Company or such Employer, or any successor thereto in any jurisdiction. To the extent that any payments or reimbursements to Participants under this Section 6.7 are deemed to constitute compensation to the Participant, such amounts shall be paid or reimbursed not later than December 31 of the year following the year in which the expense was incurred, provided that any such payments or reimbursements satisfy Treasury Regulation Section 1.409A-3(i)(1)(iv). For purposes of this Section, a "Change in Control" shall mean:

(i) Consummated Transaction. Consummation of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a Merger, or (b) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (c) the liquidation or dissolution of the Company;

(ii) Control Purchase. The purchase by any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company or any employee benefit plan sponsored by an Employer) of any Common Stock of the Company (or securities convertible into the Company's Common Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board and, after such purchase, such person shall be the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Section (d) of such Rule 13d-3 in the case of rights to acquire the Company's securities);

(iii) Board Change. A change in the composition of the Board during any period of two consecutive years, such that individuals who at the beginning of such period constitute the entire Board shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(iv) Other Transactions. The occurrence of such other transactions involving a significant issuance of voting stock or change in Board composition that the Board determines to be a Change in Control for purposes of the Plan.

6.8 No Contractual Rights to Employment. Nothing in the Plan shall be interpreted as conferring any right on any employee to remain employed by an Employer for any stated period of time or otherwise change the employee's employment relationship with his or her Employer from an employment at will relationship.

6.9 Severability. If a provision of the Plan shall be held illegal or invalid, the illegality or invalidity shall not affect the remaining parts of the Plan and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included in the Plan.

6.10 Tax Withholding; Section 409A. Any payment required under the Plan shall be subject to all requirements of the law with regard to income and employment withholding taxes, filings, and making of reports, and each Employer and Participant shall use its or his or her best efforts to satisfy promptly all such requirements, as applicable. For purposes of this Plan, a Participant's employment with an Employer will be treated as terminated upon such Participant's "separation from service" from such Employer (within the meaning of Section 409A of the Code). It is the intention of the Company that the provisions of the Plan not result in taxation of Participants under Section 409A of the Code and the regulations and guidance promulgated thereunder and that the Plan shall be construed in accordance with such intention.

6.11 Applicable Law. The Plan and all rights hereunder and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to the principles of conflicts of laws.

6.12 Change in Time or Form of Payment under Code Section 409A Transition Relief. As provided in Internal Revenue Service Notice 2007-86, notwithstanding any other provision of this Plan, with respect to an election or amendment to change a time or form of a deferral election under this Plan made on or after January 1, 2008 and on or before December 31, 2008 (as permitted by the Company in its discretion), the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008.

Exhibit 10.36

HEALTH NET, INC.
DEFERRED COMPENSATION PLAN
FOR DIRECTORS

(as amended and restated effective December 1, 2009)

I. INTRODUCTION

The purpose of the Health Net, Inc. Deferred Compensation Plan for Directors (the "Plan") is to permit members of the board of directors of Health Net, Inc., a Delaware corporation (the "Company"), who are not employees of the Company, to defer cash retainers and meeting fees earned for services performed during the year, until such times as set forth herein. Prior to January 1, 2004, such directors were eligible to participate in the Health Net, Inc. Deferred Compensation Plan, on substantially the same terms and conditions that they are eligible to participate in this Plan.

II. DEFINITIONS

For purposes of the Plan, the following capitalized terms shall have the meanings set forth in this Article.

2.1 "Account" shall mean the account kept on the books and records of the Company established on behalf of a Participant in the Plan to which amounts deferred by such Participant (and deemed earnings and losses thereon), other than amounts credited to the Participant's In-Service Withdrawal Account, are credited.

2.2 "Beneficiary" shall mean the beneficiary or beneficiaries (including any contingent beneficiary) designated pursuant to Section 4.5.

2.3 "Board" shall mean the Board of Directors of the Company.

2.4 "Code" shall mean the Internal Revenue Code of 1986, as amended.

2.5 "Committee" shall mean the Compensation Committee of the Board.

2.6 "Common Stock" shall mean the Class A Common Stock, $.001 par value, of the Company.

2.7 "Company" shall mean Health Net, Inc. (formerly known as Foundation Health Systems, Inc.), a Delaware corporation, or any successor thereto.

2.8 "Compensation" shall mean the cash retainers, meeting fees and other cash remuneration (but excluding reimbursements or other expenses, allowances or fringe benefits) earned by a Director for services performed during a Deferral Year.

2.9 "Deferral Year" shall mean the calendar year.

2.10 “Director” shall mean a member of the Board who is not an employee (as defined in accordance with Section 3401(c) of the Code and the regulations and revenue rulings thereunder) of the Company, including any subsidiary or affiliate thereof.

2.11 “Disability” shall mean a physical or mental disability which, in the judgment of the Committee, prevents a Participant from performing substantially such Participant’s duties and responsibilities to the Company for a continuous period of at least six months.

2.12 “ERISA” shall mean the Employee Retirement Income Security Act of 1974, as amended.

2.13 “Effective Date” shall mean January 1, 2004.

2.14 “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended.

2.15 “In-Service Withdrawal Account” shall mean the account kept on the books and records of the Company established on behalf of a Participant to which amounts deferred by such Participant pursuant to Section 3.2(f) (and deemed earnings and losses thereon) shall be paid in a lump sum at the time or times described in Section 4.1(b).

2.16 “In-Service Withdrawal Year” shall mean the calendar year designated by a Participant on his or her deferral election form filed pursuant to Section 3.2(f), which year begins at least three years after the year in respect of which the Participant has filed such election form.

2.17 “Investment Fund” shall mean an “open-end,” “closed-end” or other collective investment fund selected by the Company from time to time as a measure for allocating deemed investment gains and losses to Participants’ accounts.

2.18 “Merger” shall mean any merger of the Company in which the holders of the Class A common stock, $.001 par value, of the Company immediately prior to the merger have the same proportionate ownership of common stock of the surviving or resulting parent corporation immediately after the merger.

2.19 “Participant” shall mean a Director who has elected to defer, pursuant to the terms of the Plan, the receipt of an amount of Compensation earned for services performed during a Deferral Year.

2.20 “Payment Date” shall mean the date chosen by the Company, in its sole discretion, that occurs within the 90-day period beginning immediately after the last day of a Deferral Year.

III. PARTICIPATION AND DEFERRALS

3.1 Participation.

(a) In General. Each Director may participate in the Plan in a Deferral Year by irrevocably specifying on an election form filed with the Company prior to the beginning of such Deferral Year the percentage(s) of the Compensation earned by him or her for services performed during the Deferral Year to be deducted from such Compensation and deferred for

payment at a later date pursuant to the Plan. The Company shall establish rules and procedures prescribing the time and manner in which election forms shall be filed with the Company.

(b) Initial Participation. An individual may participate in the Plan during the first Deferral Year in which the individual becomes a Director. To participate in the Plan for such Deferral Year, such individual must file a deferral election form with the Company within 30 days of his or her becoming a Director and may only elect to defer Compensation earned with respect to services performed for periods following the date of such election.

3.2 Deferral Elections.

(a) In General. Except as provided in Section 3.1(b), a deferral election form must be filed in accordance with rules and procedures prescribed by the Company prior to the Deferral Year for which the election is to be effective. A deferral election for a Deferral Year will be irrevocable as of the last day of the preceding Deferral Year. A Participant may not change a deferral election for a Deferral Year after the beginning of such Deferral Year. A Participant must file a new election form with the Company prior to each Deferral Year for which the election is to be effective. In no event shall an election under the Plan apply to Compensation earned prior to the date on which the election to participate in the Plan for a Deferral Year is effective. Any deferral election under the Plan shall be made in accordance with Section 409A(a)(4)(B) of the Code and the regulations thereunder.

(b) Deferral Amount. A Director may elect on the election form designated by the Company to defer the receipt of any or all of the amount of Compensation earned by such Director for services performed during the Deferral Year.

(c) Deemed Investment Election. Upon the commencement of participation in the Plan, each Participant shall specify on his or her election form any one or more of the Investment Funds in which all of the Participant's accounts under the Plan are to be deemed invested.

(d) Change of Deemed Investment Election. A Participant may elect to change his or her deemed investment election as frequently as may be designated by the Company. Any such change shall specify the whole percentages (or amounts if so permitted by the Company) to be deemed invested in one or more of the then available Investment Funds. A Participant may change his or her election (i) with respect to the balance of his or her account(s) as of the effective date of the Participant's new investment election, (ii) with respect to future amounts credited to the Participant's account(s) under Section 3.3(a) and (b) or (iii) both. A Participant's change of a deemed investment election must be made in accordance with the written rules and conditions provided by the Company to the Participants.

(e) Payment Election. Except as provided in subsection (f) of this Section 3.2, a Director must designate on a deferral election form filed with the Company (i) a manner of payment in which the balance of his or her Account shall be paid, *provided* that such manner of payment is permitted under Section 4.2, and (ii) whether the Account is to be paid on the Payment Date occurring immediately after (x) the Deferral Year in which the Director terminates service as a Director, or (y) the Deferral Year immediately following the Deferral Year in which such service terminates. The Participant's election on a deferral election form shall in no event supersede the

Participant's election with respect to previously deferred amounts (and credits attributable thereto).

(f) In-Service Withdrawals. A Participant may elect for any Deferral Year on a deferral election form filed with the Company (i) to designate any percentage of the amount to be deferred to be credited to an In-Service Withdrawal Account established on behalf of the Participant and (ii) to receive payment of the balance of such In-Service Withdrawal Account in a lump-sum within 90 days after the first day of the In-Service Withdrawal Year so designated by the Participant.

3.3 Deferred Compensation Account.

(a) Crediting Deferred Compensation. Any amount otherwise payable as Compensation that is deferred by a Participant hereunder shall be credited to the applicable account of the Participant as of the date on which, absent such election, such amount would have been payable to the Participant as Compensation.

(b) Earnings. Each Participant's account(s) under the Plan shall be credited with deemed earnings, or reduced by deemed losses, equal to the earnings or losses that would have been realized or paid if assets in an amount equal to the balance of such account(s) were actually invested among the Investment Funds selected by the Participant in accordance with Section 3.2(c) and (d). Although the Company might actually invest assets of the Company according to the Participant's election, it is not required to do so nor to set aside any assets to provide for payments hereunder. The Company may promulgate separate accounting and administrative rules to facilitate the deemed investment in an Investment Fund.

(c) Notices. Each Participant shall receive written notice of the balance of his or her account(s) as soon as practicable following the last day of each calendar quarter.

IV. PAYMENTS OF DEFERRED COMPENSATION

4.1 Timing.

(a) In General. The balance of a Participant's Account shall be paid or shall commence to be paid on the Payment Date occurring immediately after (i) the Deferral Year in which the Participant terminates service as a Director, or (ii) the Deferral Year immediately following the Deferral Year in which such service terminates, as elected by the Participant on the applicable election form of the Participant. Notwithstanding the foregoing, in the event that the Participant is a "specified employee" (within the meaning of Section 409A of the Code) with respect to the Company at the time of a termination of service, the payment (or the commencement of payment) of the Participant's Account shall be delayed until the earliest date upon which such payment may be made or commenced without such payment being subject to taxation under Section 409A (the "Required Delay"). In the event that the Participant has elected payment in substantially equal annual installments, the delay described in the preceding sentence, if applicable, shall only be applied to the installments which must be delayed in order to comply with Section 409A and shall not otherwise affect the timing of payment of subsequent installments. A Participant may irrevocably elect, at least 12 months before a scheduled payment date, to delay the payment date for a minimum period of 5 years from the originally scheduled

date of payment, provided that, such irrevocable election will be effective no earlier than 12 months after the date on which such election is made; further, provided, that any such election shall be made in accordance with Section 409A(a)(4)(C) of the Code and the regulations thereunder, pursuant to procedures and rules prescribed by the Company. If a Participant has only one election form on file with the Company and terminates service as a Director before the expiration of twelve (12) months since the delivery of such election form, then, notwithstanding the Participant's election with respect to the timing of the payment, or commencement of payment, of his or her Account or In-Service Withdrawal Account, as the case may be, the balance of such account shall be paid or shall commence to be paid on the Payment Date for the calendar year in which the Participant's service terminates.

(b) In-Service Withdrawals. A Participant may elect to receive any percentage of an amount deferred for a Deferral Year in any In-Service Withdrawal Year that begins at least three years after such Deferral Year. Such percentage shall be credited to an In-Service Withdrawal Account established in the Participant's name and the amount credited to such account shall be paid in a lump sum within 90 days after the first day of the In-Service Withdrawal Year as elected by the Participant. Notwithstanding the immediately preceding sentence, if a Participant terminates service as a Director in a calendar year prior to such In-Service Withdrawal Year, then the amount credited to the Participant's In-Service Withdrawal Account shall be paid in a lump sum on the earlier of: (i) the Payment Date for the Deferral Year with respect to which the Participant's Account shall be paid or shall commence to be paid, as elected by the Participant pursuant to Section 4.1 (subject to the Required Delay), or (ii) within 90 days after the first day of the In-Service Withdrawal Year as elected by the Participant.

4.2 Manner of Payment. Each Participant shall receive payment of the amount credited to the Participant's Account either in a single lump sum or in substantially equal annual installments (as adjusted to reflect earnings or losses thereon) at least equal to $1,000 over a period of not less than two and not more than ten years, as elected by the Participant upon his or her commencement of participation in the Plan. Notwithstanding the foregoing sentence, such Account shall be paid to such Participant or his or her Beneficiary in the form of a single lump sum if (i) the amount credited to such Account as of the relevant Payment Date is less than the applicable dollar amount under Section 402(g)(1)(B) of the Code, (ii) the Participant has not attained age 55 as of the date of such Participant's termination of service as a Director or (iii) the Participant dies before all installment payments have been made.

4.3 Emergency Payments. In the event of an Unforeseeable Financial Emergency, as hereinafter defined, the Participant may file a written request with the Company to receive all or any portion of the balance of such Participant's account(s) in an immediate lump sum payment. A Participant's written request for such a payment shall describe the circumstances which the Participant believes justify the payment and an estimate of the amount necessary to eliminate the Unforeseeable Financial Emergency. An "Unforeseeable Financial Emergency" shall mean unforeseeable severe financial hardship resulting from (i) the Participant's Disability, (ii) a sudden and unexpected illness or accident of the Participant or a dependent of the Participant, (iii) loss of the Participant's property due to casualty or (iv) such other extraordinary and unforeseeable circumstances arising as a result of events beyond the control of the Participant, all as determined in the sole discretion of the Company, provided that any such Unforeseeable Financial Emergency must also constitute an "unforeseeable emergency" as defined in Treasury

Regulation 1.409A-3(i). Unforeseeable Financial Emergency payments shall be made only to the extent necessary to satisfy the emergency need and shall not be made to the extent the need is or may be relieved through reimbursement or compensation, by insurance or otherwise, by the Company's cessation of deferrals under the Plan or by liquidation of the Participant's assets (to the extent such liquidation itself would not cause severe financial hardship). Any Unforeseeable Financial Emergency payment from a Participant's account(s) shall be deemed to cancel any deferral election of the Participant then in effect and, unless otherwise determined by the Company, the Participant shall be suspended from making further deferral elections under the Plan during the remainder of the Deferral Year in which such payment is made and the Deferral Year immediately thereafter. Any payment as a result of an Unforeseeable Financial Emergency shall be made in accordance with Section 409A(a)(2)(A)(vi) of the Code and the regulations thereunder.

4.4 Distributions to Minor and Incompetent Persons. If a payment is to be made to a minor or to an individual who, in the opinion of the Company, is unable to manage his or her financial affairs by reason of illness or mental incompetency, such payment may be made to or for the benefit of any such individual in any of the following ways as the Company shall direct: (a) directly to any such minor individual if, in the opinion of the Company, he or she is able to manage his or her financial affairs, (b) to the legal representative of any such individual, (c) to a custodian under a Uniform Gifts to Minors Act for any such minor individual, or (d) to a relative of any such individual to be used for the latter's benefit. The Company shall not be required to see to the application by any third party of any payment made to or for the benefit of a Participant or Beneficiary pursuant to this Section.

4.5 Beneficiaries. A Participant shall have the right to designate a Beneficiary, and amend or revoke such designation at any time, in writing. Such designation, amendment or revocation shall be effective upon receipt of the Participant's written designation by the Company. If a Participant is married at the time a Beneficiary designation is submitted to the Company, the designation of a Beneficiary other than the Participant's spouse shall not be effective unless the Participant's spouse consents to such designation in writing, or it is established to the satisfaction of the Company that such consent could not be obtained because the Participant's spouse cannot be located or such other circumstances as may be considered by the Company. Subject to the preceding sentence, a Participant may from time to time, without the consent of any Beneficiary, change or cancel any such designation. Such designation and each change therein shall be made in the form prescribed by the Company and shall be filed with the Company. If no Beneficiary survives the Participant, the Company shall direct that payment of any balance to the Participant's account(s) be made in the following order of priority:

(a) to the beneficiaries designated in the Participant's last will, if specific reference is made therein to the payment of such account(s); or if none,

(b) to the Participant's spouse; or if none,

(c) to the Participant's descendants, per stirpes; or if none,

(d) to the Participant's estate.

V. ADMINISTRATION

5.1 Administration. The Plan shall be administered by the Committee, which shall have full power and authority to interpret, construe and administer the Plan in accordance with the provisions herein set forth, except to the extent the Plan specifically provides that the Company shall carry out certain administrative duties. The Committee's interpretation and construction hereof, and actions hereunder, or the amount or recipient of the payments to be made herefrom, shall be binding and conclusive on all persons for all purposes. The Committee and the Company may delegate to any committee, individual or entity any of their respective powers or duties hereunder.

5.2 Indemnification. No officer or employee of the Company shall be liable to any person for any action taken or omitted in connection with the interpretation and administration of the Plan unless attributable to his or her own willful misconduct or lack of good faith, and the Company shall indemnify and hold harmless such officers and employees from and against all claims, losses, damages, causes of action and expenses, including reasonable attorney fees and court costs, incurred in connection with such interpretation and administration of the Plan. The expenses of administering the Plan shall be paid by the Company and shall not be charged against any Participant's account(s).

5.3 Claims Procedure. The Company (i) shall provide notice in writing to any Participant or Beneficiary whose claim for benefits under the Plan has been denied, setting forth the specific reasons for such denial and written in a manner calculated to be understood by such Participant or Beneficiary and (ii) shall afford a reasonable opportunity to any Participant or Beneficiary whose claim for benefits has been denied for a full and fair review by the Committee of the decision denying the claim.

VI. MISCELLANEOUS

6.1 Unfunded Status and Application of ERISA. The Plan is an unfunded plan. In order to meet the deferred obligations hereunder, the Company may, but shall not be required to, establish a grantor trust and transfer thereto an amount necessary to provide payments equal to the aggregate balances of the Participants' accounts. In the event that the Company transfers any amounts to a grantor trust to provide payments hereunder, such amounts, and all income attributable to such amounts, shall be subject to the claims of the Company's general creditors. The Company's obligations hereunder shall constitute general, unsecured obligations, payable solely out of its general assets, and no Participant or Beneficiary shall have any right to any specific assets. The Plan constitutes a mere promise by the Company to make benefit payments in the future.

6.2 Limitation on Rights. Neither the establishment of the Plan nor the payment of any account hereunder shall be construed as giving or granting any person any legal or equitable rights against the Company, the Board, the Committee, or any of their officers, trustees, associates, or agents, other than such as are specifically conferred by the express terms of the Plan.

6.3 Satisfaction of Claims. The payment to a Participant, Beneficiary or other person of an account balance hereunder pursuant to the terms of the Plan shall be in full satisfaction of all claims with respect to such account that such person may have against the Company.

6.4 Nonassignability. No amount deferred under the Plan or any amount credited to an account shall be subject in any manner to anticipation, alienation, sale, transfer, assignment, pledge, encumbrance, attachment or garnishment, and any attempt to transfer or encumber the same shall be void.

6.5 Amendment of the Plan. The Committee may, in its sole discretion and without the consent of any Participant or Beneficiary, amend the Plan at any time and in any manner by duly adopted resolutions, adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Committee determines are necessary or appropriate; *provided, however,* that no such amendment, policies and procedures, or actions shall either (i) reduce the amount credited to any account of any Participant immediately prior to such amendment, policies and procedures, or actions, or (ii) be permitted which would result in taxation of Participants pursuant to Section 409A of the Code.

6.6 Termination of the Plan. The Company may, in its sole discretion, terminate the Plan without the consent of, or notification to, any person. Termination of the Plan shall not affect the time of payment of the Participant's Account unless the Plan is terminated under circumstances which would permit the immediate payment to Participants of all amounts deferred under the Plan in compliance with Treasury Regulation 1.409A-3(j)(4)(ix), in which case each Participant's Account shall be paid out in full in a lump sum within 30 days following the date of the termination of the Plan.

6.7 Change in Control. If, following a Change in Control, as hereinafter defined, a Participant determines in good faith that the Company has failed to comply with any of its obligations under the Plan or, if the Company or any other person takes any action to declare the Plan void or unenforceable or institutes any litigation or other legal action designed to deny or diminish or to recover from any Participant the benefits intended to be provided hereunder, then the Company irrevocably authorizes such Participant to retain counsel of his or her choice at the expense of the Company to represent such Participant in connection with the initiation or defense of any litigation or other legal action, whether by or against the Company, or any director, officer, stockholder or other person affiliated with the Company, or any successor thereto in any jurisdiction. To the extent that any payments or reimbursements to Participants under this Section 6.7 are deemed to constitute compensation to the Participant, such amounts shall be paid or reimbursed not later than December 31 of the year following the year in which the expense was incurred, provided that any such payments or reimbursements satisfy Treasury Regulation Section 1.409A-3(i)(1)(iv). For purposes of this Section, a "Change in Control" shall mean:

(i) Consummated Transaction. Consummation of (a) any consolidation or merger of the Company in which the Company is not the continuing or surviving corporation or pursuant to which shares of Common Stock would be converted into cash, securities or other property, other than a Merger, or (b) any sale, lease, exchange, or other transfer (in one transaction or a series of related transactions) of all, or substantially all, of the assets of the Company, or (c) the liquidation or dissolution of the Company;

(ii) Control Purchase. The purchase by any person (as such term is defined in Sections 13(d)(3) and 14(d)(2) of the Exchange Act), corporation or other entity (other than the Company or any employee benefit plan sponsored by an Employer) of any Common Stock of the Company (or securities convertible into the Company's Common Stock) for cash, securities or any other consideration pursuant to a tender offer or exchange offer, without the prior consent of the Board and, after such purchase, such person shall be the "beneficial owner" (as such term is defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 20 percent or more of the combined voting power of the then outstanding securities of the Company ordinarily (and apart from rights accruing under special circumstances) having the right to vote in the election of directors (calculated as provided in Section (d) of such Rule 13d-3 in the case of rights to acquire the Company's securities);

(iii) Board Change. A change in the composition of the Board during any period of two consecutive years, such that individuals who at the beginning of such period constitute the entire Board shall cease for any reason to constitute a majority thereof unless the election, or the nomination for election by the Company's stockholders, of each new director was approved by a vote of at least two-thirds of the directors then still in office who were directors at the beginning of the period; or

(iv) Other Transactions. The occurrence of such other transactions involving a significant issuance of voting stock or change in Board composition that the Board determines to be a Change in Control for purposes of the Plan.

6.8 No Contractual Rights to Serve. Nothing in the Plan shall be interpreted as conferring any right on any Director to continue as a Director.

6.9 Severability. If a provision of the Plan shall be held illegal or invalid, the illegality or invalidity shall not affect the remaining parts of the Plan and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included in the Plan.

6.10 Tax Withholding; Section 409A. Any payment required under the Plan shall be subject to all requirements of the law with regard to income and withholding taxes, filings, and making of reports, and the Company and Participant shall use their best efforts to satisfy promptly all such requirements. For purposes of this Plan, a Participant's service as a Director will not be treated as terminated unless and until such termination of service constitutes a "separation from service" for purposes of Section 409A of the Code. It is the intention of the Company that the provisions of the Plan not result in taxation of Participants under Section 409A of the Code and the regulations and guidance promulgated thereunder and that the Plan shall be construed in accordance with such intention.

6.11 Applicable Law. The Plan and all rights hereunder and all determinations made and actions taken pursuant thereto, to the extent not otherwise governed by the Code or the laws of the United States, shall be governed by the laws of the State of Delaware and construed in accordance therewith without giving effect to the principles of conflicts of laws.

6.12 Change in Time or Form of Payment under Code Section 409A Transition Relief. As provided in Internal Revenue Service Notice 2007-86, notwithstanding any other provision of this Plan, with respect to an election or amendment to change a time or form of a deferral election under this Plan made on or after January 1, 2008 and on or before December 31, 2008, the election or amendment shall apply only with respect to payments that would not otherwise be payable in 2008, and shall not cause payments to be made in 2008 that would not otherwise be payable in 2008.

Exhibit 10.80

STANDARD FORM OFFICE LEASE

BETWEEN

AEROJET-GENERAL CORPORATION,
an Ohio corporation

as "LANDLORD"

AND

HEALTH NET FEDERAL SERVICES, LLC
a Delaware limited liability company

as "TENANT"

JULY 13, 2009

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BASIC LEASE INFORMATION.

Addresses:

"Tenant's Notice Address" is
Health Net Federal Services, LLC
Post Office Box 2470
Rancho Cordova, CA 95741-2470
Attn: Director of Real Estate
Phone: (916) 935-1317
Fax: (916) 935-4406

"**Landlord's Notice Address**" is:

Aerojet-General Corporation
c/o GenCorp Realty Investments, LLC
620 Coolidge Drive, Suite 100
Folsom, CA 95630
Attn: Bill Arrol, Manager, Financial Operations
Phone: (916) 351-8543
Fax: (916) 351-8669

with a copy to:

Aerojet-General Corporation
P.O. Box 13222, Dept. 0106
Sacramento, CA 95813-6000
Attn: Brian E. Sweeney, General Counsel
Phone: (916) 351-8588
Fax: (916) 351-8610

Common Areas: "**Common Areas**" shall mean and refer to commonly usable lobbies, common corridors and hallways, restrooms, stairways, elevators and other generally understood public or common areas within the Building and the Project.

"**Rentable Area**" of the Premises is 229,189 square feet.

Base Rent: "**Base Rent**" initially shall mean $1.63 per square foot of Rentable Area per month for the Premises, which equates to $373,578.07 per month, which rate shall be adjusted as set forth in **Exhibit A** attached hereto. An "**Adjustment Date**" is a date on which Base Rent shall be adjusted as provided in **Exhibit A**.

Brokers: "**Landlord's Broker**" is N/A.

"**Tenant's Broker**" is CB Richard Ellis (Amy E. DeAngelis).

Building:	The "**Building**" shall mean collectively the structures located on the Land (hereinafter defined) and commonly known as Buildings 2006, 2015A, 2015B, 2019 and 2025 Aerojet Road, Rancho Cordova, California.
Business Hours:	"**Business Hours**" shall be the hours of 6:00 a.m. to 6:00 p.m., Monday through Friday, and 8:00 a.m. to 1:00 p.m. on Saturdays, including Martin Luther King Day, President's Day, Veterans Day and excepting all other national holidays. Subject to the terms of this Lease, Tenant shall have access to the Building, Premises and Parking Facilities twenty-four (24) hours per day, seven (7) days per week and three hundred sixty five (365) days per year. Tenant may operate in the Premises during any hours and days (including 24-hour operation), at Tenant's sole discretion.
Facility:	The "**Facility**" shall mean the Aerojet Sacramento Facility which includes approximately 12,200 acres of land in the Sacramento metropolitan area adjacent to U.S. Highway 50 between Rancho Cordova and Folsom, California.
Guarantor:	N/A .
Land:	The "**Land**" is located in Sacramento County, California, and is more fully depicted on **Exhibit B**.
Lease Date:	The "**Lease Date**" is July 13, 2009.
Parking:	On the terms and conditions set forth in **Exhibit C** attached hereto, through the Term, and any Renewal Term, Tenant shall have the right to use, on a non-exclusive basis, five (5) parking spaces for each 1,000 square feet of Rentable Area in the Premises, in designated areas of the "**Parking Facilities**," which means the parking areas usable by the tenants of the Building as designated by Landlord from time to time and initially shown on **Exhibit D** attached hereto.
Permitted Use:	"**Permitted Use**" shall mean corporate, executive and general office use, except that those portions of the Premises located in the building commonly known as 2006 Aerojet Road shall be used to house certain of Tenant's computer and related equipment.
Premises:	The "**Premises**" shall mean those portions of the Building more fully described in **Exhibit E** attached hereto. The Premises shall include the Tenant Improvements (hereinafter defined), if any, to be constructed pursuant to this Lease, and any existing tenant improvements.

Project:	"**Project**" means the Land, Building and Parking Facilities combined.
Security Deposit:	The "**Security Deposit**" is $ N/A .
Term:	The "**Commencement Date**" shall mean August 1, 2009. The "**Term**" shall commence on the Commencement Date. The Term shall be eighteen (18) full calendar months plus, if the Commencement Date is other than the first day of a calendar month, the partial month between the Commencement Date and the end of the calendar month during which the Commencement Date occurs. Unless sooner terminated as provided in this Lease, the Term shall expire at midnight on the last day of the Term (the "**Expiration Date**")

c

AEROJET SACRAMENTO OPERATIONS

STANDARD FORM OFFICE LEASE

This Standard Form Office Lease ("**Lease**") is made and entered into by and between AEROJET-GENERAL CORPORATION, an Ohio corporation ("**Landlord**"), and HEALTH NET FEDERAL SERVICES, LLC, a Delaware limited liability company ("**Tenant**"), on the terms, covenants and conditions set forth below, and is dated as of the Lease Date. The foregoing Basic Lease Information is incorporated into and made a part of this Lease, but in the event of any conflict between the Basic Lease Information and provisions actually stated in this Lease, the latter shall control.

Although the Term shall not have commenced, this Lease shall be effective and binding as of the Lease Date. Landlord hereby leases the Premises to Tenant and Tenant hereby leases the Premises from Landlord upon the terms and conditions contained herein.

1. PREMISES.

1.1 **Premises**. The Premises shall be as provided in the Basic Lease Information.

1.2 **Tenant Improvements**. Within ninety (90) days following the Commencement Date, Landlord shall, at Landlord's cost and expense, complete or cause to be completed, the following improvement work within the Premises and Common Areas serving the Premises (the "**Tenant Improvements**"):

1.2.1 Overlay new roofing on portions of Buildings 2006 and 2019, as necessary to make the roofs on those Buildings water tight;

1.2.2 Upgrade variable air volume boxes in those portions of the Premises located in Building 2015B to add additional thermostats and zones in order to ensure that Building 2015B has sufficient HVAC required for Tenant's comfortable use and occupancy of the Premises;

1.2.3 Repave and restripe portions of the Parking Facilities located south of Building 2025;

1.2.4 Improve lighting in portions of the Parking Facilities located south of Building 2019 and 2025 such that the minimum lighting at ground level is one (1) footcandle; and

1.2.5 Install automatic door openers, two (2) each, in Building 2019, Building 2025 and Building 2015.

Landlord shall complete the Tenant Improvements in accordance with all applicable covenants, restrictions, laws, statutes, ordinances, and governmental rules and regulations (including, but not limited to, the Americans with Disabilities Act of 1990), and requirements of any board of fire underwriters or similar body, in effect and as interpreted as of the Commencement Date (collectively, and as all of the same may be amended and supplemented from time to time, "**Laws**").

2. TERM AND POSSESSION.

2.1 **Commencement**. The Term of the Lease shall commence upon the Commencement Date as defined in the Basic Lease Information.

2.2 **Acceptance of the Premises**. Pursuant to that certain Office Building Lease dated July 13, 1995, between Landlord and Tenant (as amended, the "Existing Lease"), Tenant is currently in possession of the Premises. The Existing Lease is set to expire on July 31, 2009. Tenant, by remaining in possession of the Premises on the Commencement Date, subject to Landlord's completion of the Tenant Improvements pursuant to Section 1.2 above and Landlord's repair and maintenance obligations under this Lease, accepts the Premises in their present "as-is" condition and acknowledges that the Premises are in good and satisfactory condition and are otherwise suitable for the Permitted Use and Tenant's intended operations in the Premises. No promise of Landlord to alter, remodel, repair or improve the Premises, the Building, or any portion of the Project, and no representation, express or implied, respecting any matter or thing related to the Premises, Building, Project or this Lease (including the condition of the Building or Premises) have been made to Tenant by Landlord, its agents or employees, other than as set forth in this Lease.

3. RENT.

3.1 **Base Rent**. Tenant agrees to pay Landlord Base Rent for the Premises, without prior notice, demand, deduction or offset (except as otherwise provided in this Lease or under applicable law), as adjusted from time to time pursuant to the Base Rent Schedule set forth in **Exhibit A**. Base Rent shall be payable in advance on or before the first day of each month throughout the Term of this Lease. Base Rent for any period during the Term which is for less than one month shall be a prorated portion of the monthly installment based upon a 30-day month.

3.2 **Late Charge; Interest**. Rent not paid when due shall be subject to a "**Late Charge**" equal to ten percent (10%) of the overdue amount, and the overdue amount shall bear interest at the lesser of 10% per annum or the highest rate legally permitted. Tenant acknowledges that late payment of Rent will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which is extremely difficult and impracticable to ascertain at this time. Accordingly, the parties agree that the Late Charge and interest provisions represent a reasonable estimate of the loss and expense to be suffered by Landlord by reason of Tenant's late payment. Notwithstanding the foregoing, Tenant shall be entitled to notice and the expiration of a 10 day period following receipt of Landlord's written notice prior to the imposition of any Late Charge under this Section 3.2.

3.3 **Additional Rent; Rent**. All monies other than Base Rent required to be paid by Tenant to Landlord hereunder, including, but not limited to, interest and Late Charges, and any monies spent by Landlord to perform obligations of Tenant, shall be considered additional rent ("**Additional Rent**"). The term "**Rent**" as used in this Lease shall mean Base Rent and Additional Rent. Landlord agrees to accept payment of rent via electronic funds transfer from Tenant, pursuant to wiring instructions provided by Landlord to Tenant upon Tenant's request.

3.4 **Savings Provision**. If the amount of any Rent or any other payments due under this Lease violates the terms of any usury laws or other governmental restrictions on such Rent or payment, then the Rent or payment due during the period of such restrictions shall be the maximum amount allowable under those restrictions.

3.5 **Security Deposit**. Intentionally Omitted.

4. INTENTIONALLY OMITTED.

5. USE.

5.1 **Permitted Use**. Tenant shall use the Premises for the Permitted Use, and shall not use the Premises for any other purposes.

5.2 **Common Areas**. So long as Tenant is occupying the Premises, Tenant shall have the nonexclusive right to use, in common with other parties occupying the Building, the Common Areas of the Building, subject to the terms of this Lease and such reasonable and non-discriminatory Rules and Regulations as Landlord may from time to time prescribe in writing to Tenant. Subject to the provisions of paragraph 2 of **Exhibit C** attached hereto and incorporated herein by this reference, Landlord reserves the right, without notice or liability to Tenant, and without the same constituting an actual or constructive eviction, to alter or modify the Common Areas from time to time, including the location and configuration thereof, and the amenities and facilities which Landlord may determine to provide from time to time, so long as (i) Tenant's access to the Premises is not materially and negatively impacted in any direct way, and (ii) Tenant retains the right to use the number of parking spaces allocated to Tenant as set forth in the Basic Lease Information.

5.3 **Parking**. Tenant's permitted parking shall be on the terms and conditions set forth in (i) the Basic Lease Information, (ii) **Exhibit C** attached hereto, and (iii) such reasonable and non-discriminatory Rules and Regulations as Landlord may from time to time prescribe in writing to Tenant.

5.4 **Security Measures**.

5.4.1 **Security–Project.** Tenant acknowledges that: (a) the Base Rent does not include the cost of any security measures for any portion of the Building, (b) Landlord has no obligation to provide any such security measures, (c) Landlord has made no representation regarding the safety or security of the Building, and (d) Tenant will be solely responsible for providing any security it deems necessary to protect itself, its property, and its invitees in, on, or about the Project, Building, or the Premises. If Landlord provides any security measures at any time, Landlord will not be obligated to continue providing security for any time, Landlord may discontinue such service without notice and liability to Tenant, and Landlord will not be obligated to provide such measures with any particular standard of care. Tenant assumes all responsibility for the Tenant's security, safety, property, and invitees.

5.4.2 **Security-Aerojet Facility/Complex.** Landlord provides a package of security features for the Facility, including without limitation, a security fence, twenty-four (24) hour security guard, and security identification cards. Notwithstanding the foregoing in Section 5.4.1, Tenant shall comply with all reasonable security measures, rules, and regulations

implemented by Landlord from time to time, including, without limitation, those required by the Department of Defense, the Department of Homeland Security, NASA, and other governmental agencies having jurisdiction over the Facility (collectively, the "**Governmental Agencies**"). Tenant specifically acknowledges that, pursuant to procedures mutually agreeable to Landlord and Tenant, and until the security fence is moved and the Project is separated from the balance of the Facility, Tenant will comply with security measures required by the Department of Defense, including random vehicles searches and the implementation of an access badge system (in addition to Tenant's own access badge system). Tenant shall cause Tenant Parties and all other persons entering the Facility at the request or invitation of any of the Tenant Parties to cooperate with Landlord's security personnel.

Landlord will continue to work with Tenant, and the other tenants on the Facility to create a workable solution to security issues, access issues, etc., so that Tenant's access is reasonable and so that security measures do not present an undue burden for the operation of Tenant's business. Notwithstanding the foregoing provisions of this Section 5.4.2, if after the Commencement Date any new or revised security measures are required by any Governmental Agency, and Tenant believes that any such implemented new or revised security measures materially interfere with Tenant's ability to conduct its business operations at the Premises, Tenant shall promptly provide Landlord with a detailed written description of the alleged interference and any proposed solutions for resolving same. Following receipt of such notice, Landlord shall immediately commence a cure to such interference and thereafter shall diligently prosecute such cure to completion. If such interference is not cured within ninety (90) days following Landlord's receipt of written notice of same, Base Rent shall thereafter abate by Five Thousand Dollars ($5,000) per day until the interference is cured.

5.5 **Limitations.** Tenant shall not permit any odors, smoke, dust, gas, substances, noise or vibrations to emanate from the Premises or from any portion of the Common Areas as a result of use thereof by Tenant or any subtenant or invitee, nor take any action which would constitute a nuisance or would disturb, obstruct or endanger any other tenants or occupants of the Building or elsewhere, or interfere with their use of their respective premises or Common Areas. Storage outside the Premises of materials, vehicles or any other items is prohibited. Tenant shall not use or allow the Premises to be used for any immoral, improper or unlawful purpose, nor shall Tenant cause or maintain or permit any nuisance in, on or about the Premises. Tenant shall not use the Premises in any manner that will constitute waste, nuisance, or unreasonable annoyance (which includes excessive noise and/or vibration) to owners or occupants of adjacent properties or to other tenants of the Building. Tenant shall not allow any sale by auction upon the Premises, or place any loads upon the floors, walls or ceilings exceeding fifty (50) pounds per square foot dead load, twenty (20) pounds per square foot for partitions and five (5) pounds per square foot for ductwork and piping, or place any harmful substances in the drainage system of the Building. No Tenant waste, materials or refuse shall be dumped upon or permitted to remain outside the Premises. Landlord shall not be responsible to Tenant for the non-compliance by any other tenant or occupant of the Building with any of the above-referenced rules or any other terms or provisions of such tenant's or occupant's lease or other contract; provided, however, in the event any non-compliance by any other tenant or occupant unreasonably and materially interferes with Tenant's use of its Premises, Landlord shall use its reasonable efforts to cause such other tenants and/or occupants to comply with such rules, lease or other contract. Tenant shall not do or permit anything to be done in, on, under or about the Premises or bring

into or keep anything in the Premises which will in any way increase the rate of any insurance upon the Premises or Building or upon any contents therein or cause a cancellation of said insurance or otherwise affect said insurance in any manner, or violate the rules, orders, regulations and requirements of any organization which sets out standards, requirements or recommendations commonly referred to by major fire insurance underwriters.

5.6 **Compliance with Applicable Requirements**. Tenant shall at its sole cost and expense strictly comply with all existing or future applicable municipal, state and federal and other governmental statutes, rules, requirements, regulations, laws and ordinances, including zoning ordinances and regulations, and covenants, easements and restrictions of record governing and relating to the use, occupancy or possession of the Premises, or to the use, storage, generation or disposal of Hazardous Materials (defined below) (collectively, "**Applicable Requirements**"). Notwithstanding the foregoing, Tenant shall not be liable for compliance with any Laws mandating alterations to the Common Areas unless such alterations are triggered by (i) Alterations or Utility Installations that are inconsistent with the Permitted Use, or (ii) Tenant's use of the Premises for a use other than the Permitted Use. Subject to Tenant's obligations pursuant to the preceding sentence, Landlord shall protect, defend, indemnify and hold harmless Tenant from all claims, costs (including attorneys' and experts' fees), expenses and liabilities arising from any failure of the Common Areas to comply with all Laws, including, without limitation, the Americans with Disabilities Act. Landlord's obligations under this Section 5.6 shall survive the expiration or earlier termination of the Lease. Tenant shall at its sole cost and expense obtain any and all licenses or permits necessary for Tenant's use of the Premises. Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord), protect and hold Landlord harmless from and against any loss, cost, expense, damage, attorneys' fees or liability arising out of the failure of Tenant to comply with this Section 5.6. Tenant's obligations pursuant to the foregoing indemnity shall survive the expiration or earlier termination of this Lease.

5.7 **Hazardous Materials.** As used in this Lease, "**Hazardous Materials**" shall include, but not be limited to, asbestos, asbestos products, polychlorinated biphenyl (PCB), hazardous, toxic and radioactive materials and those substances defined as "hazardous substances," "hazardous materials," "hazardous wastes," "toxic substances," or other similar designations in any Applicable Requirements, including, without limitation, the Comprehensive Environmental Response, Compensation and Liability Act, as amended, 42 U.S.C. Sections 9601, et seq. ("**CERCLA**"), the Resource Conservation and Recovery Act, as amended, 42 U.S.C. Sections 6901, et seq. ("**RCRA**"), the Toxic Substances Control Act, as amended, 15 U.S.C. Sections 2601, et seq., the Clean Water Act, as amended, 33 U.S.C. Sections 1251, et seq., the Clean Air Act, as amended, 42 U.S.C. Sections 7401, et seq., the Hazardous Substances Transportation Act, 49 U.S.C. Sections 1471, et seq., the Safe Drinking Water Act, 42 U.S.C. Sections 300f-300j , the California Hazardous Substances Account Act, Health and Safety Code Sections 25300, et seq., the California Hazardous Waste Control Law, Health and Safety Code Sections 25100, et seq., the Porter-Cologne Water Quality Control Act, Water Code Sections 13000, et seq., the Safe Drinking Water and Toxic Enforcement Act, Health and Safety Code Sections 25249.5, et seq., and Fish and Game Code Section 5650, or comparable statutes and ordinances and each as from time to time amended, any regulations implementing any such statutes. Tenant shall not cause, or allow any agent, employee, subtenant, contractor, representative or invitee of Tenant to cause, any Hazardous Materials to be handled, used,

generated, stored, released or disposed of in, on, under or about the Premises or the Building or surrounding land or environment in violation of any Applicable Requirements. Tenant must obtain Landlord's written consent prior to the introduction of any Hazardous Materials onto the Building. Notwithstanding the foregoing, Tenant may handle, store, use and dispose of products containing small quantities of Hazardous Materials for "general office purposes" (such as toner for copiers) to the extent customary and necessary for the Permitted Use of the Premises; provided that Tenant shall always handle, store, use, and dispose of any such Hazardous Materials in a safe and lawful manner and never allow such Hazardous Materials to contaminate the Premises or Building, or surrounding land or environment. Tenant shall immediately notify Landlord in writing of any Hazardous Materials' contamination of any portion of the Building of which Tenant becomes aware. Landlord shall have the right at all reasonable times and if Landlord determines in good faith that Tenant may not be in compliance with this Section 5.7 to inspect the Premises, upon reasonable notice to Tenant, and to conduct tests and investigations to determine whether Tenant is in compliance with the foregoing provisions, the costs of all such inspections, tests and investigations to be borne by Landlord, but, if Tenant or any agent, employee, subtenant, contractor, representative or invitee of Tenant introduced, released, disturbed, transported, stored, generated or used the Hazardous Materials, then Tenant shall be responsible for the cost of the inspection. Tenant shall indemnify, defend (by counsel reasonably acceptable to Landlord), protect and hold Landlord harmless from and against any and all claims, liabilities, losses, costs, loss of rents, liens, damages, injuries or expenses (including attorneys' and consultants' fees and court costs), demands, causes of action, or judgments directly or indirectly arising out of or related to the use, generation, storage, release, or disposal of Hazardous Materials by Tenant or any agent, employee, subtenant, contractor, representative or invitee of Tenant in, on, under or about the Premises or the Building or surrounding land or environment, which indemnity shall include, without limitation, damages for personal or bodily injury, property damage, damage to the environment or natural resources occurring on or off the Premises, losses attributable to diminution in value or adverse effects on marketability, the cost of any investigation, monitoring, government oversight, repair, removal, remediation, restoration, abatement, and disposal, and the preparation of any closure or other required plans, whether such action is required or necessary prior to or following the expiration or earlier termination of this Lease. Neither the consent by Landlord to the use, generation, storage, release or disposal of Hazardous Materials nor the strict compliance by Tenant with all Applicable Requirements pertaining to Hazardous Materials shall excuse Tenant from Tenant's obligation of indemnification pursuant to this Section 5.7. Tenant's obligations pursuant to the foregoing indemnity shall survive the expiration or earlier termination of this Lease.

5.7.1 **Landlord's Environmental Representation**. Landlord represents and warrants to Tenant the following with respect to the Building:

5.7.1.1 The Land is subject to a Partial Consent Decree entered June 23, 1989 (and modifications thereto) in the consolidated actions Nos. CIVS-86-0063-EJG and CIVS-86-0064-EJG in the United States District Court Eastern District of California Civil Action captioned *United States of America v. Aerojet-General Corporation, et al*. and *People of the State of California v. Aerojet-General Corporation, et al.* (the "**Partial Consent Decree**").

5.7.1.2 As of the Lease Date, Landlord has no information indicating that the Building ever had any industrial activity conducted on it or that there is any soil contamination or groundwater contamination under the Building, except as identified on **Exhibit F** attached hereto.

5.7.1.3 The Partial Consent Decree also requires Landlord to notify the government before any possessory interest in any land at the Project is granted. Landlord provided such notice on August 9, 1995 regarding the original lease of Building number 2025.

5.7.2 **Landlord's Indemnification of Tenant**. Landlord shall indemnify, defend, protect and hold Tenant harmless from and against any and all claims, liabilities, losses, costs, loss of rents, liens, damages, injuries or expenses (including attorneys' and consultants' fees and court costs) ("**Liability Claim**") which any third person asserts against Tenant and is based solely on and arises solely out of any Hazardous Materials contamination of the Premises and its immediate surrounding area to the extent caused by Landlord, subject to each of the following conditions:

5.7.2.1 Tenant promptly gives Landlord written notice of any Liability Claim and delivers to Landlord a copy of each document or other writing which Tenant receives in connection therewith;

5.7.2.2 Tenant, at its own expense, cooperates with Landlord in every reasonable way in connection with the defense of each Liability Claim;

5.7.2.3 Landlord, at its option, may control the defense of each Liability Claim, select lawyers to defend each Liability Claim, and compromise and settle each Liability Claim; and

5.7.2.4 Tenant gives Landlord notice of the Liability Claim within one (1) year after the expiration or earlier termination of this Lease.

Tenant's obligations pursuant to the foregoing indemnity shall survive the expiration or earlier termination of this Lease.

6. UTILITY INSTALLATIONS ALTERATIONS AND ADDITIONS.

6.1 **Utility Installations**. As used in this Lease the term "**Utility Installation**" shall mean any carpeting, window coverings, power panels, electrical distribution systems, security systems, Cabling, fire protection and detection systems, lighting fixtures, space heaters, heating, air conditioning, plumbing and interior partitions, in, on or about the Premises. The term "**Cabling**" shall mean any of the following which are located in the Premises or which exclusively serves the Premises: communications systems, including voice/data cabling, telecommunications, computer cabling and wiring.

6.2 **Alterations**. Tenant shall not make or suffer to be made any Utility Installations, structural or non-structural alterations, additions, or improvements (collectively, "**Alterations**") to or of the Premises, or any part thereof, without first obtaining the written consent of Landlord, which may be withheld in Landlord's sole and absolute discretion with respect to structural Alterations, but which shall not be unreasonably withheld or delayed with respect to non-structural Alterations; provided, however, if the Alterations would adversely affect the structure

or safety of the Building or its electrical, plumbing, HVAC, mechanical or safety systems, or if such Alterations would create an obligation on Landlord's part to make modifications to the Building, or fail to satisfy the requirements of Section 6.3, Landlord may withhold its consent in its sole and absolute discretion. In any event, Landlord may withhold its consent until fifteen (15) days after Landlord receives drawings of the planned Alterations, in electronic CAD format, or such other format as Landlord determines, in its reasonable discretion. If Landlord fails to respond within such fifteen (15) day period, the Alterations shall be deemed approved. Within 30 days after completion of the Alterations, Tenant shall deliver as-built drawing in the same format. Notwithstanding the foregoing, without the prior consent of Landlord, but with the prior notice to Landlord, Tenant shall be entitled to make Alterations within the Premises, provided that (i) the cost of construction of such Alterations does not exceed $100,000 in the aggregate during each year of the Term, and (ii) does not effect the plumbing, electrical, structural or mechanical systems of the Building, and (iii) Tenant otherwise complies with the provisions of this Section 6. All Alterations shall comply with all Applicable Requirements, including the Americans With Disabilities Act ("**ADA**"). Any Alterations, including wall covering, paneling, and built-in cabinet work, but excepting movable furniture and trade fixtures, shall on the expiration of the Term become a part of the realty and belong to Landlord, and shall be surrendered with the Premises. If Landlord will require the removal of the subject Alteration at the expiration or sooner termination of the Term, Landlord shall, by written notice to Tenant given concurrently with Landlord's consent to said Alteration (or, if consent is not required, within five (5) days after Landlord's receipt of Tenant's notice of said Alteration), notify Tenant that Tenant shall be required to remove any or all of the subject Alteration at the expiration or sooner termination of the Term and repair any damage to the Premises and the Building resulting from such removal at Tenant's cost. Tenant shall submit detailed specifications, floor plans and necessary permits (if applicable) to Landlord for review. In no event shall any Alterations affect the structure of the Building or its exterior appearance. As a condition to its consent, Landlord may request adequate assurance that all contractors who will perform such work have in force workman's compensation and such other employee and public liability insurance as Landlord deems reasonably necessary, and where the Alterations are material, Landlord may require Tenant or its contractors to post adequate completion and performance bonds. In the event Landlord consents to the making of any Alterations to the Premises by Tenant, the same shall be made by Tenant at Tenant's sole cost and expense, completed to the reasonable satisfaction of Landlord, and the contractor or person selected by Tenant to make the same must first be approved in writing by Landlord which approval shall not be unreasonably withheld, conditioned or delayed. If Tenant makes any Alterations to the Premises as provided in this Section 6, the Alterations shall not be commenced until 10 days after Landlord has received notice from Tenant stating the date the installation of the Alterations is to commence so that Landlord can post and record an appropriate notice of non-responsibility. Tenant shall reimburse Landlord for any reasonable expenses incurred by Landlord in connection with the Alterations made by Tenant, including any reasonable fees charged by Landlord's contractors or consultants to review plans and specifications prepared by Tenant, and the cost of updating the existing as-built plans of the Building to reflect the Alterations. Tenant shall indemnify, defend and hold Landlord, the Building and the Premises free and harmless from any liability, loss, damage, cost, attorneys' fees and other expenses incurred on account of such construction, or claims by any person performing work or furnishing materials or supplies for Tenant or any persons claiming under Tenant. In connection with any Alterations, Tenant shall provide Landlord with copies of any building permits or certificates of occupancy within five days after Tenant's receipt of same.

6.3 **Certain Requirements**. In addition to the requirements stated in Section 6.2, Tenant's Alterations, including Utility Installations in, on or about the Premises, must: (i) not adversely affect (a) the Building structure or the Building systems, or (b) the exterior appearance of the Building; (ii) comply with all Applicable Requirements; (iii) not unreasonably interfere with normal and customary business operations of any other tenant or occupant of the Building; (iv) be consistent with Tenant's Permitted Use and the character of the Building; and (v) be typical for general business office operations.

6.4 **Towers, Antennas, Etc**. Tenant shall not erect, construct, place or permit any additional television, radio, telecommunications or other electronic towers, aerials, antennas, satellite dishes or other similar broadcast or reception devices on the Premises or Building without Landlord's prior written consent, which consent may be withheld at Landlord's sole and absolute discretion.

7. REPAIRS AND MAINTENANCE.

7.1 **By Tenant**. Tenant shall, at Tenant's sole cost and expense, maintain the Premises (other than the portions of the Building Structure (defined below) and Building Systems (defined below) of the Building which are contained in the Premises), in good, clean and first-class condition and repair. Without limiting the generality of the foregoing, Tenant shall be solely responsible for maintaining and repairing all fixtures, non-Building standard electrical lighting, ceilings and floor coverings, windows, doors, plate glass, skylights, and interior walls within the Premises using the same quality of materials as used in the original construction. In addition, Tenant shall be responsible for all repairs (beyond ordinary wear and tear) made necessary by Tenant or its invitees, agents, employees, contractors or subcontractors, subject to the waivers contained in Section 12.3 below. Landlord acknowledges that Tenant shall have no obligation to repair or maintain any areas of the Building outside of the Premises, unless such repair or maintenance is required due to acts of Tenant or its invitees, agents, employees, contractors or subcontractors, subject to the waivers contained in Section 12.3 below. Excepting maintenance, repairs or replacements required due to the negligence or willful misconduct of Landlord, its agents, employees, contractors and subcontractors, Tenant acknowledges that Landlord shall have no obligation to maintain, repair or replace any Cabling. Tenant shall, at Tenant's expense, contract with a reputable licensed contractor to maintain the Cabling. Landlord shall have no obligation to alter, remodel, improve, repair, decorate or paint the Premises except as specifically set forth in this Lease. Under no circumstances shall Tenant make any repairs to the Building or to the mechanical, electrical or heating, ventilating, air conditioning, fire sprinkler or energy management control systems of the Premises or the Building, unless such repairs are previously approved in writing by Landlord. Except as otherwise expressly set forth in this Lease, Tenant waives the provisions of 1931(1), 1941 and 1942 of the California Civil Code, and any similar or successor law regarding Tenant's right to make repairs and deduct expenses of such repairs from the Rent due under this Lease.

7.2 **By Landlord**. Landlord shall be responsible for maintaining and repairing all structural portions of the Building, and shall maintain and repair the roof, ceiling, slabs, curtain wall, exterior glass and mullions, columns, beams and shafts (including any elevator shafts, as applicable), stairs, stairwells, parking facilities, elevator(s) and elevator cabs (as applicable), mechanical closets, washrooms, sidewalls, and foundations of the Building (collectively, "**Building Structure**") in good, clean and safe condition and repair. Landlord shall maintain all landscaping, driveways, fences, signs, sidewalks, curbs and the other Common Areas immediately adjoining the Building. Landlord shall be responsible for maintenance and repair of all mechanical, life safety, sprinkler, plumbing, heating, electrical (including electrical closets), air conditioning and ventilation systems (collectively, "**Building Systems**"). Except as otherwise provided in this Lease, Landlord shall have no liability to Tenant, nor shall Tenant's obligations under this Lease be reduced or abated in any manner whatsoever by reason of any inconvenience, annoyance, interruption or injury to business arising from Landlord making any repairs or changes which Landlord is required or permitted by this Lease or by any other tenant's lease or required by applicable Laws to make to any portion of the Building or the Premises. Landlord shall use reasonable efforts to minimize any interference with Tenant's business at the Premises, but Landlord shall not be required to have work done during other than Business Hours. If Tenant fails to maintain the Premises as required in Section 7.1, Landlord may give Tenant 30 days' written notice to do such acts as are reasonably required to so maintain the Premises. If Tenant fails to promptly commence such work within such time period and diligently prosecute it to completion, then Landlord shall have the right to do such acts and expend such funds at the expense of Tenant as are reasonably required to perform such work. Any amount so expended by Landlord shall be paid by Tenant promptly after demand with interest from the date of such work at the lesser of 10% per annum or the highest rate legally permitted. Landlord shall have no liability to Tenant for any damage, inconvenience, or interference with the use of the Premises by Tenant as the result of performing any such work. All repairs, maintenance work, and alterations performed by Landlord shall be performed in accordance with applicable Laws. Notwithstanding anything in this Section 7.2 or the Lease to the contrary and except as provided in Sections 14 and 15 below, in the event Tenant's access to or use, enjoyment and occupancy of the Premises is impaired by reason of the negligence or intentional acts or omissions of Landlord or its agents or employees (including, but not limited to, the failure to maintain the Premises or the Building pursuant to this Section 7.2 or to provide the services required under Section 9.1 below), then the payment of Rent shall be abated to the extent of and during the period of such impairment. Tenant shall provide Landlord with prompt written notice of any such impairment, including, without limitation, a detailed description of the portion(s) of the Premises affected and the alleged cause thereof (the "**Impairment Notice**"). Furthermore, if such impairment is substantial and continues for a period of sixty (60) days or more following Landlord's receipt of the Impairment Notice, then in addition to any other rights or remedies which Tenant may have at law or in equity, Tenant shall have the right to terminate the Lease by written notice to Landlord within five (5) days of the end of such 60-day period; provided, however, Tenant shall have no right to terminate this Lease if Landlord begins to cure such impairment within such sixty (60) day period and thereafter continues to diligently prosecute such cure to completion. As used herein, the following terms shall have the following meanings: (i) Tenant's access to or use, enjoyment and occupancy of the Premises shall be deemed "impaired" if for a period of ten (10) consecutive days following Landlord's receipt of the Impairment Notice it shall be impossible or commercially impracticable for Tenant to conduct business from the Premises or any portion thereof and Tenant does not use the Premises or such portion thereof; (ii) such impairment shall be deemed to be caused by the "negligence or

intentional acts or omissions of Landlord or its agents or employees" to the extent that such impairment results from an intentional act or a negligent act or omission of Landlord or its agents or employees (including, but not limited to, the failure to maintain the Premises or the Building pursuant to this Section 7.2 or to provide the services required under Section 9.1 below); and (iii) an impairment shall be deemed to be "substantial" if more than twenty-five percent (25%) of the Premises becomes untenantable or unusable under the foregoing standards and Tenant does not use such portion of the Premises. In addition, if Landlord fails to undertake and complete all necessary maintenance or repairs as required under this Lease then thirty (30) days after written request (or such longer period as is necessary if the repair cannot be reasonably completed within the thirty (30) day period and Landlord promptly commences and is diligently pursuing completion of such repair), Tenant shall have the right, to undertake and complete such maintenance or repairs at Landlord's cost and expense. In addition, in the event such a failure results in a material interference with Tenant's operation of its business, and Landlord does not immediately, after written notice from Tenant, commence, and with all due diligence, continue the cure of such failure, including taking any immediate steps necessary to lessen the impact on Tenant's business, Tenant shall have the right to undertake and complete such maintenance or repairs at Landlord's cost and expense. Landlord shall be responsible for payment of all reasonable costs and expenses incurred by Tenant in connection with the exercise of its rights under this Section. Landlord shall have thirty (30) days from receipt of said invoice(s) and reasonable supporting documentation for such costs to make payment in full. In the event Landlord fails to tender full payment within said thirty (30) day period, Tenant may thereafter begin to offset all Rent due under this Lease until the entire cost has been recovered.

8. LIENS.

8.1 Tenant shall keep the Premises and the Land free from any liens arising out of any work performed, materials furnished, or obligations incurred by Tenant. Landlord may, at its election, and upon 10 days' written notice to Tenant, remove any liens, in which case Tenant shall pay to Landlord the cost of removing the lien, including reasonable attorneys' fees. Landlord shall have the right at all times to post on the Premises any notices permitted or required by law for the protection of Landlord, the Premises, the Building or the Land from mechanics' and materialmen's liens. To the extent a lien arises out of any work performed, materials furnished, or obligations incurred by Tenant, Tenant shall have thirty (30) days to remove such lien, or provide a bond to Landlord in an amount sufficient to satisfy the lien.

9. UTILITIES AND SERVICES.

9.1 **To Be Furnished by Landlord**. Landlord shall operate the Building to a standard or quality consistent with that of other office projects in the Rancho Cordova area and shall, at Landlord's sole cost, (i) provide janitorial service to the Premises on a five day a week basis (excepting the holidays described in the Basic Lease Information), (ii) supply public restroom supplies, public area lamp replacement, window washing (two times per year), and janitor services to the Common Areas during the time and in the manner that such janitor services are customarily furnished in office buildings in the area, (iii) replace Building standard lamps, starters and ballasts (all nonstandard lighting within the Premises shall be the responsibility of Tenant). Landlord agrees to furnish to the Premises, subject to the conditions and in accordance with the standards set forth in this Lease, adequate quantities of electric

current for normal lighting and fractional horsepower office machines, water for lavatory and drinking purposes (hot and prevailing temperature), and heat and air conditioning ("**HVAC**") required for the comfortable use and occupation of the Premises. Tenant agrees that Landlord may impose a reasonable charge for the use of any additional or unusual janitorial services required by Tenant's use of the Premises for other than the Permitted Use. Landlord shall not be obligated to service, maintain, repair or replace any system or improvement in the Premises that has been installed by Tenant or at the direction of Tenant or at Tenant's expense, or which is a specialized improvement requiring additional or extraordinary maintenance or repair (by way of example only, if the standard premises in the Building contain fluorescent light fixtures, Landlord's obligation shall be limited to the replacement of fluorescent light tubes, irrespective of any incandescent fixtures that may have been installed in the Premises at Tenant's expense). Landlord shall not be liable for, and, except as otherwise expressly set forth in this Lease, Tenant shall not be entitled to, any abatement or reduction of Rent by reason of Landlord's failure to furnish any of the foregoing when such failure is caused by accident, breakage, repairs, strikes, lockouts or other labor disturbances or labor disputes of any character or for any other causes; provided, however, Landlord shall use its reasonable efforts to cause such services to be restored as soon as possible. Tenant hereby waives the provisions of California Civil Code Section 1932(1) or any other applicable existing or future law, ordinance or governmental regulation permitting the termination of this Lease due to the interruption or failure of any services to be provided under this Lease.

9.2 **Tenant Obligations**.

9.2.1 **Cost of Utilities**. Tenant shall pay Landlord, within thirty (30) days after receiving an invoice therefor, Tenant's pro-rata share of the cost of all utilities serving the Building, including, electrical and gas (including as necessary to provide power for the HVAC systems), water, sewer, and garbage services. Landlord and Tenant acknowledge that the electrical and gas service to the Premises is separately sub-metered from the balance of the Facility.

9.2.2 **HVAC Modifications**. If the temperature otherwise maintained in any portion of the Premises by the HVAC systems of the Building is affected by reason of any lights, machines or equipment used in the Premises in excess of the utilities provided to the Premises, or by the occupancy of the Premises by more persons than are contemplated by the design criteria of the HVAC systems, then Landlord shall have the right to install machines or equipment that Landlord reasonably deems necessary to restore temperature balance, including modifications to the standard air-conditioning equipment and electrical systems serving the Premises. The cost of any such equipment and modifications, including the cost of installation and any additional cost of operation and maintenance of the same, shall be paid by Tenant to Landlord upon demand.

9.2.3 **Restrictions Regarding Connections**. Tenant shall not, without the prior consent of Landlord, connect to the utility systems of the Building any apparatus, machinery or other equipment except typical office machines and devices, including but not limited to: electric typewriters, word processors, and office-size photocopiers, computers, and servers. Nor shall Tenant, without the prior written consent of Landlord, connect to any electrical circuit in the Premises any apparatus or equipment with power requirements that exceed the designed electrical capacity of the Premises. Tenant shall not, without the prior consent of Landlord,

connect to any dedicated electrical circuit in the Premises electrical apparatus or equipment of any type having in the aggregate electrical power requirements in excess of eighty percent (80%) of the rating for the applicable fuse(s) or circuit breaker(s). Notwithstanding Landlord's consent to such excess loading of circuits, Tenant shall pay the cost of any additional or above-standard capacity electrical circuits necessitated by such excess loading circuits and the installation thereof.

10. ASSIGNMENT AND SUBLETTING.

10.1 **Requirement of Landlord Consent**. Tenant shall not, without the prior written consent of Landlord, which consent Landlord may withhold arbitrarily, capriciously, and without reason: (i) assign, mortgage, pledge, encumber or otherwise transfer this Lease, the term or estate hereby granted, or any interest hereunder; (ii) permit the Premises or any part thereof to be utilized by anyone other than Tenant (whether as concessionaire, franchisee, licensee, permittee or otherwise); or (iii) except as hereinafter provided, sublet or offer or advertise for subletting the Premises or any part thereof. Any assignment, mortgage, pledge, encumbrance, transfer or sublease without Landlord's consent shall be voidable and, at Landlord's election, shall constitute a default.

Notwithstanding the foregoing and Sections 10.2 and 10.3 below, Tenant may assign this Lease or sublet the Premises or a portion thereof, upon receipt of Landlord's consent, which consent shall not be unreasonably withheld, to a Tenant Affiliate (defined below) provided that (a) the assignee or subtenant assumes, in full, the obligations of Tenant under this Lease, (b) Tenant remains fully liable under this Lease, (c) the use of the Lease by such transferee conforms with the requirements of this Lease, and (d) if Tenant is no longer a viable operating business, the proposed transferee shall have a net worth which is not less than $50 million. Provided that Tenant is a corporation, and (x) the stock of Tenant is traded on a national exchange, the transfer of stock in Tenant shall not be considered an assignment, sublease or transfer under the Lease, or (y) the stock of Tenant is not traded on a national exchange, the collective transfer of 30% or less of such stock shall not be considered an assignment, sublease or transfer under this Lease, provided such transfer (together with all other transfers during the Term) does not result in a change in control of Tenant. The term "**Tenant Affiliate**" means any entity which acquires all or part of Tenant, or which is acquired in whole or in part by Tenant, or which is controlled directly or indirectly by Tenant, or which entity controls, directly or indirectly, Tenant, or which owns or is owned by Tenant Affiliate. Without limiting the transferability of any of Tenant's options or expansion rights under the Lease, Landlord expressly acknowledges and agrees that such options or expansion rights shall be exercisable by any Tenant Affiliate, provided this Lease has been assigned to such Tenant Affiliate in accordance with the terms and provisions of this Section 10.

10.2 **Transfer Notice**. If at any time or from time to time during the Term of this Lease or during any Option Term, Tenant desires to assign this Lease, or to sublet all or any part of the Premises (as the same may be expanded from time to time), then at least ten (10) days prior to the date when Tenant desires the assignment or subletting to be effective (the "**Transfer Date**"), Tenant shall give Landlord a notice (the "**Transfer Notice**") which shall set forth the name, address and business of the proposed assignee or subtenant, information (including financial statements and references) concerning the proposed assignee or subtenant, and in the

case of a proposed sublease, a detailed description of the space proposed to be sublet, which must be a single, self-contained unit (the "Space"), any rights of the proposed assignee or subtenant to use Tenant's improvements and the like, the Transfer Date, and the fixed rent and/or other consideration and all other material terms and conditions of the proposed assignment or subletting, all in such detail as Landlord may reasonably require. If Landlord promptly requests additional detail, the Transfer Notice shall not be deemed to have been received until Landlord receives such additional detail.

10.2.1 **Landlord Consent**. Landlord shall grant or withhold its consent to a proposed assignment or sublease within twenty (20) days following Landlord's receipt of the Transfer Notice. The failure of Landlord to deliver written notice of such determination within such time period shall be deemed Landlord's disapproval of the proposed assignment or sublease. Landlord may withhold its consent to a proposed assignment or sublease arbitrarily, capriciously, and without reason.

10.3 **Conditions if Landlord Consents**. Provided Landlord has consented to such assignment or subletting, Tenant shall be entitled to enter into such assignment or sublease with the third party identified in the Transfer Notice subject to the following conditions:

10.3.1 **No Default**. At the time of the Transfer Notice, no event of default under this Lease shall have occurred and be continuing beyond any applicable notice and cure period;

10.3.2 **Conformity to Transfer Notice**. The assignment or sublease shall be on substantially the same terms set forth in the Transfer Notice given to Landlord;

10.3.3 **Delivery of Assignment or Sublease**. No assignment or sublease shall be valid and no assignee or sublessee shall take possession until an executed counterpart of the assignment or sublease has been delivered to Landlord;

10.3.4 **Further Assignment or Sublease**. No assignee or sublessee shall have a right further to assign or sublet without Landlord's consent in each instance, which consent in the case of a future assignment or sublease Landlord may withhold arbitrarily, capriciously, and without reason;

10.3.5 **Assignee Assumption**. Any assignee shall have signed and delivered to Landlord a written assumption of the obligations of Tenant under this Lease in a form reasonably acceptable to Landlord;

10.3.6 **Subtenant Compliance**. Any subtenant shall have agreed in writing to comply with all applicable terms and conditions of this Lease with respect to the Space;

10.3.7 **Excess Rent**. In the event Tenant sublets all or any portion of the Premises, other than to a Tenant Affiliate**,** Tenant shall deliver to Landlord 50% of any Excess Rent (as hereinafter defined) within thirty (30) days after Tenant's receipt pursuant to such subletting. As used herein, "**Excess Rent**" shall mean any sums or economic consideration per square foot of the Premises received by Tenant pursuant to such subletting in excess of the amount of the Rent per square foot of the Premises payable by Tenant under this Lease applicable to the part or parts of the Premises so sublet; provided, however, that no Excess Rent

shall be payable until Tenant shall have recovered therefrom all of its commercially reasonable costs incurred by Tenant in conjunction with such sublease, including but not limited to: brokerage commissions, reasonable improvement costs, reasonable rent concessions, reasonable attorneys fees, and reasonable marketing fees; and

10.3.8 **Excess Payment**. In the event Tenant assigns this Lease, other than to a Tenant Affiliate**,** Tenant shall deliver to Landlord 50% of any Excess Payment within thirty (30) days of Tenant's receipt thereof pursuant to such assignment. As used herein, "**Excess Payment**" shall mean the amount of payment received for such assignment of this Lease in excess of the Rent payable by Tenant under this Lease; provided, however, that no Excess Payment shall be payable until Tenant shall have recovered therefrom all of its commercially reasonable costs incurred by Tenant in conjunction with such assignment, including but not limited to: brokerage commissions, rent concessions, reasonable attorneys fees, and reasonable marketing fees.

10.4 **No Relief of Tenant**. No subletting or assignment shall release Tenant of Tenant's obligations under this Lease or alter the liability of Tenant to pay the Rent and to perform all other obligations to be performed by Tenant hereunder. The acceptance of Rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease. Consent to one assignment or subletting shall not be deemed consent to any subsequent assignment or subletting. In the event of default by an assignee or subtenant of Tenant or any successor of Tenant in the performance of any of the terms hereof, Landlord may proceed directly against Tenant without the necessity of exhausting remedies against such assignee, subtenant or successor. Landlord may consent to subsequent assignments of the Lease or sublettings or amendments or modifications to the Lease with assignees of Tenant, after notifying Tenant, or any successor of Tenant, and after obtaining its or their consent and any such actions shall not relieve Tenant of liability under this Lease.

11. DEFENSE and INDEMNITY, WAIVERS, AND LIMITATIONS.

11.1 **Defense and Indemnity**. The provisions of this Section 11.1 are in addition to indemnity provisions elsewhere in this Lease. Subject to the provisions of Section 12.3 below and to the extent not funded and paid to Landlord by any insurance maintained by Tenant, Tenant shall indemnify, defend and hold harmless Landlord against and from any and all claims, damages, liabilities, and expenses (including reasonable attorneys' fees) to the extent arising from Tenant's use of the Premises or from any activity, work or other thing done, permitted or suffered by Tenant in or about the Building or Land, and shall further indemnify, defend and hold harmless Landlord against and from any and all claims to the extent arising from (i) any breach or default in the performance of any obligation on Tenant's part to be performed under the terms of this Lease, (ii) from any negligence or willful misconduct of Tenant, or any officer, agent or employee of Tenant, (iii) any claim by any person that if brought against Tenant would be covered by the workers' compensation and employer's liability insurance required to be carried by Tenant, and (iv) from all and against all reasonable cost, attorney's fees, expenses and liabilities incurred in or about any such claim or any action or proceeding brought thereon, and, if any case, action or proceeding be brought against Landlord by reason of any such claim, Tenant upon notice from Landlord shall defend the same at Tenant's expense by counsel selected by Tenant and approved in writing by Landlord such approval not to be unreasonably withheld

or delayed. Notwithstanding the preceding sentence, such indemnification by Tenant and such assumption and waiver of claims shall not include damage or injury to the extent caused by the negligence or willful misconduct of Landlord, its agents, employees or contractors.

Subject to the provisions of Section 12.3 below and to the extent not funded and paid to Tenant by any insurance maintained by Landlord, Landlord shall indemnify, defend and hold harmless Tenant against and from any and all claims, damages, liabilities, and expenses (including reasonable attorneys' fees) to the extent arising from (i) the negligence or willful misconduct of Landlord or Landlord's officers, agents, or employees, (ii) any breach or default in the performance of any obligation on Landlord's part to be performed under the terms of this Lease, and (iii) from all and against all reasonable cost, attorney's fees, expenses and liabilities incurred in or about any such claim or any action or proceeding brought thereon and, if any case, action or proceeding be brought against Tenant by reason of any such claim, Landlord upon notice from Tenant shall defend the same at Landlord's expense by counsel selected by Landlord and approved in writing by Tenant such approval not to be unreasonably withheld or delayed. Notwithstanding the preceding sentence, the foregoing indemnity by Landlord shall not be applicable to claims to the extent arising from the negligence or willful misconduct of Tenant or Tenant Parties (as such term is defined below).

11.2 **Waivers and Limitations**.

11.2.1 **Waivers**.

11.2.1.1 To the fullest extent permitted by law, Tenant, on its behalf and on behalf of (if Tenant is a corporation or limited liability company: its shareholders or members, officers, directors; if Tenant is a partnership: its constituent partners,) its employees, agents, and contractors (collectively and including Tenant, "**Tenant Parties**") waives all claims (in law, equity or otherwise) against Landlord or any of its constituent partners, or their officers, directors, partners, employees or agents (collectively and including Landlord, "**Landlord Parties**") arising out of, and agrees that Landlord Parties shall not be liable to Tenant Parties for, any of the following: (i) injury to or death of any person; or (ii) loss of, injury or damage to, or destruction of any tangible or intangible property, including the resulting loss of use, economic losses and consequential or resulting damage of any kind from any cause. This exculpation clause shall not apply to claims against Landlord Parties to the extent that the injury, loss, damage or destruction was proximately caused by Landlord Parties' fraud, negligence or willful injury to person or property.

11.2.1.2 Neither Landlord nor any Landlord Parties shall be liable for and there shall be no abatement of rent for (i) loss of or damage to any property by theft or any other wrongful or illegal act, or (ii) any injury or damage to persons or property resulting from fire, explosion, wind, earthquake, falling plaster, steam, gas, electricity, flood, water or rain which may leak from any part of the Building or Land or from the pipes, appliances, appurtenances or plumbing works therein or from the roof, street or sub-surface or from any other place or resulting from dampness or from the acts or omissions of other tenants, occupants or other visitors to the Building or Land, or (iii) any diminution or shutting off of light, air or view by any structure which may be erected on lands adjacent to the Building except to the extent that any of the loss, injury, or damage described in subsections (i) and (ii) above is caused

by, or is a result of, the Landlord's or Landlord Parties' negligence or intentional misconduct. Tenant shall give prompt notice to Landlord in the event of (x) the occurrence of a fire or accident in the Premises or in the Building, or (y) the discovery of any defect therein or in the fixtures or equipment thereof.

11.2.2 **Limitations**.

11.2.2.1 Notwithstanding any other provision of this Lease and except as provided in Section 23 below, Landlord and Tenant agree that in no event shall either party be responsible or liable to the other party on any theory for any loss of profits or income (other than Rent), damage to business or any form of special, indirect or consequential damage.

11.2.2.2 Notwithstanding any other provision of this Lease, the term "**Landlord**" means the owner of fee title to the Premises at the time in question. In the event of any transfer of Landlord's title or interest in the Premises, the Building, or this Lease, Landlord herein named (and in case of any subsequent transfers then the grantor) shall be relieved from and after the date of such transfer of all liability as respects Landlord's covenants and obligations thereafter to be performed, except for any funds in the hands of Landlord or the then grantor at the time of such transfer, in which Tenant has an interest which are not delivered to the grantee. The obligations and/or covenants contained in this Lease to be observed and/or performed by Landlord shall, subject to the foregoing provisions, be binding on Landlord's successors and assigns, but only as they are to be observed and performed by the original Landlord and any such grantor during their respective periods of ownership.

11.2.2.3 In consideration of the benefits accruing hereunder, Tenant and all successors and assigns covenant and agree that, in the event of any actual or alleged failure, breach or default hereunder by Landlord: (i) no partner, member, stockholder, director, officer, employee, beneficiary or trustee (collectively, "**Partner**") of Landlord shall be sued or named as a party in any suit or action (except as may be necessary to secure jurisdiction over Landlord); (ii) no service of process shall be made against any Partner of Landlord (except as may be necessary to secure jurisdiction over Landlord); (iii) no Partner of Landlord shall be required to answer or otherwise plead to any service of process; (iv) no judgment will be taken against any Partner of Landlord; (v) any judgment taken against any Partner of Landlord may be vacated and set aside at any time nunc pro tunc; (vi) no writ of execution will ever be levied against the assets of any Partner of Landlord; and (vii) these covenants and agreements are enforceable both by Landlord and also by any Partner of Landlord.

12. INSURANCE.

12.1 **Landlord's Insurance**.

12.1.1 **Property Insurance**. Landlord shall obtain and keep in force during the term of this Lease a policy or policies of commercial property coverage (including the Tenant Improvements of a structural nature) for full replacement cost and "All Risk" insurance in the name of Landlord, with loss payable to Landlord and/or to any lenders having a lien on the Project or any part of it, covering loss or damage to the Project (but not Tenant's personal property, fixtures, equipment, improvements or Alterations) in an amount not to exceed the full

replacement cost thereof and with commercially reasonable deductibles, providing protection against all perils included within the classification of fire, extended coverage, vandalism, malicious mischief, special extended perils ("special form", as such term is used in the insurance industry), plate glass insurance if Landlord so elects, and, if required by a lender having a lien on all or part of the Project, flood, earthquake and earthquake caused sprinkler leakage, and such other insurance as Landlord reasonably deems advisable.

12.1.2 **Rental Interruption Insurance**. Landlord shall obtain and keep in force during the term of this Lease, a policy of rental value (rental interruption) insurance in the name of Landlord with loss payable to Landlord and/or any lender(s) having a lien on the Building. The amount of such insurance shall be no less than the Base Rent and Additional Rent payable by all tenants of the Building for a period of one year reduced by Base Rent and Additional Rent payable by tenants, if any, who waive any rent abatement with respect to loss or damage to its Premises and/or the Building.

12.1.3 **General Liability Insurance**. Landlord shall carry Commercial General Liability insurance covering bodily injury and property damage liability in the amount of $2,000,000 per occurrence/$5,000,000 aggregate and excess liability insurance that are reasonably obtained and in limits the Landlord deems appropriate.

12.1.4 **Limits of Insurance Coverage**. Landlord, at Landlord's option, may also (but shall have no obligation to) carry such other insurance as Landlord or Landlord's lender (if any) may deem prudent or advisable with respect to the Project, in such amounts and on such terms as Landlord shall determine. Landlord shall not be obligated to insure, and shall have no responsibility whatsoever for any damage to, any furniture, machinery, goods, inventory or supplies, or other personal property or fixtures which Tenant may keep or maintain in the Premises, additions or Alterations within the Premises, or any leasehold improvements installed by or at the expense of Tenant.

12.2 **Tenant's Insurance**. Tenant shall procure at Tenant's sole cost and expense and keep in effect from the date of this Lease and at all times until the end of the Term the following:

12.2.1 **Property Insurance.** Insurance on an "All Risk" basis on all personal property, fixtures, equipment, Alterations or leasehold improvements installed by or at the expense of Tenant, insuring such property for the full replacement value of such property.

12.2.2 **Liability Insurance.** Commercial General Liability insurance covering bodily injury and property damage liability occurring in or about the Premises or arising out of the use and occupancy of the Premises and the Building, and any part of either, and any areas adjacent thereto, and the business operated by Tenant or by any other occupant of the Premises. Such insurance shall include contractual liability insurance coverage insuring all of Tenant's indemnity obligations under this Lease per the terms of such insurance policies. Such coverage shall have a minimum combined single limit of liability of at least Two Million Dollars ($2,000,000.00), and a minimum general aggregate limit of Five Million Dollars ($5,000,000.00), with an "Additional Insured – Managers or Lessors of Premises Endorsement." All such policies shall be written to apply to all bodily injury (including death), property damage or loss, personal and advertising injury and other covered loss, however occasioned, occurring

during the policy term, shall be endorsed to add Landlord and at Landlord's request the named mortgagee of Landlord, as an additional insured, and shall provide that such coverage shall be "primary" and non-contributing with any insurance maintained by Landlord as to the negligent acts of omissions of Tenant's employees, agents and contractors, which shall be excess insurance only. All such insurance shall provide for the severability of interests of insureds; and shall be written on an "occurrence" basis, which shall afford coverage for all claims based on acts, omissions, injury and damage, which occurred or arose (or the onset of which occurred or arose) in whole or in part during the policy period.

12.2.3 **Workers' Compensation and Employers' Liability Insurance.** Workers' Compensation Insurance as required by any Applicable Requirement, and Employers' Liability Insurance in amounts not less than One Million Dollars ($1,000,000) each accident for bodily injury by accident; One Million Dollars ($1,000,000) policy limit for bodily injury by disease; and One Million Dollars ($1,000,000) each employee for bodily injury by disease.

12.2.4 **Alterations Requirements. [INTENTIONALLY OMITTED]**

12.2.5 **Increases in Coverage/Amount**. If at any time during the Term the amount or coverage of insurance which Tenant is required to carry under this Section 12.2 is, in Landlord's reasonable judgment, materially less than the amount or type of insurance coverage typically required of or carried by tenants (with credit similar to Tenant) of properties located in Rancho Cordova which are similar to and operated for similar purposes as the Premises or if Tenant's use of the Premises should change with or without Landlord's consent, Landlord shall have the right, no earlier than five (5) years following the Commencement Date and once every five (5) years thereafter (except that if Tenant's use of the Premises has changed, then at any time within ninety (90) days following Landlord's receipt of notice of such change in use), to require Tenant to increase the amount or change the types of insurance coverage required under this Section 12.2 to conform to such typical amounts or types of insurance.

12.2.6 **General Insurance Requirements.** All coverages described in this Section 12.2 shall be endorsed to (i) endeavor to provide Landlord with 30 days' notice (or, 10 days in the event of non-payment of premium) of cancellation or material change in terms; and (ii) waive all rights of subrogation by the insurance carrier against Landlord. All insurance policies required to be carried by Tenant under this Lease shall be written by companies rated A-VII or better in "Best's Insurance Guide" and authorized or approved to do business in the State of California (admitted). Tenant shall deliver to Landlord on or before the Commencement Date, and thereafter at least 30 days before the expiration dates of the policies, copies of certificates of insurance for Tenant's insurance policies. If Tenant shall fail to procure such insurance, or to deliver such certificates after ten (10) days prior written notice from Landlord to Tenant, Landlord may, at Landlord's option and in addition to Landlord's other remedies in the event of a default by Tenant hereunder, procure the same for the account of Tenant, and the cost thereof shall be paid to Landlord as Additional Rent.

12.3 **Subrogation Waivers**. Landlord and Tenant each waives any claim, loss or cost it might have against the other for any damage to or theft, destruction, loss, or loss of use of any property, to the extent the same is insured against (or is required to be insured against under the terms hereof) under any property damage insurance policy covering the Building, the Premises,

Landlord's or Tenant's fixtures, personal property, leasehold improvements, or business, regardless of whether the negligence of the other party caused such damage to or theft, destruction, loss, or loss of use. Each party will give its insurance carrier written notice of the terms of such mutual waiver, and the insurance policies will be properly endorsed, if necessary, to prevent the invalidation of coverage by reason of said waiver. In the event of a conflict between this Section 12.3 and any other provision of this Lease, the terms of this paragraph shall control.

13. TAXES ON TENANT'S PROPERTY.

Tenant shall pay, or cause to be paid, before delinquency, any and all taxes levied or assessed and which become payable during the Term upon all Tenant Improvements, Tenant's leasehold improvements, Alterations, equipment, furniture, fixtures, and personal property located in the Premises, except that which has been paid for by Landlord and is the standard of the Building ("**Tenant's Property**"). In the event any or all of the Tenant's Property shall be assessed and taxed with the Building, Tenant shall pay to Landlord its share of such taxes within 30 days after delivery to Tenant by Landlord of a statement in writing setting forth the amount of such taxes applicable to Tenant's Property with supporting documentation. Tenant shall pay directly to the party or entity entitled thereto all business license fees, gross receipts taxes and similar taxes and impositions which may from time to time be assessed against or levied upon Tenant, as and when the same become due and before delinquency.

14. DAMAGE OR DESTRUCTION.

14.1 **General.** If the Premises or Building should be damaged or destroyed by fire, tornado, or other casualty (collectively, "**Casualty**"), Tenant shall give immediate written notice thereof to Landlord. Within 30 days after Landlord's receipt of such notice, Landlord shall notify Tenant whether in Landlord's reasonable estimation material restoration of the Premises can reasonably be made within 270 days from the date of such notice. Landlord's determination shall be binding on Tenant. If the Premises are untenantable in whole or in part following such damage, the Rent payable hereunder during the period in which they are untenantable shall be abated proportionately.

14.2 **Within 270 Days.** If the Premises or Building should be damaged by Casualty to such extent that material restoration can in Landlord's estimation be reasonably completed within 270 days after the date of such notice, this Lease shall not terminate. Provided that insurance proceeds are received by Landlord to fully repair the damage (or, in the event Landlord fails to maintain the insurance required of Landlord by this Lease, would have been received had Landlord maintained the insurance required of Landlord by this Lease), Landlord shall proceed to rebuild and repair the Premises diligently and in the manner determined by Landlord, including restoration and replacement of any Tenant Improvements paid for by Landlord; provided, however, Landlord shall not be required to rebuild, repair or replace any part of any Alterations which may have been placed on or about the Premises or paid for by Tenant.

14.3 **Greater than 270 Days.** If the Premises or Building should be damaged by Casualty to such extent that rebuilding or repairs cannot in Landlord's estimation be reasonably completed within 270 days after the date of such notice, then Landlord shall have the option of

either: (i) terminating this Lease effective upon the date of the occurrence of such damage, in which event the Rent shall be abated during the unexpired portion of this Lease; or (ii) electing to rebuild or repair the Premises diligently and in the manner determined by Landlord. Landlord shall notify Tenant of its election within 30 days after Landlord's receipt of notice of the damage or destruction. If Landlord elects to rebuild or repair pursuant to this Section 14.3, Landlord shall restore and replace any of the Tenant Improvements paid for by Landlord; provided, however, Landlord shall not be required to rebuild, repair or replace any part of any Alterations which may have been placed on or about the Premises or paid for by Tenant. If Landlord elects to rebuild the Premises and provides such written notice to Tenant, Tenant shall have the option to terminate this Lease effective upon the date of the occurrence of such damage, in which event the Rent shall be abated during the unexpired portion of this Lease. Such option shall be exercised, if at all, by notice from Tenant to Landlord within 15 days after Tenant's receipt of Landlord's notice of Landlord's election to rebuild.

14.4 **Tenant's Fault.** Notwithstanding anything herein to the contrary, if the Premises or any other portion of the Building are damaged by Casualty resulting from the negligence or intentional misconduct of Tenant or any of Tenant's Parties, (i) with respect to any portion of Rent that is not covered by the rental interruption insurance proceeds received by Landlord (or would have been received had Landlord maintained rental interruption insurance as required by this Lease), Base Rent and Additional Rent shall not be diminished during the repair of such damage, and (ii) Tenant shall be liable to Landlord for the cost and expense of the repair and restoration of the Building caused thereby to the extent such cost and expense is not covered by insurance proceeds received by Landlord (or would have been received had Landlord maintained the insurance required of Landlord by this Lease). In the event Tenant is liable to Landlord pursuant to the preceding sentence, Tenant's liability shall also include Tenant's payment of Landlord's deductible under the property insurance policy required to be maintained by Landlord pursuant to this Lease.

14.5 **Insurance Proceeds.** Notwithstanding anything herein to the contrary, if the Premises or Building are damaged or destroyed and are not fully covered by the insurance proceeds received by Landlord (or, in the event Landlord fails to maintain the insurance required of Landlord by this Lease, would have been received had Landlord maintained the insurance required of Landlord by this Lease), or if the holder of any indebtedness secured by a mortgage or deed of trust covering the Premises requires that the insurance proceeds be applied to such indebtedness, then in either case Landlord shall have the right to terminate this Lease by delivering written notice of termination to Tenant within 30 days after the date of notice to Landlord that said damage or destruction is not fully covered by insurance or such requirement is made by any such holder, as the case may be, whereupon this Lease shall terminate.

14.6 **Waiver.** This Section 14 shall be Tenant's sole and exclusive remedy in the event of damage or destruction to the Premises or the Building. With respect to any damage which Landlord is obligated to repair or elects to repair, Tenant, as a material inducement to Landlord entering into this Lease, irrevocably waives and releases its rights under the provisions of Sections 1932 and 1933 of the California Civil Code.

14.7 **Tenant's Personal Property.** In the event of any damage or destruction of the Premises or the Building, under no circumstances shall Landlord be required to repair any injury or damage to, or make any repairs to or replacements of, Tenant's personal property.

15. CONDEMNATION.

15.1 **Condemnation**. The words "**Condemnation**" or "**Condemned**" as used herein shall mean the taking for any public or quasi-public use under any governmental law, ordinance, or regulation, or the exercise of, or the intent to exercise, the power of eminent domain, expressed in writing, as well as the filing of any action or proceeding for such purpose, by any person, entity, body, agency, or authority having the right or power of eminent domain, and shall include a voluntary sale by Landlord to any such person, entity, body agency or authority, either under threat of condemnation expressed in writing or while condemnation proceedings are pending, and shall occur in point of time upon the actual physical taking of possession pursuant to the exercise of said power of eminent domain.

15.2 **Condemnation Resulting in Termination.** If the whole of the Premises or the Building should be taken or condemned for any public use, or by right of eminent domain, or by sale in lieu thereof, either party shall have the right to terminate this Lease at its option. If a material portion (but less than substantially the whole) of the Building, Premises, or Project is so taken or sold, this Lease shall be unaffected by such taking, provided that (i) Tenant shall have the right to terminate this Lease by written notice to Landlord given within (90) days after the date of such taking if twenty percent (20%) or more of the Premises is taken and the remaining area of the Premises is not reasonably sufficient for Tenant to continue operation of its business, any portion of the Building or Land is so taken or sold and such taking or sale materially and adversely affects Tenant's access to the Premises, or the Parking Facilities serving the Premises are materially reduced such that Tenant no longer has use of a reasonably sufficient number of parking spaces, and (ii) Landlord (whether or not the Premises are affected thereby) may terminate this Lease by giving written notice thereof to Tenant within seventy-five (75) days after such taking. If either party elects to terminate this Lease pursuant to this Section 15.2, the Rent shall be abated during the unexpired portion of this Lease, effective when the physical taking of the applicable portion of the Project shall have occurred.

15.3 **Condemnation Not Resulting in Termination.** If a portion of the Building of which the Premises are a part should be taken or condemned for any public use under any regulation, or by right of eminent domain, or by private purchase in lieu thereof, and the taking prevents or materially interferes with the Permitted Use of the Premises, and this Lease is not terminated as provided in Section 15.2 above, the Rent payable hereunder during the unexpired portion of this Lease shall be reduced, beginning on the date when the physical taking shall have occurred, to such amount as may be fair and reasonable under all of the circumstances, but only after giving Landlord credit for all sums received or to be received by Tenant by the condemning authority. Notwithstanding anything to the contrary contained in this Section, if the temporary use or occupancy of any part of the Premises shall be taken or appropriated under power of eminent domain during the Term, this Lease shall be and remain unaffected by such taking or appropriation and Tenant shall continue to pay in full all Rent payable hereunder by Tenant during the Term; in the event of any such temporary appropriation or taking, Tenant shall be entitled to receive that portion of any award which represents compensation for the use of or occupancy of the Premises during the Term.

15.4 **Award.** Landlord shall be entitled to (and Tenant shall assign to Landlord) any and all payment, income, rent, award or any interest therein whatsoever which may be paid or made in connection with such taking or conveyance and Tenant shall have no claim against Landlord or otherwise for any sums paid by virtue of such proceedings, whether or not attributable to the value of any unexpired portion of this Lease. Notwithstanding the foregoing, any compensation specifically and separately awarded Tenant for Tenant's personal property and relocation expenses shall be and remain the property of Tenant, and this Section 15 shall not be deemed to restrict Tenant's right to pursue a separate award specifically for its relocation expenses or the taking of Tenant's personal property or trade fixtures.

15.5 **Waivers.** This Section 15 shall be Tenant's sole and exclusive remedy in the event of damage or destruction to the Premises or the Building. As a material inducement to Landlord entering into this Lease, Tenant hereby waives any and all rights it may have under; (i) any law, statute, ordinance or regulation (including Sections 1265.120 and 1265.130 of the California Code of Civil Procedure) to terminate or petition to terminate this Lease upon partial condemnation of the Premises or Building, and the parties hereto specifically agree that this Lease shall not automatically terminate upon condemnation.

15.6 **Sale in Lieu**. Subject to Tenant's rights pursuant to Section 15.4 above, Landlord may, without any obligation or liability to Tenant and without affecting the validity and existence of this Lease other than as hereafter expressly provided, agree to sell and/or convey to the condemner the Premises or portion thereof sought by the condemner, without first requiring that any action or proceeding be instituted, or if such action or proceeding shall have been instituted, without first requiring any trial or hearing thereof (and Landlord is expressly empowered to stipulate to judgment therein), free from this Lease and the rights of Tenant hereunder.

15.7 **Temporary Taking**. Notwithstanding Section 15.2 above, if a material portion of the Premises (or Common Areas or Parking Facilities serving the Premises) is condemned or otherwise taken for a period of less than one hundred twenty (120) days, this Lease shall remain in full force and effect and Tenant shall continue to perform all terms and covenants of this Lease; provided, however, Rent shall abate during such limited period in proportion to the portion of the Premises that is rendered unusable as a result of such condemnation or other taking to the extent the business interruption insurance Tenant is required to carry would not otherwise cover the Rent for such period.

16. DEFAULT.

16.1 **Tenant Default**. The occurrence of any one or more of the following events shall constitute a default and breach of this Lease by Tenant:

16.1.1 **Abandonment; Vacating**. The abandonment or vacating of the Premises by Tenant in each case, without payment of Rent.

16.1.2 **Failure to Pay**. The failure by Tenant to make any payment of Rent or any other payment required to be made by Tenant hereunder as and when due, which such failure shall continue for a period of five (5) days following Tenant's receipt of written demand from Landlord. The five (5) day notice described herein shall be in lieu of, and not in addition to, any notice required under Section 1161 of the California Civil Code of Procedure or any other law now or hereafter in effect requiring that notice of default be given prior to the commencement of an unlawful detainer or other legal proceeding.

16.1.3 **Failure to Perform**. Tenant's failure to observe or perform any of the covenants, conditions, or provisions of this Lease to be observed or performed by Tenant, other than as described in Section 16.1.1 or 16.1.2 above, where such failure shall continue for a period of thirty (30) days after written notice thereof by Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant commences such cure within such 30-day period and thereafter diligently prosecutes such cure to completion; provided that such cure shall not be in excess of ninety (90) days.

16.1.4 **General Assignment, Etc**. The making by Tenant of any general assignment or general arrangement for the benefit of creditors, or the appointment of a trustee or a receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within sixty (60) days, or the attachment, execution, or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where such seizure is not discharged in sixty (60) days.

16.1.5 **Bankruptcy**. The filing of any voluntary petition in bankruptcy by Tenant, or the filing of any involuntary petition by Tenant's creditors, which involuntary petition remains undischarged for a period of sixty (60) days. In the event that under applicable law the trustee in bankruptcy or Tenant has the right to affirm this Lease and perform the obligations of Tenant hereunder, such trustee or Tenant shall, in such time period as may be permitted by the bankruptcy court having jurisdiction, cure all defaults of Tenant hereunder outstanding as of the date of the affirmance of this Lease, and provide to Landlord such adequate assurances as may be necessary to ensure Landlord of the continued performance of Tenant's obligation under this Lease.

16.1.6 **Disposition of Assets**. Without the prior written consent of Landlord, which shall not be unreasonably withheld or delayed, selling, leasing, assigning, encumbering, hypothecating, transferring, or otherwise disposing of all or substantially all of the Tenant's assets.

16.2 **Landlord Default**. Landlord shall not be in default of this Lease unless Landlord fails to perform an obligation required of Landlord within a reasonable time, but in no event less than thirty (30) days after written notice by Tenant to Landlord and to the holder of any mortgage or deed of trust covering the Premises whose name and address shall have theretofore been furnished to Tenant in writing, specifying wherein Landlord has failed to perform such obligation; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days is reasonably required for its performance then Landlord shall not be in default if

Landlord commences performance within such 30-day period and thereafter diligently prosecutes the same. Without limiting any other waiver by Tenant which may be contained in this Lease, except as otherwise expressly set forth in this Lease to the contrary, Tenant hereby waives the benefit of any laws granting it the right to perform Landlord's obligation on account of any Landlord default.

16.3 **No Waiver**. No delay or omission in the exercise of any right or remedy of Landlord or Tenant on any default by Tenant or Landlord shall impair such a right or remedy or be construed as a waiver. The subsequent acceptance of Rent by Landlord after breach by Tenant of any covenant or term of this Lease shall not be deemed a waiver of such breach, other than a waiver of timely payment for the particular Rent involved, regardless of Landlord's knowledge of any breach at the time of such acceptance of Rent, and shall not prevent Landlord from maintaining an unlawful detainer or other action based on such breach. No act or conduct of Landlord, including the acceptance of the keys to the Premises, shall constitute an acceptance of the surrender of the Premises by Tenant before the expiration of the Term. Prior to the scheduled expiration of the Term of the Lease, only a notice from Landlord to Tenant shall constitute acceptance of the surrender of the Premises and accomplish an early termination of the Lease. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent to or approval of any subsequent act by Tenant. Any waiver by Landlord or Tenant of any default must be in writing and shall not be a waiver of any other default concerning the same or any other provision of the Lease. The review, approval, or inspection by Landlord of any item to be reviewed, approved, or inspected by Landlord under the terms of this Lease shall not constitute the assumption of any responsibility by Landlord for the accuracy or sufficiency of any such item or the quality or suitability of such item for its intended use.

17. REMEDIES FOR TENANT'S DEFAULT.

The remedies provided for in this Section 17 are not exclusive; they are cumulative, in addition to any remedies now or later allowed by law, to any equitable remedies Landlord may have, and to any remedies Landlord may have under bankruptcy laws or laws affecting creditors' rights generally. In the event of Tenant's default (after expiration of any applicable notice and cure period), Landlord may:

17.1 **Terminate**. Terminate Tenant's right to possession of the Premises by any lawful means, in which case this Lease shall terminate and Tenant shall immediately surrender possession of the Premises to Landlord. In such event, Landlord shall be entitled to recover from Tenant:

17.1.1 the worth at the time of the award of any unpaid rent which had been earned at the time of such termination; plus

17.1.2 the worth at the time of the award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss which Tenant proves could have been reasonably avoided; plus

17.1.3 the worth at the time of the award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss which Tenant proves could be reasonably avoided; plus

17.1.4 any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom (including, without limitation, the cost of recovering possession of the Premises, expenses of reletting including necessary renovation and alteration of the Premises, reasonable attorneys' fees, and real estate commissions actually paid and that portion of the leasing commission paid by Landlord and applicable to the unexpired portion of this Lease); plus

17.1.5 such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable California law.

As used in Sections 17.1.1 and 17.1.2, the "**worth at the time of the award**" shall be computed by allowing interest at the lesser of 10% per annum, or the maximum rate permitted by law per annum. As used in Section 17.1.3, the "**worth at the time of award**" shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus 1%.

17.2 **Continue - 1951.4**. Continue this Lease in full force and effect, and the Lease will continue in effect, as long as Landlord does not terminate Tenant's right to possession, and Landlord may enforce all of Landlord's rights and remedies hereunder including, without limitation, the remedy described in California Civil Code Section 1951.4 (lessor may continue lease in effect after lessee's breach and abandonment and recover rent as it becomes due, if lessee has the right to sublet or assign, subject only to reasonable limitations). During the period Tenant is in default, Landlord may enter the Premises and relet them, or any part of them, to third parties for Tenant's account. Tenant shall be liable immediately to Landlord for all costs Landlord reasonably incurs in reletting the Premises, including, without limitation, brokers' commissions, expenses of remodeling the Premises required by the reletting, and like costs. Reletting can be for a period shorter or longer than the remaining term of this Lease. Tenant shall pay to Landlord the Rent due under this Lease on the dates the Rent is due, less the rent Landlord receives from any reletting. No act by Landlord allowed by this Section shall terminate this Lease unless Landlord notifies Tenant in writing that Landlord elects to terminate this Lease. After Tenant's default and for as long as Landlord does not terminate Tenant's right to possession of the Premises, if Tenant obtains Landlord's consent, Tenant shall have the right to assign or sublet its interest in this Lease, but Tenant shall not be released from liability.

17.3 **Receiver**. Cause a receiver to be appointed to collect Rent. Neither the filing of a petition for the appointment of a receiver nor the appointment itself shall constitute an election by Landlord to terminate the Lease.

17.4 **Cure the default at Tenant's cost**. If Landlord at any time, by reason of Tenant's default, reasonably pays any sum or does any act that requires the payment of any sum, the sum paid by Landlord shall be due immediately from Tenant to Landlord at the time the sum is paid, and if paid at a later date shall bear interest at the lesser of 10% per annum, or the maximum rate an individual is permitted by law to charge, from the date the sum is paid by Landlord until Landlord is reimbursed by Tenant. The sum, together with interest on it, shall be Additional Rent.

18. SURRENDER OF PREMISES.

On expiration of this Lease or within five days after the earlier termination of the Term, Tenant shall surrender to Landlord the Premises "broom clean" and "As Is" condition (subject, however, to Tenant's compliance with all maintenance and repair obligations with respect to the Premises set forth in Section 7.1 of this Lease), except for ordinary wear and tear, those items to be repaired or maintained by Landlord as set forth in Section 7.2 above, and destruction to the Premises covered by Section 15. Tenant shall remove all its personal property and all Alterations required to be removed pursuant to Section 6.2 of this Lease within the above-stated time. Tenant shall perform all restoration made necessary by the removal by Tenant (or by Landlord if Tenant fails to remove) of any Alterations or Tenant's personal property within the time periods stated in this Section. In no event shall Tenant be required to remove any Cabling installed by or on behalf of Tenant (before or after the Lease Date).

Subject to applicable law, and after ten (10) days prior written notice or such longer period as may be required by applicable law (and Tenant's failure to act within such notice period), Landlord may elect to retain or dispose of in any manner any Alterations or any of Tenant's personal property that Tenant does not remove from the Premises on expiration of this Lease or within five (5) days after the earlier termination of the Term as allowed or required by this Lease. Title to any such alterations or to any of Tenant's personal property that Landlord elects to retain or dispose of shall vest in Landlord. Tenant waives all claims against Landlord for any damage to Tenant resulting from Landlord's retention or disposition of any such alterations or any of Tenant's personal property. Tenant shall be liable to Landlord for Landlord's costs for storing, removing, and disposing of any such Alterations or any of Tenant's personal property.

19. ESTOPPEL CERTIFICATES; FINANCIAL STATEMENTS.

19.1 **Estoppel Certificates**. Either party shall at any time and from time to time upon not less than twenty (20) days' prior written notice from the other party execute, acknowledge, and deliver to the requesting party a statement in writing, (a) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease as modified is in full force and effect) and the date to which the Base Rent and other charges are paid in advance, if any; (b) certifying that the Premises have been accepted by Tenant; (c) confirming the Commencement Date and the expiration date of the Lease; (d) acknowledging that there are not, to the knowledge of the party giving the certificate, any uncured defaults on the part of the other party hereunder, or specifying such defaults, if any are claimed, and (e) such other matters reasonably requested. If Landlord is the requesting party, Tenant's certificate may be relied upon by a prospective purchaser or encumbrancer of all or any portion of the real property of which the Premises are a part. If Tenant is the requesting party, Landlord's certificate may be relied upon by a prospective assignee or subtenant of this Lease or by a prospective encumbrancer of Tenant's leasehold, but in any event subject to the provisions of the assignment and subletting provisions of this Lease.

19.2 **Financial Statements**. Upon 10 days' prior written request from Landlord (which Landlord may make at any time during the Term but no more often than once per calendar year), Tenant shall deliver to Landlord a current financial statement of Tenant and any Guarantor. Such statements shall be prepared in accordance with generally acceptable accounting principles and certified as true in all material respects by Tenant (if Tenant is an individual) or by an authorized officer or general partner of Tenant (if Tenant is a corporation or partnership, respectively).

20. INTENTIONALLY OMITTED.

21. SUBORDINATION, ATTORNMENT.

21.1 **Subordination**. Subject to the provisions of Section 21.3 below, this Lease is and shall be subordinate to any encumbrance now of record or recorded after the date of this Lease affecting the Building, Land, other improvements, and land of which the Premises are a part. Notwithstanding the foregoing, Landlord represents and warrants that as of the Commencement Date, the Premises is not encumbered by any mortgage or deed of trust. If any mortgagee, trustee, or ground lessor (a "**Superior Lienor**") shall elect to have this Lease and any options granted hereby prior to the lien of its mortgage, deed of trust, or ground lease, and shall give written notice thereof to Tenant, this Lease and such options shall be deemed prior to such mortgage, deed of trust, or ground lease, whether this Lease or such options are deeded prior or subsequent to the date of said mortgage, deed of trust, or ground lease, or the date of recording thereof.

21.2 **Attornment**. In the event any proceedings are brought for foreclosure, or in the event of a sale or exchange of the real property on which the Building is located, or in the event of the exercise of the power of sale under any mortgage or deed of trust made by Landlord covering the Premises, Tenant shall attorn to the purchaser upon any such foreclosure and sale and recognize such purchaser as Landlord under this Lease.

21.3 **Execution of Documents by Tenant; Non-Disturbance Agreement**. Tenant agrees to execute, within fifteen (15) days of a request to do so by Landlord, any documents reasonably required to effectuate an attornment or to make this Lease or any options granted herein subordinate to or prior to the lien of any mortgage, deed of trust, or ground lease, as the case may be; provided, however, that any such subordination and/or attornment shall be contingent upon Landlord obtaining for the benefit of Tenant, a commercially reasonable non-disturbance agreement.

22. BROKER.

22.1 Landlord and Tenant recognize CB Richard Ellis, Inc. ("Tenant's Broker") as Tenant's authorized representative. Landlord shall pay Tenant's Broker a standard market fee equal to 2.0% of the total Base Rent, payable within 45 days of a mutually executed lease, for services rendered by Tenant's Broker in this transaction,. Landlord acknowledges that Tenant's Broker shall be a third-party beneficiary of this Lease solely for the purpose of enforcing Tenant's Broker's right to payment pursuant to the preceding sentence. Except for their contact with Tenant's Broker, neither party has had any contact or dealings regarding the Premises, or

any communication in connection with the subject matter of this Lease through any real estate broker or other person who can claim a right to a commission or finder's fee in connection with this Lease. In the event that any broker or finder tenders a claim for a commission or finder's fee based upon any such contact, dealings or communication, the party whom the broker or finder represented or allegedly represented shall be responsible for said commission or fee and shall indemnify and hold harmless the other party from and against all liabilities, losses, costs and expenses (including reasonable attorneys fees) arising in connection with such claim for a commission or finder's fee. In addition, Landlord shall indemnify and hold harmless Tenant from and against all liabilities, losses, costs and expenses (including reasonable attorneys fees) arising from Landlord's obligation to pay a commission to Tenant's Broker in connection with this transaction. Landlord and Tenant acknowledge and agree that any agreement between Landlord and Tenant's Broker regarding the payment of future commissions in connection with any extension of the Term or expansion of the Premises (whether pursuant to an express right set forth in this Lease or not) shall not be binding on Tenant, and that Tenant may choose to be represented by a different broker in any such future expansion or extension transactions, and that only such chosen broker would be entitled to a commission in connection with such future transaction.

23. HOLDING OVER

Upon termination of the Lease or expiration of the Term hereof, if Tenant retains possession of the Premises without Landlord's written consent first being obtained, then Tenant's possession shall be deemed a month-to-month tenancy. Landlord and Tenant agree that as damages for Tenant's retention of possession, the Base Rent portion of the Rent shall be increased to one hundred twenty-five percent (125%) of the amount of the Base Rent in effect immediately prior to the expiration or earlier termination of the Lease (as the case may be) for the initial three (3) months of the period of retention of possession and thereafter the Base Rent portion of the Rent shall be increased to one hundred fifty percent (150%) of the amount of the Base Rent in effect immediately prior to the expiration or earlier termination of the Lease (as the case may be). Except with respect to the first sixty (60) days of Tenant's holdover, Tenant shall be responsible for any consequential damages suffered or incurred by Landlord as a result of Landlord's inability to deliver possession of the Premises to a subsequent tenant as a result of Tenant's failure to surrender possession of the Premises.

24. RULES AND REGULATIONS.

Tenant shall faithfully observe and comply with the reasonable and nondiscriminatory rules and regulations ("**Rules and Regulations**") that Landlord shall from time to time promulgate. Landlord reserves the right from time to time to make modifications to such Rules and Regulations as, in the sole judgment of Landlord, may be needed from time to time for the safety of the tenants, the care and cleanliness of the Premises and the Building and the preservation of good order therein. Additions and modifications to Rules and Regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant (a copy of the present Rules and Regulations is attached hereto as **Exhibit G**). Landlord shall use its reasonable efforts to enforce compliance with such rules in a uniform, non-discriminatory manner, but shall not be responsible to Tenant for the nonperformance of any of said rules by other tenants or occupants; provided, however, in

the event any other tenant or occupant of the Building fails to comply with the Rules and Regulations and such non-compliance unreasonably and materially interferes with Tenant's use of the Premises, Landlord shall use its reasonable efforts to cause such other tenants and/or occupants to comply with the Rules and Regulations.

25. OTHER RIGHTS RESERVED BY LANDLORD.

25.1 **General**. Without notice and without liability to Tenant, or without effecting an eviction or disturbance of Tenant's use or possession, Landlord shall have the right to (a) grant utility easements or other easements in, or replant, subdivide or make other changes in the legal status of the Land or the Building as Landlord shall deem appropriate in its sole discretion; provided such changes do not substantially interfere with Tenant's use of the Premises for the Permitted Use; (b) add to the Building or modify its configuration; and (c) install and maintain directional and/or directory signage in any multi-tenant portions of the Building.

25.2 **Rights of Entry**. Landlord reserves, and shall have the right at any and all reasonable times for the purpose of cleaning the Premises and at all other reasonable times upon twenty-four (24) hours prior written notice (and at any time and without notice in the event of an emergency) to enter the Premises to inspect the same (including inspections by prospective lenders for or buyers of the Building), to supply any service to be provided by Landlord to Tenant hereunder, to post notices of non-responsibility, to maintain and repair the Premises and any portion of the Building that Landlord may deem necessary or desirable, and to perform any acts related to the safety, protection, reletting (during the last nine (9) months of the Term), sale or improvement of the Premises or the Building, without abatement of Rent, and may for that purpose erect scaffolding and other necessary structures, where reasonably required by the character of the work to be performed, always providing that the entrance to the Premises shall not be blocked thereby and further providing that the business of the Tenant shall not be interfered with unreasonably. For each of the aforesaid purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises, excluding Tenant's vaults, safes and files, and Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in the event of an emergency (as determined by Landlord or its employees or representatives acting in good faith), in order to obtain entry to the Premises without liability to Landlord. Any entry to the Premises obtained by Landlord by any of said means or otherwise shall not under any circumstances be construed or be deemed to be a forcible or unlawful entry into, or a detainer of the Premises, or an eviction of Tenant from the Premises or any portion thereof. Landlord shall use reasonable efforts to minimize any interference with Tenant's business operations or access to the Premises and shall attempt to reasonably schedule such entry and work with Tenant. Landlord shall perform all work in a commercially reasonable manner, and whenever appropriate (as reasonably determined by Landlord), after Business Hours, and in a manner whenever reasonably possible to minimize any material, adverse or unreasonable interference with Tenant's business operations, permitted uses and access to its Premises.

26. NOTICES.

Any notice, demand, approval, consent, or other communication required or desired to be given under this Lease shall be given in writing in the manner set forth below, addressed to the party to be served at the addresses set forth in the Basic Lease Information, or at such other address for

which that party may have given notice under the provisions of this Section. Any notice, demand, approval, consent, or other communication given by (a) mail shall be deemed to have been given two (2) business days after it is deposited in the United States mail, first class and postage prepaid; (b) overnight common carrier courier service shall be deemed to be given on the business day (not including Saturday) immediately following the date it was deposited with such common carrier; (c) delivery in person or by messenger shall be deemed to have been given upon delivery in person or by messenger; or (d) electronic facsimile shall be deemed to have been given on the date of transmission of the entire communication, provided that (i) such transmission occurs during 8:00a.m. and 5.p.m., Pacific Time, on normal business days, and (ii) the sending party sends a hard copy of the original transmitted document(s) not later than the second (2nd) business day following such transmission, by one of the methods described in subsections (a), (b) or (c) above.

27. OTHER TENANCIES.

Landlord reserves the absolute right to effect such other tenancies in the Building as Landlord, in the exercise of its sole business judgment, shall determine to best promote the interests of the Building. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or number of tenants shall during the Term of this Lease occupy any space in the Building.

28. RENEWAL OPTION.

28.1 **Option Right**. If Tenant prior to the Exercise Date (as defined below) enters into a new TRICARE contract (the "**Government Contract**"), Tenant shall have one (1) option (the "**Renewal Option**") to renew the initial Term with respect to all or a portion of the Premises following the Expiration Date of the initial Term for one (1) additional term (the "**Renewal Term**"), which Renewal Term shall expire upon the earlier of (i) the scheduled expiration of the Government Contract, or (ii) the date that is five (5) years following the expiration of the initial Term of this Lease. Notwithstanding the foregoing, Tenant shall not be entitled to renew this Lease with respect to less than two hundred thousand (200,000) square feet of rentable area, and any reduction in the rentable area of the Premises shall occur with respect to certain portions of the Premises located in Building 2019, and the reduction space shall be of a configuration (including windows and entrances) that can be re-leased or otherwise re-used by Landlord, as reasonably approved by Landlord. The Renewal Term shall be on the same terms, covenants and conditions of this Lease; provided, however, the Base Rent payable by Tenant during the Renewal Term shall be the then fair market rental value of the Premises ("**FMRV**", as hereinafter defined) for similarly situated space.

28.2 **Exercise**. The Renewal Option, if exercised by Tenant, must be accomplished by written notice from Tenant to Landlord (the "**Renewal Notice**") at least two hundred forty (240) days prior to the expiration of the initial Term (the "**Exercise Date**"). Should Tenant fail to provide Landlord with the Renewal Notice on or before the Exercise Date, Tenant shall be deemed to have elected not to exercise the Renewal Option, and this Lease shall expire in accordance with its terms. Notwithstanding, the foregoing, if Tenant has been in default (beyond applicable notice and cure periods) two or more times during the initial Term, or is in default (beyond applicable notice and cure periods) on the date that the Renewal Notice is given to Landlord, and/or on the expiration of the initial term of this Lease, then the Renewal Option shall be void at the election of Landlord.

28.3 **FMRV**. The Base Rent to be paid by Tenant to Landlord for and during a Renewal Term shall be the FMRV for such Renewal Term. The FMRV for the Renewal Term shall be the then prevailing fair market rental rate for comparable deals in the Rancho Cordova office market, is leased to a major creditworthy tenant occupying more than 100,000 rentable square feet of comparable space, taking into consideration lease term, age of the Premises and current tenant improvements, all allowances for new tenant improvements (including architectural and engineering fees), moving expenses, landlord expenses, operating expense pass throughs (including base year), rent abatement, brokerage expenses, tenant benefits or any other market concessions which may be commonly available at the commencement of the Renewal Term. For purposes of the preceding sentence, "prevailing fair market rental rate for comparable deals" shall mean the rental, including escalations, then being quoted by landlords for non-renewal, non-sublease, non-equity space comparable in size and quality to the Premises, which comparable space is located in comparable office buildings in the Rancho Cordova office market. Notwithstanding the foregoing, in no event shall the FMRV be less than the Base Rent in effect immediately prior to the expiration of initial Term.

28.3.1 If Tenant elects to exercise the Renewal Option, Landlord and Tenant shall attempt to agree upon the FMRV for the Renewal Term, using their best good faith efforts.

28.3.2 If, within thirty (30) days following Landlord's receipt of the Renewal Notice, Landlord and Tenant have been unable to reach an agreement regarding the FMRV for the Renewal Term, the parties shall set a date (no later than thirty (30) days after Landlord's receipt of the Exercise Notice) to exchange written opinions, at the Premises, of the FMRV for such Renewal Term. Such exchange shall be accomplished by the concurrent delivery by Landlord and Tenant of each party's opinion of FMRV, which opinion shall be contained in a sealed envelope. Such envelopes shall be opened, simultaneously, in the presence of a representative of each of the parties.

28.3.3 If, upon exchange of opinions of FMRV as provided above, the higher of the two opinions of value is not more than five percent (5%) greater than the lower opinion of value, the two values shall be averaged, and the average shall be thereafter conclusively deemed to be the FMRV for the Renewal Term.

28.3.4 **Baseball Arbitration**. If the higher of the two opinions of value is more than five percent (5%) greater than the lower opinion of value, and the parties have not otherwise reached agreement on the FMRV of the Premises, the FMRV shall be determined by the so-called "baseball" arbitration procedure hereinafter set forth.

28.3.4.1 Landlord and Tenant shall, within ten (10) business days after the exchange of the sealed envelopes containing their respective opinions of FMRV, agree upon the appointment of an arbitrator who shall (i) be by profession a licensed commercial real estate broker or an MAI real estate appraiser, (ii) be familiar with the Building or the area in which the Building is located, and (iii) have been active (over the five (5) year period ending on the date of such appointment) in the brokering or appraisal of comparable premises within the area or in

comparable offices in the Rancho Cordova, California area. If the parties cannot agree upon such arbitrator, the arbitrator shall be selected in accordance with the Expedited Procedures in the Real Estate Industry Arbitration Rules of the American Arbitration Association then in effect. The arbitration shall be conducted no more than thirty (30) days after the selection of the arbitrator, in the County in which the Premises is located, in accordance with those Expedited Procedures. The determination of the arbitrator shall be limited solely to the issue of whether Landlord's or Tenant's opinion of the FMRV of the Premises (which shall take into account opinions, if any, proposed in writing subsequent to the aforesaid exchange of sealed envelopes, provided that they are delivered at least two (2) business days prior to the date of the arbitration) is closest to the arbitrator's opinion of the FMRV of the Premises as above defined. In no event shall the FMRV be less than the Base Rent in effect immediately prior to the expiration of initial Term

28.3.4.2 In the event the arbitrator has not determined the FMRV of the Premises prior to the commencement of the Renewal Term, Tenant shall pay as Base Rent, effective as of and subsequent to the commencement of the Renewal Term until such time as the Base Rent for the Renewal Term is determined, the Base Rent in effect immediately prior to the expiration of the initial Term. If such Base Rent is thereafter fixed at a higher amount, such new Base Rent shall take effect retroactive to the commencement of the Renewal Term, and Tenant shall pay to Landlord that sum which is accrued and unpaid as a result of such retroactive application, together with the next monthly installment of Base Rent payable by Tenant. The cost of the arbitration shall be paid by Landlord and Tenant equally.

29. GENERAL PROVISIONS.

29.1 **Exhibits and Attachments**: The attached exhibits and attachments, together with all documents incorporated by reference in the exhibits and attachments, form an integral part of this Lease and are incorporated by reference into this Lease.

29.2 **Consents**: Except as provided in the Lease, whenever the Lease requires the consent or approval of Landlord or Tenant, such consent or approval shall not be unreasonably withheld, conditioned or delayed.

29.3 **Joint Obligation**: If there be more than one Tenant, the obligations hereunder imposed upon Tenant shall be joint and several.

29.4 **Marginal Headings**: The marginal headings and titles to the Sections of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

29.5 **Time**: Time is of the essence in this Lease and with respect to each and all of its provisions in which performance is a factor.

29.6 **Quiet Possession**: Upon Tenant paying the Rent reserved hereunder, and observing and performing all of the covenants, conditions, and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the entire Term, subject to all of the provisions of this Lease.

29.7 **Integration**: This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease, and no prior agreements or understanding pertaining to any such matters shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. This Lease shall not be effective or binding on any party until fully executed by both parties hereto.

29.8 **Authority of Tenant.** If Tenant is a corporation, limited liability company or other entity, each person executing this Lease on behalf of such entity represents and warrants that he or she is duly authorized to execute and deliver this Lease on behalf of such entity, and that such person's execution of this Lease binds Tenant to its terms and conditions. If Tenant is a corporation, limited liability company, trust or other entity, Tenant shall, upon the execution of this Lease, deliver to Landlord evidence of such authority satisfactory to Landlord.

29.9 **No Construction Against Drafter**: The provisions of this Lease shall be construed in accordance with the fair meaning of the language used and shall not be strictly construed against either party.

29.10 **Severability**: Any provisions of this Lease which shall prove to be invalid, void, and illegal shall in no way affect, impair, or invalidate any other provision hereof, and such other provisions shall remain in full force and effect.

29.11 **Choice of Law**: This Lease shall be governed by the laws of the State of California.

29.12 **Signage**: Except as otherwise expressly set forth in this Lease, Tenant shall not place, install, affix, paint or maintain any signs, notices, graphics or banners whatsoever or any window decor which is visible in or from public view or corridors, the common areas or the exterior of the Premises or the Building, in or on any exterior window or window fronting upon any Common Areas or service area without Landlord's prior written approval which Landlord shall have the right to withhold in its absolute and sole discretion. Notwithstanding the foregoing, Tenant may continue to use its existing identification signage. Any signage installed by or on behalf of Tenant shall comply with all Applicable Requirements.

29.13 **Project Name**: Tenant may use the name of the Project in which the Premises are located only with Landlord's prior written consent which consent shall not be unreasonably withheld, conditioned or delayed.

29.14 **Attorneys' Fees**: If any party to this Lease shall take any action to enforce this Lease or bring any action or commence any proceeding for any relief against any other party, declaratory or otherwise, arising out of this Lease, the losing party shall pay to the prevailing party a reasonable sum for attorneys' and experts' fees and costs incurred in bringing such suit or proceeding and/or enforcing any judgment granted therein, all of which shall be deemed to have accrued upon the commencement of such action or proceeding and shall be paid whether or not such action or proceeding is prosecuted to judgment. Any judgment or order entered in such action or proceeding shall contain a specific provision providing for the recovery of reasonable attorneys' and experts' fees and costs incurred in enforcing such judgment. All fees and costs to

be paid under this Section shall be determined by a court of competent jurisdiction and not by a jury. For purposes of this Section, attorneys' and experts' fees and costs shall include, without limitation, fees and costs incurred in the following: (a) post-judgment motions; (b) contempt proceedings; (c) garnishment, levy, and debtor and third party examinations; (d) discovery; (e) bankruptcy litigation; and (f) appeals.

29.15 **Modification**: This Lease and all exhibits attached hereto contain the entire agreement between the parties relating to the rights herein granted and the obligations herein assumed. Any oral representations or modifications concerning this Lease shall be of no force or effect, excepting a subsequent modification in writing signed by the party to be charged.

29.16 **Successors and Assigns**: Subject to the provisions of Section 10, this Lease and each of its covenants and conditions shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, executors, administrators, legal representatives, successors and assigns.

29.17 **Waiver of California Code Sections**: Notwithstanding any other provision of this Lease and in addition to any waivers which may be contained in this Lease, Tenant waives the provisions of Civil Code Section 1932(2) and 1933(4) with respect to the destruction of the Premises; Civil Code Sections 1932(1), 1941 and 1942 with respect to Landlord's repair duties and Tenant's right of repair; and Code of Civil Procedure Section 1265.130 allowing either party to petition the Superior Court to terminate this Lease in the event of a partial taking of the Premises for public or quasi-public use by statute, by right of eminent domain, or by purchase in lieu of eminent domain; and any right of redemption or reinstatement of Tenant under any present of future case law or statutory provision (including Code of Civil Procedure Section 473, 1174(c) and 1179 and Civil Code Section 3275) in the event Tenant is dispossessed from the premises for any reason. This waiver applies to future statutes enacted in addition or in substitution to the statute specified herein, and this waiver shall apply even though Tenant may be the subject of a voluntary or involuntary petition in bankruptcy.

29.18 **Government Energy or Utility Controls**: In the event of imposition of federal, state or local governmental controls, regulations or restrictions on the use or consumption of energy or other utilities during the term, both Landlord and Tenant shall be bound thereby.

29.19 **Accord and Satisfaction; Allocation of Payments**: No payment by Tenant or receipt by Landlord of a lesser amount than the Rent provided for in this Lease shall be deemed to be other than account of the earliest due Rent, nor shall any endorsement or statement on any check or letter accompanying any check or payment as Rent be deemed an accord and satisfaction, and Landlord may accept such check or payment without prejudice to Landlord's right to recover the balance of the Rent or pursue any other remedy provided for in this Lease. In connection with the foregoing, Landlord shall have the absolute right in its sole discretion to apply any payment received from Tenant to any account or other payment of Tenant which is then due or delinquent.

29.20 **Recording**: Tenant shall not record this Lease or a memorandum thereof, or any other reference to this Lease, without the prior written consent of Landlord. Tenant, upon the request of Landlord, shall execute and acknowledge a "short form" memorandum of this Lease for recording purposes.

29.21 **Execution of Lease**: The submission of this Lease to Tenant shall be for examination purposes only, and does not and shall not constitute a reservation of or option for Tenant to lease, or otherwise create any interest of Tenant in the Premises or any other premises within the Building. Execution of this Lease by Tenant and its return to Landlord shall not be binding on Landlord notwithstanding any time interval, until Landlord has in fact signed and delivered this Lease to Tenant.

29.22 **Interpretation**: This Lease shall be deemed to be jointly prepared by both Landlord and Tenant, and any ambiguities or uncertainties herein shall not be construed for or against either of the parties. The words "including," "included," "include" and words of similar import shall be interpreted as though followed by the words "but not limited to" or "without limitation." This Lease may be executed in counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same agreement.

29.23 **Confidentiality**: Tenant acknowledges that the content of this Lease and any related documents are confidential information. Tenant shall keep such confidential information strictly confidential and shall not disclose such confidential information to any person or entity other than Tenant's financial, legal and space planning consultants and any proposed transferee.

29.24 **Demands and Consents:** Except as otherwise provided, whenever a provision of this Lease (i) requires that the consent of a party be obtained, such consent shall not be unreasonably withheld or delayed, or (ii) provides that a party may make a demand or request of the other party, such demand or request shall be reasonable and made in good faith.

29.25 **HIPAA**: Landlord agrees that from time to time during the Term, Landlord, its agents, employees or assigns, may be exposed to, or have access to, Protected Health Information ("PHI"), as defined by Health Insurance Portability and Accountability Act of 1996, 45 CFR Parts 160 and 164. Landlord agrees that Landlord, its agents, employees or assigns will not use or disclose PHI for any purpose unless expressly authorized by Tenant or required by a court of competent jurisdiction or by any governmental authority or by any state or federal law.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

29.26 **Counterparts**. This Lease may be executed in counterparts, each of which shall be deemed an original (including copies sent to a party by facsimile transmission or in portable document format (pdf)) as against the party signing such counterpart, but which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Lease as set forth below.

LANDLORD:	**TENANT:**
AEROJET-GENERAL CORPORATION, an Ohio corporation	HEALTH NET FEDERAL SERVICES, LLC, a Delaware limited liability company
By: /s/ Scott Neish	By: /s/ Dennis Bell
Name: Scott Neish	Name: Dennis Bell
Its: President	Its: Vice President
Date: July 13, 2009	Date: July 29, 2009

Exhibit 10.84

SECOND AMENDMENT TO OFFICE LEASE

This SECOND AMENDMENT TO OFFICE LEASE (this "**Amendment**") is made and entered into effective as of May 1, 2003, by and between LNR WARNER CENTER, LLC, a California limited liability company ("**Landlord**"), and HEALTH NET, a California corporation ("**Tenant**").

R E C I T A L S:

A. DCA Homes, Inc., a Florida corporation and Lennar Rolling Ridge, Inc., a California corporation (collectively, "**Prior Landlord**") and Tenant entered into that certain Office Lease dated as of September 20, 2000 (the "**Original Lease**"), as amended by that certain First Amendment to Lease dated as of May 14, 2001 (the "**First Amendment**") by and between Landlord, as successor-in-interest to Prior Landlord, and Tenant. The Original Lease as amended by the First Amendment shall be referred to herein collectively as the "**Lease**".

B. Pursuant to the Lease, Landlord is leasing to Tenant and Tenant is leasing from Landlord certain "**Premises**," as described in the Lease, consisting of the entire rentable square feet of Building B located at 21281 Burbank Boulevard, Woodland Hills, California, and the 2nd, 3rd, 4th and 5th floors of Building C located at 21271 Burbank Boulevard, Woodland Hills, California, as more particularly described in the Lease. The Premises currently leased by Tenant under the Lease is sometimes referred to herein as the "**Existing Premises**".

C. Except as otherwise set forth herein, all capitalized terms used in this Amendment shall have the same meaning as given such terms in the Lease.

D. Landlord and Tenant desire to amend the Lease to (i) expand the Existing Premises leased by Tenant to include that certain space located on the first (1st) floor of Building C containing approximately 10,218 rentable and 9,066 usable square feet of space as depicted on **Exhibit "A"** attached hereto (the "**1st Floor Building C Space**") and (ii) otherwise modify the Lease, all upon the terms and conditions as hereinafter provided.

A G R E E M E N T:

NOW, THEREFORE, in consideration of the foregoing Recitals and the mutual covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

1. Modification of Premises; 1st Floor Lease Term.

(a) Addition of 1st Floor Building C Space; 1st Floor Lease Term. Commencing on the 1st Floor Commencement Date (as defined below), the Existing Premises shall be expanded to include the 1st Floor Building C Space for a term (the "**1st Floor Lease Term**") that shall expire coterminously with the expiration of the Lease (i.e., on December 31, 2011), as such term may be extended pursuant to the Extension Option Rider attached to the Original Lease. Therefore, for purposes of the Lease, effective as of the 1st Floor Commencement Date, (i) all references in the Lease to the "**Premises**" shall mean the Existing Premises and the 1st Floor Building C Space, unless otherwise set forth herein, and (ii) the 1st Floor Building C Space shall be leased upon and subject to the same terms and conditions set forth in the Lease as applicable to the Existing Premises, subject to the modifications set forth herein. As a result of the addition of the 1st Floor Building C Space to the Premises, the "Premises" shall contain a total of approximately 333,954 rentable square feet and 312,979 usable square feet of space, including (A) the entire rentable and usable square feet of Building B as described in Section 6.2 of the Summary attached to the Original Lease, plus (B) approximately 155,709 rentable square feet and 145,594 usable square feet of space in Building C on the 1st, 2nd, 3rd, 4th and 5th floors of Building C. The parties acknowledge and agree that such square footage amounts have been calculated and determined pursuant to Section 1.2 of the Original Lease, and are not subject to remeasurement or adjustment by Landlord or Tenant notwithstanding the provisions of Section 1.2 of the Original Lease to the contrary.

(b) 1st Floor Commencement Date. For purposes of this Amendment, the term "**1st Floor Commencement Date**" shall mean the earlier of (i) the date upon which Tenant commences business operations in the 1st Floor Building C Space, and (ii) the date which is sixty (60) days after Landlord delivers possession of the 1st Floor Building C Space to Tenant in its "AS-IS" condition as described in the Tenant Work Letter attached hereto as **Exhibit "B"**, as such sixty (60) day period may be extended for each day of "Landlord Caused Delay" incurred by Tenant (as such term is defined in Section 6 of the Tenant Work Letter attached hereto as **Exhibit "B"**). Landlord shall endeavor to provide Tenant written notice thirty (30) days prior to the date Landlord reasonably anticipates delivery of the 1st Floor Building C Space to Tenant; provided, however (a) in no event shall the validity of the Lease or this Amendment be impaired or affected if Landlord is unable to deliver the 1st Floor Building C Space to Tenant on such anticipated delivery date, (b) Landlord shall not be in default under the Lease, as hereby amended, or liable for damages therefor as a result of any such delay in delivering the 1st Floor Building C Space after such anticipated delivery date, and (c) Tenant shall accept possession of the 1st Floor Building C Space when Landlord tenders possession thereof to Tenant.

(c) Confirmation of 1st Floor Commencement Date. Promptly following the 1st Floor Commencement Date, Landlord shall execute and deliver to Tenant an amendment in substantially the form as set forth in Exhibit C attached to the Original Lease, which amendment Tenant shall execute and return to Landlord within fifteen (15) business days after receipt thereof.

2. Base Rent. The Base Rent payable for the 1st Floor Building C Space shall be calculated separate and apart from the Base Rent payable for the Existing Premises and shall be as set forth in the following schedule:

Months of 1st Floor Lease Term	Annual Base Rent	Monthly Installment of Base Rent	Monthly Rental Rate per Rentable Square Foot of 1st Floor Building C Space
1 – 12	$307,766.16	$25,647.18	$ 2.51
13 – 24	$313,921.48	$26,160.12	$ 2.56
25 – 36	$320,199.91	$26,683.33	$ 2.61
37 – 48	$326,603.91	27,216.99	$ 2.66
49 – 60	$333,135.99	$27,761.33	$ 2.72
61 – 72	$339,798.71	$28,316.56	$ 2.77
73 – 84	$346,594.68	$28,882.89	$ 2.83
85 – 96	$353,526.58	$29,460.55	$ 2.88
97 – Lease Expiration Date	$360,597.11	$30,049.76	$ 2.94

3. Tenant's Building C Share of Direct Expenses. During the 1st Floor Lease Term, as may be extended, Tenant's Building C Share of Direct Expenses shall be increased to 87.36% (i.e., 155,709 rentable square feet in the Premises located in Building C / 178,245 rentable square feet in Building C) to reflect the addition of the 1st Floor Building C Space to the Premises.

4. Parking. As a result of the addition of the 1st Floor Building C Space to the Premises, Tenant shall be entitled to use an additional thirty-six (36) unreserved parking spaces (i.e. four (4) unreserved parking spaces for every 1,000 usable square feet of the 1st Floor Building C Space) during the 1st Floor Lease Term, as may be extended. All of such parking spaces shall be unreserved, undesignated parking spaces at such locations in the Project's Parking Facilities as Landlord shall determine from time to time. Tenant and Tenant's employees shall not be charged any

parking charges for the use of such parking spaces during the initial 1st Floor Lease Term. Thereafter during any applicable Option Term, Tenant shall be charged for the use of such parking spaces at the prevailing parking rates, if any, charged by Landlord and/or Landlord's parking operator from time to time for parking in the Parking Facilities.

5. Tenant Improvements for 1st Floor Building C Space; Tenant Work Letter. The Tenant Improvements for the 1st Floor Building C Space shall be designed and constructed in accordance with the provisions of the Tenant Work Letter attached to this Amendment as **Exhibit "B"**, and not the Tenant Work Letter attached to the Original Lease as Exhibit B, which shall not be applicable with respect to the 1st Floor Building C Space.

6. Miscellaneous Modifications. The parties hereby acknowledge and agree that (i) Tenant's Reduction Right in Section 1.7 of the Original Lease shall not apply with respect to the 1st Floor Building C Space, and (ii) Section 2.2 of the Original Lease shall not apply with respect to the 1st Floor Building C Space.

7. Brokers. Landlord and Tenant hereby warrant to each other that they have had no dealings with any real estate broker or agent in connection with the negotiation of this Amendment other than Colliers Seeley representing Landlord and Cushman & Wakefield, Inc. representing Tenant, and that they know of no other real estate broker or agent who is entitled to a commission in connection with this Amendment. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, and costs and expenses (including without limitation reasonable attorneys' fees) with respect to any leasing commission or equivalent compensation alleged to be owing in connection with this Amendment on account of the indemnifying party's dealings with any other real estate broker or agent.

8. SNDA. The parties hereby acknowledge that this Amendment shall be incorporated as part of the "Lease" pursuant to, and thus shall be subject to the terms and conditions contained in, that certain Subordination, Non-Disturbance and Attornment Agreement dated December 19, 2000 among Landlord, Tenant and U.S. Bank National Association, a national banking association ("**US Bank**"). Landlord shall cause US Bank to consent to this Amendment by executing the consent at the end of this Amendment or in a separate consent document acceptable to US Bank and reasonably acceptable to Landlord and Tenant. Landlord represents and warrants to Tenant that as of the date of execution of this Second Amendment, the Real Property is encumbered by a deed of trust in favor of US Bank, and there are no other deeds of trust or ground leases encumbering the Real Property.

9. Counterparts. This Amendment may be executed in any number of original counterparts. Any such counterpart, when executed, shall constitute an original of this Amendment, and all such counterparts together shall constitute one and the same Amendment.

10. No Further Modification. Except as set forth in this Amendment, all of the terms and provisions of the Lease shall remain unmodified and in full force and effect.

[SIGNATURES APPEAR ON FOLLOWING PAGE.]

IN WITNESS WHEREOF, this Amendment to Lease has been executed as of the day and year first above Britten.

"LANDLORD"

LNR WARNER CENTER, LLC,
a California limited liability company

By: /s/ Curtis J. Stephenson
Name: Curtis J. Stephenson
Title: Assistant Vice President

By: _____
Name: _____
Title: _____

"TENANT"

HEALTH NET,
a California corporation

By: /s/ Dennis Bell
Name: Dennis Bell
Title: Vice President

By: /s/ Linda Salzman
Name: Linda Salzman
Title: Senior Vice President

US BANK CONSENT

The undersigned, the "Lender" under that certain Subordination, Non-Disturbance and Attornment Agreement (Lease to Deed of Trust) dated December 19, 2000 among the undersigned, Landlord and Tenant (the "**SNDA**"), hereby consents to the foregoing Second Amendment, and acknowledges and agrees that the foregoing Second Amendment is incorporated as pad of the "Lease" pursuant to, and shall be subject to the terms and conditions contained in, the SNDA.

U.S. BANK NATIONAL ASSOCIATION

By: _____
Name: _____
Title: _____

Exhibit 10.85

THIRD AMENDMENT TO OFFICE LEASE
LNR Warner Center

For valuable consideration, the receipt and adequacy of which are expressly acknowledged, Landlord and Tenant agree that:

1. Definitions. In this Third Amendment, the following terms have the meaning given:

(a) Effective Date: October 10, 2003.

(b) Landlord: Warner Center OPCO, L.P., a Delaware limited partnership.

(c) Tenant: Health Net, Inc., a California corporation, d/b/a Health Net.

(d) Lease: Office Lease dated September 20, 2000 between DCA Home, Inc. and Lennar Rolling Ridge, Inc. (collectively, "Prior Landlord") and Tenant ("Original Lease"), as amended by:

(1) First Amendment to Lease dated May 14, 2001, between LNR Warner Center, LLC ("LNR"), successor-in-interest to Prior Landlord, and Tenant ("First Amendment"),

(2) Second Amendment to Office Lease dated May I, 2003 between LNR, predecessor-in-interest to Landlord, and Tenant ("Second Amendment").

(3) This Third Amendment.

(e) Original Premises: Approximately 288,749 rentable square feet (271,007 usable square feet), being all of Building B and Floors 3, 4, and 5 in Building C, as more particularly described in Section 6.2 of the Summary of Basic Lease Information to the Original Lease.

(f) Second Floor Building C Space: Approximately 34,987 rentable and 32,906 usable square feet on the second floor of Building C, as more particularly described in the First Amendment.

(g) First Floor Building C Space: Approximately 10,218 rentable and 9,066 usable square feet on the first floor of Building C, as more particularly described in the Second Amendment.

(h) Premises: Approximately 333,954 rentable and 312,979 usable square feet, comprised of the Original Premises, the Second Floor Building C Space, and the First Floor Building C Space.

(i) Building B: 21281 Burbank Blvd.
Woodland Hills, CA 91367

(j) Building C: 21271 Burbank Blvd.
Woodland Hills, CA 91367

Any capitalized term used in this Third Amendment but not defined in this Third Amendment has the meaning set forth for such term in the Lease.

2. Confirmation of Lease Dates. As of the Effective date, Landlord and Tenant ratify and confirm the following Lease dates:

(a) Commencement Date: January I, 2002 (for Original Premises and Second Floor Building C Space).

(b) First Floor Building C Space Commencement Date: October 10, 2003.

(c) Second Floor Building C Space Expiration Date: December 31, 2007, subject to Tenant's right to extend pursuant to the First Amendment.

(d) Expiration Date: December 31, 2011 for the Original Premises and the First Floor Building C Space.

3. Acceptance of First Floor. Tenant agrees that as of the Effective Date, Tenant has accepted the First Floor Building C Space and all leasehold improvements and other work required to be performed by Landlord pursuant to the Second Amendment have been satisfactorily completed.

4. Premises. As of the Effective Date, all references in the Lean to the "Premises" shall mean the Original Premises, the Second Floor Building C Space and the First Floor Building C Spacer which contain a total of approximately 233,954 rentable square feet and 312,979 usable square feet of space.

5. Base Rent.

(a) Original Premises Base Rent. This schedule restates and replaces in its entirety the Base Rent schedule set forth in paragraph 8 of the Summery of Basic Lease information for the Original Lease:

Months of Lease Term	*Annual Base Rent*	*Monthly Installment of Base Rent*	*Monthly Rental Rate Per Rentable Square Foot*
1/1/02—12/31/02	$ 8,835,719.40	$ 736,309.95	$ 2.550
1/1/03—12/31/03	$ 9,012,433.68	$ 751,036.14	$ 2.601
1/1/04—12/31/04	$ 9,192,613.08	$ 766,051.09	$ 2.653
1/1/05—12/31/05	$ 9,376,257.48	$ 781,354.79	$ 2.706
1/1/06—12/31/06	$ 9,563,366.88	$ 796,947.24	$ 2.760
1/1/07—12/31/07	$ 9,753,941.16	$ 812,828.43	$ 2.815
1/1/08—12/31/08	$ 9,951,445.44	$ 829,287.12	$ 2.872
1/1/09—12/31/09	$10,148,949.84	$ 845,745.82	$ 2.929
1/1/10—12/31/10	$10,353,384.12	$ 862,782.01	$ 2.988
1/1/11—12/31/11	$10,557,818.40	$ 879,818.20	$ 3.047

(b) Second Floor Building C Space Base Rent. This schedule restates and replaces in its entirety the Base Rent Schedule set forth in paragraph 2 of the First Amendment:

Months of Second Floor Lease Term	*Annual Base Rent*	*Monthly Installment of Base Rent*	*Monthly Rental Rate Per Rentable Square Foot*
1/1/02—12/31/02	$1,070,602.20	$ 89,216.85	$ 2.550
1/1/03—12/31/03	$1,102 930.20	$ 91,910.85	$ 2.627
1/1/04—12/31/04	$1,135,678.00	$ 94,639.84	$ 2.705
1/1/05— 2/31/05	$1,169,685.30	$ 97,473.78	$ 2.786
1/1/06—12/31/06	$1,204,952.28	$ 100,412.69	$ 2,870
1/1/07—12/31/07	$1,241,058.86	$ 103,421.57	$ 2.956

If Tenant timely exercises the Second Floor Extension Term, the Base Rent for the Second Floor Building C Space for the extension of the Lease Term shall be as follows:

Months of Second Floor Extension Term	*Annual Base Rent*	*Monthly Installment of Base Rent*	*Monthly Rental Rate Per Rentable Square Foot*
1/1/08—12/31/08	$1,278,424.98	$ 106,535.42	$ 3.045
1/1/09—12/31/09	$1,316,630.78	$ 109,719.23	$ 3.136
1/1/10—12/31/10	$1,356,096.12	$ 113,008.01	$ 3.230
1/1/11—12/31/11	$1,396,820.99	$ 116,401.75	$ 3.327

(c) First Floor Building C Space Base Rent. This schedule restates and replaces ids entirety them Base Rent schedule set forth in paragraph 2 of the Second Amendment:

Months of Lease Term	*Annual Base Rent*	*Monthly Installment of Base Rent*	*Monthly Rental Rate Per Rentable Square Foot*
10/10/03—10/31/04*	$ 307,766.16	$ 25,647.18	$ 2.51
11/1/04—10/31/05	$ 313,921.48	$ 26,160.12	$ 2.56
11/1/05—10/31/06	$ 320,199.91	$ 26,683.33	$ 2.61
11/1/06—10/31/07	$ 326,603.91	$ 27,216.99	$ 2.66
11/1/07—10/31/08	$ 333,135.99	$ 27,761.33	$ 2.72
11/1/08—10/31/09	$ 339,798.71	$ 28,316.56	$ 2.77
11/1/09—10/31/10	$ 346,594.68	$ 28,882.89	$ 2.83
11/1/10—10/31/11	$ 353,526.58	$ 29,460.55	$ 2.88
11/1/11—12/31/11	$ 360,597.11	$ 30,049.76	$ 2.94

* subject to proration for any partial month

6. Tenant's Share of Direct Expenses. As of the Effective Date, Landlord and Tenant agree that:

(a) Tenant's Building B Share of Direct Expenses is 100%.

(b) Tenant's Building C Share of Direct Expenses is 87.36% (i.e., 155,709 rentable square feet of the Premises in Building C divided by 178,245 total rentable square feet in Building C).

7. Landlord's Addresses. As of the Date, Landlord's Addresses, as set forth in paragraph 3 of the Summary of Basic Lease Information to the Original Lease, are amended and replaced with the following:

Landlord's Address for Notices:

Warner Center OPCO, L.P.
c/o DLJ Real Estate Capital Partners
Credit Suisse First Boston
2121 Avenue of the Stars, 31st Floor
Los Angeles, CA 90067
Attention: Asset Management

Warner Center OPCO, L.P.
c/o BetaWest, Ltd.
1050 17th Street, Suite 1000
Denver, CO 80265
Attention: Asset Management

Landlord's Address for Rent Payments:

Warner Center OPCO, L.P.
P.O. Box 51911 E
Los Angeles, CA 90051-6211

8. Tenant's Address. As of the Effective Date, Tenant's notice address is amended and replaced with the following:

Health Net, Inc.
11971 Foundation Place
Rancho Cordova, CA 95670
Attention: Director of Real Estate

with a copy to the Premises, also.

9. Subordination, Non-Disturbance, and Attornment Agreement. Landlord and Tenant hereby acknowledge that this Amendment, as part of the "Lease," is incorporated by and subject to the terms and conditions of that certain Subordination, Non-Disturbance and Attornment Agreement dated as of August 7, 2003 ("SNDA") among HSH Nordbank AG, New York Branch, a bank incorporated in Germany ("HSH"), acting by and through its New York Branch as administrative agent, as Lender, and Landlord and Tenant and that this SNDA supersedes and replaces any prior subordination, non-disturbance, and attornment agreement with U.S. Bank National Association ("US Bank"), since US Bank no longer holds a deed of trust on the Real Property. Landlord represents and warrants to Tenant that as of the Effective Date, the Real Property is encumbered by a deed of trust in favor of Hal and there are no other deeds of trust or ground leases encumbering the Real Property.

10. Guaranty of Lease. As of the Effective Date, Landlord and Tenant acknowledge and agree that the Guaranty of Lease dated September 20, 2000 made by LNR Property Corporation is released and of no further force and effect, since all "Guaranteed Obligations" (as defined therein) have been paid in full.

11. Binding Effect. This Third Amendment becomes effective only upon the execution by Landlord and Tenant. Landlord and Tenant represent and warrant to the other that the person executing this Third Amendment on behalf of such party is duly authorized to do so.

12. Confirmation of Lease. As amended by this Third Amendment, Landlord and Tenant ratify the terms and conditions of the Lease.

The undersigned have executed this Third Amendment as of the Effective Date.

LANDLORD:

Warner Center OPCO, L.P., a Delaware limited partnership

By: Warner Center Holdco, LLC, a Delaware limited liability company, general partner

By: DLJ Real Estate Capital Partners II, L.P., a Delaware limited partnership, managing member

By: DLJ Real Estate Capital II, Inc., a Delaware corporation, general partner

By /s/ Laura L. Hahn
Laura L. Hahn,
Authorized Agent

TENANT:

Health Net, Inc., a California corporation

By /s/ Dennis Bell
Name Dennis Bell
Title Vice President

Exhibit 10.86

FOURTH AMENDMENT TO OFFICE LEASE
LNR Warner Center

For valuable consideration, the receipt and adequacy of which are expressly acknowledged, Settling Landlord and Tenant agree that:

1. Definitions. In this Fourth Amendment, the following terms have the meaning given:

(a) Effective Date: May 31, 2006.

(b) Landlord: Warner Center OPCO, L.P., a Delaware limited partnership.

(c) Successor Landlord: MP Warner Center, LLC, a Delaware limited partnership.

(d) Tenant: Health Net of California, Inc., a California corporation formally, known as Health Net, a California corporation.

(e) Lease: Office Lease dated September 20, 2000 between DCA Home, Inc. and Lennar Rolling Ridge, Inc. (collectively, "Prior Landlord") and Tenant ("Original Lease"), as amended by:

(1) First Amendment to Lease dated May 14, 2001, between LNR Warner Center, LLC ("LNR"), successor-in-interest to Prior Landlord, and Tenant ("First Amendment"),

(2) Second Amendment to Office Lease dated May 1, 2003 between LNR, predecessor-in-interest to Settling Landlord, and Tenant ("Second Amendment").

(3) Third Amendment dated October 10, 2003 between Settling Landlord and Tenant ("Third Amendment").

(4) This Fourth Amendment.

(f) Original Premises: Approximately 288,749 rentable square feet (271,007 usable square feet), being all of Building B and Floors 3, 4, and 5 in Building C, as more particularly described in Section 6.2 of the Summary of Basic Lease Information to the Original Lease.

(g) Second Floor Building C Space: Approximately 34,987 rentable and 32,906 usable square feet on the second floor of Building C, as more particularly described in the First Amendment.

(h) First Floor Building C Space: Approximately 10,218 rentable and 9,066 usable square feet on the first floor of Building C, as more particularly described in the Second Amendment.

(i) Premises: Approximately 333,954 rentable and 312,979 usable square feet, comprised of the Original Premises, the Second Floor Building C Space, and the First Floor Building C Space.

(j) Building B: 21281 Burbank Blvd.
Woodland Hills, CA 91367

(k) Building C: 21271 Burbank Blvd.
Woodland Hills, CA 91367

Any capitalized term used in this Fourth Amendment but not defined in this Fourth Amendment has the meaning set forth for such term in the Lease.

2. Audit Settlement.

(a) Tenant has exercised its right to audit Direct Expenses for the Base Year of 2002 and the calendar year 2003.

(b) Tenant and Settling Landlord acknowledge that as of January 6, 2005, Settling Landlord assigned its interest under the Lease to Successor Landlord, which assignment provided that settlement of Tenant's audit claims for the Base Year of 2002 and the calendar year 2003 remained the responsibility of Settling Landlord.

(c) The stipulation of the Direct Expenses for the Base Year of 2002 and the calendar year 2003 herein will be binding upon Settling Landlord, Tenant, and Successor Landlord and shall constitute a final settlement of such expenses.

3. 2002 Base Year Direct Expenses. Settling Landlord and Tenant agree that the per rentable square feet 2002 Base Year Direct Expenses are set forth below:

(a)	*Building B*	*Cost Per Rentable Square Foot*
	Operating Expenses	$ 4.92
	Utilities Cost	2.30
	Tax Expenses	2.18
	Total 2002 Direct Expenses	*$ 9.40*

(b)	*Building C*	*Cost Per Rentable Square Foot*
	Operating Expenses	$ 4.78
	Utilities Cost	2,14
	Tax Expenses	2.17
	Total2002 Direct Expenses	*$ 9 09*

4. 2003 Direct Expenses. Settling Landlord and Tenant agree that the per rentable square foot 2003 Direct Expenses are set forth below:

(a)	*Building B—2003*	*Cost Per Rentable Square Foot*
	Operating Expenses	$ 5.63
	Utilities Cost	2.33
	Tax Expenses	*2.42*
	Total 2003 Direct Expense	*$ 10.38*

(b)	*Building C—2003*	*Per Rentable Square Foot*
	Operating Expenses	$ 5.49
	Utilities Cost	2.21
	Tax Expenses	2.34
	Total 2003 Direct Expenses	*$ 10.04*

5. Reconciliation.

(a) Building B. Tenant paid to Settling Landlord a total of $ 173,707.00 (approximately $.97 per rentable square foot) for Tenant's Share of the Excess of 2003 Direct Expenses over the Base Year Direct Expenses with respect to Building B. The total 2003 Direct Expenses for Building B payable by Tenant is $175,434.00, which is approximately $.98 per rentable square foot ($10.38 -$ 9.40). Tenant has underpaid $1,727.00 of such expenses.

(b) Budding C. Tenant paid to Settling Landlord a total of $141,394.00 (approximately $.96 per rentable square foot) for Tenant's Share of Excess of 2003 Direct Expenses over the Base Year Direct Expenses with respect to Building C. The total 2003 Direct Expenses for Building C payable by Tenant is $140,101.00, which is approximately $.95 per rentable square foot ($10.04 - $9.09). Tenant has overpaid $1,293.00 of such expenses.

(c) Reconciliation Payment. Tenant will pay to Settling Landlord, the underpayment of $434.00 ($1.727.00- $1,293.00), within 15 business days after execution of this Amendment.

6. Final Settlement. Settling Landlord, Successor Landlord and Tenant acknowledge and agree that this Fourth Amendment is a full and complete resolution of the determination and audit of Direct Expenses for 2002 and 2003 and each of Settling Landlord, Successor Landlord and Tenant waives and releases the others from any claim or other challenge to, and relinquishes all rights to object to, dispute or audit, the amount, determination and payment of the 2002 and 2003 Direct Expenses.

7. Waiver Of California Civil Code § 1542. Each party knowingly waives the provisions of California Civil Code §1542 which provides as follows

> A general release does not extend to claims which the creditor does not know or suspect to exist in his or her favor at the time of executing the release, which if known by him or her must have materially affected his or her settlement with the debtor.

Each party agrees that this Fourth Amendment is intended to cover all claims arising out of the determination of the 2002 and 2003 Direct Expenses including payment of the same, whether the same are known or unknown or hereafter discovered.

THE PARTIES HERETO EXPRESSLY ACKNOWLEDGE THAT THEY HAVE EACH BEEN ADVISED BY THEIR OWN COUNSEL OF THE CONTENTS AND EFFECT OF CALIFORNIA CIVIL CODE §1542 AND WITH SUCH KNOWLEDGE EACH EXPRESSLY WAIVES WHATEVER BENEFITS IT MAY HAVE PURSUANT TO SUCH PROVISION IN CONNECTION WITH THIS FOURTH AMENDMENT.

8. Binding Effect. This Fourth Amendment becomes effective only upon the execution by Settling Landlord and Tenant and the acknowledgment by Successor Landlord below. Each party hereto represents and warrants to the others that the person executing this Fourth Amendment on behalf of such party is duly authorized to do so.

9. Confirmation of Lease. As amended by this Fourth Amendment, Settling Landlord, Successor Landlord and Tenant ratify the terms and conditions of the Lease.

The undersigned have executed this Fourth Amendment as of the Effective Date.

LANDLORD:

Warner Center OPCO, L.P., a Delaware limited partnership

By: Warner Center Holdco, LLC, a Delaware limited liability company, general partner

By: DLJ Real Estate Capital Partners II, L.P., a Delaware limited partnership, managing member

By: DLJ Real Estate Capital II, Inc., a Delaware corporation, general partner

By /s/ Laura L. Hahn
Laura L. Hahn,
Authorized Agent

TENANT:

Health Net, Inc., a California corporation

By /s/ Dennis Bell
Name Dennis Bell
Title Vice President

Successor Landlord approves the form of this Fourth Amendment and the settlement of the 2002 Base Year Direct Expenses and 2003 Direct Expenses.

SUCCESSOR LANDLORD

MP Warner Center, a Delaware limited liability Company

By: RREEF MANAGEMENT COMPANY, a Delaware corporation, Authorized Agent

By /s/ Karen Saitta
Name Karen Saitta
Title Vice President
Dated:

Exhibit 10.87

FIFTH AMENDMENT TO OFFICE LEASE
LNR Warner Center

For valuable consideration, the receipt and adequacy of which are expressly acknowledged, Landlord and Tenant agree that:

1. **Definitions**. In this Fifth Amendment, the following terms have the meaning given:

(a) Effective Date: August 16, 2006.

(b) Landlord: MP Warner Center, LLC, a Delaware limited partnership.

(c) Tenant: Health Net of California, Inc., Inc., a California corporation.

(d) Lease: Office Lease dated September 20, 2000 between DCA Home, Inc. and Lennar Rolling Ridge, Inc. (collectively, "Prior Landlord") and Tenant ("Original Lease"), as amended by:

(1) First Amendment to Lease dated May 14, 2001, between LNR Warner Center, LLC ("LNR"), successor-in-interest to Prior Landlord, and Tenant ("First Amendment"),

(2) Second Amendment to Office Lease dated May 1, 2003 between LNR and Tenant ("Second Amendment").

(3) Third Amendment dated October 10, 2003 between Warner Center OPCO, L.P., a Delaware limited partnership ("OPCO"), successor-in-interest to LNR, and Tenant ("Third Amendment").

(4) Fourth Amendment to Office Lease dated May31, 2006 between OPCO, predecessor-in-interest to Landlord, and Tenant, and approved by Landlord, as successor-in-interest to OPCO ("Fourth Amendment").

(5) This Fifth Amendment.

(e) Original Premises: Approximately 288,749 rentable square feet (271,007 usable square feet), being all of Building B and Floors 3, 4, and 5 in Building C, as more particularly described in Section 6.2 of the Summary of Basic Lease Information to the Original Lease.

(f) Second Floor Building C Space: Approximately 34,987 rentable and 32,906 usable square feet on the second floor of Building C, as more particularly described in the First Amendment.

(g) First Floor Building C Space: Approximately 10,218 rentable and 9,066 usable square feet on the first floor of Building C, as more particularly described in the Second Amendment.

(h) Premises: Approximately 333,954 rentable and 312,979 usable square feet, comprised of the Original Premises, the Second Floor Building C Space, and the First Floor Building C Space.

(i) Building B: 21281 Burbank Blvd.
Woodland Hills, CA 91367

(j) Building C: 21271 Burbank Blvd.
Woodland Hills, CA 91367

Any capitalized term used in this Fifth Amendment but not defined in this Fifth Amendment has the meaning set forth for such term in the Lease.

2. **Rescission of 2nd Reduction Notice**. Prior to execution of this Fifth Amendment, Tenant delivered to Landlord a Reduction Notice dated December 30, 2005 (the "2nd Floor Reduction Notice") pursuant to Section 1.7 of the Original Lease purporting to reduce the Second Floor Building C Space from the Premises prior to the scheduled December 31, 2007 expiration date therefor. Notwithstanding Tenant's delivery of such 2nd Floor Reduction Notice, such 2nd Floor Reduction Notice and any reduction of the Second Floor Building C Space contemplated thereby are hereby irrevocably rescinded, terminated and of no force and effect as if the 2nd Floor Reduction Notice was never delivered by Tenant to Landlord.

3. **Extension of Lease Term for Second Floor Building C Space**. Tenant has properly exercised its 2nd Floor Extension Option to extend the 2nd Floor Lease Term (which is currently scheduled to expire on December 31, 2007) for the Second Floor Building C Space for the four (4) year 2nd Floor Extension Term (as such terms are defined in the First Amendment). Accordingly, the 2nd Floor Lease Term for the Second Floor Building C Space, and the Second Floor Building C Expiration Date, are each hereby extended four (4) years until December 31, 2011. As a result of such extension, the Expiration Date for all of the Premises described in Section 1(h) above is now December 31, 2011. The Base Rent payable for the Second Floor Building C Space during such 2nd Floor Extension Term shall be as set forth in the second (2nd) schedule contained in Section 5(b) of the Third Amendment.

4. **Landlord's Addresses**. As of the Effective Date, Landlords Addresses, as amended and replaced in Section 7 of the Third Amendment, are hereby further amended and replaced with the following:

MP Warner Center
c/o RREEF Management Company
5820 Canoga Avenue, Suite 220
Woodland Hills, California 91367
Attention: District manager

Landlord's Address for Rent Payments:
MP Warner Center, LLC
DEPT. 2798
Los Angeles, CA 90084

5. **Deletion of Reduction Rights**. Section 1.7 of the Original Lease and Tenant's reduction rights set forth therein are hereby deleted in their entirety and of no further force or effect.

6. **Brokers**. Landlord and Tenant each hereby represents and warrants to the other party that the representing party has had no dealings with any real estate broker or agent in connection with the negotiation of this Fifth Amendment other than Cushman & Wakefield, Inc. ("Broker"), and that the representing party knows of no other real estate broker or agent who is entitled to a brokerage commission in connection with this Fifth Amendment. Tenant shall be solely responsible for paying all brokerage commissions and fees, if any, payable to Broker with respect to the rescission and termination of the 2nd Floor Reduction Notice as provided in Section 2 above, and any portion of the lease term for the Second Floor Building C Space reinstated as a result of such rescission and termination through December 31, 2007. Landlord shall be solely responsible for paying all brokerage commissions and fees (if any) payable to Broker with respect to the extension of the lease term for the Second Floor Building C Space as provided in Section 3 above for the four (4) year 2nd Floor Extension Term (i.e., for the 4-year period from January 1, 2008 through December 31, 2011), but not for any period prior thereto, all pursuant to a separate agreement between Landlord and Broker. Each party agrees to indemnify and defend the other party against and hold the other party harmless from any and all claims, demands, losses, liabilities, lawsuits, judgments, costs and expenses (including without limitation reasonable attorneys' fees) with respect to (i) any failure by such party to pay the commissions and fees payable by such party to Broker with respect to this Fifth Amendment as provided hereinabove, and (ii) any leasing commissions or equivalent compensation alleged to be owing in connection with this Fifth Amendment on account of the indemnifying party's dealings with any real estate broker or agent other than Broker.

7. **Binding Effect**. This Fifth Amendment becomes effective only upon the execution by Landlord and Tenant. Each party hereto represents and warrants to the other that the person executing this Fifth Amendment on behalf of such party is duly authorized to do so.

8. **Confirmation of Lease**. As amended by this Fifth Amendment, Landlord and Tenant ratify the terms and conditions of the Lease.

LANDLORD:

MP WARNER CENTER,
a Delaware limited liability company

By: RREEF Management Company,
a Delaware corporation,
Authorized Agent

By: /s/ Karen Saitta
Name: Karen Saitta
Its: Vice President

Date: 8/31/06

TENANT:

HEALTH NET OF CALIFORNIA, INC.,
a California corporation

By: /s/ Dennis Bell
Name: Dennis Bell
Title: Vice President Real Estate Management
Date: 8/30/06

Exhibit 10.91

THIRD AMENDMENT OF LEASE

This Third Amendment of Lease is made as of this 16th day of October, 2006, by and between Beard Sawmill, LLC (hereinafter referred to as "Landlord"), and Health Net of the Northeast, Inc.

In consideration of the mutual benefits and obligations set forth herein, the parties hereby amend a certain lease between Landlord and Physicians Health Services of Connecticut, Inc. dated August 18, 2000, previously amended by a First Amendment of Lease dated December 23, 2002 and a Second Amendment of Lease dated June 14, 2004, all for the lease of space in Landlord's building at 100 Beard Sawmill Road, Shelton, Connecticut (the August 18, 2000 lease as amended, hereinafter referred to collectively as the "Lease"), in the following manner:

A. Said First Amendment of Lease and Second Amendment of Lease are hereby canceled and restated, as amended by this Third Amendment of Lease, such that as of the Third Amendment of Lease, the Lease shall be read and interpreted by reference to only the August 18, 2000 lease and this Third Amendment of Lease.

B. As of the date of this Third Amendment of Lease, it is agreed by both parties hereto that Health Net of the Northeast, Inc. ("HNNE"), successor in interest to Physicians Health Services of Connecticut, Inc. has assumed all rights and obligations as tenant under the Lease pursuant to that certain Assignment and Assumption of Lease between Health Net of Connecticut, Inc., as Assignor, and HNNE, as Assignee, dated of substantially even date herewith. Hereinafter, HNNE shall be referred to as "Tenant".

C. Paragraph 1.1 (c) of the Lease is deleted and is replaced with the following:

"1.1 (c) The Tenant's Leased Premises Square Footage fluctuates over the Initial Term of the Lease, and the following square footages represent the Tenant's Leased Premises Square Footage for the various periods during the Initial Term of the Lease:

[i] 104,233 square feet, for the period from the Initial Commencement Date until February 28, 2003;

[ii] From and after March 1, 2003, Tenant's Leased Premises Square Footage shall be increased by 5,727 square feet, and the space designated as Space 2A on Exhibit A, Sheet 1 shall be added to Tenant's Leased Premises Square Footage;

[iii] From and after June 28, 2004, Tenant's Leased Premises Square Footage shall be increased by 5,288 square feet, and the space designated as Space 2B on Exhibit A, Sheet 1 shall be added to Tenant's Leased Premises Square Footage;

[iv] From and after August 15, 2004, Tenant's Leased Premises Square Footage shall be increased by 5,990 square feet, and the space designated as Space 2C on Exhibit A, Sheet 1 shall be added to Tenant's Leased Premises Square Footage;

[v] From and after November 1, 2004, Tenant's Leased Premises Square Footage shall be increased by 6,217 square feet, and the space designated as Space 2D on Exhibit A, Sheet 1 shall be added to Tenant's Leased Premises Square Footage;

[vi] From and after the Space 1A Commencement Date, Tenant's Leased Premises Square Footage shall be increased by 4,020 square feet, and the space designated as Space 1A on Exhibit A, Sheet 2 shall be added to Tenant's Leased Premises Square Footage. The "Space 1A Commencement Date" is the date on which Landlord delivers possession of the Space 1A to Tenant, broom clean and free of any possessions of any other tenant; and

[vii] From and after the Space 1B Commencement Date, Tenant's Leased Premises Square Footage shall be increased by 793 square feet, and the space designated as Space 1B on Exhibit A, Sheet 2 shall be added to Tenant's Leased Premises Square Footage. The "Space 1B Commencement Date" is the date on which Landlord delivers possession of the Space 1B to Tenant, broom clean and free of any possessions of any other tenant."

D. Paragraph 1.1 (d) of the Lease is deleted and is replaced with the following:

"1.1 (d) The "Initial Commencement Date" is September 1, 2001"

E. Paragraph 1.1 (e) of the Lease is deleted and is replaced with the following:

"1.1 (e) The "Initial Term" is from September 1, 2001 until the end of the day on August 31, 2016."

F. Paragraph 1.1 (g) of the Lease is deleted and is replaced with the following:

"1.1 (g) The "Base Rent" for the Initial Term is $14.00 per square feet of Tenant's Leased Premises Square Footage (as described in paragraph 1.1 (c)) per annum, payable in equal monthly installments, in advance, on the first of each month."

G. Paragraph 1.1 (i) of the Lease is deleted and is replaced with the following:

"1.1 (i) The "Notice Address" for Landlord and Tenant are:

Landlord:

Beard Sawmill, LLC
% R. D. Scinto, Inc.
One Corporate Drive, Suite 100
P. O. Box 880

Shelton, CT 06484

Tenant:

Health Net of the Northeast, Inc.
One Far Mill Crossing
P.O. Box 904
Shelton, CT 06484
Attn: Chief Financial Officer

Health Net, Inc.
P.O. Box 2470
Rancho Cordova, CA 95741 2470
Attn: Director of Real Estate"

H. Paragraph 2.17 of the Lease is deleted and replaced with the following:

"2.17 "Tenant's Percentage" means the percentage equivalent to the ratio of the Leased Premises Square Footage divided by the Total Building Square Footage which as of the Initial Commencement Date is 70.11%. Tenant's Percentage shall be proportionately adjusted upon any change in Tenant's Leased Premises Square Footage or Total Building Square Footage, but will not be adjusted based upon the degree of occupancy of the Project."

I. The following paragraphs, Paragraph 3.07, Paragraph 3.08, and Paragraph 3.09 are hereby added to the Lease:

"3.07 Paragraph 3.04 of the Lease outlines the Landlord's Initial Fit-Out Work required to be completed by the Landlord under the terms of the Lease. Landlord has completed all work required under the terms of the Lease and the Leased Premises has been accepted by Tenant.

3.08 Landlord has completed all work required to the Second Floor Space A and the Second Floor Space A has been accepted by Tenant.

3.09 Tenant shall accept possession of Space 2B, Space 2C, Space 2D, Space 1A and Space 1B on an as is basis."

References to Exhibit A means the Exhibit A attached to the August 18, 2000 lease. "Exhibit A, Sheet 1" and "Exhibit A, Sheet 2" are separate exhibits from Exhibit A, and are added to the Lease and incorporated into it as new exhibits, and are attached hereto.

In the event of any conflict between this Third Amendment of Lease and the August 18, 2000 lease, this Third Amendment of Lease shall control, the Lease being hereby ratified and to remain in full force and effect in all other respects.

IN WITNESS WHEREOF, the parties have hereunto set their hands and seals as of the day and year first above written.

BEARD SAWMILL, LLC

/s/ Robert D. Scinto
By: Robert D. Scinto, a member

HEALTH NET OF THE NORTHEAST, INC.

By: /s/ Dennis Bell
Its: Vice President Real Estate Management

AFFIRMATION OF GUARANTY LEASE BY HEALTH NET, INC.

In consideration of Beard Sawmill, LLC, as Landlord, entering into an amendment to the lease dated the 18th day of August, 2000 between Landlord and Physicians Health Services, Inc. and which amendment, the Third Amendment of Lease dated the _____ day of _____, 2006 , recognizes Health Net of the Northeast, Inc., successor in interest to Physicians Health Services of Connecticut, Inc. as "Tenant" and increases the size of Tenant's leased premises, the undersigned Guarantor does hereby covenant and agree, to and with the Landlord, and the Landlord's heirs, assigns and personal representatives, that if a default shall at any time be made by the Tenant of the terms of the Lease as amended by the Third Amendment of Lease, including without limitation, the Base Rent, the Additional Rent and any damages as a result of breach, then the undersigned Guarantor will well and truly pay said sums that may remain due unto the Landlord.

IN WITNESS WHEREOF, the Guarantor has executed this affirmation of guaranty on the 5th day of October, 2006.

Health Net, Inc.

By: /s/ Dennis Bell

State of California

As City/Town of Woodland Hills

County of Los Angeles

Personally appeared Dennis Bell, signer and sealer of the foregoing instrument and duly authorized Vice President of Health Net, Inc., who acknowledged the same to be his/her free act and deed and the duly authorized free act and deed of Health Net, Inc., before me, this 5th day of October, 2006.

/s/ Lisa Vizconde
Notary

Exhibit 10.93

PAPAGO BUTTES CORPORATE PLAZA
1230 West Washington Street

OFFICE LEASE

TOSCO OPERATING COMPANY, INC.
a Delaware corporation

Landlord

and

HEALTH NET OF ARIZONA, INC.
an Arizona corporation

Tenant

Dated: July 24, 2003

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EXHIBIT B – THE BUILDING
EXHIBIT C – CONSTRUCTION PROVISIONS
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EXHIBIT C-2 – BASE BUILDING DEFINITION
EXHIBIT D – RULES AND REGULATIONS

OFFICE LEASE

TOSCO OPERATING COMPANY, INC., a Delaware corporation ("Landlord"), hereby leases the Premises described below, for the Term and on the terms and conditions set forth in this Lease, to **HEALTH NET OF ARIZONA, INC**., an Arizona corporation ("Tenant")

1. **SUMMARY OF BASIC TERMS**

1.1 **The Premises**: Suite 400 in the Building, consisting of approximately 27,954 square feet of Rentable Area (26,931 square feet of Usable Area) on the fourth floor and Suite 303, consisting of approximately 5,731 square feet of Rentable Area (5,072 square feet of Usable Area) on the third floor as illustrated on the attached Exhibit A.

1.2 **The Building**: The building, associated parking facilities, landscaping and other improvements, located at 1230 West Washington Street, Tempe, Arizona. A site plan for the Building is attached as Exhibit B. The Building is part of an office complex (the "Complex"), known as Papago Buttes Corporate Plaza, that includes the building located at 1500 North Priest Drive, Tempe, Arizona. The Building is comprised of approximately 156,276 square feet of Rentable Area after adjustment for the artificially-reduced load factor of 13%. Using a full BOMA-calculated load factor, the Rentable Area of the Building would be approximately 159,914 square feet.

1.3 **The Term**: Ten years and six months, beginning on the Commencement Date, plus the remainder of any calendar month in which the ten-year, six-month anniversary of the Commencement Date occurs.

1.4 **Scheduled Commencement Date**: December 26, 2003, subject to the provisions of Section 2.1 and Exhibit C.

1.5 **Base Rent**:

Period	Base Rent Per Rentable Sq. Ft.	Annual Base Rent	Monthly Base Rent Payment
Lease Months 1-6	$ 7.50	$ 252,637.50	$ 21,053.13
Lease Months 7-18	$ 20.50	$ 690,542.50	$ 57,545.21
Lease Months 19-30	$ 21.00	$ 707,385.00	$ 58,948.75
Lease Months 31-42	$ 21.50	$ 724,227.50	$ 60,352.29
Lease Months 43 54	$ 22.00	$ 741,070.00	$ 61,755.83
Lease Months 55-66	$ 22.50	$ 757,912.50	$ 63,159.38
Lease Months 67-68	$ 23.00	$ 774,755.00	$ 64,562.92
Lease Months 79-90	$ 23.50	$ 791,597.50	$ 65,966.46
Lease Months 91-102	$ 24.00	$ 808,440.00	$ 67,370.00
Lease Months 103-114	$ 24.50	$ 825,282.50	$ 68,773.54
Lease Months 115-126	$ 25.00	$ 842,125.00	$ 70,177.08

For purposes of this Lease, "Lease Month" means a full calendar month, except that Lease Month 1 shall include the first full calendar month after the Commencement Date and any partial calendar month that precedes it. Notwithstanding the foregoing, the six-month period during which the Base Rental Rate is $21,053.13 per month shall be preserved. Thus, if the Commencement Date occurs on December 26, 2003, then the amount of the Base Rent for the month of April 2004 shall be prorated and adjusted based on the number of days for which the $21,053.13 per month rate (subject to adjustment pursuant to Section 6.2) applies (25) and the number of days to which the $57,545.21 per month rate (subject to adjustment pursuant to Section 6.2) applies (5).

1.6 **Tenant's Proportionate Share**: 21.42%, consisting of the proportion that the Rentable Area of the Premises bears to the Rentable Area of the Building.

1.7 **Base Year**: 2004

1.8 **Security Deposit**: $64,744.13

1.9 **Permitted Use**: General office and administrative use.

1.10 **Parking Spaces**: Thirty covered reserved spaces, ninety covered unreserved spaces, and thirty uncovered unreserved spaces.

1.11 **Tenant Improvement Allowance**: $38.00 per square foot of Usable Area.

1.12 **Tenant's Notice Address**:

Post Office Box 2470
Rancho Cordova, California 95741-2470
Attention: Director of Real Estate

and to:

Colliers International
1610 Arden Way, Suite 242
Sacramento, California 95815
Attention: Corporate Services Department
Re: Health Net

1.13 **Landlord's Notice Address**: ConocoPhillips, 1500 North Priest Drive, Tempe, Arizona 85072, Attention: Building Services Manager.

1.14 **Tenant's Designated Broker**. Cushman & Wakefield

1.15 **Landlord's designated broker**. Cushman & Wakefield

2. **DELIVERY, TERM AND CONSTRUCTION**

2.1 **Condition**. Landlord shall cause the Base Building and the Tenant Improvements to be constructed in accordance with the provisions of Exhibit C ("Landlord's Work"). Exhibit C also sets forth the respective obligations of Landlord and Tenant with respect to the design and construction of Tenant Improvements for the Premises. Landlord shall have no obligation to make any improvements or alterations to the Premises except as provided in Exhibit C. Landlord may make changes in the size, configuration, floor plan and design of the Building outside the Premises without Tenant's consent so long as such are consistent with the existing character and use of the Building, and the size and utility of the Premises are not materially affected.

2.2 **Term**. The Term of this Lease, and the scheduled date of commencement of the Term, are set forth in Sections 1.3 and 1.4. The Commencement Date shall be the later of: (a) thirty days after the date that Landlord delivers actual possession of the Premises to Tenant with Landlord's Work and the Tenant Improvements substantially complete, or and (b) the date that Landlord has obtained all approvals and permits from the appropriate governmental authorities required for the legal occupancy of the Premises for Tenant's intended use; provided, however that the Commencement Date shall not be later than the date Tenant commences its business operations in the Premises. "Substantially complete" or "substantial completion" means when Landlord completes construction of the work on the Premises in accordance with the Plans, with the exception of any minor "punchlist" items and any Tenant fixtures, work-stations, built-in furniture, or equipment to be installed by Tenant. Substantial completion shall not be deemed to have occurred if there remains any incomplete or defective item of Tenant Improvements that would adversely affect Tenant's intended use of the Premises.

2.3 **Delayed Delivery.** If delivery of possession of the Premises to Tenant is delayed because of a delay in the substantial completion of construction of the Tenant Improvements, because of a failure of an existing tenant to surrender possession of the Premises to Landlord, or for any other reason, then this Lease shall remain in full force and effect, and Landlord shall not be liable to Tenant for any damage occasioned by such delay. Notwithstanding the foregoing, if delivery of possession to Tenant with the Tenant Improvements substantially completed is delayed so that the Commencement Date is more than 90 days after the Scheduled Commencement Date as set forth in Section 1.4, however, the provisions of Exhibit C and Section 20 of this Lease shall control.

2.4 **Memorandum.** At the request of either party at any time following initial occupancy of the Premises by Tenant, Landlord and Tenant shall execute a written memorandum reflecting the date of initial occupancy and confirming the Commencement Date, the Expiration Date, and the Rentable Area of the Premises.

2.5 **Area Measurement**. "Rentable Area" means rentable area measured in accordance with American National Standard Z65.1-1996, as published by BOMA International ("BOMA Standards"). The Rentable Area of the Premises has already been measured. An artificial load ("R/U") factor of 1.13 (which is not in excess of that provided under BOMA Standards) has been applied to the usable area of the Premises to determine the Rentable Area.

2.6 **Extension Option**.

(a) So long as no Event of Default shall have occurred under this Lease, Tenant shall have two options to extend the Term of this Lease for periods of five years each (the "Extension Options"). Tenant shall exercise each Extension Option by giving written notice to Landlord at least nine months before the applicable Extension Option term would begin. Tenant's use and occupancy of the Premises during the extended Term shall be subject to all the terms and conditions of this Lease except that Base Rent for the first year of the Extension Option term shall be at 95% of the Market Rate and Base Rent for subsequent years may be subject to increase as provided below. For purposes of this Section 2.6, "Market Rate" means the then-prevailing market rate in the relevant office submarket for rental of space in buildings of the same age, construction, size and location as the Premises with the improvements installed therein at Landlord's expense and shall take into account Tenant's obligation to pay additional rent under this Lease and other tenants' obligations to pay similar amounts under comparable leases. "Market Rate" shall include periodic scheduled rental increases then being included in leases under prevailing custom. The determination of Market Rate shall not include any alterations installed in the Premises at Tenant's expense.

(b) Within thirty days after written request, Landlord shall designate a proposed Market Rate for the Extension Option term, provided, however, under no circumstances shall Landlord be obligated to respond earlier than eleven months before the applicable Extension Option term would begin. Except as provided below, if Tenant exercises the Extension Option without demanding arbitration as provided below, it shall be deemed to have accepted the Market Rate proposed by Landlord.

(c) If Tenant contests Landlord's proposed Market Rate, it shall so notify Landlord within ten days after receipt of such proposed Market Rate, and the parties shall proceed to attempt to negotiate an agreed Market Rate within the following ten days. If no agreement is reached, Tenant may by written notice to Landlord exercise the Extension Option and demand that the matter be submitted to binding arbitration as provided below, in which case each party shall prepare a written notice (the "Final Offer Notice") to the other: (i) setting forth its Final Offer with respect to what constitutes Market Rate; and (ii) designating a qualified real estate broker that has at least five years of experience leasing office space in the relevant submarket containing the Building and that has no business or other relationship with either Landlord or Tenant. The Final Offer Notices shall be prepared within five business days after receipt of Tenant's demand for arbitration and the parties shall cooperate to arrange for the simultaneous exchange of the Final Offer Notices. Failure of a party to prepare its Final Offer Notice in a timely manner shall constitute agreement with the Final Offer of the other party.

(d) The two brokers so designated shall jointly select a third impartial broker with the same qualifications, and such third broker shall serve as the sole arbitrator. The arbitrator shall promptly schedule a hearing at which each party may present its position and arguments and the arbitrator may conduct such further inquiry as he or she deems necessary or appropriate at no additional cost to any party. The arbitrator, based upon his or her experience and the information submitted, shall decide whether Landlord's Final Offer or Tenant's Final

Offer most closely represents Market Rate, and the Final Offer selected by the arbitrator, without compromise, shall be final and binding on both parties as the governing Market Rate for purposes of the Extension Option Term. The party whose Final Offer was not selected by the arbitrator shall bear all reasonable fees and costs of the arbitrator and all reasonable attorneys' fees and costs incurred by the other party.

2.7 **Right of Termination**. Tenant shall have the option to terminate this Lease effective as of the end of Lease Month 66 (the "Effective Date") by notice ("Termination Notice") given to Landlord on or before the end of Lease Month 57. If Tenant fails to give a Termination Notice within the time allowed, then Tenant shall be deemed to have waived Tenant's right to terminate the Lease under this Section 2.7. If Tenant gives a Termination Notice, then Tenant shall pay to Landlord a termination fee equal to the sum of: (a) $157,241.25, plus (b) the unamortized balance as of the termination date, calculated using an interest rate of 8% per annum over the initial 126 Lease Month Term, of the sum of (i) the total amount paid by Landlord for brokerage commissions and Tenant Improvements h connection with this Lease, plus (ii) $181,701.00 (the amount of the Base Rent reduction for the first six Lease Months). Tenant's payment of the termination fee shall be a condition precedent to Tenant's early termination of the Lease contemplated by this Section but such payment shall not be due until thirty days after Tenant's receipt of a written notice from Landlord accurately and clearly setting forth the termination fee.

3. **USE OF PREMISES**

3.1 **Permitted Uses**. Tenant may use and occupy the Premises for the purposes set forth in Section 1.9 and for no other purpose whatsoever without Landlord's prior written consent. The Premises shall not be used for medical diagnosis, treatment, testing, or consultation.

3.2 **Insurance Restrictions**. Tenant shall not engage in any practice or conduct that would cause the cancellation of any insurance policies related to the Building. Tenant shall reimburse Landlord for any increases in insurance premiums paid by Landlord directly related to the nature of Tenant's use of the Premises or the nature of Tenant's business.

3.3 **Prohibitions**. Tenant shall not cause or maintain any nuisance in or about the Premises and shall keep the Premises free of debris, rodents, vermin and anything of a dangerous, noxious or offensive nature or which would create a fire hazard (through undue load on electrical circuits or otherwise) or undue vibration, noise or heat. Tenant shall not cause the safe floor loading capacity of the Premises to be exceeded. Tenant shall not disturb or interfere with the quiet enjoyment of the premises of any other tenant.

3.4 **Rules and Regulations**. Tenant shall comply and shall cause its employees to comply with the rules and regulations for the Building. The current rules and regulations are attached as Exhibit D. Landlord from time to time by notice to Tenant may amend the rules and regulations and establish other reasonable non-discriminatory rules and regulations for the Building.

3.5 **Compliance with Environmental Laws**.

(a) Tenant shall

(i) comply with all duties imposed upon Tenant by federal, state and local laws, rules, orders, or regulations pertaining to health or the environment ("Environmental Laws"), including, without limitation, the comprehensive Environmental Response, Compensation, and Liability Act of 1980, as amended ("CERCLA") and the Resource Conservation and Recovery Act of 1987, as amended ("RCRA");

(ii) not dispose of (nor permit or acquiesce in the disposal by any of Tenant's agents, employees, contractors or representatives) of any waste products (including, but not limited to, paints, solvents, or paint thinners) on, under or around the Premises or the Building in violation of Environmental Laws;

(iii) not keep, store, or use within the Premises any regulated substances except small quantities that are reasonably necessary for Tenant's business and in compliance with Environmental Laws; and

(iv) defend, indemnify and hold harmless Landlord from all costs, claims, demands, and damages, including attorneys' fees and court costs and investigatory and laboratory fees, related to any breach of Tenant's obligations under this Section3.5, including, without limitation, any adverse health or environmental condition (including without limitation any violation of Environmental Laws) caused by Tenant. This indemnification obligation shall survive the termination of this Lease.

(b) To the Landlord's actual knowledge, (i) no hazardous materials are present on the Building in violation of any Environmental Laws, (ii) no underground storage tanks are present on the Building, and (iii) no action, proceeding or claim is pending or threatened regarding the Building concerning any hazardous materials or pursuant to any Environmental Laws. Notwithstanding anything to the contrary in this Lease, under no circumstance shall Tenant be liable for, and Landlord shall indemnify, defend and hold harmless Tenant from and against, all losses, costs, claims, liabilities and damages (including reasonable attorneys' and consultants' fees) of every type and nature, directly or indirectly arising out of or in connection with any hazardous materials present at any time on or about the Building, or the soil, air, improvements, groundwater or surface water thereof, or the violation of any Law relating to any such hazardous materials, except to the extent that any of the foregoing results from the acts or omissions of Tenant or Tenant's agents, employees, or contractors.

3.6 **ADA**. With respect to obligations arising under the Americans with Disabilities Act of 1990, regulations issued thereunder, the Accessibility Guidelines for Buildings and Facilities issued pursuant thereto, and any applicable requirements under comparable or related state law, as the same are in effect on the date hereof and may be hereafter modified or amended or supplemented (collectively the "ADA"):

(a) Landlord shall comply with the ADA with respect to operation of the Common Areas, work done in Common Areas (including, without limitation and as the case may be, alterations, barrier removal, or new construction) and reconstruction and restoration of the

Premises by Landlord as a result of a casualty or taking. Landlord shall be solely responsible for causing the design of the Common Areas to satisfy all ADA requirements. Landlord shall be responsible for causing the design of the initial Tenant Improvements constructed pursuant to Exhibit C to satisfy all ADA requirements.

(b) Tenant shall comply with the ADA relating to Tenant's particular use of the Premises and alterations or improvements within the Premises made by Tenant.

3.7 **Compliance with Other Laws**. Tenant shall comply with all other laws imposed by federal, state or local authority related to the operation of its business and its occupancy of the Premises. If due to the particular nature of Tenant's use of the Premises, or due to alterations made by Tenant, improvements or alterations are necessary to comply with any requirements imposed by law or with the requirements of insurance carriers, Tenant shall pay the entire cost of the improvements or alterations. Otherwise such costs shall be borne by Landlord (subject to reimbursement pursuant to Article 7). Notwithstanding anything to the contrary in this Lease, Landlord represents and warrants that at the Commencement ate, to the best of Landlord's actual knowledge, the Premises, the Tenant Improvements, and the Building shall conform to all requirements of the ADA, any covenants, conditions, restrictions and encumbrances ("CC&R's"), all underwriters' requirements, and all rules, regulations, statutes, ordinances, laws and building codes, (collectively, "Laws") applicable thereto. Tenant shall not be required to construct improvements required by (or pay the cost of complying with) any CC&R' s, underwriters' requirements or Laws requiring construction of improvements in the Premises, the costs of which are which are properly capitalized under general accounting principles, unless such compliance is necessitated solely because of Tenant's particular use of the Premises or alterations made by Tenant.

4. PARKING AND COMMON AREAS

4.1 **Administration**. All of the portions of the Building made available by Landlord for use in common by tenants and their employees and invitees ("Common Areas") at all times shall remain subject to Landlord's exclusive control, and Landlord shall be entitled to make such changes in the Common Areas as it reasonably deems appropriate, provided that Tenant's access to the Premises, and use and enjoyment of the Premises is not materially adversely affected. The Common Areas shall include public restrooms. Landlord shall have the right to install, maintain, replace and operate cables, lines, wires, pipes or other facilities located above the ceiling grid or below the floor surface of the Premises for purposes of serving the Building or other tenants, provided that Tenant's access to, and use and enjoyment of, the Premises is not materially adversely affected. Tenant shall not disturb any such facilities.

4.2 **Security**. Landlord shall install and operate an electronic system controlling access to the Building outside of normal business hours. Tenant shall comply with such reasonable security procedures and requirements as Landlord may establish from time to time. Landlord does not, however, undertake responsibility for the security of tenants or their property, and Landlord shall not be responsible or liable for any loss or damage that is caused by criminal conduct of third parties, despite whatever security measures Landlord may implement, or by any malfunction or deficiency of the electronic access control system.

4.3 **Parking**. Tenant and its employees shall be entitled at all times to the use of the Parking Spaces set forth in Section 1.10 in the parking structure for the Building. Neither Tenant nor its employees shall use spaces designated for visitor parking (except for Tenant's visitors) and Landlord may impose and collect from Tenant reasonable fines for violation of this restriction. The selection of Tenant's covered reserved Parking Spaces from spaces not already reserved shall be subject to Landlord's reasonable approval. Tenant shall cooperate with such reasonable and generally-applicable requirements for access to the parking facilities as Landlord may establish from time to time, including use of parking stickers, key cards, or other means. Tenant shall register with Landlord all vehicles parked in the Complex by Tenant and its employees. Landlord shall have no responsibility or liability for damage to vehicles parked in the Parking Spaces, regardless of cause. Tenant shall pay to Landlord charges for the Parking Spaces, in advance on or before the first day of each month, in the amount of $30 per month per covered reserved space and $20 per month per covered unreserved space; provided, however, for the first twenty-four Lease Months, no charges shall be paid for parking and during any Extension Option terms, the amount of the parking charges shall be the standard parking rates for the Building parking structure as established and modified from time to time by Landlord. If during the Term Tenant desires to exchange covered reserved spaces for canopy-covered reserved spaces at the same monthly rate, Tenant shall be entitled to do so subject to availability of such canopy-covered reserved spaces.

5. SECURITY DEPOSIT

Upon execution of this Lease Tenant shall deposit with Landlord a security deposit in the amount set forth in Section 1.8 to secure Tenant's performance of this Lease. The security deposit shall not bear interest, shall not be required to be maintained in a separate account, and shall be returned, less any unpaid claims against Tenant, upon the expiration of this Lease and the surrender of possession of the Premises, to Tenant or to the last assignee of Tenant's interest.

6. RENT

6.1 **Base Rent**. Tenant shall pay to Landlord, in advance, on the first day of each calendar month, beginning on the Commencement Date, Base Rent in the amount set forth in Section 1.5, subject to adjustment under Section 6.2.

6.2 **Adjustment for Rentable Area**. The amount of the Base Rent shall be adjusted based on the applicable rate of Base Rent Per Rentable Square Foot as shown in Section 1.5 and the result of the measurement of the Premises pursuant to Section 2.5.

6.3 **Late Charges and Interest**. If Base Rent or any other amount payable under this Lease is not paid within ten days after the date it is due, Tenant shall pay to Landlord, as liquidated damages to compensate Landlord for costs and inconveniences of special handling and disruption of cash flow, a late charge in the amount of 5% of the amount past due. The assessment or collection of a late charge shall not constitute the waiver of a default and shall not bar the exercise of other remedies for nonpayment. In addition to the late charge, all amounts not paid within ten days after the date due shall bear interest from the date due (i) until the happening of an Event of Default, at the rate of 12% per annum and (ii) thereafter, at the rate set forth in Section 19.2.

6.4 **Obligations Are Rent**. All amounts payable by Tenant to Landlord under this Lease, including without limitation Base Rent and Operating Costs, constitute rent and shall be payable without notice, demand, deduction or offset (except as specifically provided in this Lease) to such person and at such place as Landlord may from time to time designate by written notice to Tenant.

6.5 **Proration**. Base Rent payable with respect to a period consisting of less than a full calendar month shall be prorated.

7. **OPERATING COSTS**

7.1 **Tenant's Share**. During the Term of this Lease, Tenant shall pay to Landlord Tenant's Proportionate Share of the amount, if any, by which Operating Costs for a calendar year exceed Operating Costs for the Base Year set forth in Section 1.7.

7.2 **Estimates**. From time to time Landlord shall by written notice specify Landlord's estimate of Tenant's obligation under Section 7.1. Tenant shall pay one-twelfth of the estimated annual obligation on the first day of each calendar month.

7.3 **Annual Reconciliation**. Within 120 days after the end of each calendar year, Landlord shall provide to Tenant a written summary of the Operating Costs for the calendar year, determined on an accrual basis and broken down by principal categories of expense, together with copies of all supporting invoices. The statement also shall set forth Tenant's Proportionate Share of Operating Costs and shall show the amounts paid by Tenant on account. Any deficit between Tenant's obligation and the amounts paid by Tenant on account shall be paid within thirty days after the statement is provided, and any overpayment shall be refunded by Landlord with the statement. Late delivery of the annual statement of Operating Costs shall not relieve Tenant of any obligation with respect to payment of Tenant's Proportionate Share of the Operating Costs, provided that such delay does not exceed six months. For at least six months after the end of each calendar year, Landlord shall maintain complete and accurate books and records regarding the Operating Costs for such calendar year. Such books and records shall be kept at a location in the continental United States known to Tenant, and Tenant or its auditors shall have the right, upon ten days prior written notice, to inspect, copy at Tenant's expense, and audit such books and records at any time during normal business hours and in a manner that does not unreasonably disturb Landlord's operations. Any overpayment or underpayment discovered in such audit shall be paid by the applicable party within thirty days after delivery of the written report of the auditor to Landlord. Any overpayment or underpayment discovered in such audit shall be paid by the applicable party within thirty days after delivery of the written report of the auditor to Landlord. In each event, the audit must be performed by a CPA or other accounting professional with at least five years experience performing similar audits and such accounting professional shall not be paid upon a contingent fee basis or other method that compensates such accounting professional based upon the amount of discrepancies discovered. If the audit shows that Landlord overstated the actual amount of Operating Costs by more than five percent, Landlord shall pay Tenant the cost of the audit.

7.4 **Partial Year Proration; Variable Cost Adjustment**. During the last year of the Term, Tenant's responsibility for Operating Costs shall be adjusted in the proportion that the number of days of that calendar year during which the Lease is in effect bears to 365. Tenant's

obligations under this Article 7 for the payment of Operating Costs during the Lease Term, including the payment of any deficiency following receipt of the annual statement under Section 7.3, shall survive the expiration or termination of this Lease. If the mean level of occupancy of the Building during a calendar year (including the Base Year) is less than 95% of the Rentable Area, the Operating Costs shall be adjusted to reflect the fact that some costs, such as air conditioning and janitorial services, vary with level of occupancy while other costs, such as real estate taxes, may not. In order to allocate those variable costs to occupied space while allocating non-variable costs to occupied and unoccupied space alike, Landlord shall determine what total Operating Costs would have been had the Building been at least 95% occupied during the entire calendar year on the average, and that adjusted total shall be the figure employed in the statement and calculations described in Sections 7.1 and 7.3. If the mean level of occupancy exceeds 95%, no adjustment shall be made.

7.5 **"Operating Costs"** consist of the actual cost of operating, maintaining and repairing the Building, including, without limitation, the following:

(a) Real Estate Taxes and expenses incurred in efforts to reduce Real Estate Taxes;

(b) Premiums for property, casualty, liability, rent interruption or other insurance and losses to the degree falling within a deductible amount;

(c) Salaries, wages and other amounts paid or payable for personnel including the Building manager, superintendent, operation and maintenance staff, and other employees of Landlord directly involved in the maintenance and operation of the Building, including contributions and premiums towards fringe benefits, unemployment and worker's compensation insurance, pension plan contributions and similar premiums and contributions and the total charges of any independent contractors or managers engaged in the repair, care, maintenance and cleaning of any portion of the Building;

(d) Cleaning, including sweeping of parking areas;

(e) Policing and security;

(f) Landscaping, including irrigating, trimming, mowing, fertilizing, and seeding;

(g) Utilities, including fuel, gas, electricity, water, sewer, telephone, and other services;

(h) The cost of the rental of any equipment and the cost of supplies used in the maintenance and operation of the Building;

(i) Maintaining, operating, repairing and replacing equipment;

(j) Other items of repair, maintenance or replacement for which Landlord is responsible under Article 12;

(k) Costs of alterations or modifications to the Building necessary to comply with requirements of applicable law, excluding matters that were not in compliance as of the Commencement Date;

(l) Audit fees and the cost of accounting services incurred in the preparation of statements referred to in this Lease; and

(m) A fee for the administration and management of the Building appropriate to the nature of the Building as reasonably determined by the Landlord from time to time.

Costs of capital expenditures incurred for the purpose of reducing Operating Costs, and costs of improvements, repairs, or replacements which otherwise constitute Operating Costs under this Article but which are properly charged to capital accounts, shall be included in Operating Costs as amortized over their estimated useful lives, as determined by the Landlord in accordance with generally accepted accounting principles, and only the annual amortization amount shall be included in Operating Costs.

7.6 **Exclusions**. Notwithstanding anything to the contrary in this Lease, in no event shall Tenant have any obligation to perform or to pay directly, or to reimburse Landlord for, all or any portion of the following repairs, maintenance, improvements, replacements, premiums, claims, losses, fees, charges, costs and expenses (collectively, "Costs"), nor shall any portion of the Tenant Improvement allowance be applied to such costs:

(a) Amounts for which Landlord is reimbursed by other sources, such as insurance proceeds, equipment warranties, judgments or settlements;

(b) Ground rents;

(c) Payments on any mortgage or other encumbrance, or interest charges or fees incurred on debt;

(d) Construction of tenant improvements;

(e) Replacements (but not repairs) of structural elements;

(f) Costs of negotiating or enforcing leases of tenants;

(g) Leasing commissions and marketing expenses;

(h) General overhead and administrative expenses of Landlord not directly related to the operation of the Building; and

(i) Costs occasioned by the violation of Law by Landlord, any other occupant of the Building, or their respective agents, employees or contractors.

(j) Costs occasioned by fire, acts of God, or other casualties or by the exercise of the power of eminent domain.

(k) Costs to correct any construction defect in the Premises or the Building or to comply with any CC&R's, underwriters' requirement or item not in compliance with Law applicable to the Premises or the Building as of the Commencement Date.

(l) Costs (i) arising from the disproportionate use of any utility or service supplied by Landlord to any other occupant of the Building, or (ii) associated with utilities and services of a type not provided to Tenant.

(m) The cost of any renovation, improvement, painting or redecorating of space occupied by other tenants.

(n) Fees, commissions, attorneys' fees, Costs or other disbursements incurred in connection with negotiations or disputes with any other occupant of the Building and Costs arising from the violation by Landlord or any occupant of the Building (other than Tenant) of the terms and conditions of any lease or other agreement.

(o) Depreciation or expense reserves.

(p) Costs incurred in connection with the operation of any commercial concession within the Building.

(q) Advertising or promotional Costs.

(r) Lease payments and Costs for capital machinery and equipment, such as air conditioners, elevators, and the like.

(s) Increases in insurance Costs caused by the activities of another occupant of the Building and co-insurance payments.

(t) Costs incurred to investigate the presence of any Hazardous Material (defined in the Lease Form), Costs to respond to any claim of Hazardous Material contamination or damage, Costs to remove any Hazardous Material from the Building and any judgments or other Costs incurred in connection with any Hazardous Material exposure or releases, except to the extent caused by the storage, use or disposal of the Hazardous Material in question by Tenant.

(u) Wages, salaries, compensation, and labor burden for any employee to the extent fairly allocable to a building other than the Building or any fee, profit or compensation retained by Landlord or its affiliates for management and administration of the Building in excess of the management fee which would be charged by a professional management services for operation of comparable Buildings in the vicinity.

(v) Costs and expenses for which Tenant reimburses Landlord directly (such as after-hours air conditioning under Section 12.3) or which Tenant pays directly to a third person.

(w) Controllable Costs in excess of the Cost Cap. "Controllable Costs" means all Operating Costs except taxes, insurance premiums, and utility charges. The "Cost Cap" for 2005 is 105% of the actual Operating Costs for 2004, and the "Cost Cap" for each subsequent year shall be 105% of the Cost Cap for the previous year.

7.7 **Centralized Maintenance of Complex**. If and so long as Landlord elects to participate in centralized maintenance and operation of landscaping, parking facilities, and driveways for the entire Complex, the Building's allocable share of such costs for the entire Complex shall be included in Operating Costs. The allocation shall be made in the proportion that the Rentable Area of the Building bears to the rentable areas of all buildings in the Complex.

8. **TAXES**

8.1 **Real Property Taxes and Assessments**. Landlord shall pay before delinquent all general and special real property taxes and assessments that are levied on, or allocable to, the Building (collectively, "Real Estate Taxes"). Real Estate Taxes shall not include income, franchise, transfer, inheritance or capital stock taxes, unless, due to a change in the method of taxation, any of such taxes are levied against or assessed against Landlord, in whole or in part, in lieu of, as a substitute for or as an addition to, any other tax which would otherwise constitute Real Estate Taxes. All assessments which may be paid in installments shall be paid by Landlord in the maximum number of installments permitted by law and not included in Operating Costs except in the year in which the assessment is actually paid; provided, however, that if the prevailing practice in comparable buildings is to pay such assessments on an early basis, and Landlord pays the same on such basis, such assessments shall be included in Operating Costs in the year paid by Landlord.

8.2 **Taxes on Tenant**. Tenant shall pay before delinquent all taxes levied or assessed upon, measured by, or arising from: (a) the conduct of Tenant's business; (b) Tenant's leasehold estate; or (c) Tenant's property.

8.3 **Excise Taxes**. Tenant shall pay to Landlord all sales, use, transaction privilege, or other excise tax that may at any time be levied or imposed upon, or measured by, any amount payable by Tenant under this Lease.

9. **INSURANCE AND INDEMNITY**

9.1 **Insurance Policies**. Tenant, at its expense, shall obtain and keep in full force and effect the following insurance:

(a) Special form property insurance including sprinkler leakage in an amount equal to at least eighty percent (80%) of the full replacement cost of all property located on the Premises owned or leased by Tenant.

(b) Commercial general liability insurance applying to the use and occupancy of the Premises and the business operated by Tenant, including coverage for "premises/operations", "products and completed operations", and "blanket contractual" liabilities, written on an occurrence basis with limits not less than $1,000,000 per occurrence, $2,000,000 annual aggregate, naming Landlord, its agents, affiliates, and contract property manager as additional insureds.

(c) Workers' compensation insurance in accordance with applicable law and employer's liability insurance with a limit not less than $1,000,000 bodily injury each accident; $1,000,000 bodily injury by disease - each person; and $1,000,000 bodily injury by disease - policy limit.

9.2 **Policy Requirements**. Tenant's insurance policies shall:

(a) where applicable, contain the mortgagee's standard mortgage clause and in any event a waiver of any subrogation rights which Tenant's insurers may have against Landlord and against those for whom the Landlord is in law responsible;

(b) be taken out with insurers reasonably acceptable to Landlord and be in a form, and with deductible and retention amounts, reasonably satisfactory to Landlord;

(c) as to any loss resulting from the negligence of Tenant, be non-contributing and apply as primary and not as excess to, any other insurance available to the Landlord; and

(d) contain an undertaking by the insurers to endeavor to notify the Landlord, and the holder of any encumbrance on the Building designated by Landlord, in writing not less than thirty days (ten days in the case of nonpayment of premiums) prior to any material change, cancellation or termination.

9.3 **Evidence of Coverage**. Tenant shall deliver to Landlord certificates of insurance: (a) as soon as practicable after the placing of the required insurance and (b) periodically thereafter before expiration, renewal or replacement of the policies then in force. No review or approval of any such insurance certificate by Landlord shall derogate or diminish Landlord's rights or Tenant's obligations. Tenant shall not take possession of the Premises without having complied with the requirements of this Section.

9.4 **Indemnity and Exculpation**. Tenant shall defend, indemnify and hold Landlord (and its members, managing agents, officers, directors, employees, agents, and property manager) harmless, regardless of any negligence that may be imputed to Landlord as owner of the real property involved in an injury, from and against any and all loss, claims, actions, damages, liability and expense in connection with loss of life, personal injury, damage to property or any other loss or injury whatsoever arising directly or indirectly from or out of this Lease, or any occurrence in, upon or at the Premises, or the occupancy or use by the Tenant of the Premises, or any act or omission of Tenant, its members, managing agents, agents, servants, employees or invitees. Tenant shall not be required, however, to indemnify Landlord against a claim arising from Landlord's active negligence or willful misconduct. Landlord shall not be liable and Tenant hereby waives all claims for any damage to any property in or about the Premises or the Building or injury or inconvenience to Tenant's business, by or from any cause whatsoever (including without limiting the foregoing, rain or water leakage of any character from the roof, windows, walls, basement, pipes, plumbing works or appliances). Tenant acknowledges that it is protecting itself against loss by maintaining appropriate insurance coverage.

9.5 **Landlord's Policies**. Landlord shall at all times keep in force "Special Form" property insurance insuring the Building in the amount of its full replacement value, and reasonable amounts of commercial general liability insurance. No insurable interest is conferred upon Tenant under any policies of insurance carried by Landlord, and Tenant shall not be entitled to share or receive proceeds of any insurance policy carried by Landlord. Landlord shall carry prudent property and liability insurance coverages, subject to reasonable deductibles and retention amounts and, if warranted by Landlord's financial strength and resources, subject to the right to self-insure against such risks.

9.6 **Waiver of Subrogation**. Notwithstanding anything to the contrary in this Lease, the parties hereto release each other and their respective agents, employees, successors, assignees and subtenants from all liability for damage to any property that is caused by or results from a risk which is actually insured against, which is required to be insured against under this Lease, or which would normally be covered by property insurance, without regard to the negligence of the entity so released.

10. **FIRE AND CASUALTY**

10.1 **Termination Rights**. If all or part of the Premises is rendered untenantable by damage from fire or other casualty which in Landlord's opinion cannot be substantially repaired (employing normal construction methods without overtime or other premium) under applicable laws and governmental regulations within 180 days from the date of the fire or other casualty, then either Landlord or Tenant may elect to terminate this Lease as of the date of such casualty by written notice delivered to the other not later than ten days after notice of Landlord's estimate of the time required for restoration is given by Landlord. Landlord shall provide such notice as soon as is practicable after the fire or other casualty occurs.

10.2 **Restoration**. If in Landlord's opinion the damage caused by the fire or other casualty can be substantially repaired (employing normal construction methods without overtime or other premium) under applicable laws and governmental regulations within 180 days from the date of the fire or other casualty, or if neither party exercises its right to terminate under Section 10.1, Landlord shall, but only to the extent that insurance proceeds are available therefor, repair such damage other than damage to furniture, chattels or trade fixtures which do not belong to the Landlord, which shall be repaired by Tenant at its own expense.

10.3 **Abatement**. During any period of restoration, the Base Rent and all other charges payable by Tenant shall be proportionately reduced to the extent that the Premises are thereby rendered untenantable for Tenant's use, from the date of casualty until completion by Landlord of the repairs to the Premises (or the part thereof rendered untenantable) or until Tenant again commences full business operations in the Premises, whichever first occurs.

10.4 **Demolition of Building; Damage Late in Term**. Notwithstanding anything to the contrary in Section 10.1, if all or a substantial part (whether or not including the Premises) of the Building is rendered untenantable by damage from fire or other casualty to such a material extent that in the reasonable opinion of Landlord the Building must be totally or partially demolished, whether or not to be reconstructed in whole or in part, or if a fire or casualty requiring substantial restoration or repair occurs during the last year of the Term, Landlord may elect to terminate this Lease as of the date of the casualty (or on the date of notice if the Premises are unaffected by such casualty) by written notice delivered to Tenant not more than sixty days after the date of the fire or casualty. Landlord shall not terminate this Lease unless it concurrently terminates all other leases affecting the Building.

10.5 **Agreed Remedies**. Except as specifically provided in this Article, there shall be no reduction of rent and Landlord shall have no liability b Tenant by reason of any injury to or interference with Tenant's business or property arising from fire or other casualty, howsoever caused, or from the making of any repairs resulting therefrom in or to any portion of the Building or the Premises. Landlord and Tenant waive any statutory or other rights of termination by reason of fire or other casualty, it being the intention of the parties to provide specifically and exclusively in this Article for the rights of the parties with respect to termination of this Lease as a result of a casualty.

11. **CONDEMNATION**

11.1 **Automatic Termination**. If during the Term all or any part of the Premises is permanently taken for any public or quasi-public use under any statute or by right of eminent domain, or purchased under threat of such taking (each a "Condemnation"), this Lease shall automatically terminate on the date that the taking legally occurs.

11.2 **Optional Termination**. If during the term any part of the Building is taken or purchased by right of eminent domain or in lieu of condemnation, whether or not the Premises are directly affected, then if in the reasonable opinion of Landlord substantial alteration or reconstruction of the Building is necessary or desirable as a result thereof, or the amount of parking available to the Building is materially and adversely affected, Landlord shall have the right to terminate this Lease by giving Tenant at least thirty days written notice of such termination.

11.3 **Award**. Landlord shall be entitled to receive and retain the entire award or consideration for the affected lands and improvements and Tenant shall not have or advance any claims against Landlord for the value of its property or its leasehold estate or the unexpired term of this Lease or for costs of removal or relocation or business interruption expense or any other damages arising out of the taking or purchase. Nothing herein shall give Landlord any interest in or preclude Tenant from seeking and recovering on its own account from the condemning authority any award of compensation attributable to the taking or purchase of Tenant's personal property or trade fixtures or attributable to Tenant's relocation expenses provided that any separate claim by Tenant shall not reduce or adversely affect the amount of Landlord's award. If any award made or compensation paid to Tenant specifically includes an award or amount for Landlord, Tenant shall promptly account therefor to Landlord.

12. **MAINTENANCE AND OFFICE SERVICES**

12.1 **Maintenance by Tenant**. Tenant shall maintain the interior of the Premises and the improvements therein (excluding services and maintenance for which Landlord is responsible pursuant to Sections 12.2 and 12.4) in good condition and repair. Notwithstanding the generality of the preceding sentence, Landlord shall perform and construct, and Tenant shall have no responsibility to perform or construct, any repair, maintenance pr improvement (i) necessitated by the acts or omissions of Landlord or any other occupant of the Building, or

their respective agents, employees or contractors, (ii) occasioned by fire, acts of God or other casualty or by the exercise of the power of eminent domain, (iii) required as a consequence of any violation of Law or construction defect in the Premises or the Building as of the Commencement Date, (iv) to the heating, ventilating, air conditioning, electrical, water, sewer, and plumbing systems serving the Premises or the Building, and (v) to any portion of the Building outside of the demising walls of the Premises. Tenant's obligation, if any, to reimburse Landlord for the costs of such repairs, maintenance and improvements shall be governed by the other provisions of this Lease.

12.2 **Building Services**. Landlord shall provide the following services to Tenant:

(a) Janitorial services to the Premises and to Common Areas five nights per week, including. light bulb replacements for Building Standard lights and Common Area restroom supplies;

(b) elevator service by means of the Building's elevators; and

(c) heating, ventilation, and air conditioning to the Premises appropriate to a first class office building.

12.3 **Utilities and After-Hours Charges**. Landlord shall supply to the Premises electrical power for lighting and for the operation of normal office equipment. Landlord shall supply water and sewer services for any plumbing facilities in the Premises and Common Area restrooms. Tenant shall pay to Landlord within thirty days after receipt of invoice: (a) for heating, ventilation and air conditioning requested by Tenant to be provided to the Premises outside of normal business hours (8:00 a.m. to 6:00 p.m., Monday through Friday, and 8:00 a.m. to 1:00 p.m. on Saturday, legal holidays excepted) at Landlord's standard hourly rates, which shall be subject to reasonable and proportional adjustment for changes in electrical power rates, and (b) for electrical power used by Tenant in excess of normal office demand. Current hourly rates for after-hours heating, ventilation and air conditioning is $6.00 per heat pump unit per hour. If Tenant operates any facility, such as a computer room, that requires electrical power in excess of normal office demand or that requires cooling after normal business hours, Landlord may require such facilities to be separately metered or submetered to Tenant at Tenant's expense. All utilities provided to the Premises other than those describe above, including communications services, shall be arranged directly by Tenant with the utility supplier, including the posting of any required deposits, and paid directly to the utility supplier when due.

12.4 **Building and Common Area Maintenance**. Landlord shall perform all repairs, maintenance and replacements to the Building (including roof, structural elements, doors, plate glass, heating, air conditioning, ventilation, electrical and plumbing systems serving the Building, and exterior window washing), and keep all Common Areas in good condition and repair in accordance with standards then prevailing for comparable properties of like age and character.

12.5 **Interruptions**. Landlord shall not be liable or responsible for breakdowns or temporary interruptions in access, services, or utilities, nor for interference with Tenant's business or Tenant's access to the Premises during the course of repairs or remedial work.

Landlord also shall not be liable or responsible for damage or inconvenience arising from interruption of utility services, regardless of cause, including without limitation quarterly interruptions in power supply to the Building related to testing of the Building's uninterrupted power system ("UPS") equipment. Tenant shall be provided advance notice of scheduled interruptions. Unless specifically otherwise provided in this Lease, Tenant shall not be connected to or be protected by the UPS. Notwithstanding anything to the contrary contained in this Lease, should Landlord fail to supply the services or perform its obligations required under this Lease and such failure shall cause all or part of the Premises to be untenantable for the normal operation of Tenant's business for ten consecutive business days, then Tenant's rent with respect to the portion of the Premises so rendered untenantable will be equitably abated for each day after the ten business day period during which the Premises continue to be so untenantable such that Tenant cannot operate its business in a commercially reasonable manner.

12.6 **Access**. Landlord at all times shall have access to the Premises for purposes of inspection and performing Landlord's repair, maintenance and janitorial obligations and exercising its rights under this Lease. Upon reasonable notice to Tenant, Landlord shall have access to the Premises for purposes of showing the Premises to current or prospective lenders, to prospective purchasers of the Building, and, during the nine-month period preceding the expiration of the term of this Lease, to prospective tenants. Landlord and Landlord's agents, except in the case of emergency, shall provide Tenant with reasonable prior notice prior to entry of the Premises for purposes other than routine inspections, repairs, and cleaning. Any such entry by Landlord and Landlord's agents shall comply with all reasonable security measures of Tenant and shall not impair Tenant's operations more than reasonably necessary. During any such entry, Landlord and Landlord's agents shall at all times be accompanied by Tenant if Tenant provides an escort.

12.7 **Food Service; Day Care; Exercise Facility**. So long as the Building and the building located at 1500 North Priest Drive (the "1500 Building") remain under common ownership and the owner of the 1500 Building continues to keep the facilities in operation, Tenant shall have access, for the use by its employees on the Premises, to: (a) child day care services in the day care facility located in the Complex (on a waiting list basis to the extent that demand exceeds available capacity) on the same basis as Landlord's employees; and (b) the food service facility located in the 1500 Building on the same basis as Landlord's employees; and (c) an exercise facility in the 1500 Building on the same basis as Landlord's employees. If both the food service facility and the exercise facility are closed or otherwise not made available to Tenant on the foregoing terms, then during any period of non-availability of the food service facility and exercise facility the amount of the Base Rent under this Lease shall be reduced by 500 per square foot of Rentable Area per year. Use of the exercise facility may be made subject to reasonable conditions, including attendance at a training class and receipt of written approval from the employee's physician. The initial monthly charge for such usage by an employee shall be $25.00 per month. The amount of the monthly charge may be changed in the future so long as the same charge E applicable to all persons working in the Building who have access to the exercise facility.

12.8 **Limited Self-Help Remedy**. If: (a) a condition within the Premises that is the responsibility of Landlord under Sections 12.1, 12.2(a) or 12.4 is not corrected within the applicable period set forth in Section 12.4, and (b) the correction of the condition will not

involve or affect Common Areas, other tenants, or Building electrical, communications, mechanical, plumbing, or elevator systems, and (c) Landlord is not diligently pursuing correction of the condition, and (d) the condition remains uncorrected for five additional business days after Tenant gives notice to Landlord that Tenant intends to resort to self-help to correct the condition, then Tenant may retain an appropriately licensed contractor to correct the condition (subject to compliance with the provisions of Section 13.1, as applicable), and Landlord shall reimburse Tenant for the reasonable cost of the correction within thirty days after receipt of an invoice and supporting documentation.

13. **TENANT ALTERATIONS AND SIGNAGE**

13.1 **Alterations**. Tenant may from time to time at its own expense make changes, additions and improvements in the Premises, provided that any such change, addition or improvement shall:

(a) comply with the requirements of any governmental or quasi-governmental authority having jurisdiction (including, without limitation, the ADA), with the requirements of Landlord's insurance carriers, and with Landlord's safety and access requirements, including restrictions on flammable materials and elevator usage;

(b) not be commenced until Landlord has received satisfactory evidence that all required permits have been obtained;

(c) be made only with the prior written consent of Landlord (which may be withheld in Landlord's sole discretion, to the extent in Landlord's opinion it materially affects the structure or adversely affects electrical, HVAC, plumbing or fire sprinkler systems of the Building, but which otherwise shall not be unreasonably withheld);

(d) be constructed in good workmanlike manner and conform to complete working drawings prepared by a licensed architect and submitted to and approved by Landlord;

(e) be of a quality that equals or exceeds the then current Building Standard and comply with all building, fire and safety codes

(f) be performed either by Landlord or by other licensed contractors selected by Tenant subject to Landlord's reasonable prior approval and approved in writing by Landlord. Tenant shall give Landlord an opportunity to perform or to bid on the work. If Tenant selects another contractor, that contractor shall deliver to Landlord before commencement of the work performance and payment bonds as well as proof of workers' compensation and general liability insurance coverage, including coverage for completed operations and contractual liability, with Landlord and its agents and designees named as additional insureds, in amounts, with companies, and in form reasonably satisfactory to Landlord, which shall remain in effect during the entire period in which the work shall be carried out. Notwithstanding the foregoing, only subcontractors specifically approved by Landlord may be used to make connection with the Building's main electrical, plumbing or HVAC systems, provided that such subcontractors are available to timely provide such work at prices consistent with market conditions for such work; and

(g) upon completion, be shown on accurate "as built" reproducible drawings delivered to Landlord.

13.2 **Tenant Installations**. Tenant may install in the Premises its usual trade fixtures and personal property in a proper manner, provided that no installation shall interfere with or damage the mechanical or electrical systems or the structure of the Building. Landlord may require that any work that may affect structural elements or mechanical, electrical, heating, air conditioning, plumbing or other systems be performed by Landlord at Tenant's cost or by a contractor designated by Landlord, provided that such contractor are available to timely provide such work at prices consistent with market conditions for such work.

13.3 **Roof-Mounted Communications Equipment for Tenant's Use**.

(a) Tenant shall have the non-exclusive right, without additional charge, to install satellite dishes, antennae and other communications equipment on the roof of the Building at a location reasonably approved by Landlord and subject to compliance with applicable laws. Tenant shall be responsible for all costs and expenses associated with the installation, maintenance and removal of any such equipment.

(b) The placement, weight, and means of attachment of such equipment and the location and means of roof penetration for such equipment shall be subject to Landlord's reasonable prior written approval.

(c) Any such installation may be made only if and to the extent that the roof warranty or guaranty is not compromised or terminated.

(d) Tenant shall use only contractors reasonably approved by the issuer of the roof warranty or guaranty (the "Roof Guarantor"), and shall pay any reasonable charges imposed by the Roof Guarantor to monitor or supervise the work.

(e) Tenant shall defend, indemnify and hold Landlord harmless from all loss or damage caused to the Building's roof by installation, operation, and maintenance of the equipment, including without limitation damage resulting from related roof leaks.

(f) Tenant and its contractors shall have access to the roof for inspection and maintenance of the equipment as reasonably coordinated with Landlord, and all such contractors shall comply with reasonable restrictions imposed by Landlord, such as requirements that they walk and stand only on portions of the roof protected by pads installed for such purpose.

(g) Tenant shall bear all costs of such installation and shall bear all risks of loss to such equipment from any cause whatsoever.

(h) The installation shall comply with the requirements of Section 13.1.

(i) Tenant's equipment shall be for the sole use of Tenant (and any assignees or subtenants or other successors- in-interest to Tenant).

13.4 **Signs**.

(a) Except as provided below, Tenant shall not place or permit to be placed any sign, picture, advertisement, notice, lettering or decoration on any part of the outside of the Premises or anywhere in the interior of the Premises which is visible from the outside of the Premises without Landlord's prior written approval. Tenant shall be entitled, at Landlord's expense, to an entry in the Building directory maintained by Landlord and to a building standard entry sign by the entry door to the Premises.

(b) Subject to compliance with applicable sign ordinances and permits and subject to Landlord's reasonable approval of size, location, design, materials, aid manner of attachment, Landlord, at Tenant's sole expense and upon Tenant's request, shall install Tenant's sign on one panel of each side of Landlord's sign monument on Washington Street. At the expiration of the Lease Term and any Renewal Term, Tenant shall remove its sign from Landlord's sign monument on Washington Street at its sole cost and expense and repair all damage thereto, using Landlord's designated sign contractor. Notwithstanding the foregoing, if at any time the amount of space occupied by Tenant and its affiliates (but not unaffiliated subtenants) is reduced below one full floor and Tenant thereby ceases to be one of the top four largest tenants of the Building (measured by occupied Rentable Area), and if such condition continues for six consecutive months, then Landlord shall be entitled to require Tenant to remove its sign from the sign monument so that a tenant occupying more Rentable Area than Tenant may have its sign on the sign monument.

13.5 **Mechanics Liens**. Tenant shall pay before delinquent all costs for work done or caused to be done by Tenant in the Premises which could result in any lien or encumbrance on Landlord's interest in the Building or any part thereof, shall keep the title to the Building and every part thereof free and clear of any lien or encumbrance in respect of such work, and shall indemnify and hold harmless Landlord and Landlord's agents and employees against any claim, loss, cost, demand or legal or other expense, whether in respect of any lien or otherwise, arising out of the supply of material, services or labor for such work. Tenant immediately shall notify Landlord of any such lien, claim of lien or other action of which it has or reasonably should have knowledge and that affects the title to the Building or any part thereof and shall cause it to be removed by bonding or otherwise within twenty days, failing which Landlord may take such action as Landlord deems necessary to remove it and the entire cost thereof shall be immediately due and payable by Tenant to Landlord.

14. **ASSIGNMENT AND SUBLETTING**

14.1 **Consent Required**. Tenant shall not assign its interest under this Lease nor sublet all or any part of the Premises without Landlord's prior written consent, which shall not be unreasonably withheld, conditioned or delayed. Tenant shall not at any time pledge, hypothecate, mortgage or otherwise encumber its interest under this Lease as security for the payment of a debt or the performance of a contract. Any purported assignment or sublease made without Landlord's consent shall be void. No consent shall constitute consent to any further assignment or subletting.

14.2 **Exempt Transfers**. Notwithstanding anything to the contrary in this Lease, Tenant may, without Landlord's prior written consent and without any participation by Landlord in assignment and subletting proceeds, sublet the Premises or assign the Lease to: (i) a subsidiary, affiliate, division or corporation controlling, controlled by or under common control with Tenant; (ii) a successor corporation related to Tenant by merger, consolidation, nonbankruptcy reorganization, or government action, so long as the successor entity has a net worth not less than that of Tenant prior to the merger or other combination; or (iii) a purchaser of substantially all of Tenant's assets located in the Premises, so long as the successor entity has a net worth not less than that of Tenant prior to the purchase (each of the foregoing is hereinafter referred to as an "Exempt Transfer"). For the purpose of this Lease, the sale or other transfer of Tenant's capital stock shall not be deemed an assignment, subletting, or any other transfer of the Lease or the Premises.

14.3 **Requests for Approval**. Landlord shall be under no obligation to decide whether consent will be given or withheld unless Tenant has first provided to Landlord: (a) the name and legal composition of the proposed assignee or subtenant and the nature of its business; (b) the use to which the proposed assignee or subtenant intends to put the Premises; (c) the material business terms and conditions of the proposed assignment or sublease and of any related transaction between Tenant and the proposed assignee or subtenant; (d) information related to the experience, integrity and financial resources of the proposed assignee or subtenant; (e) such information as Landlord may reasonably request to supplement, explain or provide details of the matters submitted by Tenant pursuant to subparagraphs (a) through (d). Tenant agrees that within thirty days after written request, Tenant shall reimburse Landlord for all reasonable costs incurred by Landlord (up to $1000), including attorneys' fees, in connection with evaluating the request and preparing any related documentation. If Landlord fails to respond to a request for consent within ten business days after receipt of all of the foregoing information, and if the failure to respond continues for five additional business days after receipt of a reminder notice from Tenant stating that Landlord has failed to respond in a timely manner and containing the following legend in bold font and in capital letters: **"PURSUANT TO SECTION 14.3 OF THE LEASE, IF YOU FAIL TO RESPOND TO TENANT'S REQUEST FOR CONSENT WITHIN FIVE BUSINESS DAYS AFTER RECEIPT OF THIS NOTICE, YOU WILL BE DEEMED TO HAVE CONSENTED TO THE REQUESTED ASSIGNMENT OR SUBLEASE"**, then consent shall be deemed given.

14.4 **Continued Responsibility**. Tenant shall remain fully liable for performance of this Lease, notwithstanding any assignment or sublease, for the entire Lease Term.

14.5 **Excess Proceeds**. If consent to an assignment or sublease is given (and in no event with regards to any Exempt Transfer), Tenant shall pay to Landlord, as additional rent, one half of all Excess Proceeds (as defined in this Section 14.5 below) received as consideration from the assignee or subtenant with respect to the space involved, measured on a per square foot basis, as and when payable. As used in this Section "Excess Proceeds" shall mean the revenue received by Tenant from the assignee or subtenant during the assignment or sublease term, after Tenant has first received reimbursement for: the sum of (a) the amounts (excluding any Excess Proceeds) paid to Landlord by Tenant during the period of the assignment or the sublease term for the space covered by the sublease or assignment ("**Transferred Space**") and all other costs to Tenant of performing under the sublease or assignment; (b) the gross revenue paid to Landlord by Tenant for all days the Transferred Space was vacant from the later to occur of (i) the date

that Tenant first vacates the Transferred Space or (ii) the date Tenant provides written notice of Tenant's intention to assign or sublet up to the date the assignee or subtenant was to pay rent; (c) any improvement allowance or other economic concession (space planning allowance, moving expenses, etc.) paid by Tenant to or for the benefit of its assignee or subtenant; (d) broker's commissions; (e) attorneys' fees; (f) lease takeover payments; (g) costs required to be paid by Tenant to Landlord in connection with such assignment or sublease; (h) costs of advertising the Transferred Space; and (i) unamortized costs of the initial Tenant Improvements paid for by Tenant, and any other alterations to the Transferred Space paid by Tenant (and not through the Tenant Improvement Allowance).

14.6 **Limitations**. Without limiting appropriate grounds for withholding consent, it shall not be unreasonable for Landlord to withhold consent: (i) if the proposed assignee or subtenant is a tenant in another building owned by Landlord or by an affiliate of Landlord or of any of Landlord's constituent partners or principals in the Phoenix metropolitan area, (ii) if the proposed assignee or subtenant is a governmental agency, (iii) if the proposed assignee or subtenant is a direct competitor of Landlord or an affiliate of Landlord; (iv) if the use by the proposed assignee or subtenant would contravene this Lease, applicable deed restriction, any underlying lease, any restrictive use covenant or exclusive rights granted by Landlord; (v) if the proposed assignee or subtenant does not intend to occupy the Premises for its own use; or (vi) if the nature of the proposed assignee or subtenant is not compatible with the character of the Building.

14.7 **Transfer by Landlord**. Upon a sale or other transfer of the Building by Landlord, Landlord's interest in this Lease shall automatically be transferred to the transferee, the transferee shall automatically assume all of Landlord's obligations under this Lease accruing from and after the date of transfer, and upon the transferee's assumption of Landlord's obligations under this Lease in writing, the transferor shall be released of all obligations under this Lease arising after the transfer. Tenant shall upon request execute an agreement whereby the transferee expressly acknowledges all of the obligations of the "Landlord" under this Lease, and Tenant agrees to attorn to the transferee.

15. SUBORDINATION AND ATTORNMENT

15.1 **Subordination**. Subject to the further provisions of this Article 14, this Lease is and shall be subject and subordinate in all respects to all existing and future mortgages or deeds of trust now or hereafter encumbering the Building or any part hereof. The holder of any mortgage or deed of trust may elect to be subordinate to this Lease. This Lease is subject and subordinate to the Ground Lease dated as of May 22, 2002 between Salt River Project Agricultural Improvement and Power District, as ground lessor, and BNY Western Trust Company, not in its individual capacity, but solely as Certificate Trustee on behalf of Tempe Trust, as ground lessee (the "Salt River Ground Lease") and to the Master Lease and Deed of Trust (Land – HQ#2) dated as of August 30, 2000 and the Master Lease and Deed of Trust (Improvements – HQ#2) dated as of August 30, 2000, both between BNY Western Trust Company, not in its individual capacity, but solely as Certificate Trustee on behalf of Tempe Trust, as landlord and Landlord, as tenant (collectively, the "BNY Leases"). (All of the foregoing interests to which the Lease is intended to be subordinated are collectively and categorically referred to in this Lease as the "Superior Interests").

15.2 **Attornment to SRP**. The following provision, required to be contained in this Lease by the terms of the Salt River Ground Lease, is binding on Tenant:

> If the Ground Lease is terminated before the expiration of its Term, then, at the option of the Ground Lessor, either Tenant shall attorn to the Ground Lessor or this Lease shall automatically terminate.

15.3 **Attornment to BNY**. The following provision, required to be contained in this Lease by the terms of the BNY Leases, is binding on Tenant:

> The Tenant hereunder agrees that this Lease is subject and subordinate to the lease or leases under which the Landlord hereunder occupies the HQ #2 Land and the HQ #2 Improvements (the "Overlease", with the landlord under the Overlease and its successors and assigns in interest to the HQ #2 Land and the HQ #2 Improvements or this Lease being hereinafter referred to as the "Overlandlord"), and that in the event of the termination of the Overlease or in the event the Overlandlord terminates the Landlord's right of possession under the Overlease (the date on which either such termination becomes effective being referred to herein as the "Turnover Date"), the Tenant hereunder will attom to the Overlandlord and pay the Overlandlord all of the rents and other monies required to be paid by the Tenant hereunder, and perform all of the terms, covenants, conditions and obligations contained in this Lease, and the Overlandlord shall recognize Tenant hereunder; and this Lease shall continue as a direct lease between the Tenant hereunder and Overlandlord upon all of the terms and conditions hereof except that in no event shall Overlandlord have any obligation to perform any obligation of the Landlord hereunder with respect to obligations of the Landlord hereunder accruing prior to the Turnover Date, and that any obligations of Overlandlord (or any successor Overlandlord) hereunder arising after the Turnover Date shall be without recourse to Overlandlord (other than the interest of the Overlandlord in the property demised by this Lease.)

15.4 **Lender Protection**. Upon a transfer in connection with foreclosure or trustee's sale proceedings or in connection with a default under an encumbrance, whether by deed to the holder of the encumbrance in lieu of foreclosure or otherwise, Tenant, if requested, shall in writing attom to the transferee, but the transferee shall not be:

(a) subject to any offsets or defenses which Tenant might have against Landlord;

(b) bound by any prepayment by Tenant of more than one month's installment of rent;

(c) obligated to perform any construction obligations; or

(d) subject to any liability or obligation of Landlord except those arising after the transfer.

15.5 **Documentation**. The subordination provisions of this Article shall be self-operating and no further instrument shall be necessary. Nevertheless Tenant, on request, shall execute and deliver any and all instruments further evidencing such subordination.

15.6 **Other Transactions**. Landlord may at any time and from time to time grant, receive, dedicate, relocate, modify, surrender or otherwise deal with easements, rights of way, restrictions, covenants, equitable servitudes or other matters affecting the Building without notice to or consent by Tenant, provided that Tenant's use and enjoyment of the Premises is not materially and adversely affected, and such actions do not reduce Tenant's rights or increase Tenant's obligations hereunder.

16. ESTOPPEL CERTIFICATES AND FINANCIAL STATEMENTS

Tenant shall at any time within ten days after written request from Landlord execute, acknowledge and deliver to Landlord a statement in writing: (a) certifying that this Lease is unmodified and in full force and effect (or, if modified, stating the nature of such modification and certifying that this Lease, as so modified, is in full force and effect) and the date to which the rent and other charges are paid in advance, if any; (b) confirming the commencement and expiration dates of the term; (c) confirming the amount of the security deposit held by Landlord; (d) acknowledging that there are not, to Tenant's knowledge, any uncured defaults on the part of Landlord hereunder, or specifying such defaults if any are claimed; and (e) confirming such other matters regarding this Lease as to which Landlord may reasonably request confirmation. Any such statement may be conclusively relied upon by a prospective purchaser or lender with respect to the Building. If Landlord desires to finance or refinance the Building, and if Tenant is not then a publicly-traded company, Tenant hereby agrees to deliver to any lender designated by Landlord such financial statements of Tenant as may be reasonably required by such lender. Such statement shall include the past three years' financial statements of Tenant. All such financial statements shall be received by Landlord in confidence and shall be used only for the purposes herein set forth.

17. QUIET ENJOYMENT

Landlord covenants and warrants that if Tenant pays the rent and observes and performs the terms, covenants and conditions contained in this Lease, Tenant shall peaceably and quietly hold and enjoy possession of the Premises for the Term without hindrance or interruption by Landlord, or any other person lawfully claiming by, through or under Landlord unless otherwise permitted by the terms of this Lease.

18. SURRENDER AND HOLDOVER

18.1 **Surrender**. Upon the expiration or termination of this Lease or of Tenant's right to possession, Tenant shall surrender the Premises in the condition received by Tenant, reasonable wear and tear and damage by casualty excepted, and shall remove all of Tenant's equipment, fixtures and property, and repair all damage caused by the removal. Tenant shall not remove permanent improvements that were provided by Landlord at the commencement of this Lease and shall not remove permanent improvements later installed by Tenant unless Tenant was directed to do so by Landlord, at the time Landlord consented to such improvements.

18.2 **Holdover**. Tenant shall have the right to hold over beyond the expiration of the Term for up to three months, as designated in a notice given to Landlord at least 120 days before the Expiration Date; provided, however, if after the 120-day deadline passes an event outside of Tenant's reasonable control occurs that results in the space to which Tenant is relocating not being ready on the Expiration Date, then Tenant may nevertheless hold over, not in excess of three months, as reasonably necessary as a result of delay in completion of the relocation space on the condition that Tenant immediately gives Landlord notice of the happening of such an event and thereafter keeps Landlord informed, not less often than weekly, of the progress of the work and the expected relocation date. If Landlord and Tenant agree to any further holdover, the holdover shall be on a month to-month basis. If Tenant holds over without Landlord's consent, Tenant shall, at Landlord's election, be a tenant at will or a tenant from month-to-month. In either case rent shall be payable monthly in advance at a rate equal to 125% of the rate in effect immediately before the holdover began for the first three months of the holdover and thereafter at 150% of such rate. A holdover month-to-month tenancy may be terminated by either party at any time upon at least thirty days' prior written notice. A holdover tenancy at will is terminable at any time by either party without notice, regardless of whether rent has been paid in advance. Upon a termination under this Section, unearned rent shall be refunded following the surrender of possession provided Tenant is not otherwise in breach of this Lease.

19. **BREACH, DEFAULT, AND REMEDIES**

19.1 **Default**. The following shall constitute "Events of Default":

(a) Tenant fails to pay rent or any other amount due under this Lease within five business days after notice of nonpayment; or

(b) Tenant fails to execute, acknowledge and return a subordination agreement under Article 15 or an estoppel certificate or financial statements under Article 16, within ten days after a second notice from Landlord requesting such documents; or

(c) Tenant breaches any other obligation under this Lease or breaches any provision of the Salt River Ground Lease or the BNY Leases and fails to cure the breach within fifteen days after notice of nonperformance; provided, however, that if the breach is of such a nature that it cannot be cured within fifteen days, no Event of Default shall be deemed to have occurred by reason of the breach if cure is commenced promptly and diligently pursued to completion within a period not longer than ninety days; and provided further, that in the event of a breach involving an imminent threat to health or safety, Landlord may in its notice of breach reduce the period for cure to such shorter period as may be reasonable under the circumstances.

19.2 **Remedies**. Upon the occurrence of an Event of Default, Landlord, at any time thereafter without further notice or demand may exercise any one or more of the following remedies concurrently or in succession:

(a) Terminate Tenant's right to possession of the Premises by legal process or otherwise, with or without terminating this Lease, and retake exclusive possession of the Premises.

(b) From time to time relet all or portions of the Premises, using reasonable efforts to mitigate Landlord's damages. In connection with any reletting, Landlord may relet for a period extending beyond the term of this Lease and may make alterations or improvements to the Premises without releasing Tenant of any liability. Upon a reletting of all or substantially all of the Premises, Landlord shall be entitled to recover all of its then prospective damages for the balance of the Lease Term measured by the difference between amounts payable under this Lease and the anticipated net proceeds of reletting.

(c) From time to time recover accrued and unpaid rent and damages arising from Tenant's breach of the Lease, regardless of whether the Lease has been terminated, together with applicable late charges and interest at the rate of 18% per annum or the highest lawful rate, whichever is less.

(d) Recover all costs, expenses and attorneys' fees incurred by Landlord in connection with enforcing this Lease, recovering possession, reletting the Premises or collecting amounts owed, including, without limitation, costs of alterations, brokerage commissions, and other costs incurred in connection with any reletting.

(e) Perform the obligation on Tenant's behalf and recover from Tenant, upon demand, the entire amount expended by Landlord plus 20% for special handling, supervision, and overhead.

(f) Pursue other remedies available at law or in equity.

20. **LANDLORD'S DEFAULT**. Landlord breaches this Lease, Tenant shall have all rights and remedies at law or in equity.

21. **NOTICES**. Any notice from one party to the other shall be in writing and shall be deemed duly served: if delivered personally or mailed by certified mail addressed (a) to Tenant at the address set forth in Section 1.12, or (b) to Landlord at the address set forth in Section 1.13. Either party may change its notice address by written notice to the other. Any notice shall be deemed to have been given when mailed, if mailed, and when delivered, if personally delivered.

22. **BROKERAGE**. Landlord and Tenant each warrants and represents that no broker or other person is entitled to claim a commission, broker's fee or other compensation in connection with this Lease based upon the representing parties' contact with such broker or other person except brokers whom such party has previously specifically designated in writing in Section 1.14 and Section 1.15. Landlord or Tenant shall each defend, indemnify and hold the other harmless from all claims or liabilities arising from any breach of the foregoing representation and warranty. As consideration for Tenant's execution of this Lease, Landlord shall pay a commission to Tenant's Broker pursuant to a separate agreement, and if Landlord fails to do so in a timely manner and such failure continues for ten days after receipt of written demand for payment from Tenant, then Tenant may pay such commission and set off the amount paid against Base Rent.

23. **STORAGE SPACE**. Subject to availability from time to time, Tenant shall have the right to use approximately 300-400 square feet of space in the Building, as designated by Landlord, for storage purposes. Landlord shall be entitled at any time upon fifteen days prior

written notice to terminate Tenant's right to such storage space for the purpose of leasing it to a third party for office purposes. So long as the storage space remains available for Tenant's use, Tenant shall pay to Landlord for any use of such space, monthly in advance without notice or demand, rental in an amount equal to $8.00 per square foot of Rentable Area per annum. The storage space shall be a room with a locking door, shall be used for no purpose other than storage, shall receive no building services, and shall be delivered "as is". Tenant shall be responsible for any damage to the storage space caused by its employees.

24. **GENERAL**.

24.1 **Severability**. If any term, covenant or condition of this Lease, or the application thereof, is to any extent held or rendered invalid, it shall be and is hereby deemed to be independent of the remainder of the Lease and to be severable and divisible therefrom, and its invalidity, unenforceability or illegality shall not affect, impair or invalidate the remainder of the Lease or any part thereof.

24.2 **No Waiver**. The waiver of any breach of any term, covenant or condition contained in this Lease shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or of any other term, covenant or condition contained in this Lease. The subsequent acceptance of rent by Landlord shall not be deemed to be a waiver of any preceding breach by Tenant of any term, covenant or condition of this Lease, regardless of Landlord's knowledge of such preceding breach at the time of acceptance of rent. No term, covenant or condition of this Lease shall be deemed to have been waived unless such waiver is in writing.

24.3 **Effect of Payment**. No payment by Tenant or receipt by Landlord of a lesser amount than the monthly payment of rent herein stipulated is deemed to be other than on account of the earliest stipulated rent, nor is any endorsement or statement on any check or any letter accompanying any check or payment of rent deemed an acknowledgment of full payment or accord and satisfaction, and Landlord may accept and cash any check or payment without prejudice to Landlord's right to recover the balance of the rent due and pursue any other remedy provided in this Lease.

24.4 **Delay**. If either party is delayed or hindered in or prevented from the performance of any term, covenant or act required hereunder by reasons of strikes, labor troubles, inability to procure materials or services, power failure, restrictive governmental laws or regulations, riots, insurrection, sabotage, rebellion, war, terrorism or threatened acts of terrorism, act of God, acts or omissions of the other party, or other reason whether of a like nature or not that is beyond the control of the party affected, financial inability excepted, then the performance of that term, covenant or act is excused for the period of the delay and the party delayed shall be entitled to perform such term, covenant or act within the appropriate time period after the expiration of the period of such delay. Nothing in this Article, however, shall (i) excuse Landlord or Tenant from the prompt payment of any amount payable under this Lease, (ii) excuse Tenant from the consequences of Tenant Delay as provided in Exhibit C, (iii) affect Tenant's right to terminate this Lease after a casualty pursuant to Article 10, or (iv) affect any right Tenant has to terminate this Lease or exercise its rights pursuant to Exhibit C and Article 20 of this Lease.

24.5 **Lender Notice**. In the event of a material default by Landlord of a sufficiently serious nature that Tenant considers the utility of the Premises to Tenant to be significantly impaired, Tenant shall give written notice of the default to Landlord and shall simultaneously send a copy of the notice to the holder of any encumbrance, the name and address of whom has previously been furnished in writing to Tenant.

24.6 **No Offer**. The submission of this Lease for examination does not constitute a reservation of an option to lease the Premises, and this Lease becomes effective as a lease only upon its execution and delivery by Landlord and Tenant.

24.7 **Successors**. All rights and liabilities under this Lease extend to and bind the successors and assigns of Landlord and permitted successors and assigns of Tenant.

24.8 **Integration**. This Lease and the Exhibits hereto attached, set forth all the covenants, promises, agreements, conditions and understandings between Landlord and Tenant concerning the Premises and there are m other covenants, promises, agreements, conditions or understandings, either oral or written, between them. No alteration, amendment or addition to this Lease shall be binding upon Landlord or Tenant unless in writing and signed by Tenant and Landlord.

24.9 **Governing Law**. This Lease shall be construed in accordance with and governed by the laws of the State of Arizona.

24.10 **Deadlines Enforceable**. Time is of the essence of this Lease and of every part hereof.

24.11 **Counterparts**. This Lease may be executed in counterparts, which together shall constitute a single instrument.

TENANT:	**LANDLORD:**
HEALTH NET OF ARIZONA, INC., an Arizona corporation	**TOSCO OPERATING COMPANY, INC.,** a Delaware corporation
By /s/ Dennis Bell	By /s/
Its Vice President	Its Vice President

Exhibit 10.94

FIRST AMENDMENT TO OFFICE LEASE

This First Amendment, dated as of December 1, 2003, amends the Office Lease dated July __, 2003, between **CONOCOPHILLIPS COMPANY**, a Delaware corporation ("Landlord"), and **HEALTH NET OF ARIZONA, INC.**, an Arizona corporation ("Tenant").

1. Terms. All capitalized terms in this First Amendment have the same meanings as set forth in the Lease.

2. Commencement Date. Landlord and Tenant hereby confirm that the Commencement Date of the Lease was November 24, 2003 and that all Tenant Improvements to be constructed by Landlord under the original Lease were satisfactorily completed.

3. Expansion Space. Effective as of April 15, 2004, regardless of whether the Tenant Improvements for the Expansion Space have been completed (the "Expansion Date"), there shall be added to and incorporated into the Premises for all purposes for the balance of the Lease Term (as the Term may be extended) the "Expansion Premises", consisting of approximately 4,786 square feet of Rentable Area (4,235 square feet of Usable Area) on the third floor of the Building as shown on the attached Exhibit A, for a total Rentable Area for the Premises of 38,471 square feet.

4. Base Rent. The table contained in Section 1.5 of the Lease is amended to read as follows and the paragraph following the table in that Section is deleted:

Period	Base Rent Per Rentable Sq. Ft.	Annual Base Rent	Monthly Base Rent Payment
November 24, 2003 – March 31, 2004	$ 7.50	$ 252,637.50	$ 21,053.13
April 2004			$ 22,548.75*
May 2004			$ 33,455.29**
June 1, 2004 – May 31, 2005	$ 20.50	$ 788,655.50	$ 65,721.29
June 1, 2005 – May 31, 2006	$ 21.00	$ 807,891.00	$ 67,324.25
June 1, 2006 – May 31, 2007	$ 21.50	$ 827,126.50	$ 68,927.21
June 1, 2007 – May 31, 2008	$ 22.00	$ 846,362.00	$ 70,530.17

Period	Base Rent Per Rentable Sq. Ft.	Annual Base Rent	Monthly Base Rent Payment
June 1, 2008 – May 31, 2009	$ 22.50	$ 865,597.50	$ 72,133.13
June 1, 2009 – May 31, 2010	$ 23.00	$ 884,833.00	$ 73,736.08
June 1, 2010 – May 31, 2011	$ 23.50	$ 904,068.50	$ 75,339.04
June 1, 2011 – May 31, 2012	$ 24.00	$ 923,304.00	$ 76,942.00
June 1, 2012 – May 31, 2013	$ 24.50	$ 942,539.50	$ 78,544.96
June 1, 2013 – May 31, 2014	$ 25.00	$ 961,775.00	$ 80,147.92

* Represents 15 days of Base Rent on 4,786 square feet and 30 days of Base Rent on 33,685 square feet at $7.50 per square foot annually.

** Represents 24 days of Base Rent at $7.50 per square foot annually and 7 days at $20.50 per square foot annually, prorated on a per diem basis, on 38,471 square feet.

5. Improvements. Landlord and Tenant shall cooperate with respect to the preparation of plans and specifications for Tenant Improvements in the Expansion Premises ("Plans"). Landlord shall construct the Tenant Improvements for the Expansion Space in accordance with the mutually-approved Plans and construction schedule, and Tenant shall pay all Costs of Construction of such Tenant Improvements in excess of $38.00 per square foot of Usable Area of the Expansion Premises. The Architect shall be DFD Cornoyer Hedrick and the general contractor shall be Ryan Companies US, Inc. Paragraphs 2, 3, 4, 5, and 7 of Exhibit C to the Lease shall apply to the construction of Tenant Improvements in the Expansion Premises.

6. Other Changes. From and after the Expansion Date:

(a) Tenant's Proportionate Share shall be increased from 21.42% to 24.06%.

(b) The number of parking spaces that Tenant is entitled to use pursuant to Section 1.9 of the Lease shall be increased from 30 covered reserved spaces, 90 covered unreserved spaces, and 30 uncovered unreserved spaces to 36 covered reserved spaces, 102 covered unreserved spaces, and 36 uncovered unreserved.

7. Effect of Amendment. Except as specifically modified by this First Amendment, all of the terms and conditions of the Lease continue in full force and effect.

TENANT:

HEALTH NET OF ARIZONA, INC.
an Arizona corporation

By /s/ Dennis Bell
Its Vice President

LANDLORD:

CONOCOPHILLIPS COMPANY,
a Delaware corporation

By /s/
Its

Exhibit 10.95

SECOND AMENDMENT TO OFFICE LEASE

This Second Amendment, dated as of May 31, 2004, amends the Office Lease dated July 24, 2003, and the First Amendment to Office Lease dated December 1, 2003 between **TOSCO OPERATING COMPANY, INC.**, a Delaware corporation ("Landlord"), and **HEALTH NET OF ARIZONA, INC.**, an Arizona corporation ("Tenant").

1. Terms. All capitalized terms in this Second Amendment have the same meanings as set forth in the Lease.

2. Commencement Date. Landlord and Tenant hereby confirm that the Commencement Date of the Lease was November 24, 2003 and that all Tenant Improvements to be constructed by Landlord under the original Lease were satisfactorily completed.

3. Second Expansion Space. Effective as of August 15, 2004 (the "Second Expansion Date"), regardless of whether the Tenant Improvements for the "Second Expansion Space" (as defined below) have been completed, there shall be added to and incorporated into the Premises for all purposes for the balance of the Lease Term (as the Term may be extended) the Second Expansion Space, consisting of approximately 3,090 square feet of Rentable Area (2,734 square feet of Usable Area) on the third floor of the Building as shown on the attached Exhibit A, for a total Rentable Area for the Premises of 41,561 square feet.

4. Base Rent. The table contained in Section 1.5 of the Lease is amended to read as follows and the paragraph following the table in that Section is deleted:

Period	Base Rent Per Rentable Sq. Ft.	Original Lease Monthly Base Rent Payment	First Amendment Monthly Base Rent Payment	Second Amendment Monthly Base Rent Payment	Annual Base Rent	Total Monthly Base Rent Payment
November 24, 2003 – March 31, 2004	$ 7.50	$21,053.13	$ 0.00	$ 0.00	$252,637.50	$21,053.13
April 2004		$21,053.13	$ 1,495.63	$ 0.00		$22,548.76(a)
May 2004		$29,293.27	$ 4,162.02	$ 0.00		$33,455.29(b)
June 1, 2004 – July 31, 2004		$57,545.21	$ 8,176.08	$ 0.00	$788,655.50	$65,721.29
August 2004		$57,545.21	$ 8,176.08	$ 2,639.38		$68,360.67(c)
September 1, 2004 – May 31, 2005	$20.50	$57,545.21	$ 8,176.08	$ 5,278.75	$852,000.50	$71,000.04
June 1, 2005 – May 31, 2006	$21.00	$58,948.75	$ 8,375.50	$ 5,407.50	$872,781.00	$72,731.75
June 1, 2006 – May 31, 2007	$21.50	$60,352.29	$ 8,574.92	$ 5,536.25	$893,561.50	$74,463.46

Period	Base Rent Per Rentable Sq. Ft.	Original Lease Monthly Base Rent Payment	First Amendment Monthly Base Rent Payment	Second Amendment Monthly Base Rent Payment	Annual Base Rent	Total Monthly Base Rent Payment
June 1, 2007 – May 31, 2008	$ 22.00	$ 61,755.83	$ 8,744.33	$ 5,665.00	$ 914,342.00	$ 76,195.16
June 1, 2008 – May 31, 2009	$ 22.50	$ 63,159.38	$ 8,973.75	$ 5,793.75	$ 935,122.50	$ 77,926.88
June 1, 2009 – May 31, 2010	$ 23.00	$ 64,562.92	$ 9,173.17	$ 5,922.50	$ 955,903.00	$ 79,658.59
June 1, 2010 – May 31, 2011	$ 23.50	$ 65,966.46	$ 9,372.58	$ 6,051.25	$ 976,683.50	$ 81,390.29
June 1, 2011 – May 31, 2012	$ 24.00	$ 67,370.00	$ 9,572.00	$ 6,180.00	$ 997,464.00	$ 83,122.00
June 1, 2012 – May 31, 2013	$ 24.50	$ 68,773.54	$ 9,771.42	$ 6,308.75	$1,020,449.50	$ 84,853.71
June 1, 2013 – May 31, 2014	$ 25.00	$ 70,177.08	$ 9,970.83	$ 6,437.50	$1,039,025.00	$ 86,585.41

(a) Represents 15 days of Base Rent at $20.50 per square foot annually on 4,786 square feet and 30 days at $7.50 per square foot annually on 33,685 square feet.

(b) Represents 24 days of Base Rent at $7.50 per square foot annually and 7 days at $20.50 per square foot annually, prorated on a per diem basis, on 38,471 square feet.

(c) Represents 15 days of Base Rent at $20.50 per square foot annually, on a per diem basis, on 3,090 square feet, and 31 days at $20.50 per square foot annually on 38,471 square feet.

5. Improvements. Landlord and Tenant shall cooperate with respect to the preparation of plans and specifications for Tenant Improvements in the Second Expansion Space ("Plans"). Landlord shall construct the Tenant Improvements for the Second Expansion Space in accordance with the mutually-approved Plans and construction schedule, and Tenant shall pay all Costs of Construction of such Tenant Improvements in excess of $38.00 per square foot of Usable Area of the Second Expansion Space. The Architect shall be DFD Conoyer Hedrick and the general contractor shall be Ryan Companies US, Inc. Paragraphs 2, 3, 4, 5, and 7 of Exhibit C to the Lease shall apply to the construction of Tenant Improvements in the Second Expansion Space.

6. Other Changes. From and after the Second Expansion Date:

(a) Tenant's Proportionate Share shall be increased from 24.06% to 25.99%.

(b) The number of parking spaces that Tenant is entitled to use pursuant to Section 1.10 of the Lease shall be increased from 36 covered reserved spaces, 102 covered unreserved spaces, and 36 uncovered unreserved spaces to 112 covered unreserved spaces, and either 5 additional covered reserved spaces or 5 additional uncovered unreserved spaces, as designated by Tenant in writing, except spaces reserved to other tenants.

7. Effect of Amendment. Except as specifically modified by this Second Amendment, all of the terms and conditions of the Lease continue in full force and effect.

TENANT:

HEALTH NET OF ARIZONA, INC.
an Arizona corporation

By /s/ Dennis Bell
Its Vice President

LANDLORD:

TOSCO OPERATING COMPANY, INC.,
a Delaware corporation

By /s/
Its Attorney-in-fact

Exhibit 10.96

THIRD AMENDMENT TO OFFICE LEASE

This Third Amendment to Office Lease ("Third Amendment") is made and entered into as of this 13th day of April, 2006, by and between Papago Buttes Corporate, LLC, a Delaware limited liability company ("Landlord") and Health Net of Arizona, Inc., an Arizona corporation ("Tenant"). This Third Amendment is to that certain Office Lease dated July 24, 2003, as amended by the First Amendment to Office Lease dated December 1 , 2003, and Second Amendment to Office Lease dated May 31, 2004, by and between Landlord's predecessor-in-interest, Tosco Operating Company, Inc., and Tenant ("the Lease").

1. **Defined Terms**. All capitalized terms used in this Third Amendment shall have the same meanings as set forth in the Lease or any subsequent amendment.

2. **Third Expansion Space**. Effective as of July 1, 2006, or the completion of tenant improvements, whichever first occurs, the "Third Expansion Date." The Third Expansion Space, as defined below, shall be added to and incorporated into the Premises under Section 1.1 for all purposes under the Lease for the balance of the Lease Term, as may be extended. The Third Expansion Space, consists of approximately 10,846 rentable square feet on the first floor of the Building, Suite E-1000, 1230 West Washington, Tempe, Arizona as depicted in Exhibit "A". This area will be referred to as "Third Expansion Space" for all purposes under this Third Amendment. The Third Expansion Space shall be remeasured as provided in Section 2.5 of the Lease, which measurement shall be binding.

3. **Term**. The term Lease for the Third Expansion Space only will be seven years and eleven months, beginning on the Commencement Date of July 1, 2006, or upon completion of the Tenant Improvements as provided in Exhibit "B", whichever first occurs.

4. **Base Rent**. The Base Rent for the Third Expansion Space shall be as set forth below. The Tenant shall continue to pay rent and all other charges for all other space under the Lease at the rates set forth in the Lease, First Amendment or Second Amendment, as the case may be.

Period	Base Rent Per Rentable Sq.Ft.	Annual Base Rent	Monthly Base Rent Payment
Month 1	$ 0		
Months 2-13	$ 23.00	$ 249,458	$ 20,788.16
Months 14-25	$ 23.50	$ 254,881	$ 21,240.80
Months 26-37	$ 24.00	$ 260,304	$ 21,692
Months 38-49	$ 24.50	$ 265,727	$ 22,143.91
Months 50-61	$ 25.00	$ 271,150	$ 22,595.83
Months 62-73	$ 25.50	$ 276,573	$ 23,047.75
Months 74-85	$ 26.00	$ 281,996	$ 23,499.66
Months 86-95	$ 26.5010	$ 263,467	$ 23,951.58

5. **Operating Costs**. With regard to the Third Expansion Space, Tenant shall pay its Operating Costs as provided in Section 7 of the Lease, however, the Base Year for the computation for Operating Costs for the Third Expansion Space will be 2006, computed at 95% occupancy as provided in Section 7.4 of the Lease. Tenant's Proportionate Share of the Building for the purposes of determining Tenant's share of Operating Costs for the Third Expansion Space shall be 2.48%. Tenant shall continue to pay Operating Costs for the remainder of the Premises according to the Lease and Amendment.

6. **Parking**. Tenant shall be provided parking for the Third Expansion Space based upon a ratio of 4.5 spaces per 1,000 rentable square feet. Tenant shall also be provided 12 covered, reserved garage spaces at the cost of $45.00 per space per month, 24 covered, unreserved garage spaces, at the cost of $35.00 per month, and 12 uncovered, unreserved rooftop spaces at no charge. All parking charges shall be abated for the first six months of the Lease Term, and thereafter charges shall commence and be paid as set forth herein.

7. **Building Hours and HVAC**. Building hours and charges for HVAC usage shall be as provided in Section 12.3 of the Lease.

8. **Tenant Improvements**. Landlord shall provide Tenant with a Tenant Improvement allowance of $30.00 per usable square foot. The construction of Tenant Improvements shall be as provided in Exhibit "B" attached to this Third Amendment.

9. **Option to Extend Term**. Tenant shall have the option to extend the Term as to the Third Expansion Space as provided in Section 2.6 of the Lease.

10. **Option to Terminate**. Tenant shall have the right to terminate the Lease as to the Third Expansion Space, as provided in Section 2.7 of the Lease. The cost for exercising the Option to Terminate as to the Third Expansion Space shall be three (3) months or the Base Rent in effect at the time of termination, plus the total of the unamortized costs of Tenant Improvements, leasing commissions and free rent paid or provided with respect to this Third Amendment to Lease and the Third Expansion Space at the rate of 8% *per annum*.

11. **No Other Modifications**. Except as specifically set forth herein, the Lease, First Amendment to Lease and Second Amendment to Lease remain in full force and effect, governing the rights and relationships of the parties under the Lease. Only in the event of any conflict between this Third Amendment and the Lease or First and Second Amendment, shall this Third Amendment control.

12. **Brokers**. Tenant represents and warrants that it has dealt only with Cushman & Wakefield in connection with the negotiation of this Lease, and Tenant shall indemnify and hold Landlord harmless from the claims of any other brokers for any commission in bringing buyer through Tenant hereunder.

LANDLORD:

PAPAGO BUTTES CORPORATE, LLC, a Delaware limited liability company

By: PRINCIPAL REAL ESTATE INVESTORS, LLC, a Delaware limited liability, company, its authorized signatory

By: /s/ Kevin P. Anderegg

By: _____

TENANT:

HEALTH NET OF ARIZONA, INC., an Arizona corporation

By: /s/ Dennis Bell

Its: Vice President

Exhibit 10.97

FOURTH AMENDMENT TO OFFICE LEASE

This Fourth Amendment to Office Lease ("Fourth Amendment") is made and entered into as of this 5th day of June, 2006, by and between Papago Buttes Corporate, LLC, a Delaware limited liability company ("Landlord") and Healthnet of Arizona, Inc., an Arizona corporation ("Tenant"). This Fourth Amendment is to that certain Office Lease dated July 24, 2003, as amended by the First Amendment to Office Lease dated December 1, 2003, Second Amendment to Office Lease dated May 31, 2004, and Third Amendment dated April 13, 2006, by and between Landlord's predecessor-in-interest, Tosco Operating Company, Inc., and Tenant ("the Lease").

1. **Defined Terms**. All capitalized terms used in this Fourth Amendment shall have the same meanings as set forth in the Lease or any subsequent amendment.

2. **Third Amendment**. Section 2 of the Third Amendment to Office Lease dated April 13, 2006 is amended to state the correct area of the Third Expansion Space as 11,162 rentable square feet. This shall be used as the correct area of the Third Expansion Space for all purposes under the Lease. The address of the Third Expansion space is corrected to be 1500 North Priest Drive, Suite 114, Tempe, Arizona 85281.

3. A new Section 25 is added to the Lease, as follows: **OFAC Compliance**.

(a) Tenant represents and warrants that (a) Tenant and each person or entity owning an interest in Tenant is (i) not currently identified on the Specially Designated Nationals and Blocked Persons List maintained by the Office of Foreign Assets Control, Department of the Treasury ("**OFAC**") and/or on any other similar list maintained by OFAC pursuant to any authorizing statute, executive order or regulation (collectively, the "List"), and (ii) not a person or entity with whom a citizen of the United States is prohibited to engage in transactions by any trade embargo, economic sanction, or other prohibition of United States law, regulation, or Executive Order of the President of the United States, (b) none of the funds or other assets of Tenant constitute property of, or are beneficially owned, directly or indirectly, by any Embargoed Person (as hereinafter defined), (c) no Embargoed Person has any interest of any nature whatsoever in Tenant (whether directly or indirectly), (d) none of the funds of Tenant have been derived from any unlawful activity with the result that the investment in Tenant is prohibited by law or that the Lease is in violation of law, and (e) Tenant has implemented procedures, and will consistently apply those procedures, to ensure the foregoing representations and warranties remain true and correct at all times. The term "**Embargoed Person**" means any person, entity or government subject to trade restrictions under U.S. law, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq., and any Executive Orders or regulations promulgated thereunder with the result that the investment in Tenant is prohibited by law or Tenant is in violation of law.

(b) Tenant covenants and agrees (a) to comply with all requirements of law relating to money laundering, anti-terrorism, trade embargos and economic sanctions, now or hereafter in effect, (b) to immediately notify Landlord in writing if any of the representations, warranties or covenants set forth in this paragraph or the preceding paragraph are no longer true

or have been breached or if Tenant has a reasonable basis to believe that they may no longer be true or have been breached, (c) not to use funds from any "Prohibited Person" (as such term is defined in the September 24, 2001 Executive Order Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism) to make any payment due to Landlord under the Lease and (d) at the request of Landlord, to provide such information as may be requested by Landlord to determine Tenant's compliance with the terms hereof.

(c) Tenant hereby acknowledges and agrees that Tenant's inclusion on the List at any time during the Lease Term shall be a material default of the Lease. Notwithstanding anything herein to the contrary, Tenant shall not permit the Premises or any portion thereof to be used or occupied by any person or entity on the List or by any Embargoed Person (on a permanent, temporary or transient basis), and any such use or occupancy of the Premises by any such person or entity shall be a material default of the Lease.

4. **No Other Modifications**. Except as set forth herein, the Lease, as amended, shall remain in full force and effect, unmodified. In the event of any conflict between the Lease or any Amendment and this Fourth Amendment, this Fourth Amendment shall control.

LANDLORD:

PAPAGO BUTTES CORPORATE, LLC, a Delaware limited liability company

By: [see attached]
Its: _____

TENANT:

HEALTH NET OF ARIZONA, INC., an Arizona corporation

By: /s/ Dennis Bell
Its: Vice President

LANDLORD:

PAPAGO BUTTES CORPORATE, LLC, a Delaware limited liability company

By: PRINCIPAL REAL ESTATE INVESTORS, LLC, a Delaware limited liability company, its authorized signatory

By: /s/ John H. Root
Its: Investment Director

By: /s/ Douglas A. Kintzle
Its: Regional Director Asset Management

Exhibit 10.101

LEASE

BETWEEN

SAN RAFAEL LAND COMPANY, LLC,

AS LANDLORD,

AND

MANAGED HEALTH NETWORK, INC.,

AS TENANT

February 6, 2008

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SAN RAFAEL LAND COMPANY
BASIC LEASE INFORMATION

Date:	February 6, 2008
Landlord:	San Rafael Land Company, LLC
Tenant:	Managed Health Network, Inc.
Project:	The property, together with the two office buildings and other improvements being constructed thereon, known as 2350 and 2370 Kerner Blvd, San Rafael, California
Building:	The southerly of the two office buildings being constructed by Landlord on the Project, known as "Building One" and having an address of 2370 Kerner Blvd, San Rafael, California
Premises:	Approximately Sixty-Two Thousand Six Hundred Forty-Seven (62,647) square feet of Rentable Area on the Second (2nd) and Third (3rd) Floors of the Building as more particularly identified on Exhibit A attached hereto, consisting of the North Wing (which contains Twenty-Three Thousand Forty-One (23,041) square feet of Rentable Area), Second Floor South Wing (which contains Nineteen Thousand Four Hundred Eighty (19,480) square feet of Rentable Area) and Third Floor South Wing (which contains Twenty Thousand One Hundred Twenty-Six (20,126) square feet of Rentable Area), all subject to measurement and adjustment as described in Section 1(c);
Initial Term:	Seven (7) years, commencing as of the first to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date and continuing to and including the Term Expiration Date, subject to Sections 2(e) and 3
Basic Rent:	See Section 4(a)
Commencement Date:	(i) With respect to the North Wing, the date the North Wing is Substantially Complete (the *"North Wing Commencement Date"*), which the parties estimate will be on or before May 14, 2008; (ii) with respect to the Second Floor South Wing, the date the Second Floor South Wing is Substantially Complete (the *"Second Floor South Wing Commencement Date"*), which the parties estimate will be on or before June 12, 2008; and (iii) with respect to the Third Floor South Wing, the date the Third Floor South Wing is Substantially Complete (the *"Third Floor South Wing Commencement Date"*), which the parties estimate will be on or before June 25, 2008; each of the foregoing estimated dates of commencement being, with respect to the applicable portion of the Premises hereinabove identified, sometimes referred to in this Lease as the *"Projected Commencement Date"*

Term Expiration Date:	The day immediately preceding the seventh (7th) anniversary of the last to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date
Security Deposit:	Waived
Base Year:	2008; provided, however, that with respect to Property Taxes, the Base Year shall be the 2008/2009 tax year
Tenant's Proportionate Share:	The ratio which the Rentable Area of the Premises bears to the Rentable Area of the Project
Tenant Improvements:	See Section 8 and Exhibits B, C and D
Tenant Improvement Allowance:	An amount equal to Fifty Dollars ($50.00) per square foot of Rentable Area contained in the Premises, subject to adjustment as described in Section 1(c)
Tenant's Broker:	Madison Partners

OFFICE LEASE

THIS LEASE is entered into by and between Landlord and Tenant, as specified in the Basic Lease Information, which is incorporated herein by reference, as of the date shown in the Basic Lease Information.

1. PREMISES.

(a) Initial Premises. Landlord hereby leases to Tenant and Tenant hereby leases from Landlord the Premises (as described in Section 1(b)) upon and subject to the terms, covenants and conditions herein set forth. Landlord and Tenant each covenant, as a material part of the consideration for this Lease, to keep and perform each and all of said terms, covenants and conditions for which each party is responsible and this Lease is entered into upon the condition of such performance.

(b) Location of Premises. The Premises shall be located as shown on Exhibit A. The Premises, in the aggregate, consists of the following premises: (i) the premises shown on Exhibit A and identified thereon as the North Wing (C-1) and the North Wing (G-1) (collectively, the *"North Wing"*); (ii) the premises shown on Exhibit A and identified thereon as the South Wing (D-1) (the *"Second Floor South Wing"*); and (iii) the premises shown on Exhibit A and identified thereon as the South Wing (F-1) (the *"Third Floor South Wing"*). The North Wing, Second Floor South Wing and Third Floor South Wing contain the Rentable Areas specified for such portions in the Basic Lease Information. The foregoing notwithstanding, no portion of the North Wing, Second Floor South Wing or Third Floor South Wing shall be deemed to be a part of the Premises unless and until the Commencement Date (as defined in Section 2) with respect to such portion has occurred in accordance with the provisions of this Lease.

(c) Verification of Rentable Area of Premises, Building and Project.

(i) For the purposes of this Lease:

(A) *"Rentable Area"* of the Premises shall be the product of: (x) the "usable area" of the Premises, as calculated pursuant to the Standard Method for Measuring Floor Area in Office Buildings, [ANSI Z65.1 – 1996] (*"BOMA Standard"*); multiplied by (y) one hundred twelve percent (112%) (or one hundred fifteen percent (115%) with respect to the Third (3rd) Floor of the Building containing the premises.

(B) *"Rentable Area"* of the Project shall be the product of: (x) the aggregate "usable area" of the Project, as designed and as calculated pursuant to the BOMA Standard; multiplied by (y) one hundred twelve percent (112%) (or one hundred fifteen percent (115%) with respect to the Third (3rd) Floor of the Building).

(C) *"Building"* means the southerly of the two office buildings on the Project, known as "Building One" and having an address of 2370 Kerner Blvd, San Rafael, California. As of the date of this Lease, the construction of the Building (including the "shell" elements set forth in Exhibit H) is substantially complete.

(D) *"Buildings"* means, collectively, the Building and the other building on the Project.

(E) *"Project"* means the land, together with the Buildings and other improvements now or in the future constructed thereon, known as 2350 and 2370 Kerner Blvd, San Rafael, California.

(ii) The Rentable Area of the Premises, the Building and the Project shall be determined by Landlord's architect. Upon the completion of such determination, Landlord shall notify Tenant of the correct Rentable Areas of each of them, and, if the Premises are determined to contain more or less than Sixty-Two Thousand Six Hundred Forty-Seven (62,647) square feet of Rentable Area, Landlord and Tenant shall promptly thereafter execute an amendment to this Lease proportionately adjusting all amounts and percentages appearing or referred to in this Lease based upon Rentable Area (including, without limitation, the amounts of Basic Rent and Tenant's Proportionate Share of Operating Expenses); provided, however, that in no event will such measurement result in an increase to Tenant in Basic Rent or Tenant's Proportionate Share of Operating Expenses of more than five percent (5%).

(iii) In the event that Tenant elects to cause its architect also to measure the Rentable Area of the Premises, it shall do so from the Building Plans within thirty (30) days of the receipt by Tenant of such Building Plans from Landlord, and if the results of such measurement vary by more than two percent (2%) from the amount determined by Landlord's architect, Tenant shall so notify Landlord. Landlord shall then select another architect, who shall be subject to the reasonable approval of Tenant, and Landlord and Tenant shall together request that such other architect determine the Rentable Area of the Buildings and the Premises from the plans, which determination shall be binding on Landlord and Tenant. The costs of such determination shall be paid by Landlord and Tenant in equal shares.

2. TERM.

(a) Initial Term. Except as otherwise provided herein, the term of this Lease shall be the Initial Term as set forth in the Basic Lease Information (*"Initial Term"*), commencing as of the first to occur of the Commencement Dates set forth in the Basic Lease Information (each such commencement date a *"Commencement Date"*). The Initial Term shall end as of the Term Expiration Date as set forth in the Basic Lease Information (the *"Term Expiration Date"*). The Initial Term, together with any extension term as to which a right has been properly exercised or as to which Landlord and Tenant have otherwise agreed in writing, shall be referred to as the *"Term."*

(b) Confirmation of Lease Term. When the Commencement Dates and the Term Expiration Date have been ascertained, the parties shall promptly complete and execute an acknowledgement of the Commencement Dates and the Term Expiration Date using a Notice of Lease Term Dates in the form of Exhibit E attached hereto.

(c) Early Access. Landlord shall provide Tenant and its representatives access to the Building, the North Wing, Second Floor South Wing and Third Floor South Wing reasonably following the date upon which Landlord executes a countersigned original of this Lease. Such access shall be utilized by Tenant for the sole purpose of installing its

telecommunications installations, data cabling, furniture and special fixtures in such premises in connection with the commencement of its business operations therein. Upon such entry, Tenant shall perform all of the obligations of Tenant applicable under this Lease during the Term (except the obligation to pay Basic Rent, Tenant's Proportionate Share of Operating Expenses, the costs of parking at the Project, the cost of using the Building freight elevator and loading docks, or the cost of utilities or temporary heating, ventilating and air conditioning provided by Landlord to such portions of the Premises during such early access or entry period), including, without limitation, obligations pertaining to insurance, indemnity, compliance with laws and Hazardous Materials. Subject to the provisions of Sections 23 and 24, Tenant acknowledges and agrees that Landlord shall not be liable to Tenant or any Tenant Party (as that term is defined in Section 25(c)) for any injury, loss or damage to person or property which may occur in connection with such entry, the same being at Tenant's or any such Tenant Party's sole risk and liability.

(d) Building Riser and Minimum Point of Entry Access. Tenant shall have reasonable, non-exclusive access twenty-four (24) hours per day, seven (7) days per week (subject to (i) all reasonable security measures as may be imposed by Landlord from time to time and as are generally applicable to tenants of the Building and their invitees and (ii) restrictions on access imposed or recommended as a result of an emergency) to the Building's riser and minimum point of entry (*"MPOE"*), at no charge (except as otherwise specifically provided in this Lease), for the purpose of installing, operating, repairing, maintaining and replacing Tenant's telecommunications, data and security cabling used in connection with Tenant's business operations in the Premises, subject to such reasonable rules, procedures and security measures (including, without limitation, the presence of and supervision by Landlord's riser manager, if any) as Landlord may adopt, and subject to restrictions on access imposed or recommended as a result of an emergency. Tenant may utilize Tenant's vendor or vendors (subject to Landlord's prior approval, which shall not be unreasonably withheld, conditioned or delayed) for the purposes of installing, operating, repairing, maintaining and replacing such telecommunications and data cabling. Landlord shall reasonably cooperate with Tenant in connection with the exercise of Tenant's rights under this Section 2(d).

(e) Early Termination. Tenant shall have the one-time right to terminate this Lease (the *"Termination Right"*) effective as of the last day of the Sixtieth (60th) Lease Month (the *"Termination Date"*), provided that:

(i) Tenant shall have given Landlord written notice of Tenant's exercise of the Termination Right at least twelve (12) months prior to the Termination Date; and

(ii) No later than thirty (30) days prior to the Termination Date, Tenant shall pay to Landlord a termination payment equal to the sum of: (i) the then unamortized portion of any out-of-pocket costs actually incurred by Landlord associated with the making of this Lease (including without limitation legal, brokerage, architect and engineering fees, Landlord's Contribution and the Offering Space Alterations Allowance (defined in Section 45(b) below), if any), as if such costs were amortized in equal monthly installments over the Term with interest at the rate of ten percent (10%) per annum; and (ii) any Basic Rent, Tenant's Proportionate Share of Operating Expenses and additional rent past due from Tenant under the terms of this Lease; and

(iii) At the written request of Tenant given no earlier than sixty (60) days prior to the Termination Date, Landlord shall provided Tenant with Landlord's calculation of the termination payment required pursuant to the provisions of Section 2(e)(ii) above, and Landlord shall use its best efforts to deliver such calculation to Tenant within thirty-five (35) days prior to the Termination Date; provided, however, that: (i) any failure by Landlord to provide Tenant with such calculation shall not release Tenant from making the termination payment required pursuant to the provisions of Section 2(e)(ii) above, and (ii) Tenant may delay payment of the Termination Fee until the fifth (5th) business day following the date upon which Landlord delivers such calculation to Tenant (such payment obligation to survive the expiration or earlier termination of this Lease); and

(iv) If Tenant gives the notice of termination referred to in Section 2(e)(i) but fails to make the termination payment required by Section 2(e)(ii), then Landlord may elect by written notice to Tenant either to deem the notice of termination ineffective, in which event this Lease shall not terminate, or to allow this Lease to be terminated and to collect the termination payment described in Section 2(e)(ii) from Tenant; and

(v) If this Lease is terminated early pursuant to the provisions of this Section 2(e), Tenant shall quit and surrender possession of the Premises to Landlord on the Termination Date in the manner and condition required under the terms of this Lease.

3. OPTION TO EXTEND THE TERM.

(a) Extension Term. Landlord grants to Tenant the option to extend the Term (the *"Extension Option"*) for one (1) additional consecutive term of five (5) years (the *"Extension Term"*). Tenant may elect, at the time that it exercises its option to extend the Term, to extend with respect to all the Premises then leased by Tenant. The Extension Term, if any, shall commence immediately following the Term Expiration Date of the Initial Term. The Extension Option shall be exercised, if at all, by written notice to Landlord at any time during the Initial Term on or before the date that is no later than nine (9) months prior to the Term Expiration Date, which notice shall be irrevocable by Tenant. Notwithstanding the foregoing, if an Event of Default (as defined in Section 30(a)) exists under this Lease either at the time Tenant exercises the Extension Option or upon the commencement of the Extension Term, Landlord shall have, in addition to all of Landlord's other rights and remedies under this Lease, the right to terminate the Extension Option and to cancel unilaterally Tenant's exercise of the Extension Option, in which event the Term Expiration Date of this Lease shall be and remain the day of expiration of the Initial Term of this Lease, and Tenant shall have no further rights under this Lease to renew or extend the Term. Except as expressly set forth in this Section 3 (a), Tenant shall not have any option to extend the Term of this Lease.

(b) Extension Term Rent. The Extension Term shall be upon and subject to all of the terms, covenants and conditions of this Lease; provided, however, that: (i) the Basic Rent for the Extension Term shall be equal to the Fair Market Rental Value for the Extension Term; and (ii) the Base Year for the Extension Term shall be the first full calendar year during the Extension Term. Such Basic Rent shall be determined by Landlord not later than four (4) months prior to the commencement of the Extension Term. Tenant shall send to Landlord a written notice, within thirty (30) days after the date of Landlord's notice setting forth the Fair Market Rental Value for the Extension Term, which notice shall state that Tenant either (x)

agrees with Landlord's determination of Fair Market Rental Value for the Extension Term or (y) disagrees with Landlord's determination of Fair Market Rental Value for the Extension Term and elects to resolve the disagreement as provided in Section 3(d)(i) below. If Tenant does not send to Landlord a notice as provided in the previous sentence within the said thirty (30) day period, Landlord's determination of the Fair Market Rental Value shall be binding on Landlord and Tenant. Until the disagreement is resolved as provided in Section 3(d)(i) below, Tenant's monthly payments of Basic Rent shall be in an amount not less than the greater of (x) Landlord's determination of the Fair Market Rental Value and (y) the Basic Rent payable for the twelve (12) month period immediately preceding the commencement of the Extension Term. Within ten (10) business days following the resolution of such dispute by the parties or the decision of the brokers or appraisers, as applicable, one party shall make any necessary payment to the other party in order to adjust the amount previously paid by Tenant during the Extension Term to the Fair Market Rental Value as determined. Notwithstanding anything to the contrary set forth in this Section 3, in no event shall the Basic Rent for the Extension Term be less than the Basic Rent payable immediately preceding the commencement of the Extension Term (not taking into account any abatements or reductions in Basic Rent which may have been applicable during such period pursuant to the provisions of this Lease). Tenant shall in any event pay all applicable additional charges with respect to the Premises, in the manner and at the times provided in this Lease, effective upon the commencement of the Extension Term, and notwithstanding any dispute regarding the Basic Rent for the Extension Term, using the Base Year for the Extension Term as adjusted pursuant to this Section 3(b).

(c) Extension Term Alterations Allowance. In the event that Tenant exercises its Extension Option and provided that such Extension Option is not terminated by Landlord pursuant to Section 3(a) above prior to commencement of the Extension Term, Landlord shall provide Tenant an allowance (*"Extension Term Alterations Allowance"*) in reimbursement for the costs (or a portion of the costs) for designing and constructing Alterations to the Premises in an amount equal to Seven Dollars ($7.00) per square foot of Rentable Area contained in the Premises as of the date of commencement of the Extension Term. Such reimbursements from the Extension Term Alterations Allowance shall be made by Landlord within thirty (30) days following the later to occur of: (i) the presentation by Tenant to Landlord of reasonable evidence of the amounts so incurred and paid by Tenant for such Alterations; or (ii) the presentation by Tenant to Landlord of all appropriate lien releases from all contractors, subcontractors, sub-subcontractors, suppliers, materialmen and design professionals performing work or services on behalf of Tenant with respect to such Alterations. The other provisions of this Section 3(c) notwithstanding, (i) Landlord shall not be required to pay any part of the Extension Term Alterations Allowance on or following the eighteen (18) month anniversary of the commencement of the Extension Term, and, (ii) Landlord shall not be required to pay any part of Landlord's Contribution if there then exists an Event of Default under this Lease.

(d) Determination of Fair Market Rental Value. As used in this Lease, the term *"Fair Market Rental Value"* shall mean the product of: (i) the Rentable Area of the Premises; multiplied by (ii) the average rental rate per rentable square foot per month (taking into account additional rent and all other monetary payments and considering any base year or expense stop applicable thereto), including all escalations, for all leases for comparable, unencumbered space for approximately the same lease term executed at the Project and/or any other comparable Class A building in terms of size, quality, level of services, amenities, views,

age and appearance located within the portion of Marin County south of the most northerly point of the city limits of San Rafael, during the twelve (12) month period immediately preceding the date upon which the determination of Fair Market Rental Value is made, and having a commencement date within six (6) months of the date that the Fair Market Rental Value will commence under this Lease, and taking into account (A) any tenant improvements and other concessions (including any free and abated rent) granted to Tenant and tenants under leases of such comparable space or then existing in the Premises or the premises in the transaction, and (B) whether the transaction is an initial lease or a renewal or extension of an existing lease. Costs which are incurred by a landlord in connection with the negotiation and documentation of a lease transaction, and other costs incurred by a landlord which are not paid to or for the direct benefit of the tenant, shall not be considered.

(i) Any disagreement regarding the Fair Market Rental Value for the purposes of this Section 3 shall be resolved as follows:

(A) Within twenty (20) days after Tenant's response to Landlord's notice of Landlord's initial determination of the Fair Market Rental Value, Landlord and Tenant shall meet no less than two (2) times, at a mutually agreeable time and place, to attempt to resolve any such disagreement.

(B) If, within the twenty (20) day consultation period described in subsection 3(d)(i)(A) above, Landlord and Tenant cannot reach an agreement as to the Fair Market Rental Value, they shall each make a separate determination of the Fair Market Rental Value within five (5) business days after the expiration of the said twenty (20) day period, and such determinations shall be submitted to arbitration in accordance with subsection 3(d)(i)(C) below; provided that, if only one (1) determination of Fair Market Rental Value is submitted to arbitration within the said five (5) business day period, then such determination shall be the Basic Rent for the Extension Term and the parties shall not proceed with arbitration.

(C) If the Basic Rent has not been determined pursuant to the procedures outlined above, Landlord and Tenant shall each appoint one arbitrator who shall be either a real estate broker or MAI appraiser and shall have been active over the five (5) year period ending on the date of such appointment in the leasing of commercial mid-rise and/or high-rise properties in the greater San Francisco metropolitan area. Each such arbitrator shall be appointed within five (5) business days after the expiration of the twenty (20) day period described in subsection 3(d)(i)(B) above. The two (2) arbitrators so appointed shall within ten (10) days of the date of appointment of the last appointed arbitrator agree upon and appoint a third arbitrator who shall be qualified under the same criteria set forth hereinabove for qualification of the first two (2) arbitrators. The determination of the arbitrators shall be limited solely to the issue of whether the Landlord's or the Tenant's submitted Fair Market Rental Value is the closest to the actual Fair Market Rental Value of the Premises, as determined by the arbitrators. The three (3) arbitrators shall within thirty (30) days of the appointment of the third arbitrator reach a decision as to whether the parties shall use the Landlord's or the Tenant's submitted Fair Market Rental Value as the Basic Rent for the Extension Term, and shall notify Landlord and Tenant thereof. The decision of the majority of the three (3) arbitrators shall be

binding upon Landlord and Tenant. If either Landlord or Tenant fails to appoint an arbitrator within the five (5) business day period provided above, then the arbitrator appointed by one of them shall reach a decision, notify Landlord and Tenant thereof, and such arbitrator's decision shall be binding upon Landlord and Tenant. If the two (2) arbitrators fail to agree upon and appoint a third arbitrator within the ten (10) day period provided above, or both parties fail to appoint an arbitrator within the five (5) business day period provided above, then Landlord shall prepare and submit to Tenant a list of three (3) proposed arbitrators that possess the required qualifications as set forth above; provided that none of such proposed arbitrators nor the firm for which any of them works shall be a current or past affiliate of either Landlord or Tenant or currently retained or employed by Landlord or Tenant. Within five (5) business days after receipt of such list, Tenant shall select an arbitrator therefrom and such person shall be the third or single, as the case may be, arbitrator hereunder. If Tenant fails to make such selection with such five (5) business day period, then Landlord shall select the third or single, as the case may be, arbitrator from such list. Each party shall pay the cost of the arbitrator which it first selects and the parties shall share equally the cost of the third arbitrator.

4. BASIC RENT.

(a) Basic Rent Payments. Tenant agrees to pay Landlord basic rent with respect to the Premises (*"Basic Rent"*) as follows:

(i) Commencing as of the North Wing Commencement Date and continuing to and including the day immediately preceding the First (1st) Lease Month, Tenant agrees to pay Landlord Basic Rent with respect to the North Wing at the rate of Two Dollars and Ninety-Five Cents ($2.95) per month per square foot of Rentable Area contained in the North Wing.

(ii) Commencing as of the Second Floor South Wing Commencement Date and continuing to and including the day immediately preceding the First (1st) Lease Month, Tenant agrees to pay Landlord Basic Rent with respect to the Second Floor South Wing at the rate of Two Dollars and Ninety-Five Cents ($2.95) per month per square foot of Rentable Area contained in the Second Floor South Wing.

(iii) Commencing as of the Third Floor South Wing Commencement Date and continuing to and including the day immediately preceding the First (1st) Lease Month, Tenant agrees to pay Landlord Basic Rent with respect to the Third Floor South Wing at the rate of Two Dollars and Ninety-Five Cents ($2.95) per month per square foot of Rentable Area contained in the Third Floor South Wing.

(iv) Commencing as of the First (1st) Lease Month, Tenant agrees to pay Landlord Basic Rent with respect to the entire Premises at the following rates per square foot of Rentable Area in the entire Premises:

Lease Months	Monthly Rate per Square Foot of Rentable Area in the Premises
1-12	$ 2.95
13-24	$ 3.04
25-36	$ 3.13

37-48	$3.22
49-60	$3.32
61-72	$3.42
73-84	$3.52

(b) Lease Month. The term *"Lease Month"* shall mean a period commencing as of a particular date and continuing to and including the day immediately preceding the same day of the next calendar month (or, if the next calendar month does not contain such a same day due to being shorter in duration, then continuing to and including the last day of such next calendar month). The First (1st) Lease Month shall commence as of the last to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date, and successive Lease Months shall be consecutively numbered.

(c) Method of Payment. Basic Rent with respect to the North Wing, Second Floor South Wing and Third Floor South Wing shall be payable monthly during the Term, commencing as to each such portion of the Premises as of the Commencement Date for such portion of the Premises as provided in the foregoing provisions of this Section 4. Each monthly installment of Basic Rent shall be payable in advance on the first day of each calendar month during the Term, except that the First (1st) Lease Month's installment shall be paid within fifteen (15) days of full execution hereof. If the rate at which Basic Rent is payable under this Lease changes on a day other than the first day of a calendar month, then the Basic Rent for such calendar month shall be prorated on a daily basis to take such change into account, and any additional amount due as a result of such proration shall be paid on the first day of the calendar month for which the proration occurs. In addition to the Basic Rent, Tenant agrees to pay as additional rent the amount of additional rent and rent adjustments and other charges required by this Lease. All rent shall be paid to Landlord, without prior demand and without any deduction or offset (except as otherwise specifically provided in this Lease or under applicable law), in lawful money of the United States of America, at the address of Landlord designated in Section 36 below or to such other person or at such other place as Landlord may from time to time designate in writing. Except as otherwise provided in this Lease, in the event of a remeasurement or adjustment of the area of the Premises, the Basic Rent shall be recalculated using the Basic Rent rates set forth in this Section 4 (*"Basic Rental Rates"*).

5. ADDITIONAL RENT. In addition to the Basic Rent provided in Section 4 of this Lease, Tenant shall pay Tenant's Proportionate Share as specified in the Basic Lease Information (*"Tenant's Proportionate Share"*), of the increase in Actual Operating Expenses for each Operating Year over the Base Amount (as such terms are defined below). Tenant's Proportionate Share may change based on remeasurement or adjustment of the area of the Project or the Premises as described in Section 1(c). In addition, whenever additional space is added to the Premises, Tenant's Proportionate Share shall increase accordingly.

(a) Estimated Operating Expenses. Within ninety (90) days after the close of each Operating Year during the Term, Landlord shall furnish Tenant a written statement of the *"Estimated Operating Expenses"* for the then current Operating Year, and a corresponding calculation of additional rent, which shall be one-twelfth (1/12) of Tenant's Proportionate Share of the amount, if any, by which the Estimated Operating Expenses exceed the Base Amount.

Commencing as of the later of the first (1st) anniversary of the Base Year or the thirteenth (13th) month anniversary of the first to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date, such additional amount shall be added to the monthly installment of Basic Rent payable by Tenant under this Lease for each month during such Operating Year.

(b) Actual Operating Expenses. Within one hundred twenty (120) days after the close of each Operating Year (including the Base Year) during the Term, Landlord shall deliver to Tenant a reasonably detailed written statement setting forth the Actual Operating Expenses during the preceding Operating Year. Any such written statement shall describe in reasonable detail any gross up of Actual Operating Expenses. For each Operating Year following the Base Year, if such expenses for such Operating Year exceed the Estimated Operating Expenses paid by Tenant to Landlord pursuant to Section 5(a), Tenant shall pay Tenant's Proportionate Share of the amount of such excess to Landlord as additional rent within thirty (30) days after receipt by Tenant of such statement. If such statement shows Tenant's Proportionate Share of such expenses to be less than the amount paid by Tenant to Landlord pursuant to Section 5(a), then the amount of such overpayment shall be paid by Landlord to Tenant within thirty (30) days following the date of such statement or, at Landlord's option, credited by Landlord to the payment of rent next due (which amount, if credited, shall be communicated to Tenant in writing). Landlord's failure to give such notice and statement within one hundred twenty (120) days after the close of any Operating Year shall not release either party from the obligation to make the adjustment provided for in this Section 5(b); provided, however, that Landlord's failure to give such notice or statement within one hundred eighty (180) days after the close of any Operating Year shall be deemed to be an unconditional waiver of Landlord's right to collect the adjustment provided for in this Section 5(b) for such Operating Year, except with respect to items of Operating Expenses or Property Taxes the exact and final amount of which could not be ascertained through the exercise of reasonable diligence within such one hundred eighty (180) day period, as to which items the adjustment provided for in this Section 5(b) for such Operating Year shall be made when the exact and final amount of such items can be ascertained. The determination of Actual Operating Expenses and Estimated Operating Expenses shall be made by Landlord.

(c) Method of Payment. Any payments pursuant to this Section 5 shall be additional rent payable by Tenant hereunder, and in the event of nonpayment thereof, Landlord shall have the same rights with respect to such nonpayment as it has with respect to any other nonpayment of rent hereunder.

(d) Refund of Property Taxes. If any Property Taxes previously included in any Actual Operating Expenses paid by Tenant are subsequently refunded, Landlord shall pay to Tenant within thirty (30) days after receipt thereof Tenant's Proportionate Share of such refund, net of any costs of obtaining the refund not already included in Actual Operating Expenses. The foregoing obligation of Landlord shall survive the expiration or earlier termination of this Lease

(e) End of Term. If this Lease shall terminate on a day other than the last day of an Operating Year, the amount of any adjustment between Estimated Operating Expenses and Actual Operating Expenses with respect to the Operating Year in which such termination occurs shall be prorated on the basis which the number of days from the commencement of such

Operating Year, to and including such termination date, bears to three hundred sixty-five (365); and any amount payable by Landlord to Tenant or Tenant to Landlord with respect to such adjustment shall be payable within thirty (30) days after delivery of the statement of Actual Operating Expenses with respect to such Operating Year. The obligations of Tenant and Landlord to make adjusting payments pursuant to this Section 5 shall survive the expiration or earlier termination of this Lease.

(f) Definitions. The following terms shall have the respective meanings hereinafter specified:

(i) *"Base Amount"* shall mean an amount equal to the Actual Operating Expenses for the Base Year (as defined in the Basic Lease Information); provided that if less than ninety-five percent (95%) of the total Rentable Area of the Project is occupied during the Base Year, then the Actual Operating Expenses actually incurred for the Base Year shall be adjusted by Landlord to the amount which would have been incurred if ninety-five percent (95%) of the total Rentable Area of the Project had been completed with tenant improvements and leased and occupied, and as if all tenants were paying full rent (as opposed to free rent or half-rent, it being the intention that any expense, such as a management fee, that varies with the amount of rent paid shall be calculated as if all tenants were paying full rent), for the entire Base Year.

(ii) *"Common Areas"* shall, subject to the provisions of Section 44, mean the areas of the Building and the Project devoted by Landlord to non-exclusive uses such as lobbies, fire vestibules, rest rooms, mechanical areas, tenant and ground floor corridors, elevator foyers, electrical and janitorial closets, ground floor lobbies, telephone and equipment rooms, parking areas, landscaping, the flat portions of the roof of the Building, and other similar facilities maintained for the benefit of Building tenants and invitees.

(iii) *"Operating Year"* shall mean a calendar year commencing January 1 and ending December 31.

(iv) *"Operating Expenses"* shall mean all expenses Landlord has paid or incurred, or become obligated to pay or incur, for maintaining, owning, operating and repairing the Project, including, without limitation, the Building, and the personal property used in conjunction therewith, determined in accordance with generally accepted accounting principles, consistently applied, including, but not limited to expenses incurred or paid for: (i) Property Taxes (as hereinafter defined); (ii) utilities for the Project, including but not limited to electricity, power, gas, steam, oil or other fuel, water, sewer, lighting, heating, air conditioning and ventilating; (iii) permits, licenses and certificates necessary to operate, manage and lease the Project; (iv) insurance Landlord deems appropriate to carry; (v) supplies, tools, equipment and materials used in the operation, repair and maintenance of the Project; (vi) accounting, legal, inspection, consulting, concierge and other services; (vii) equipment rental (or installment equipment purchase or equipment financing agreements); (viii) management agreements (including the cost of any management fee actually paid thereunder and the fair rental value of any office space provided thereunder, up to customary and reasonable amounts); (ix) wages, salaries and other compensation and benefits (including the fair value of any parking privileges provided) for all persons at or below the level of Director of Operations engaged in the operation, maintenance or security of the Project, and employer's Social Security taxes,

unemployment taxes or insurance, and any other taxes which may be levied on such wages, salaries, compensation and benefits; (x) payments under any easement, operating agreement, declaration, restrictive covenant, or instrument pertaining to the sharing of costs in any planned development or similar arrangement; (xi) operation, repair and maintenance of all systems and equipment and components thereof (including replacement of components); (xii) janitorial service, alarm and security service, window cleaning, trash removal, elevator maintenance, and cleaning of walks, parking facilities and building walls; (xiii) replacement of wall and floor coverings, ceiling tiles and fixtures in lobbies, corridors, restrooms and other common or public areas or facilities; (xiv) maintenance and replacement of shrubs, trees, grass, sod and other landscape items, irrigation systems, drainage facilities, fences, curbs, and walkways; (xv) re-paving (which expenditures shall, to the extent such expenditures are capital expenditures, be amortized for purposes of this Lease over the useful life of the items being amortized, as determined by Landlord in its reasonable discretion) and re-striping parking facilities; (xvi) roof repairs and replacement, which expenditures shall, to the extent such expenditures are capital expenditures, be amortized for purposes of this Lease over the useful life of the items being amortized (as determined by Landlord in its reasonable discretion); and (xvii) capital expenditures made to reduce Operating Expenses (provided that the amount chargeable as an Operating Expense in any year shall not exceed Landlord's reasonable determination of the efficiency achieved either in direct cost savings, avoidance of cost increases or a combination of both), or to comply with any laws or other governmental requirements, or for replacements (as opposed to additions or new improvements) of non-structural items located in the Common Areas of the Project required to keep such areas in good condition, which capital expenditures shall be amortized for purposes of this Lease over the useful life of the items being amortized (as determined by Landlord in its reasonable discretion). Notwithstanding the foregoing to the contrary, Operating Expenses shall not include (a) depreciation, interest and amortization on mortgages or other debt costs or ground lease payments, if any; (b) legal fees, accounting fees and other expenses incurred in connection with leasing, tenant disputes or enforcement of leases (as opposed to accounting fees and other expenses incurred in connection with the operation of the Project or the determination of Operating Expenses) or disputes regarding or associated with the enforcement or defense of Landlord's title to or interest in the Project or any part thereof; (c) real estate brokers' leasing commissions; (d) improvements or alterations to tenant spaces; (e) the cost of providing any service directly to and paid directly by, any other tenant of the Project (other than through payment of a proportionate share of Actual Operating Expenses or other similar general operating expense reimbursement procedure); (f) costs of any items to the extent Landlord receives reimbursement from insurance proceeds or from a third party (such proceeds to be deducted from Operating Expenses in the year in which received); (g) capital expenditures except those capital expenditures specifically referenced in the preceding sentence; (h) costs incurred by Landlord which are associated with the operation of the business of the legal entity which constitutes Landlord as the same is separate and apart from the cost of the maintenance, operation and repair of the Project, including legal entity formation and legal entity accounting (including the incremental accounting fees relating to the operation of the Building to the extent incurred separately in reporting operating results to the Building's owners or lenders); (i) costs incurred by Landlord due to the violation by Landlord or any other specific tenant of the terms and condition of any lease of space in the Building or Project, which would not have otherwise been incurred in the absence of such violation; (j) if and during such time that Landlord is managing the Building on its own behalf or through an affiliate, any management fee in excess of that obtainable from a first-class management company unaffiliated with Landlord which does

not have a brokerage listing agreement with Landlord for the Building or any other building owned by Landlord; (k) any cost representing an amount paid to any person, firm, corporation or other entity related to or affiliated with Landlord, which amount is in excess of the amount which would have reasonably been paid in the absence of such relationship for comparable work or services involving the Building or comparable buildings in the general vicinity of the Building; (l) costs for repairs or replacements covered by third-party warranties or guarantees, to the extent actually collected by Landlord; (m) costs of repairs and general maintenance paid by proceeds of insurance or directly and separately by Tenant or other third parties; (n) costs (including legal expenses and all costs related to remediation) incurred by Landlord in connection with the investigation or remediation of Hazardous Materials, to the extent (and only to the extent) that: (A) such Hazardous Materials were present on the Project as of the first to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date, and were not brought onto the Project by Tenant or its agents, employees or contractors; or (B) such Hazardous Materials were first brought onto the Project by Landlord or its agents, employees or contractors; (o) advertising and marketing expenses; (p) any bad debt loss, rent loss, or reserves for bad debts or rent loss, or reserves for capital expenditures with respect to the maintenance, ownership, operating or repair of the Project; (q) any and all costs incurred by Landlord in connection with the transfer or disposition of Landlord's interest in the Project, except with respect to Property Taxes (including, without limitation, with respect to an increase in Property Taxes in connection with a change of ownership re-assessment under Proposition 13); (r) the cost of repairs and/or restorations necessitated by condemnation or casualty insured or required to be insured by Landlord under this Lease; (s) any cost for which Landlord is reimbursed or entitled to reimbursement by other tenants of the Project; (t) expenses in connection with services provided to other tenants which would not be the standard services provided to Tenant under Section 9(a) of this Lease and which are of a type for which Tenant would be charged directly under this Lease but which are provided to another tenant or occupant of the Building without direct charge (or, if provided to such other tenant as a direct charge which does not reasonably approximate the actual cost to Landlord of the provision of such services, then the increment of difference between the actual cost of such services and the charge made to such tenant), (u) capital expenditures incurred in connection with upgrading the Common Areas in order to comply with any laws or other governmental requirements in effect as of the date of this Lease, and of which Landlord is actually in violation as of the date of this Lease (and for such purposes, Landlord shall not be deemed to be in violation of such laws or other governmental requirements unless Landlord has been notified of the violation as of the date of this Lease by the applicable government authority or authorities having jurisdiction and Landlord has failed to correct such violation as of the date of this Lease), (v) costs (including legal expenses and all costs related to remediation) incurred by Landlord in connection with the performance of its obligations under Section 25(f)(i) with respect to Hazardous Materials that were first brought onto the Project (except the Premises) on or following the first to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date but not by Landlord or Tenant or their respective agents, employees or contractors and are not otherwise related to the use or occupancy of the Premises, but only to the extent such costs are greater than five percent (5%) of all other Operating Expenses for the applicable Operating Year; and (w) costs in connection with the operation of income producing retail concession operations owned by Landlord (and not leased or licensed to a third party) and located within the Project. In the event Landlord incurs, subsequent to the Base Year, any new item or category of expense which was not included in the

Base Year, Operating Expense for the Base Year shall be deemed increased (i.e., "grossed up") by the amounts Landlord would have incurred during the Base Year with respect to such expense. If any Operating Expense, though paid in one year, relates to more than one Operating Year, such Operating Expense shall be proportionately allocated among such related Operating Years. If any portion of the Project is covered by a warranty or service agreement at any time during the Base Year and to the extent the Project is not covered by such warranty or service agreement during a subsequent Operating Year, Operating Expenses for the Base Year shall be deemed increased by such amount as Landlord would have incurred during the Base Year with respect to the items or matters covered by the subject warranty or service agreement, had such warranty or service agreement not been in effect during the Base Year. In no event shall Landlord collect in total, from Tenant and all other tenants of the Project, an amount greater than one hundred percent (100%) of the Operating Expenses during any year of the Term.

(v) *"Estimated Operating Expenses"* shall mean Landlord's estimate of Operating Expenses for the following Operating Year, adjusted, if (at any time during the entire Operating Year) less than ninety-five percent (95%) of the total Rentable Area of the Project had been occupied, as if ninety-five percent (95%) of the total Rentable Area of the Project had been occupied, and as if all tenants were paying full rent (as opposed to free rent or half-rent, it being the intention that any expense, such as a management fee, that varies with the amount of rent paid shall be calculated as if all tenants were paying full rent), for the entire Operating Year.

(vi) *"Actual Operating Expenses"* shall mean the actual Operating Expenses for any Operating Year, adjusted, if (at any time during the entire Operating Year) less than ninety-five percent (95%) of the total Rentable Area of the Project had been occupied, as if ninety-five percent (95%) of the total Rentable Area of the Project had been occupied, and as if all tenants were paying full rent (as opposed to free rent or half-rent, it being the intention that any expense, such as a management fee, that varies with the amount of rent paid shall be calculated as if all tenants were paying full rent), for the entire Operating Year.

(vii) *"Property Taxes"* shall mean all real and personal property taxes and assessments and charges imposed by any governmental authority or agency on the Project; any assessments levied in lieu of such taxes; any tax on or measured by gross rents received from the rental of space in the Project; and any other costs levied or assessed by, or at the direction of, any federal, state, or local government authority in connection with the use or occupancy of the Project or the Premises or the parking facilities serving the Project; any tax on this transaction or any document to which Tenant is a party creating or transferring an interest in the Premises, and any expenses, including the reasonable cost of attorneys or experts, incurred by Landlord in seeking reduction by the taxing authority of the above-referenced taxes, but only to the extent of any tax refunds obtained as a result of an application for review thereof; but shall not include (a) any net income, franchise, estate, inheritance taxes, documentary transfer taxes (other than with respect to this Lease, if any), or any gross receipts tax levied solely by reason of the existence of Landlord as a particular entity (as opposed to any gross receipts tax levied as a function of gross rents collected by Landlord whether or not Landlord exists as a particular entity); (b) any increase in Property Taxes to the extent resulting solely from a change of ownership reassessment under Proposition 13, but excluding any increase in Property Taxes resulting from the first such change of ownership; or (c) any cost or expense that is specifically excluded from the definition of Operating Expenses. If the Project is not fully assessed for Property Taxes during the Base Year, the Property Taxes for the Base Year shall be grossed up to reflect what they would have been had the Project been fully assessed during the Base Year.

6. TENANT'S RIGHT TO INSPECT RECORDS. If Tenant objects in writing to an annual written statement from Landlord given pursuant to Section 5(b) within one hundred eighty (180) days of the receipt of such statement by Tenant, Landlord shall permit Tenant to examine, at the sole expense of Tenant for a period of one hundred eighty (180) days following the date of such written objection notice, at the offices of Landlord and during regular business hours, such of Landlord's books and records pertaining directly to the determination of Actual Operating Expenses as are relevant to the Landlord's statement in question. In making such examination, Tenant agrees, and shall cause its agents and employees conducting the examination to agree in writing, to keep confidential any and all information contained in such books and records, save and except that Tenant may disclose such information to its attorneys and accountants and to a trier of fact in the event of any dispute between Tenant and Landlord with regard to Actual Operating Expenses or as otherwise required by law; provided, however, that Tenant shall stipulate to such protective or other orders in any proceeding as may be reasonably required to preserve the confidentiality of such information. Such inspection may be made either by employees of Tenant or by a nationally recognized certified public accounting firm that is not compensated on a contingent fee basis; provided, however, that Tenant may utilize BDO Seidman, LLP or any similar national company, taking into consideration, without limitation, reputation and market size (*"Lease Auditor"*) for such inspection notwithstanding any contingent fee arrangement between Tenant and such Lease Auditor. Tenant shall have the right to copy and duplicate such information as Tenant may require; provided, however, that Tenant agrees, and shall cause its agents and employees conducting the examination to agree in writing, to keep confidential any and all information contained in such copies or duplicates, save and except that Tenant may disclose such information to its attorneys and accountants and to a trier of fact in the event of any dispute between Tenant and Landlord with regard to Actual Operating Expenses or as otherwise required by law. If Tenant fails to give such objection notice within the one hundred eighty (180) day period provided herein or fails to complete such examination within the one hundred eighty (180) day period following the date of such objection notice, then the Landlord's statement, as furnished by Landlord, shall be conclusive and binding upon Tenant for all purposes as to the Actual Operating Expenses shown thereon. All costs and expenses of any such examination or audit shall be paid by Tenant, except if it is finally established that the amounts billed to Tenant by Landlord exceeded the amounts to which Landlord was entitled by more than five percent (5%), Landlord shall promptly reimburse Tenant for the reasonable costs and expenses incurred by Tenant for such examination or audit. If it is finally determined that the amount of Actual Operating Expenses, as shown on Landlord's statement for the year as to which the inspection is undertaken, was overstated, and, as a result thereof, Tenant overpaid Tenant's Proportionate Share of Actual Operating Expenses in respect of such year, then Landlord shall refund to Tenant the amount of such overpayment within thirty (30) days of such final determination. If it is finally determined (within all applicable time periods) that the amount of Actual Operating Expenses, as shown on Landlord's statement for the year as to which the inspection is undertaken, was understated, and, as a result thereof, Tenant underpaid Tenant's Proportionate Share of Actual Operating Expenses in respect of such year, then Tenant shall pay to Landlord the amount of such underpayment within thirty (30) days of such final determination. The foregoing notwithstanding, Tenant shall not have the right to inspect such books and records during any period when there exists an Event of Default under this Lease.

7. USE OF THE PREMISES. Tenant agrees that it will use the Premises for general office purposes and other legally permitted purposes in a manner consistent with the quality of the Project, and for no other business or purpose. The foregoing notwithstanding, Tenant shall not permit the Premises or any part thereof to be used for (i) offices of any agency or bureau of the United States or any state or political subdivision thereof, except to the extent required by any contracts or agreements Tenant may enter into requiring the provision of space within the Premises for certain functions (e.g., audits of services provided); (ii) offices or agencies of any foreign government or political subdivision thereof; (iii) offices of any health care professionals or service organization, except for administrative offices where no diagnostic, treatment or laboratory services are performed or for health care counseling activities performed via telephone or email; (iv) schools or other training facilities that are not ancillary to executive, professional or corporate administrative office use; (v) retail or restaurant uses; (vi) broadcast studios or other broadcast production facilities, such as radio and/or television stations; (vii) product display or demonstration facilities; (viii) offices at which deposits or bills are regularly paid in person by customers; (ix) personnel agencies, except offices of executive search firms; (x) biological research or testing laboratories; or (xi) the licensing or subleasing of space within the Premises to others as a primary business, including executive suite operations. Tenant shall not during the Term commit or allow to be committed any waste upon the Premises, or any public or private nuisance in or around the Project, allow any sale by auction upon the Premises, place any loads upon the floor, walls, or ceiling of the Premises which will or may endanger the Building (except to the extent pre-approved by Landlord in writing), use any apparatus, machinery or device in or about the Premises which will cause any substantial noise or vibration or in any manner damage the Building, place any harmful liquids in the drainage system or in the soils surrounding the Project, or disturb or unreasonably interfere with other tenants of the Project. If any of Tenant's office machines or equipment unreasonably disturbs the quiet enjoyment of any other tenant in the Building, then Tenant shall provide adequate insulation, or take such other action as may be necessary to eliminate the disturbance, all at Tenant's sole cost and expense. Tenant shall have access to the Premises twenty-four (24) hours per day, seven (7) days per week (subject to (i) all reasonable security measures as may be imposed by Landlord from time to time and as are generally applicable to tenants of the Building and their invitees and (ii) restrictions on access imposed or recommended as a result of an emergency), through a card key security access or equivalent system to be provided by Landlord as part of the "shell" Building improvements (as detailed on Exhibit H). Landlord shall permit Tenant to install a card key security access system in the Premises that ties into the card key security access or equivalent system for the Building (if compatible and coordinated with such card key security access or equivalent system for the Building) as part of the Tenant Improvements (as defined in Section 8(a)) pursuant to the provisions of Exhibit B.

8. IMPROVEMENT AND ACCEPTANCE OF PREMISES.

(a) Construction of Tenant Improvements. Landlord shall construct at its expense those improvements in the Premises described in Exhibit B. Such improvements are referred to in this Lease as the *"Tenant Improvements."*

(b) Acceptance of Premises by Tenant. The taking of possession of the Premises by Tenant shall be conclusive evidence that Tenant accepts the same and the Tenant Improvements "as is" and that the Premises, the Project and the Building are suited for the use

intended by Tenant and were in good and satisfactory condition at the time such possession was taken, except as provided in Exhibit B and Landlord's maintenance and repair obligations under this Lease. Landlord and Tenant shall inspect the Premises after the improvements to be constructed in the Premises by Landlord are Substantially Complete, as that term is defined in Exhibit B, and shall together prepare a punchlist, as provided in Exhibit B.

(c) Suitability of Premises. Landlord shall have no obligation whatsoever to construct leasehold improvements for Tenant or to repair or refurbish the Premises, except as specifically set forth in Section 9(a) or Exhibit B. Landlord or Landlord's agents have made no representations or promises with respect to the Project, the Building, the Premises or this Lease except as expressly set forth herein. Tenant represents and warrants to Landlord that its sole intended use of the Premises is for office use which has no special requirements, including but not limited to, special security requirements, that it does not intend to use the Premises for any other purpose, and that prior to executing this Lease it has made such investigations as it deems appropriate with respect to the suitability of the Premises for its intended use and has determined that the Premises is suitable for such intended use.

9. SERVICES.

(a) Standard Services. Landlord shall maintain the public and Common Areas of the Project and the Building, such as lobbies, stairs, corridors and restrooms, in first-class order and condition (i.e., similar to other similar Class A commercial office projects in the San Rafael area) except for damage or repair occasioned by the acts or omissions of Tenant Parties (as defined in Section 25(c)), which shall be repaired by Tenant at, subject to the provisions of Section 20, Tenant's sole cost and expense. Landlord shall provide five (5) day per week standard janitorial services to the Premises. Tenant may provide its own "day porter" services to the Premises at Tenant's sole cost and expense, the service provider and the extent and particulars of service of which shall be subject to the prior written approval of Landlord, which approval shall not be unreasonably withheld, conditioned or delayed. Landlord shall furnish the Premises with electricity for lighting and operation of low power usage office machines. Landlord shall provide access to and use of not less than two (2) passenger elevators in the Building at all times, subject to curtailment or cessation due to the effects of applicable laws, ordinances, rules and regulations, the effects of emergencies, any interruption of utility services, or the effects of mechanical breakdowns or any damage to, or destruction of, the Building or Building systems. Landlord shall furnish the Premises with heating or normal office air conditioning by means of the Building's general heating and air-conditioning system between the hours of 8:00 a.m. and 6:00 p.m., Monday through Friday and on an as needed basis on Saturdays from 8:00 a.m. to 2:00 p.m. (all except for legal holidays). Air conditioning or ventilation units, equipment and systems (including electricity therefor) exclusively serving or to be exclusively serving the Premises, such as for any computer centers, shall if desired by Tenant be (subject to the provisions of Section 11) provided by Tenant at Tenant's sole cost and expense. Such air conditioning or ventilation units, equipment, and electricity may (subject to the provisions of Section 11) be tied into the Building's general heating and air-conditioning system and electrical system, and the use thereof may be separately metered at Landlord's option (with all costs of the installation of separate or additional metering devices being separately chargeable to and paid by Tenant). After-hours heating or normal office air conditioning by means of the Building's general heating and air-conditioning system shall be at Tenant's expense

at an hourly rate equivalent to Landlord's estimated actual cost of providing such service. Landlord shall also provide lighting replacement for Landlord-furnished lighting, toilet room supplies, window washing with reasonable frequency, and hot and cold water at those points of supply typically provided at Class "A" office projects in Marin County. Landlord shall not be liable to Tenant for any loss or damage caused by or resulting from any variation, interruption or failure of said services due to any cause whatsoever; and no temporary interruption or failure of such services shall be deemed an eviction of Tenant or relieve Tenant from any of Tenant's obligations hereunder, except to the extent expressly provided in Section 9(b).

(b) Interruption of Standard Services Due to Landlord's Negligence. In the event that the Premises ceases to be habitable for regular business use due to a continuous interruption in the standard services required to be provided by Landlord pursuant to Section 9(a) above solely by the negligence or willful misconduct of Landlord, or Landlord's employees, agents or contractors, and Tenant in fact ceases to use the Premises by reason of such interruption, then Tenant shall be entitled to an abatement in Basic Rent due under this Lease. Abatement shall commence upon the sixth (6th) day after the latter to occur of (i) written notice of such interruption from Tenant to Landlord, or (ii) cessation of use by Tenant by reason of such interruption, and shall continue until such interruption has been terminated. The foregoing notwithstanding, there shall be no such abatement except to the extent that the amount thereof is compensated for and recoverable from the proceeds of rental loss insurance maintained or required to be maintained by Landlord with respect to this Lease, the Premises or the Project. Anything in this Section 9(b) to the contrary notwithstanding, the entitlement of Tenant, if any, to an abatement of the rent or any part thereof due hereunder following damage to or destruction of the Premises or the Project shall be governed by the provisions of Section 21 and not by the provisions of this Section 9(b).

(c) Overstandard Use. Tenant shall not, without Landlord's prior written consent, use heat-generating machines (other than standard commercial office kitchen appliances), machines other than normal office machines, or equipment or lighting other than the Building standard lights located in the Premises, which may affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, together with an administrative fee in the amount set forth in Section 11(d), shall be paid by Tenant to Landlord upon billing by Landlord. If Tenant uses water or electricity in excess of that supplied by Landlord pursuant to Section 9(a) above, Tenant shall pay to Landlord, upon billing, the cost of such excess consumption, the cost of the installation, operation and maintenance of equipment which is installed in order to supply such excess consumption, and the cost of the increased wear and tear on existing equipment caused by such excess consumption; and Landlord may install devices to separately meter any increased use and in such event Tenant shall pay the increased cost directly to Landlord, on demand, including the cost of such additional metering devices (including installment costs).

(d) Security Service. Any other provision of this Lease to the contrary notwithstanding, Landlord shall not be obligated to provide security services for the Project or the Premises, and Tenant shall provide at its expense such security as may reasonably be required in connection with the safety of the Premises and Tenant's employees, contractors and other invitees.

10. MAINTENANCE AND REPAIRS.

(a) Landlord's Obligations. Landlord shall, consistent with the operation of a Class "A" office project in Marin County, maintain and keep in good repair the foundations, exterior walls, structural portions of the roof and other structural portions of the Building (including, but not limited to, the floor/ceiling slabs, curtain wall, exterior glass and mullions, columns, beams, shafts (including elevator shafts) collectively the "*Building Structure*"), and shall maintain the electrical, plumbing, heating and ventilating equipment in the Building (the "*Building Systems*"), except such portions thereof as may be or have been specially or specifically installed for use in or with respect to the Premises or otherwise constructed or altered by Tenant in connection with Tenant's work or otherwise, and shall maintain the Common Areas (including, but not limited to, the stairs, parking areas, stairwells, escalators, elevator cabs, plazas, pavement, sidewalks, curbs, entrances, landscaping, artwork, sculptures and washrooms); and except that all damage or injury to the Premises, the Building or the equipment and improvements therein caused by any act, neglect, misuse or omission of any duty by Tenant or by any persons who may be in or upon the Premises, the Building or the Project with the express or implied consent of Tenant shall be paid by Tenant, subject to the provisions of Section 20. Landlord's maintenance obligations hereunder shall be performed in a first-class manner. Subject to the provisions of Section 9(b) above and Section 10(b) below, Landlord shall not be liable for any failure to make any such repairs or to perform any maintenance unless such failure shall persist for an unreasonable time after written notice of the need of such repairs or maintenance is given by Tenant to Landlord. Tenant hereby waives and releases its right to make repairs at Landlord's expense under Sections 1941 and 1942 of the California Civil Code or under any similar law, statute or ordinance now or hereafter in effect. Landlord makes no warranty as to the quality, continuity or availability of the telecommunications services in the Building, and Tenant hereby waives any claim against Landlord for any actual or consequential damages (including damages for loss of business) if Tenant's telecommunications services in any way are interrupted, damaged or rendered less effective, except to the extent such claims arise out of the gross negligence or willful misconduct of Landlord, or Landlord's employees, agents or contractors.

(b) Limited Tenant Offset Right.

(i) If Landlord fails in a material manner to perform its maintenance obligations which: (i) Landlord is obligated to perform under this Lease; (ii) materially and adversely affects Tenant's access to and use of any portion of the Premises (such portion so affected referred as the "*Affected Portion"*) for Tenant's intended business purposes; and, (iii) causes Tenant to actually cease to use the Affected Portion for Tenant's intended business purposes; then, Tenant may give to Landlord written notice of such failure, which notice shall include a statement that Tenant demands that Landlord promptly perform such maintenance obligation and a statement that Tenant intends to seek remedy under the provisions of this Section 10(b). Tenant shall also state in such notice: (i) whether or not such failure by Landlord materially and adversely affects Tenant's access to and use of the Affected Portion for Tenant's

intended business purposes, and causes Tenant to actually cease to use the Affected Portion for Tenant's intended business purposes; and (ii) in reasonable detail, the steps Tenant believes are necessary in order for Landlord to cure such failure. In the event that Tenant provides such notice to Landlord, Landlord shall promptly commence to perform such maintenance obligation.

(ii) In the event that Landlord has not commenced to perform such maintenance obligation within seven (7) business days from the receipt by Landlord of such notice from Tenant (or, if such performance cannot be commenced within such period of seven (7) business days, Landlord has not commenced the efforts necessary for such performance or has not thereafter diligently pursued such efforts), Tenant may provide Landlord an additional notice containing the information and statements required with respect to Tenant's initial notice pursuant to Section 10(b)(i) above. In the event that Landlord has not commenced to perform such maintenance obligation within three (3) business days from the receipt by Landlord of such second notice from Tenant (or, if such performance cannot be commenced within such period of three (3) business days, Landlord has not commenced the efforts necessary for such performance or has not thereafter diligently pursued such efforts), Tenant may undertake such performance, but only if and to the extent that such performance does not: (i) treat the premises of another tenant or occupant of the Building less beneficially than the Premises under the circumstances; (ii) materially affect the use of or access to the premises leased or occupied by another tenant or occupant of the Building; and, (iii) require Tenant to operate or otherwise control the mechanical, electrical and plumbing systems of the Building. If such maintenance obligation is to be performed by a contractor and not by Tenant through the use of its employees, Tenant shall use contractors approved by Landlord in advance, which approval shall not be unreasonably withheld, conditioned or delayed.

(iii) In connection with such performance, Tenant may demand that Landlord reimburse to Tenant the positive difference resulting from subtracting: (i) the amount which would have been paid by Tenant through Tenant's Proportionate Share of Operating Expenses, had Landlord performed such obligation and in included the costs and expenses therefor in Operating Expenses for the applicable Operating Year; from (ii) the costs incurred by Tenant in connection with such performance. The foregoing notwithstanding, in the event that Landlord does not believe that Tenant is entitled to such reimbursement (whether because Landlord believes that it is not obligated by this Lease to perform such maintenance obligation demanded by Tenant or that it has been performing such obligation in a manner consistent with the requirements of this Lease), Landlord shall so notify Tenant, and such dispute shall be resolved by arbitration before a single arbitrator, to be held in accordance with the arbitration rules of the American Arbitration Association. The arbitrator shall be an attorney familiar with handling commercial lease matters. Judgment on the award rendered by the arbitrator may be entered in any court having jurisdiction over the dispute; provided, however, that the determination of the arbitrator shall be limited solely to the issues of whether: (i) Landlord breached its maintenance obligations required to be perform under this Lease; (ii) such breach materially and adversely affected Tenant's access to and use of the alleged Affected Portion for Tenant's intended business purposes; (iii) such breach caused Tenant to actually cease to use the alleged Affected Portion for Tenant's intended business purposes; and (iv) Tenant's performance of such obligation was in compliance with the provisions of this Section 10(b) and was reasonable in the circumstances.

(iv) If Tenant obtains an arbitration award against Landlord which is not satisfied by Landlord within sixty (60) days of the date upon which such award becomes final, Tenant may offset against monthly installments of Base Rent, until the entire amount so awarded has been offset.

(v) Anything to the contrary contained in this Section 10(b) notwithstanding, any notice given by Tenant under this Section 10(b) shall also be given to all Prior Lien holders (as defined in Section 26), the address of which Landlord has previously notified Tenant in writing, by the same method and manner of delivery to Landlord, and if not so given, such notice shall be deemed invalid and ineffective.

(c) Landlord's Compliance With Laws. Subject to the provisions of Section 5 and to the extent not the obligation of Tenant pursuant to the provisions of Section 12 below, Landlord shall perform such work as may be required to avoid the Project (excluding the Premises or the premises leased to other tenants) being in violation of any federal, state and local laws, regulations, codes or ordinances with which, and to the extent, the Project is actually required to comply, including, without limitation, the Americans with Disabilities Act of 1990 (as the same may be amended from time to time). The foregoing notwithstanding, Landlord shall not be deemed to have breached the obligations set forth in this Section 10(c) unless and until Landlord has failed to perform the required work within the latest of: (i) a reasonable period following written notice of the required work from Tenant (but only with respect to violations actually known by Tenant); (ii) a reasonable period following the date upon which Landlord obtains actual knowledge of the required work; or (iii) a reasonable period following the date upon which any administrative proceeding or litigation commenced by Landlord to object to the particular proposed requirement has been finally determined against Landlord and becomes not subject to further appeal. Subject to the provisions of Sections 23 and 24(a) below, Landlord shall indemnify, defend and protect Tenant and hold Tenant harmless of and from any and all claims, proceedings, loss, cost, damage, causes of action, liabilities, injury or expense arising out Landlord's material breach of its obligations under this Section 10(c), such indemnity to include, but without limitation, the obligation to provide all costs of defense against any such claims; provided, however, that the foregoing indemnity shall not be applicable to claims, proceedings, loss, cost, damage, causes of action, liabilities, injury or expense to the extent arising by reason of the active negligence or willful misconduct of Tenant.

(d) Tenant's Obligations. Tenant shall at its expense maintain, repair and replace all portions of the Premises and the equipment or fixtures relating thereto, except to the extent specified in Section 10(a) above, at all times in good condition, appearance and repair, all in accordance with the laws of the State of California and all health, fire, police and other ordinances, regulations and directives of governmental agencies having jurisdiction over such matters. Tenant shall replace at Tenant's sole expense any glass that may be broken in the Premises, and, subject to the provisions of Section 20, elsewhere in the Building or the Project if done through any fault or negligence of any of the Tenant Parties, with glass of the same size, specifications and quality, with signs thereon, if required.

11. ALTERATIONS.

(a) Landlord's Consent. Tenant shall not make any alterations, additions or improvements (collectively, *"Alterations"*) in or to the Premises or make changes to locks on doors or add, disturb or in any way change any plumbing or wiring without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed provided that the Alterations: (i) comply with all applicable laws, ordinances, rules and regulations; (ii) will not interfere with the use and occupancy of any other portion of the Building by any other tenant or their invitees; (iii) do not affect the structural portions of the Building or the electrical, mechanical or life safety systems of the Building; (iv) do not affect the appearance of the Building from the exterior thereof; (v) will not cause or involve the release of any Hazardous Material in violation of applicable laws; and (vi) do not and will not, whether alone or taken together with other improvements, require the construction of any other improvements or alterations within the Building (unless Tenant agrees in writing to pay the entire cost of the design and construction of such other improvements or alterations and unless such other improvements or alterations would themselves satisfy the foregoing criteria (i) through (vi), inclusive).

(b) Certain Alterations Permitted Without Landlord's Consent. The provisions of Section 11(a) above notwithstanding, Tenant may make or allow to be made Alterations in or to the Premises without obtaining the prior written consent of Landlord, but only if such Alterations meet all of the following criteria: (i) such Alterations do not and will not affect the structural or mechanical systems of the Building; and (ii) the cost of all such Alterations made without the consent of Landlord during any period of twelve (12) consecutive calendar months does not exceed the sum of Ten Thousand Dollars ($10,000.00). In the event that Tenant plans to make any Alterations without the prior written consent of Landlord pursuant to the provisions of this Section 11(b), Tenant shall, within fifteen (15) days prior to the commencement of any work in connection with the construction and/or installation of any such Alterations, (i) deliver to Landlord a copy of all plans and specifications for such Alterations, and (ii) provide Landlord with the identity of any contractor or subcontractor to be employed on the work of such Alterations.

(c) Performance of Work. All Alterations shall be made at Tenant's sole expense and by contractors or mechanics reasonably acceptable to Landlord. All Alterations shall be made at such times and in such manner as Landlord may from time to time designate, and shall become the property of Landlord without any obligation to pay therefor at the expiration or earlier termination of this Lease. All work with respect to any Alterations shall be performed in a good and workmanlike manner, shall be of a quality equal to or exceeding the then existing construction standards for the Project and must be of a type, and the floors and ceilings must be finished in a manner, customary for general office use and other uses common to first-class (Class A) office buildings in the vicinity. Alterations shall be diligently prosecuted to completion to the end that the Premises shall be at all times a complete unit except during the period necessarily required for such work. If any Alteration requires that any improvement or modification be made to areas outside of the Premises (including, without limitation, the Building Structure or Building Systems outside of the Premises) which would not otherwise be required to be made at that time (even if such improvement or modification would have been required to be made at some later time), then Tenant shall reimburse Landlord for the cost of such improvement or modification. All Alterations shall be made strictly in accordance with all laws, regulations and ordinances relating thereto, and no interior improvements installed in the Premises may be removed unless the same are promptly replaced with interior improvements of the same or better quality. Landlord hereby reserves the right to require any contractor or

mechanic working in the Premises to provide lien waivers and liability insurance covering the Alterations to the Premises and to require Tenant to secure, at Tenant's sole cost and expense, completion and lien indemnity bonds satisfactory to Landlord, and/or to require such other instruments as may be reasonably requested by Landlord. In addition to the foregoing, Tenant shall provide Landlord with evidence that Tenant carries "Builder's All Risk" insurance in an amount approved by Landlord covering the construction of such Alterations, and such other insurance as Landlord may require, it being understood and agreed that all of such Alterations shall be insured by Tenant pursuant to Section 19(a) of this Lease immediately upon completion thereof. Prior to the performance of any Alterations, Tenant shall allow Landlord to enter the Premises and post appropriate notices to avoid liability to contractors or material suppliers for payment for any Alterations. All Alterations shall remain in and be surrendered with the Premises as a part thereof at the expiration or earlier termination of this Lease, without disturbance, molestation or injury, provided that Landlord may advise Tenant at the time Landlord approves any non-permanent Alteration that Landlord shall require such non-permanent Alteration to be removed upon the expiration or earlier termination of this Lease pursuant to the provisions of Section 39 (but subject to the last sentence of this Section 11(c)). In such event, all expenses to restore said space to normal building standards shall be borne by Tenant. If Tenant fails to complete the removal and/or to repair any damage caused by the removal of any Alterations which are required to be removed as provided above, Landlord may do so and may charge the cost thereof to Tenant. If at the time of approval or consent (and only if such approval or consent is required), Landlord fails to inform Tenant that such Alteration must be removed, then Tenant shall not be required to remove such Alteration.

(d) Landlord's Expenses; Administrative Fee. Tenant shall pay to Landlord, as additional rent, any reasonable and actual out-of-pocket costs incurred by Landlord in connection with the review, approval and supervision of the Alterations and for any additional Building services provided to Tenant or to the Premises in connection with any such alterations, additions or improvements which are beyond the normal services provided to occupants of the Building. Tenant shall also pay to Landlord an administration fee equal to three percent (3%) of the cost of the work to compensate Landlord for the administrative costs incurred in the review, approval and supervision of the Alterations (other than the initial Tenant Improvements for the Premises constructed pursuant to Exhibit B hereof). Under no circumstances shall Landlord be liable to Tenant for any damage, loss, cost or expense incurred by Tenant on account of Tenant's plans and specifications, Tenant's contractors or subcontractors, or Tenant's design of any work, construction of any work or delay in completion of any work.

12. COMPLIANCE WITH LAWS AND INSURANCE STANDARDS. Tenant, at its sole cost and expense, shall promptly comply with all local, state and federal laws, statutes, ordinances and governmental rules, regulations or requirements now in force or which may hereinafter be in force with respect to the Premises, including, without limitation, the Americans with Disabilities Act, 42 U.S.C. § 12101 et seq. and any governmental regulations relating thereto, including any required Alterations for purposes of "public accommodations" under such statute. Tenant shall not use or permit the Premises to be used in any manner nor do any act which would increase the existing rate of insurance on the Project or cause the cancellation of any insurance policy covering the Project, nor shall Tenant permit to be kept, used or sold, in or about the Premises, any article which may be prohibited by the standard form of fire insurance policy, unless Tenant obtains an endorsement to the policy allowing such activity. Tenant's

obligations under this Section and Section 10 or either of them shall include, without limitation, the responsibility of Tenant to make substantial repairs, improvements or Alterations to the extent provided above, regardless of, among other factors, the relationship of the cost of curative action to the Rent under this Lease, the length of the then remaining Term hereof, the relative benefit of the repairs to Tenant or Landlord, the degree to which the curative action may interfere with Tenant's use or enjoyment of the Premises, or the likelihood that the parties contemplated the particular law involved. Tenant waives any rights now or hereafter conferred upon it by any existing or future law to terminate this Lease or to receive any abatement, diminution, reduction or suspension of payment of Rent by reason of the obligations of Tenant under this Section 12. In no event, however, shall Tenant be responsible for any structural upgrade required to be made to the Premises, except to the extent that the requirement of such upgrade is imposed due to the use of the Premises by Tenant for other than general office use or any Alteration made or proposed to be made by Tenant. Landlord acknowledges to Landlord's actual knowledge, without duty of inquiry or investigation, that as of the date of this Lease, the Project is not in violation of any local, state or federal law, statute, ordinance or governmental rule, regulation or requirement with which the Project is required to comply as of the date of this Lease (and for such purposes, Landlord shall not be deemed to be in violation of such local, state or federal law, statute, ordinance or governmental rule, regulation or requirement unless Landlord has been notified of the violation as of the date of this Lease by the applicable government authority or authorities having jurisdiction and Landlord has failed to correct such violation as of the date of this Lease).

13. LIENS AND INSOLVENCY. Tenant shall keep the Premises, the Building and the Project free from any liens or encumbrances of any kind or nature arising out of any work performed, materials ordered or obligations incurred by or on behalf of Tenant. If Tenant becomes insolvent, makes an assignment for the benefit of creditors, or if legal proceedings are instituted seeking to have Tenant adjudicated bankrupt, reorganized or rearranged under the bankruptcy laws of the United States, or if this Lease shall, by operation of law or otherwise, pass to any person or persons or entity other than Tenant, Landlord may, at its option, terminate this Lease, which termination shall reserve unto Landlord all of the rights and remedies available under Sections 29 or 35 hereof, and Landlord may accept rent from such trustee, assignee or receiver without waiving or forfeiting said right of termination.

14. PARKING.

(a) During the Term, as the same may be extended, Tenant shall have the use of a number of unreserved vehicle parking privileges (the *"Parking Privileges"*) equal to the product (rounded to the nearest whole Parking Privilege) of: (i) the total number of square feet of Rentable Area contained in the Premises; multiplied by (ii) the ratio of four (4) to One Thousand (1,000). The right of Tenant to use such Parking Privileges shall be at no charge (except as otherwise specifically provided in this Lease) to Tenant and shall be subject to such reasonable and non-discriminatory rules and regulations as Landlord or its parking operator may establish from time to time and to all applicable laws, ordinances, rules and regulations. Landlord may assign any unreserved and unassigned parking spaces or designate all or a portion of such spaces reserved or institute an attendant-assisted tandem parking program or valet parking program if Landlord determines in its sole discretion that such is necessary for orderly parking, provided that the Parking Privileges are not materially and adversely affected thereby.

(b) Subject to the remaining provisions hereof, Landlord shall use commercially reasonable efforts to provide Tenant an additional fifty (50) unreserved vehicle parking privileges, or such lesser amount that Landlord is able to actually provide (the *"Additional Parking Privileges"*), at the Project or (to the extent not available at the Project) at the lot adjacent to the Project (the *"Lot"*) which is owned or controlled by Landlord as of the date of this Lease. Landlord and Tenant acknowledge that the Lot is leased to or occupied by a third party as of the date of this Lease, and is not improved or zoned for parking in accordance with applicable law. To the extent that Tenant desires such Additional Parking Privileges, Tenant shall communicate such desire to Landlord in writing, and shall reimburse Landlord for all costs and expenses incurred by Landlord in improving and rezoning the Lot in accordance with applicable law for parking (to the extent such Additional Parking Privileges are to be provided at the Lot and not the Project) in addition to all other costs and expenses incurred by Landlord in connection with initially providing such Additional Parking Privileges to Tenant, provided that in each instance Landlord shall first submit a reasonable estimate of such costs and expenses to Tenant for Tenant's approval prior to Landlord incurring such costs and expenses. Following the date such Additional Parking Privileges are provided to Tenant for Tenant's use, Tenant shall pay to Landlord, on a monthly basis and in advance, the then prevailing market rate for such Additional Parking Privileges as reasonably determined by Landlord or its parking operator from time-to-time (which prevailing market rate may then be Zero and No/100ths Dollars ($0.00)). Except as specifically set forth in this Section 14(b), Tenant's rights and obligations with respect to the Additional Parking Privileges provided to Tenant pursuant to this Section 14(b) shall be the same as Tenant's rights and obligations with respect to the Parking Privileges under the provisions of this Lease.

(c) Tenant may permit its employees, contractors and visitors to use the Parking Privileges described in Section 14(a) above. Tenant shall use all reasonable efforts to confine parking by its employees and contractors to the parking lot or lots designated by Landlord for the use of tenants of the Building and to cause them to comply with such reasonable and non-discriminatory rules and regulations as Landlord or its parking operator may establish from time to time and to all applicable laws, ordinances, rules and regulations. Tenant shall not use, or permit its employees or contractors to use, any spaces which have been or are hereafter designated by Landlord for use only by persons or vehicles qualifying to use handicapped, vanpool, carpool or other restricted categories of use (except to the extent that employees or contractors or their vehicles are qualified to use such designated spaces) or assigned to other tenants. Only passenger cars, light trucks and motorcycles may be parked in the parking lots by Tenant or its employees and contractors, and no vehicle shall be permitted to remain there for a period of more than twenty-four (24) consecutive hours. Landlord may also institute a card or other electronic access system to the parking areas, and Tenant shall cooperate reasonably with Landlord in implementing such system, including requiring that all users of the Parking Privileges sign commercially reasonable agreements with Landlord regarding the use of the Parking Privileges. Tenant shall receive one (1) card or other access device per Parking Privilege to which Tenant is then entitled.

(d) Landlord may refuse to permit any person who violates the parking rules and regulations to park at the Project, and any violation of the rules and regulations shall subject the car to removal at the expense of the owner. Any user of the Parking Privileges shall retain all responsibility for damages to cars or other property arising from or in connection with such

user's use of the Parking Privileges, and Landlord shall have no responsibility for any property damage or personal injury resulting from use of the parking lots at the Project. Tenant shall repair or cause to be repaired at its sole cost and expense any and all damage to the Project or any part thereof caused by Tenant or its employees or contractors or resulting from vehicles of its employees and contractors.

(e) If the City of San Rafael or any other local, state or federal governmental agency or authority hereafter imposes any traffic systems management program which applies to the Building or Tenant, Tenant shall cooperate reasonably with the requirements of such program.

15. SIGNS AND ADVERTISING. Landlord shall provide Tenant, at Landlord's sole cost and expense, with: (i) a Building standard sign identifying Tenant on the monument sign for the Building; (ii) Building standard signage (as such standard is established from time to time by Landlord) on the main entrance to the Premises; and (iii) Building standard signage (as such standard is established from time to time by Landlord) on the Building directory in the lobby of the Building. Any subsequent change to the signs provided by Landlord shall be at the expense of Tenant. Tenant shall not erect or install or otherwise utilize signs, lights, symbols, canopies, awnings, window coverings or other advertising or decorative matter (collectively, *"Signs"*) on the windows, walls or exterior doors or otherwise visible from the exterior of the Premises without first (a) submitting its plans to Landlord and obtaining Landlord's written approval thereof, which may be given, withheld or conditioned in Landlord's sole discretion (or reasonable discretion, with respect to Signs which are equivalent to those utilized by Tenant in a majority of its other leased premises on a consistent basis) and (b) obtaining any required approval of any applicable governmental authority with jurisdiction at Tenant's sole cost and expense. All Signs approved by Landlord shall be professionally designed and constructed in a first-class workmanlike manner. Landlord shall have the right to promulgate from time to time additional reasonable rules, regulations and policies relating to the style and type of said advertising and decorative matter which may be used by any occupant, including Tenant, in the Building, and may change or amend such rules and regulations from time to time as in its discretion as it deems advisable. Tenant agrees to abide by such rules, regulations and policies. At the expiration or earlier termination of this Lease, all such signs, lights, symbols, canopies, awnings or other advertising or decorative matter attached to or painted by Tenant upon the Premises, whether on the exterior or interior thereof, shall be removed by Tenant at its own expense, and Tenant shall repair any damage or injury to the Premises or the Building, and correct any unsightly condition, caused by the maintenance and removal thereof.

16. ASSIGNMENT OR SUBLETTING.

(a) Landlord's Consent. Without the express prior written consent of Landlord, Tenant shall not directly or indirectly, voluntarily or by operation of law, sell, assign, encumber, pledge, or otherwise transfer or hypothecate all or any part of its interest in or rights with respect to the Premises (collectively, *"Assignment"*), or permit all or any portion of the Premises to be occupied by anyone other than Tenant and its employees or sublet all or any portion of the Premises or transfer a portion of its interest in or rights with respect to the Premises (collectively, *"Sublease"*).

(b) Notice to Landlord. If Tenant desires to enter into an Assignment or a Sublease, Tenant shall give written notice to Landlord of its intention to do so (the *"Transfer Notice"*), containing the name of the proposed assignee or subtenant (collectively, *"Transferee"*), the nature of the proposed Transferee's business to be carried on in the Premises, the material terms of the proposed Assignment or Sublease, including, without limitation, the commencement and term expiration dates thereof and the rent payable thereunder, the portion of the Premises proposed to be subleased (the *"Transfer Space"*), and the most recent audited financial statement or other equivalent financial information reasonably available to Tenant concerning the proposed Transferee.

(i) Within fifteen (15) days after Landlord's receipt of the Transfer Notice, Landlord shall elect to consent to the Sublease or Assignment, or disapprove the Sublease or Assignment; provided, however, that Landlord agrees not to unreasonably withhold its consent to the Sublease or Assignment. If Landlord does not make such election within such fifteen (15) day period, Tenant may re-deliver such Transfer Notice to Landlord. If Landlord does not make such election within five (5) days following receipt of such second Transfer Notice, the Sublease or Assignment as to which such Transfer Notice was given shall be deemed approved by Landlord.

(ii) Without limiting in any way the other grounds upon which Landlord may withhold its consent, Landlord's consent shall not be deemed to have been unreasonably withheld if: (A) the proposed sublessee or assignee is a new concern with no previous business history; (B) if the proposed sublessee or assignee intends to use the Premises for executive suites or for any use which would materially increase the density of occupants of the Premises: (C) any other use inconsistent with Section 6 or the operation of a first-class office building or in a manner which would increase the use of, or the possibility of disturbance of, Hazardous Materials on the Project; (D) the proposed Transferee is not of sound financial condition as reasonably determined by Landlord; (E) the proposed use or the proposed assignee or subtenant would cause the violation of any covenant or agreement of Landlord to any third party or would permit any other tenant to terminate its lease; or (F) the proposed subtenant or assignee then leases or occupies any other space in the Building, unless there is then no space in the Building comparable to the space subject to the proposed assignment or subletting. Landlord's failure to make such election within fifteen (15) days after Landlord's receipt of the Transfer Notice shall be deemed to be Landlord's approval of the proposed Sublease or Assignment.

(c) Permitted Transfers. If Landlord consents to any Sublease or Assignment as set forth in Section 16(b):

(i) Tenant may thereafter, within ninety (90) days after Landlord's consent, enter into such Assignment or Sublease, but only with the party and upon the same terms as set forth in the Transfer Notice;

(ii) In the case of a Sublease, Tenant shall pay to Landlord monthly, together with monthly installments of rent hereunder, fifty percent (50%) of the difference for such month between (x) any and all sums payable to Tenant in connection with such Sublease (including key money, bonus money and any payment in excess of fair market value for services rendered by Tenant in connection with such Sublease or for assets, fixtures, inventory, equipment or furniture transferred by Tenant in connection with such Sublease), minus (y) the sum of the proportionate

amount (on a Rentable Area basis) of Basic Rent payable by Tenant under this Lease for the space covered by such Sublease plus any actual and reasonable out-of-pocket costs incurred by Tenant in connection with such Sublease (including, but not limited to, brokerage commissions, legal fees, improvement allowances, rent abatements and rent paid during vacancy);

(iii) In the case of an Assignment, Tenant shall pay to Landlord, as and when received, fifty percent (50%) of the difference between (x) any transfer or assignment fee, purchase price or other consideration received by Tenant in connection with the Assignment attributable to the value of this Lease (if other assets are transferred in connection with the Assignment, a fair allocation of value shall be made to this Lease for the purposes of this Section 16, independent of any allocation made as between Tenant and the assignee for their own purposes), minus (y) the sum of the Basic Rent payable by Tenant under this Lease for the Premises plus any actual and reasonable out-of-pocket costs incurred by Tenant in connection with such Assignment (including, but not limited to, brokerage commissions, legal fees, improvement allowances, rent abatements and rent paid during vacancy);

(iv) Any Sublease or Assignment shall be subject to all of the provisions of this Lease, and Landlord's consent to any Sublease or Assignment shall not be construed as a consent to any terms thereof which conflict with any of the provisions of this Lease except to the extent that Landlord specifically agrees in writing to be bound by such conflicting terms; and

(v) No Transferee (other than an Affiliate or Successor which has been assigned Tenant's rights under this Lease pursuant to Section 16(h) below) shall have the right to exercise any right or option under this Lease to lease additional space, extend the Term, or terminate this Lease.

(d) Continuing Liability. Tenant shall not be relieved of any obligation to be performed by Tenant under this Lease, including the obligation to obtain Landlord's consent to any other Assignment or Sublease (including sub-subleases), regardless of whether Landlord consented to any Assignment or Sublease. Following any Assignment, Landlord and the Transferee shall be entitled to enter into amendments to this Lease without obtaining the consent of the assigning Tenant. The foregoing notwithstanding, if, following any Assignment, Landlord and such Transferee enter into any amendments to this Lease without obtaining the consent of the assignor, the amount of the aggregate monetary liability of the assignor with respect to payments then or thereafter due under this Lease (as so amended) shall be limited to what would have then been the aggregate monetary liability of the assignor with respect to payments then or thereafter due under this Lease, calculated with reference to the provisions of this Lease and any amendments to which it had previously entered into directly with Landlord or to which it has otherwise given its consent. Any Assignment or Sublease that fails to comply with this Section 16 shall be void and, at the option of Landlord, shall constitute an Event of Default by Tenant under this Lease. The acceptance of Basic Rent or other sums by Landlord from a proposed Transferee shall not constitute Landlord's consent to such Assignment or Sublease.

(e) Assumption by Transferee. Each Transferee under an Assignment shall assume all obligations of Tenant under this Lease and shall be and remain liable jointly and severally with Tenant for the payment of Basic Rent, additional rent and other charges, and for the performance of all other provisions of this Lease. Each Transferee under a Sublease, other than Landlord, shall be subject to this Lease. No Assignment shall be binding on Landlord

unless Landlord shall receive a counterpart of the Assignment and an instrument in recordable form that contains a covenant of assumption by the Transferee reasonably satisfactory in substance and form to Landlord and consistent with the requirements of this Section 16 but the failure of the Transferee to execute such instrument shall not release the Transferee from its liability as set forth above. Tenant shall reimburse Landlord, within fifteen (15) days after Tenant's receipt of an invoice therefor, for any costs that Landlord may incur in connection with any proposed Assignment or Sublease, including Landlord's reasonable attorneys' fees and the costs of investigating the acceptability of any proposed Transferee; provided, however, that if the documents and supporting data will only require the preparation, delivery and execution of Landlord's standard form of consent to such Assignment or Sublease without material negotiation, then such legal fees shall not exceed Two Thousand Five Hundred Dollars ($2,500.00).

(f) Waiver. The acceptance of rent or additional charges by Landlord from a purported assignee or sublessee shall not constitute a waiver by Landlord of the provisions of this Section 16.

(g) Change in Control. Any sale or other transfer, including by consolidation, merger or reorganization, of a majority of the voting stock of Tenant, if Tenant is a corporation (other than a sale of the majority of the stock of a publicly traded company in normal open market transactions), or any sale or other transfer of a majority of or a controlling interest in the partnership interests in Tenant, if Tenant is a partnership, or any sale or other transfer of a majority of or a controlling interest in the membership interests in Tenant, if Tenant is a limited liability company, or any sale or other transfer of a majority of the beneficial interests in Tenant or of any controlling interest in Tenant, if Tenant is a trust or other type of entity, shall be an Assignment for purposes of this Section 16. As used in this Section 16, the term *"Tenant"* shall also mean any entity which has guaranteed Tenant's obligations under this Lease or any entity which directly or indirectly owns a majority of the voting stock or partnership or limited liability company or other beneficial interest of Tenant, and the prohibition hereof shall be applicable to any sales or transfers of the stock or partnership or limited liability company or other beneficial interest of said guarantor or majority owner.

(h) Transfers to Affiliates or Successors.

(i) Anything to the contrary contained in this Section 16 notwithstanding, Tenant may sublet the Premises or any part thereof, or assign its interest in this Lease, to an Affiliate (defined below) of Tenant or a Successor (defined below) to Tenant without the necessity of obtaining the consent of Landlord and without the obligation to pay the amount provided for in Sections 16(c)(ii) or 16(c)(iii) above. In the event that Tenant so sublets the Premises or any part thereof, or assigns its interest in this Lease, to an Affiliate or Successor, Tenant shall remain primarily liable with respect to its obligations under this Lease.

(ii) For purposes of this Section 16(h), the term *"Affillate"* shall mean any corporation, partnership or limited liability company which directly or indirectly controls or is controlled by or is under common control with Tenant (for this purpose, *"control"* shall mean the possession, directly or indirectly, of both the power to direct or cause the direction of the management and policies of the entity, whether through the ownership of voting securities or partnership shares or by contract or otherwise, when combined with the ownership, directly or

indirectly, of not less than fifty percent (50%) of all classes of the then outstanding stock, if the entity is a corporation, or of fifty percent (50%) of all classes of the profit interests, if the entity is a partnership or a limited liability company).

(iii) For purposes of this Section 16(h), the term *"Successor"* shall mean: (i) a corporation into which or with which Tenant, its corporate successors or assigns, is merged or consolidated in accordance with the applicable statutory provisions for merger or consolidation of corporations, but only if, by operation of law or by effective provisions contained in the instruments of merger or consolidation, the liabilities of the corporations participating in such merger or consolidation are assumed by the corporation surviving the merger or created by such consolidation; (ii) any partnership or limited liability company into which Tenant is merged in accordance with the applicable statutory provisions for the merger of partnerships or limited liability companies, but only if the surviving entity agrees in writing that it has unconditionally assumed for the benefit of Landlord all of the obligations and liabilities of Tenant under this Lease; and, (iii) any corporation, partnership or limited liability company acquiring the leasehold interest of Tenant under this Lease and substantially all of the other property and assets of Tenant or its Successor, but only if such entity agrees in writing that it has unconditionally assumed for the benefit of Landlord all of the obligations and liabilities of Tenant under this Lease. Acquisition by Tenant or its successors of substantially all of the assets, together with the assumption of all or substantially all of the obligations and liabilities of any corporation, shall be deemed a merger of such corporation into Tenant for purposes of this Lease.

(i) Disputes. If Tenant believes that Landlord has unreasonably refused to grant consent to a proposed Sublease or Assignment, Tenant's sole remedy shall be an action for declaratory or injunctive relief or an action for damages at law. Tenant waives any right which Tenant may have to terminate this Lease in connection with any refusal by Landlord to consent to a Transfer, whether or not such refusal was reasonable.

17. TENANT'S PROPERTY.

(a) Removal Upon Expiration of Lease. All articles of personal property and all business and trade fixtures, machinery and equipment, furniture and movable partitions owned by Tenant or installed by Tenant at its expense in the Premises shall be and remain the property of Tenant and may be removed by Tenant at any time during the Term, subject to the other requirements of this Lease. If Tenant shall fail to remove all of such property from the Premises at the expiration of the Term or within ten (10) days after any earlier termination of this Lease for any cause whatsoever, Landlord may, at its option and upon not less than five (5) days prior written notice to Tenant, remove the same in any manner that Landlord shall choose, and store such property without liability to Tenant for loss thereof. In such event, Tenant agrees to pay Landlord upon demand any and all expenses incurred in such removal, including court costs and attorneys' fees and storage charges on such property for any length of time that the same shall be in Landlord's possession. Landlord may, at its option, without notice, sell said property or any of the same, at a private sale and without legal process, for such price as Landlord may obtain and apply the proceeds of such sale to any amounts due under this Lease from Tenant to Landlord and to the expense incident to the removal and sale of said property.

(b) Personal Property Taxes. Tenant shall be liable for and shall pay, at least ten (10) days before delinquency, all taxes levied against any personal property or trade fixtures placed by Tenant in or about the Premises. If any such taxes on Tenant's personal property or trade fixtures are levied against Landlord or Landlord's property or if the assessed value of the Premises or Landlord's obligations are increased by a value placed upon such personal property or trade fixtures of Tenant and if Landlord, after written notice to Tenant, pays the taxes or obligations based upon Tenant's personal property or trade fixtures, which Landlord shall have the right to do regardless of the validity thereof, but only under proper protest if requested by Tenant, Tenant shall, upon demand, repay to Landlord the taxes or obligations so levied against Landlord, or the portion of such taxes or obligations resulting from such increase in the assessment.

18. ENTRY BY LANDLORD.

(a) After reasonable prior notice (except in emergencies, where no such notice shall be required) and without materially interfering with Tenant's use and access to the Premises, Landlord, its authorized agents, contractors, and representatives shall at any and all times have the right to enter the Premises to inspect the same, to supply janitorial service and any other service to be provided by Landlord to Tenant hereunder, to show the Premises to prospective purchasers or tenants during the last year of the Term and during any period when there is an uncured Event of Default by Tenant under this Lease, to post notices, to alter, improve or repair the Premises or any other portion of the Building, all without being deemed guilty of any eviction of Tenant and without abatement of rent. Landlord may, in order to carry out such purposes, erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, provided that the business of Tenant shall be interfered with as little as is reasonably practicable. Landlord shall at all times have and retain a key with which to unlock all doors in the Premises, excluding Tenant's vaults and safes. Landlord shall have the right to use any and all means which Landlord may deem proper to open said doors in an emergency in order to obtain entry to the Premises. Any entry to the Premises obtained by Landlord pursuant to the terms hereof shall not be deemed to be a forcible or unlawful entry into the Premises, or an eviction of Tenant from the Premises or any portion thereof, and Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss in, upon and about the Premises.

(b) Notwithstanding the foregoing provisions of this Section 18 or this Lease to the contrary, in the event the Premises is impaired by reason of the negligence or intentional acts of Landlord or its agents or employees, then the payment of Rent shall be abated during the period of such impairment, but only to the extent (determined on a square foot of Rentable Area basis) the Premises are so impaired. Furthermore, if such impairment is substantial and continues for a period of sixty (60) continuous days or more, Tenant shall have the right to terminate this Lease by written notice to Landlord within five (5) days of the end of such sixty (60) day period. As used in this Section 18(b), the following terms shall have the following meanings: (i) as to any portion of the Premises, such portion of the Premises shall be deemed "impaired" if for a period of five (5) consecutive business days following Tenant's notice to Landlord of such impairment it shall be impossible or commercially impracticable for Tenant to conduct business from such portion of the Premises, and Tenant has actually ceased to conduct business from such portion of the Premises; (ii) such impairment shall be deemed to be caused by the "negligence or intentional acts of Landlord or its agents or employees" to the extent that

such impairment results primarily from an intentional act of Landlord or a negligent act of Landlord; and (iii) an impairment shall be deemed to be "substantial" if more than fifty percent (50%) of the Premises becomes impaired under the foregoing standards. Anything in this Section 18(b) to the contrary notwithstanding, the entitlement of Tenant, if any, to an abatement of the Rent or any part thereof or a termination of this Lease following (i) damage to or destruction of the Premises or the Project shall be governed by the provisions of Section 21 and not by the provisions of this Section 18(b), and (ii) an interruption of standard services required to be provided by Landlord pursuant to Section 9(a) shall be governed by the provisions of Section 9 (a) and not by the provisions of this Section 18(b).

19. INSURANCE.

(a) Tenant's Insurance. Tenant shall, during the entire term of this Lease and any other period of occupancy, at its sole cost and expense, keep in full force and effect the following insurance:

(i) Property Insurance. Property insurance insuring against the perils of fire, vandalism and malicious mischief, sprinkler leakage, and such other risks as are from time to time included in a "Causes of Loss—Special Form" policy (a *"Special Form Policy"*), but not including flood and earthquake coverage. Such Special Form Policy shall be upon all trade fixtures and other property owned by Tenant, for which Tenant is legally liable and/or that was installed by or on behalf of Tenant, and which is located in the Building, including, without limitation, Alterations, furniture, fittings, installations, fixtures, Tenant Improvements and any other personal property, in an amount not less than the full replacement cost thereof. If there shall be a dispute as to the amount which comprises full replacement cost, the decision of Landlord or any mortgagees of Landlord shall be conclusive. Such Special Form Policy shall also insure the direct or indirect loss of Tenant's earnings attributable to Tenant's inability to use fully or obtain access to the Premises or the Project in the amount as will properly reimburse Tenant for a period of one (1) year following such loss of use or access. Such policy shall name Landlord and any mortgagees of Landlord as additional insured parties, as their respective interests may appear.

(ii) Liability Insurance. Commercial General Liability Insurance insuring Tenant against any liability arising out of the lease, use, occupancy, or maintenance of the Premises and all areas appurtenant thereto. Such insurance shall be in the amount of Three Million Dollars ($3,000,000) Combined Single Limit for injury to or death of one or more persons in an occurrence and Seven Million Dollars ($7,000,000) aggregate (some reasonable portion of which may be maintained through an excess or umbrella policy, provided that any such excess or umbrella policy shall cover at least the same perils as a commercial general liability policy and shall not contain materially more extensive exclusions than such a policy), and for damage to tangible property (including, without limitation loss of use and fire legal liability) in an occurrence, with an Additional Insured — Landlord Endorsement. The policy shall insure the hazards of premises and operations, independent contractors, contractual liability (covering the indemnity contained in Section 24 hereof, to the extent such coverage is included in a customary and typical policy of commercial general liability insurance) and shall (i) name Landlord as an additional insured, (ii) contain a cross-liability provision, and (iii) contain a provision that the insurance provided the landlord hereunder shall be primary and

noncontributing with any other insurance available to Landlord, but only as to losses arising out of the negligent acts or omissions of Tenant. The foregoing notwithstanding, the self-insured retention amount under the insurance policies maintained by Tenant pursuant to the provisions of this Lease shall be subject to Landlord's prior written approval which shall not be unreasonably withheld, conditioned or delayed; provided, however, that, so long as the Tenant under this Lease is Managed Health Network, Inc. (*"Named Tenant*") or a Successor to Named Tenant, Named Tenant's policy of Commercial General Liability Insurance may provide for a self-insured retention amount of not more than One Million Dollars ($1,000,000) in an occurrence and Three Million Dollars ($3,000,000) in the aggregate.

(iii) Workers' Compensation Insurance. Workers' Compensation and Employer's Liability Insurance (as required by the laws of the State of California).

(iv) Boiler and Machinery Insurance. If Tenant installs any boiler, pressure object, machinery, fire suppression system, supplemental air conditioning or other mechanical equipment within the Premises, Tenant shall also obtain and maintain at Tenant's expense, boiler and machinery insurance covering loss arising from the use of such equipment.

(b) Criteria for Tenant's Policies. All such policies shall be written in a form satisfactory to Landlord and shall be taken out with insurance companies qualified to issue insurance in the State of California and holding an A.M. Best's Rating of "A-" and a Financial Size Rating of "VII" or better, as set forth in the most current issue of Best's Key Rating Guide. Such insurance shall provide that it is primary insurance, and not contributory with any other insurance in force for or on behalf of Landlord. Prior to the commencement of the Term, Tenant shall deliver to Landlord copies of certificates of insurance evidencing in a manner binding on the insurance carrier the existence of the amounts and forms of coverage required above and, except for the Special Form Policy, naming Landlord and any other person specified by Landlord, as an additional insured. No such policy shall be cancelable, terminable or reducible in coverage except after the insurer endeavors to provide thirty (30) days (or, in the event of nonpayment of premium, ten (10) days) prior written notice to Landlord. Tenant shall, within ten (10) days prior to the expiration of such policies, furnish Landlord with renewals or "binders" thereof, or upon ten (10) days prior written notice to Tenant, Landlord may order such insurance and charge the cost thereof to Tenant as additional rent, if Tenant fails to so notify Landlord. If Landlord obtains any insurance that is the responsibility of Tenant under this Section 19, Landlord shall deliver to Tenant a written statement setting forth the cost of any such insurance and showing in reasonable detail the manner in which it has been computed.

(c) Landlord's Insurance.

(i) Landlord shall maintain, or cause to be maintained, a policy of Commercial General Liability insurance with the premiums thereon fully paid in advance, issued by and binding upon an insurance company of good financial standing, insuring Landlord against any liability arising out of the lease, use, occupancy, or maintenance of the Project and all areas appurtenant thereto (other than the Premises, unless Landlord elects to extend such coverage to the Premises). Such insurance shall be in the amount of Two Million Dollars ($2,000,000) Combined Single Limit for injury to or death of one or more persons in an occurrence and Four Million Dollars ($4,000,000) in the aggregate (some reasonable portion of which may be maintained through an excess or umbrella policy, provided that any such excess or umbrella

policy shall cover at least the same perils as a commercial general liability policy and shall not contain materially more extensive exclusions than such a policy), and for damage to tangible property (including loss of use) in an occurrence.

(ii) In addition, Landlord shall maintain, or cause to be maintained, a policy or policies of insurance with the premiums thereon fully paid in advance, issued by and binding upon an insurance company of good financial standing, insuring the Project against loss or damage by fire and such other hazards as Landlord may elect (that may include earthquake loss if Landlord elects to maintain such coverage) and contingencies for the full insurable value thereof, or, in the alternative, insuring for eighty percent (80%) of the replacement cost thereof (or such minimum amount as shall be required to eliminate operation of coinsurance provisions), exclusive of excavations and foundations; provided, however, that Landlord shall not be obligated to insure any furniture, equipment, machinery, goods or supplies not covered by this Lease that Tenant may keep or maintain in the Premises, or any real or personal property that Tenant is otherwise required to insure under this Lease. If the annual premiums charged Landlord for such property insurance exceed the standard premium rates because the nature of Tenant's operations result in extra-hazardous or higher than normal risk exposure, then Tenant shall, upon receipt of appropriate premium invoices, reimburse Landlord for such increases in premium. All insurance proceeds payable under Landlord's insurance carried hereunder shall be payable solely to Landlord, and Tenant shall have no interest therein.

(iii) To the extent available on commercially reasonable terms, Landlord shall carry rental loss insurance on the Project applicable to the perils covered by an All Risk Policy on the Project and pertaining to the Rent due under this Lease for not less than twelve (12) months. If Landlord concludes that such insurance is not available at commercially reasonable rates, Landlord shall promptly so notify Tenant in writing. If Landlord fails to carry such policy of insurance without so notifying Tenant and an event occurs which would otherwise result in an interruption in Rent which would have been covered by such policy had it been carried by Landlord, then Landlord shall be deemed to have received the proceeds of such insurance as if it had been carried by Landlord in the amounts and with the coverages required.

20. WAIVER OF SUBROGATION. Whether any loss or damage to or within the Project, the Building and/or the Premises is due to the negligence of either of the parties hereto, their agents or employees, or any other cause, Landlord and Tenant do each herewith and hereby release and relieve the other from responsibility for, and waive their entire claim of recovery, for any loss or damage to the real or personal property of the other located anywhere in the Project and including the Project itself, arising out of or incident to the occurrence of any of the perils which are covered by any property insurance policy covering the Project or which was required to be carried by either Landlord or Tenant (but only to the extent the loss is covered, or would have been covered, by such policy); or loss resulting from business interruption at the Premises, arising out of or incident to the occurrence of any of the perils which are covered by any business interruption insurance policy covering the Project. To the extent that any risks are, in fact, covered by property insurance, each party shall cause its insurance carriers to consent to such waiver and to waive all rights of subrogation against the other party.

21. DAMAGE AND DESTRUCTION.

(a) Repair and Restoration. If the Building and/or the Premises are damaged by fire or other perils covered by insurance carried by Landlord, Landlord shall, subject to the provisions of Section 21(b) below, have the following rights and obligations:

(i) If the Building and/or the Premises are damaged or destroyed by any such peril, to the extent the cost to repair exceeds twenty-five percent (25%) of the then full replacement value thereof or the damage thereto is such that the Building and/or the Premises cannot, in the reasonable estimate of Landlord, be repaired, reconstructed and restored within six (6) months from the date of such damage or destruction using customary diligence, Landlord shall, at its sole option, as soon as reasonably possible thereafter, either commence or cause the commencement of the repair, reconstruction and restoration of the Building and/or the Premises and prosecute or cause the same to be prosecuted diligently to completion, in which event this Lease shall remain in full force and effect; or within sixty (60) days after such damage or destruction, elect not to so repair, reconstruct or restore the Building and/or the Premises, in which event this Lease shall terminate. In either event, Landlord shall give Tenant written notice of its intention within said sixty (60) day period. If Landlord elects not to restore the Building and/or the Premises, this Lease shall be deemed to have terminated as of the date of such damage or destruction.

(ii) If the Building and/or the Premises are partially damaged or destroyed by any such peril, to the extent the cost to repair is twenty-five percent (25%) or less of the then full replacement value thereof, and if the damage thereto is such that the Building and/or the Premises reasonably may, in the reasonable estimate of Landlord, be repaired, reconstructed or restored within a period of six (6) months from the date of such damage or destruction using customary diligence, then Landlord shall commence or cause the commencement of and diligently complete or cause the completion of the work of repair, reconstruction and restoration of the Building and/or the Premises and this Lease shall continue in full force and effect.

(b) Uninsured Casualties. If damage or destruction of the Building and/or the Premises is due to any cause not fully covered (except for deductible amounts not exceeding One Hundred Thousand Dollars ($100,000.00)) by collectible insurance carried by Landlord (or required to be carried under the terms of this Lease) at the time of such damage or destruction, Landlord may elect to terminate this Lease. If the repairing or restoring of the damage is delayed or prevented for longer than six (6) months after the occurrence of such damage or destruction by reason of weather, acts of God, war, governmental restrictions, inability to procure the necessary labor or materials, or any cause that is beyond the reasonable control of Landlord, Landlord may elect to be relieved of its obligation to make such repairs or restoration and terminate this Lease. Further, Landlord shall not have any obligation to repair, reconstruct or restore the Premises and may terminate this Lease when the damage resulting from any casualty covered under this Section 21 occurs during the last twelve (12) months of the Term.

(c) Tenant’s Termination Right. If the work of repair, reconstruction and restoration in connection with damage or destruction of the Building and/or Premises initially affects more than twenty-five percent (25%) of the floor area of the Premises and shall require a period longer than twelve (12) months to complete, then Tenant may elect to terminate this Lease, provided that Tenant shall give written notice to Landlord of its intention within sixty (60)

days after the date it is advised of such repair period. Tenant also shall have the right to terminate this Lease if Landlord fails to repair the Premises or the Building within the stated repair period as extended day-for-day for each day within such period containing an event of Force Majeure (as defined in Section 46(j)); provided that Tenant shall give written notice of such termination within sixty (60) days of the end of the stated repair period as so extended.

(d) Termination of Lease. Upon any termination of this Lease under any of the provisions of this Section 21, Landlord and Tenant shall each be released without further obligation to the other from the date possession of the Premises is surrendered to Landlord or such other date as is mutually agreed upon by Landlord and Tenant except for payments or other obligations which have theretofore accrued and are then unpaid or unperformed and any other obligations which, by their terms, survive the termination of this Lease.

(e) Basic Rent Abatement. In the event of repair, reconstruction and restoration by or through Landlord as herein provided, the Basic Rent payable under this Lease shall be abated proportionately to the degree to which Tenant's use of the Premises is materially impaired during the period of such repair, reconstruction or restoration; provided, however, that the amount of such abatement shall be limited to the amount recoverable by Landlord from applicable policies of rental loss insurance maintained or required to be maintained by Landlord pursuant to this Lease. Tenant shall not be entitled to any abatement, compensation or damages for loss of the use of the whole or any part of the Premises and/or any inconvenience or annoyance occasioned by such damage, repair, reconstruction or restoration, nor shall Tenant be entitled to any insurance proceeds, including those in excess of the amount required by Landlord for such repair, reconstruction or restoration. Tenant shall not be released from any of its obligations under this Lease due to damage or destruction of the Building and/or the Premises except to the extent and upon the conditions expressly stated in this Section 21.

(f) Extent of Repair Obligation. If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall be obligated to make repair or restoration only of those portions of the Building and the Premises which were originally provided at Landlord's expense, and the repair and restoration of items not provided at Landlord's expense shall be the obligation of Tenant. Tenant shall assign and deliver to Landlord any insurance proceeds payable to or received by Tenant in connection with the Tenant Improvements or any other improvements initially constructed or installed by Landlord and insured by Tenant pursuant to Section 19(a) hereof, and Landlord shall thereafter, to the extent that it receives any such insurance proceeds, repair and restore such Tenant Improvements and other improvements.

(g) Waiver. The provisions of California Civil Code § 1932(2) and § 1933(4), which permit termination of a lease upon destruction of the Premises, are hereby waived by Tenant; and the provisions of this Section 21 shall govern in case of such destruction.

22. CONDEMNATION.

(a) Complete Taking. If the whole of the Project, the Building or the Premises or so much thereof shall be taken by condemnation or in any other manner for any public or quasi-public use or purpose so that a reasonable amount of reconstruction will not result in the Premises being no longer reasonably suitable for Tenant's continued occupancy, this Lease and the term and estate hereby granted shall terminate and no longer be of any force or

effect as of the date that possession of the Project, the Building or the Premises is so taken (herein called "Date of the Taking"), and the Basic Rent and other sums payable hereunder shall be prorated and adjusted as of such termination date.

(b) Partial Taking. If only a part of the Building, the Project or the Premises shall be so taken and so that the remaining part thereof after reconstruction is reasonably suited for Tenant's continued occupancy, this Lease shall be unaffected by such taking, except that Landlord may, at its option, terminate this Lease by giving Tenant written notice to that effect within sixty (60) days after the Date of the Taking. In such event, this Lease shall terminate and no longer be of any force or effect as of on the date that such notice from Landlord to Tenant shall be given, and the Basic Rent and other sums payable hereunder shall be prorated and adjusted as of such termination date. Upon a partial taking after which this Lease continues in force as to any part of the Premises, the Basic Rent and other sums payable hereunder shall be adjusted according to the Rentable Area remaining.

(c) Award. Landlord shall be entitled to receive the entire award or payment in connection with any taking without deduction therefrom for any estate vested in Tenant by or in connection with this Lease, and Tenant shall receive no part of such award, including any award for the "leasehold bonus value" of this Lease. Tenant hereby expressly assigns to Landlord all of its right, title and interest in and to every such award or payment.

(d) Waiver. Except as may be otherwise provided herein, Tenant hereby waives and releases any right to terminate this Lease under Sections 1265.120 and 1265.130 of the California Code of Civil Procedure or under any similar law, statute or ordinance now or hereafter in effect relative to eminent domain, condemnation or takings.

23. DAMAGE TO TENANT'S PROPERTY AND EXCULPATION.

(a) Damage to Tenant's Property. Notwithstanding anything to the contrary in this Lease, neither Landlord nor the Landlord Parties (as defined in Section 24 below) shall be liable for damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Building or from the pipes, appliances or plumbing work therein or from the roof, street or sub-surface or from any other place or resulting from dampness, or any damage or loss to the business or occupation of Tenant arising from the acts or neglect of other tenants or occupants of, or invitees to, the Project. Such waiver of liability shall include matters arising in connection with the passive (but not active) negligence of Landlord or the Landlord Parties, unless covered by insurance required to be maintained by Tenant under this Lease. Tenant shall give prompt written notice to Landlord in case of fire or accident in the Premises or in the Building or of defects therein or in the fixtures or equipment.

(b) Exculpation. Landlord shall not be liable to Tenant or any third party for any loss, damage, death or injury to person or property or any inconvenience: (i) caused by theft, fire, vandalism, assault, battery, act of God, breaches of security, acts of the public enemy, acts of terrorists or criminals, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority, whether or not the negligence of Landlord or its agents or employees was a cause of, or in any way contributed to, such loss, damage, death or injury, or (ii) that occurs by reason of the active negligence or willful misconduct of Tenant, its agents,

employees or invitees, or (iii) which may arise through repair or alteration of any part of the Project or failure to make any such repair or alteration, except to the extent of the active negligence or willful misconduct of Landlord occurring as a result of Landlord's failure to make any such repair or alteration within a reasonable period of time following the date upon which Landlord obtains actual knowledge of the required work, all unless covered by insurance required to be maintained by Tenant under this Lease. Tenant hereby waives the remedy of constructive eviction. Any other provision of this Lease to the contrary notwithstanding: (i) in no event shall Landlord have any liability to Tenant or any third party for any consequential damages whatsoever, including loss of revenue or profits; and (ii) nothing in this Section 23(b) shall be deemed to limit the right of Tenant to pursue its remedies against any contractor or subcontractor of Landlord in connection with any damage to property or injury or death to persons caused by such contractor or subcontractor.

(c) The foregoing provisions of this Section 23 and any other provision of this Lease to the contrary notwithstanding: (i) Tenant is not waiving any claim against Landlord arising from Landlord's or the Landlord Parties' intentional misconduct resulting in any injury to persons, except to the extent covered by insurance required to be maintained by Tenant under this Lease; and (ii) Tenant is not waiving any claim against Landlord arising from Landlord's or the Landlord Parties' active negligence resulting in any injury to persons, except with respect to injury to persons caused by theft, vandalism, assault, battery, act of God, breaches of security, acts of the public enemy, acts of terrorists or criminals, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority.

24. INDEMNIFICATION.

(a) Tenant's Indemnity. Tenant shall indemnify, defend and hold Landlord, its members, employees, agents, consultants, independent contractors, guests, invitees and other representatives (collectively, the *"Landlord Parties"*) harmless from and against all claims, losses, liabilities, damages, costs, expenses and claims arising from or relating to the use of the Premises or the Common Areas of the Project by the Tenant Parties (as defined in Section 25(c) below) or the conduct of Tenant's business or any activity, work, or thing done or permitted by Tenant in or about the Premises or the Common Areas of the Project or suffered by Tenant in the Premises, any breach or default in the performance of any obligation to be performed by Tenant under the terms of this Lease, any act, neglect, fault or omission of any of the Tenant Parties, and all costs, attorneys' fees, expenses and liabilities incurred in or about such claims or any action or proceeding brought thereon. In case any action or proceeding shall be brought against any of the Landlord Parties by reason of any such claim, Tenant upon written notice from Landlord shall defend the same at Tenant's expense by counsel approved in writing by Landlord. With respect to events occurring in or about the Premises, such indemnity shall include matters arising in connection with the passive (but not active) negligence of Landlord, unless covered by insurance required to be maintained by Tenant under this Lease. Any other provision of this Lease to the contrary notwithstanding, in no event shall Tenant have any liability to Landlord or any third party for any consequential damages whatsoever, including, without limitation, loss of revenue or profits, except that this Section 24(a) shall not limit the liability of Tenant to Landlord for any rental loss arising in connection with any holdover by Tenant, interference by Tenant with the occupancies or rights of other tenants or any breach by Tenant of its obligations under this Lease pertaining to Hazardous Materials. The foregoing indemnity shall survive the expiration or earlier termination of this Lease.

(b) Landlord's Indemnity. Subject to the provisions of Section 23 and 24(a) above, Landlord shall indemnify, defend and protect Tenant and hold Tenant harmless of and from any and all claims, proceedings, loss, cost, damage, causes of action, liabilities, injury or expense arising out of or related to claims of injury to or death of persons, damage to property occurring or resulting directly or indirectly from the condition or design of the Common Areas, but only to the extent that such indemnity obligations of Landlord hereunder would be covered by the proceeds of liability insurance maintained by Landlord or required to be maintained by Landlord under this Lease, such indemnity to include, but without limitation, the obligation to provide all costs of defense against any such claims; provided, however, that the foregoing indemnity shall not be applicable to claims, proceedings, loss, cost, damage, causes of action, liabilities, injury or expense to the extent arising by reason of the active negligence or willful misconduct of Tenant. The foregoing notwithstanding, Landlord shall not be required to indemnify or defend Tenant from any claims, proceedings, loss, cost, damage, causes of action, liabilities, injury or expense arising out of or related to theft, fire, vandalism, assault, battery, act of God, breaches of security, acts of the public enemy, acts of terrorists or criminals, riot, strike, insurrection, war, court order, requisition or order of governmental body or authority, whether or not the negligence of Landlord or its agents or employees was a cause of, or in any way contributed to, such loss, damage, death or injury. The foregoing indemnity shall survive the expiration or earlier termination of this Lease. Nothing in this Section 24(b) shall be deemed to limit or modify Landlord's indemnity obligations under Section 10(c) above and Section 25(f)(iii) below.

25. HAZARDOUS MATERIALS.

(a) Definitions. As used herein, the term *"Hazardous Material"* means any hazardous or toxic substance, material or waste which is or becomes regulated by, or is dealt with in, any local governmental authority, the State of California or the United States Government. Accordingly, the term "Hazardous Material" includes, without limitation, any material or substance which is (i) defined as a "hazardous waste," "extremely hazardous waste" or "restricted hazardous waste" under Sections 25115, 25117 or 25122.7, or listed pursuant to Section 25140 of the California Health and Safety Code, Division 20, Chapter 6.5 (Hazardous Waste Control Law), (ii) defined as a "hazardous substance" under Section 25316 of the California Health and Safety Code, Division 20, Chapter 6.95 (Hazardous Materials Release Response Plans and Inventory), (iii) defined as a "hazardous substance" under Section 25281 of the California Health and Safety Code, Division 20, Chapter 6.7 (Underground Storage of Hazardous Substances), (iv) petroleum, (v) asbestos, (vi) listed under Article 9 or defined as hazardous or extremely hazardous pursuant to Article 11 of Title 22 of the California Administrative Code, Division 4, Chapter 20, (vii) designated as a "hazardous substance" pursuant to Section 311 of the Federal Water Pollution Control Act (33 U.S.C. § 1317), (viii) defined as a "hazardous waste" pursuant to Section 1004 of the Federal Resource Conservation and Recovery Act, 42 U.S.C. § 6902 et seq., or (ix) defined as a "hazardous substance" pursuant to Section 101 of the Compensation and Liability Act, 42 U.S.C. § 9601 et seq.

(b) Limitations on Use. Tenant shall not (either with or without negligence) cause or permit the escape, disposal or release of any Hazardous Materials. Tenant shall not allow the storage or use of Hazardous Materials in any manner not sanctioned by law or by the highest standards prevailing in the industry for the storage or use of such substances or materials, nor allow to be brought onto the Building or Project any such materials or substances, except that Tenant may maintain products in the Premises which are customarily incidental to normal operation of business offices in Marin County, such as photocopy supplies, secretarial supplies and limited janitorial supplies which products contain chemicals which are categorized as Hazardous Materials, provided that the use of such products in the Premises by Tenant shall be in compliance with applicable laws and shall be in the manner in which such products are designed to be used. In addition, Tenant shall execute affidavits, representations and the like from time to time at Landlord's request concerning Tenant's best knowledge and belief regarding the presence of Hazardous Materials on the Premises. The covenants of this Section 25 shall survive the expiration or earlier termination of this Lease.

(c) Environmental Obligations. Landlord and Tenant shall notify each other in writing of (i) any enforcement, clean-up, removal or other governmental action instituted with regard to Hazardous Materials involving the Project, (ii) any claim made by any person against either of the parties related to Hazardous Materials in the Premises or the Project, (iii) any reports made to any governmental agency arising out of or in connection with Hazardous Materials in the Premises or the Project including, without limitation, any complaints, notices or warnings, and (iv) any spill, release, discharge or disposal of Hazardous Materials in the Premises or the Project that is required to be reported to any governmental agency or authority under any applicable governmental law, rule or regulation. Tenant shall indemnify and hold Landlord and its affiliates harmless with respect to any environmental claims or liabilities which occur as a result of the breach by Tenant of any of Tenant's covenants set forth in Section 25(b) above or this Section 25(c) and from any escape, seepage, leakage, spillage, discharge, emission, release from, onto or into the Premises, the Building or the Project of any Hazardous Materials to the extent caused: (i) by Tenant or Tenant's agents, contractors, trustees, partners, members, shareholders, officers, employees, guests or invitees (collectively, the *"Tenant Parties"*), or (ii) as a result of the active or passive negligence of Tenant or any Tenant Party.

(d) Limitation on Tenant Covenants. The covenants of Tenant set forth in Sections 25(b) and 25(c) above shall not pertain to, and shall specifically exclude, any claim or liability arising in connection with any Hazardous Materials which are either: (i) first brought onto the Project by Landlord or its employees or contractors; or (ii) exist on the Project as of the date of this Lease.

(e) Disclosures by Landlord. Landlord hereby discloses to Tenant that previous owners, occupants or others possessed, used and may have disposed of construction materials and debris and other Hazardous Materials in or about the Project or portions thereof. Tenant acknowledges and agrees that Landlord has not made any warranty or representation as to the condition of the Project, including, without limitation, the presence or absence of Hazardous Materials thereon.

(f) Landlord's Duty to Remediate and Indemnity.

(i) In the event that the Project or any portion thereof (except the Premises) is contaminated by Hazardous Materials and such Hazardous Materials were not first brought onto the Project by Landlord or Tenant or their respective agents, employees or contractors, Landlord shall use such efforts as a reasonable and prudent person would use in the circumstances to remediate as required by law, or to cause other potentially responsible parties to remediate as required by law, any contamination of the Common Area of the Project by Hazardous Materials as to which it is not the responsibility of Tenant to perform remediation. Where there are other potentially responsible parties who may bear responsibility for all or a portion of any required remediation, Landlord shall use such efforts as a reasonable and prudent person would regard as economically justified to use to cause such parties to perform that responsibility. The obligations of Landlord set forth in this Section 25(f)(i) shall be a part of the obligations of Landlord to repair the Common Areas set forth in Section 10(a).

(ii) In the event that such Hazardous Materials were first brought onto the Project by Landlord or its agents, employees or contractors, then Landlord shall immediately remediate such contamination at its expense to the full extent required by applicable law.

(iii) Subject to the provisions of Sections 25(a), 25(b), 25(c), 25(d), 25(e) and 46(e), Landlord releases Tenant from any liability for, waives all claims against Tenant and shall indemnify, defend and hold harmless Tenant, its officers, employees, and agents, against any and all claims, liabilities, damages, costs and expenses, including reasonable attorneys' fees and costs incurred in defending against the same, arising from any actions by any governmental agency for clean up of Hazardous Materials on or under the Project, including costs of legal proceedings, investigation, clean up, monitoring, and restoration, including reasonable attorney's fees, if, and only to the extent, the: (i) Hazardous Materials occur on or under the Project; (ii) Hazardous Material was not possessed, released or disposed of by Tenant or by any Tenant Party; and (iii) the contamination occurred prior to the first to occur of the North Wing Commencement Date, Second Floor South Wing Commencement Date or Third Floor South Wing Commencement Date. Also subject to the provisions of Sections 25(a), 25(b), 25(c), 25(d), 25(e) and 46 (e), and additionally subject to Section 5, Landlord releases Tenant from any liability for, waives all claims against Tenant and shall indemnify, defend and hold harmless Tenant, its officers, employees, and agents, against any and all claims, liabilities, damages, costs and expenses, including reasonable attorneys' fees and costs incurred in defending against the same, arising from any actions by any governmental agency for clean up of Hazardous Materials on or under the Project, including costs of legal proceedings, investigation, clean up, monitoring, and restoration, including reasonable attorney's fees, but excluding any contamination of the Project to the extent caused (i) by the initial release, disposal, use or storage of Hazardous Materials in, on or about the Project by Tenant or any Tenant Party, and (ii) as a result of the active or passive negligence or willful misconduct of Tenant or any Tenant Party.

(iv) Nothing in this Section 25(f) shall, however, be deemed to prohibit Landlord from contesting in administrative and judicial proceedings any requirement of law for the performance of remediation.

26. SUBORDINATION. Tenant agrees that this Lease is and shall be subordinate to any mortgage, deed of trust, ground lease or underlying lease (hereinafter *"Prior Lien"*) that may heretofore or hereafter be placed upon the Project or the Building, and all renewals, replacements

and extensions thereof. If any Prior Lien holder wishes to have this Lease prior to its Prior Lien, then and in such event, upon such Prior Lien holder's notifying Tenant to that effect, this Lease shall be deemed prior to the Prior Lien. If any ground lease or underlying lease terminates for any reason or any mortgage or deed of trust is foreclosed or a conveyance in lieu of foreclosure is made for any reason, Tenant shall, notwithstanding any subordination, attorn to and become the tenant of the successor in interest to Landlord, provided that such successor in interest recognizes the interest of Tenant under this Lease if no default under this Lease then exists. Within fifteen (15) days of presentation, Tenant shall execute any documents which any such Prior Lien holder may require to effectuate the provisions of this Section 26. As a condition of any such subordination, however, the holder of or beneficiary under any such encumbrance shall agree in an executed, acknowledged and recorded non-disturbance agreement which provides that Tenant shall not be disturbed in its possession, except as may be consequent on an Event of Default, nor shall the obligations of Tenant be enlarged or its rights abridged hereunder by reason of any such mortgage or deed of trust or lease, save and except that the lender and any person acquiring title by reason of a foreclosure sale or an exercise of a power of sale or by deed expressly in lieu of foreclosure shall not: (i) have any liability for any act, omission, default or breach by Landlord under this Lease occurring prior to the time of such acquisition by such lender or person (provided such act, omission, default or breach does not constitute a continuing default that survives any such acquisition); (ii) be subject to any claim or offset which Tenant may have had against Landlord; (iii) be bound by any payment of rent or any part thereof more than one month in advance; (iv) be bound by any amendment or modification to this Lease made after such subordination and without the written consent of such lender; (v) be obligated for the return of any security deposit or other thing of value given to Landlord to secure the performance by Tenant of its obligations under this Lease or any one or more of such obligations, except to the extent actually received from or credited by Landlord; (vi) be required to perform, or liable for the failure to perform, the obligations of Landlord with respect to construction of improvements; and (vii) be obligated to perform any repair or restoration of the Project or the Premises required as a result of any damage, destruction or condemnation, except to the extent that insurance proceeds or condemnation awards received by such lender or person are sufficient to fully pay the cost of such repair or restoration. The foregoing provisions of this Section 26 to the contrary notwithstanding, concurrently with Landlord's execution of this Lease, Landlord shall, with respect to each existing Prior Lien holder, provide Tenant with a non-disturbance agreement which provides that Tenant shall not be disturbed in its possession, except as may be consequent on an Event of Default, nor shall the obligations of Tenant be enlarged or its rights abridged hereunder by reason of any such mortgage or deed of trust or lease, save and except that the lender and any person acquiring title by reason of a foreclosure sale or an exercise of a power of sale or by deed expressly in lieu of foreclosure shall not: (i) have any liability for any act, omission, default or breach by Landlord under this Lease occurring prior to the time of such acquisition by such lender or person; (ii) be subject to any claim or offset which Tenant may have had against Landlord (provided such act, omission, default or breach does not constitute a continuing default that survives any such acquisition); (iii) be bound by any payment of rent or any part thereof more than one month in advance; (iv) be bound by any amendment or modification to this Lease made after such subordination and without the written consent of such lender; (v) be obligated for the return of any security deposit or other thing of value given to Landlord to secure the performance by Tenant of its obligations under this Lease or any one or more of such obligations; (vi) be required to perform, or liable for the failure to perform, the obligations of Landlord with respect to construction of improvements; and, (vii) be obligated to

perform any repair or restoration of the Project or the Premises required as a result of any damage, destruction or condemnation, except to the extent that insurance proceeds or condemnation awards received by such lender or person are sufficient to fully pay the cost of such repair or restoration.

27. ESTOPPEL CERTIFICATE. Tenant will, upon fifteen (15) days prior request by Landlord, execute, acknowledge and deliver to Landlord a statement in writing executed by Tenant, substantially in the form of Exhibit F attached hereto, certifying, among other things, the date of this Lease, that this Lease is unmodified and in full force and effect (or, if there have been modifications, that this Lease is in full force and effect as modified, and setting forth such modifications) and the date to which the Basic Rent and additional rent and other sums payable hereunder have been paid, and either stating that to the knowledge of Tenant no default exists hereunder on the part of Landlord or Tenant or specifying each such default of which Tenant may have knowledge and such other matters as may be reasonably requested by Landlord. The parties agree and intend that any such statement by Tenant may be relied upon by any prospective purchaser or mortgagee of the Building or the Project. In the event that Tenant fails or refuses to deliver such an estoppel certificate to Landlord within fifteen (15) days of a written request from Landlord, then Landlord may give to Tenant a second notice, reiterating the request that Tenant execute an estoppel certificate in the form specified by Landlord and stating that, if Tenant fails to do so within five (5) days of the receipt by Tenant of such second notice from Landlord, Tenant shall be deemed to be bound by the statements set forth in the form of certificate which Landlord requested that Tenant deliver. In the event that Tenant fails to deliver an estoppel certificate in the form specified by Landlord within five (5) days of the receipt by Tenant of such second notice from Landlord: (i) Tenant shall conclusively be deemed, without exception, to have acknowledged the correctness of the statements set forth in the form of certificate which Landlord requested that Tenant deliver, and Tenant shall be estopped from denying the correctness of each such statement, such that a mortgagee or purchaser may rely on the correctness of the statements in such form of certificate, as if made and certified by Tenant; and, (ii) such failure shall, at the sole option of Landlord and without the necessity of further notice to Tenant, constitute an Event of Default under this Lease.

28. RULES AND REGULATIONS. Tenant agrees to observe and be bound by the Rules and Regulations applicable to the Project, a copy of which is attached hereto as Exhibit G (the "*Rules and Regulations*"). Landlord reserves the right to amend said Rules and Regulations as Landlord in its judgment may from time to time deem to be necessary or desirable for the safety, care and cleanliness of the Project and the preservation of good order therein, and Tenant agrees to comply therewith. Landlord may make concessions requested by a tenant without granting the same concessions to any other tenant; provided, however, that Landlord shall use reasonable efforts to enforce the rules and regulations consistently and uniformly with respect to other tenants as applicable to such other tenants under their respective leases and shall not systematically discriminate against Tenant in the enforcement of the Rules and Regulations (although Tenant acknowledges that there may be differences in the rules and regulations applicable to the various tenants in the Building, and that such fact shall not prevent Landlord from enforcing with respect to Tenant the Rules and Regulations attached as Exhibit G). To the extent the Rules and Regulations conflict with this Lease, this Lease shall control.

29. SECURITY DEPOSIT. Concurrently with execution hereof, Tenant has paid to Landlord the Security Deposit set forth in the Basic Lease Information (the *"Security Deposit"*) as security for the full and faithful performance of Tenant's obligations under this Lease and for the payment of any damages incurred by Landlord as a result of an Event of Default or breach hereunder (including, without limitation, amounts which Landlord may be entitled to recover pursuant to the provisions of Sections 1951.2 or 1951.4 of the California Civil Code); provided, however, that the Security Deposit is not an advance rent deposit or an advance payment of any other kind, nor a measure of Landlord's damages upon Tenant's default. Landlord shall have no obligation to segregate the Security Deposit from its general funds or to pay interest thereon. Landlord may in its sole discretion (but shall not be required to) use the Security Deposit or any portion thereof to cure any failure by Tenant to perform any of its covenants or obligations hereunder or to compensate Landlord for any damage Landlord incurs as a result of Tenant's failure to perform any of its covenants or obligations hereunder, it being understood that any use of the Security Deposit shall not constitute a bar or defense to any of Landlord's remedies under this Lease or at law. In such event and with five (5) days of written notice from Landlord to Tenant specifying the amount of the Security Deposit so utilized by Landlord and the particular purpose for which such amount was applied, Tenant shall immediately deposit with Landlord an amount sufficient to return the Security Deposit to an amount equal to one hundred ten percent (110%) of the amount specified in the Basic Lease Information as the same may have been increased by prior applications of this Section 29. Tenant's failure to make such payment to Landlord within five (5) days of Landlord's notice shall constitute an Event of Default under this Lease without the necessity of further notice, and Tenant hereby acknowledges that attachment will be a proper remedy by which Landlord may seek to recover the amount which Tenant has then failed to pay. Following the expiration or termination of this Lease, Landlord shall return to Tenant the Security Deposit or the balance thereof then held by Landlord; provided, however, that: (i) Landlord shall not be obligated to return the Security Deposit or any part thereof until all breaches by Tenant of its obligations under this Lease have been cured and all damages which Landlord may suffer in connection with any such breach have been ascertained in amount and paid in full, including both future rents and damages under Section 1951.2 of the California Civil Code; (ii) in no event shall any such return be construed as an admission by Landlord that Tenant has performed all of its covenants and obligations hereunder; and (iii) Tenant hereby waives any rights which it may now or hereafter have under Section 1950.7 of the California Civil Code. If Landlord conveys or transfers its interest in the Premises, and as a part of such conveyance or transfer, assigns its interest in this Lease and Security Deposit, or any portion thereof not previously applied, the Security Deposit shall be transferred to Landlord's successor and Landlord shall be released and discharged from any further liability to Tenant with respect to such Security Deposit. If Tenant has assigned its interest in this Lease, Landlord shall return that portion of the Security Deposit, if any, which would have been returned to Tenant to the assignee instead of to Tenant, and Landlord shall be released of all liability to Tenant in connection with the Security Deposit. In no event shall any mortgagee or beneficiary under a mortgage or deed of trust encumbering all or any portion of the Project, or any purchaser of all or any portion of the Project at a public or private foreclosure sale or exercise of a power of sale under such mortgage or deed of trust, have any liability or obligation whatsoever to Tenant or Tenant's successors or assigns for the return of all or any part of the Security Deposit in the event any such mortgagee, beneficiary or purchaser becomes a mortgagee in possession or succeeds to the interest of Landlord under this Lease unless, and then only to the extent that, such mortgagee, beneficiary or purchaser has received all or any part of the Security Deposit.

30. DEFAULTS AND REMEDIES.

(a) Defaults. The occurrence of any one or more of the following events shall constitute a default hereunder by Tenant (each an *"Event of Default"*):

(i) The failure by Tenant to make any payment of Basic Rent, additional rent, other charges or any other payment required to be made by Tenant hereunder, as and when due, where such failure shall continue for a period of ten (10) days after written notice thereof from Landlord to Tenant; provided, however, that any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure § 1161 regarding unlawful detainer actions.

(ii) The failure by Tenant to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Tenant, other than as specified in Section 30(a)(i) above, where such failure shall continue for a period of thirty (30) days after written notice thereof from Landlord to Tenant. Any such notice shall be in lieu of, and not in addition to, any notice required under California Code of Civil Procedure § 1161 regarding unlawful detainer actions. If the nature of Tenant's default (other than a default specified in Section 30(a)(i) above) is such that more than thirty (30) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant shall commence such cure within said thirty (30) day period and thereafter diligently prosecute such cure to completion, and such completion shall occur not later than ninety (90) days from the date of such notice from Landlord.

(iii) Any of the following: The making by Tenant of any general assignment for the benefit of creditors; the filing by or against Tenant of a petition to have Tenant adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant, the same is dismissed within thirty (30) days); the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease, where possession is not restored to Tenant within thirty (30) days; or the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease where such seizure is not discharged within thirty (30) days.

(iv) Any other act or omission which is expressly provided in this Lease to be an Event of Default, as to which acts or events the notice provisions of Section 30(a)(ii) shall not be applicable.

(b) Remedies. If an Event of Default exists, in addition to any other remedies available to Landlord at law or in equity, Landlord shall have the following rights and remedies:

(i) The right to terminate this Lease and pursue its rights and remedies provided by California Civil Code Section 1951.2, in which event Landlord may recover:

(A) The worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(B) The worth at the time of award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(C) The worth at the time of award of the amount by which the unpaid rent for the balance of the Term after the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(D) Any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in the ordinary course of things would be likely to result therefrom, specifically including, but not limited to, brokerage commissions and advertising expenses incurred, expenses of remodeling the Premises or any portion thereof for a new tenant, whether for the same or a different use, and any special concessions made to obtain a new tenant; plus

(E) At Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

(ii) The term *"rent"* as used hereinabove shall be deemed to be and to mean all sums of every nature required to be paid by Tenant pursuant to the terms of this Lease, whether to Landlord or to others. As used in Sections 30(b)(i)(A) and 30(b)(i)(B), the *"worth at the time of award"* shall be computed by allowing interest at a rate equal to the "prime," "reference" or "index" rate of Wells Fargo Bank NA (or, if Wells Fargo Bank NA no longer publishes such a rate, then at the rate published by the largest commercial bank headquartered in California publishing such a rate) plus six hundred (600) basis points, but in no case greater than the maximum amount of such interest permitted by law. As used in Section 30(b)(i)(C), the *"worth at the time of award"* shall be computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%);

(iii) The rights and remedies provided by California Civil Code Section 1951.4, that allow Landlord to continue this Lease in effect and to enforce all of its rights and remedies under this Lease, including the right to recover Basic Rent, additional rent and other charges as they become due, for so long as Landlord does not terminate Tenant's right to possession. Acts of maintenance or preservation, efforts to relet the Premises or the appointment of a receiver upon Landlord's initiative to protect its interest under this Lease shall not constitute a termination of Tenant's right to possession;

(iv) The right to enter the Premises and remove therefrom all persons and property, store such property in a public warehouse or elsewhere at the cost of and for the account of Tenant, and sell such property and apply the proceeds therefrom pursuant to applicable California law; and

(v) The right to take steps necessary or appropriate to have a receiver appointed for Tenant in order to take possession of the Premises and apply any rental collected and exercise all other rights and remedies granted to Landlord.

(c) Re-entry. If an Event of Default exists, Landlord shall also have the right, with or without terminating this Lease, to re-enter the Premises and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant. No re-entry or taking possession of the Premises by Landlord pursuant to this Section 3(c) shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction.

(d) Remedies Cumulative; Waiver. All rights, options and remedies of Landlord and Tenant contained in this Lease or provided by law or in equity shall be construed and held to be cumulative, and no one of them shall be exclusive of the other. No waiver of any default hereunder shall be implied from any acceptance by Landlord of any Basic Rent, additional rent or other charges due hereunder or any omission by Landlord or Tenant to take any action on account of such default, and no express waiver shall affect any default other than as specified in said waiver. The consent or approval of Landlord to or of any act by Tenant requiring Landlord's consent or approval shall not be deemed to waive or render unnecessary Landlord's consent or approval to or of any subsequent similar acts by Tenant.

31. LATE CHARGE. If Tenant fails to pay any installment of Basic Rent, additional rent or other charges within ten (10) days after the same are due, or fails to make any other payment for which Tenant is obligated under this Lease, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of the amount so payable; provided, however, that Tenant shall pay no late fee for the first such late payment in any twelve (12) month period during the Term unless such failure continues for three (3) business days after written notice to Tenant. Tenant acknowledges that late payments will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which costs are extremely difficult and impracticable to calculate. The parties agree that the late charge described above represents a fair and reasonable estimate of the extra costs incurred by Landlord as a result of such late payment. Such late charge shall not be deemed a consent by Landlord to any late payment, nor a waiver of Landlord's right to insist upon timely payments at any time, nor a waiver of any remedies to which Landlord is entitled hereunder. In addition, all amounts payable by Tenant to Landlord hereunder, exclusive of the late charge described above, if not paid within ten (10) days after such amounts are due, shall bear interest from the due date until paid at the rate of ten percent (10%) per annum or the maximum rate of interest permitted to be collected by Landlord by law, whichever is the lesser; provided, however, that the first such late payment in any twelve (12) month period during the Term shall not bear such interest unless such failure continues for three (3) business days after written notice to Tenant.

32. TIME. Time is of the essence of each and every provision of this Lease.

33. QUIET ENJOYMENT. Landlord covenants to control its activities and personnel such that if and so long as Tenant pays the rent and performs the covenants contained in this Lease, Tenant shall hold and enjoy the Premises peaceably and quietly, subject to the provisions of this Lease.

34. TRANSFER OF LANDLORD'S INTEREST. In the event of any transfer or transfers of Landlord's interest in the Project or the Building, other than a transfer for security purposes only, Tenant agrees that Landlord shall be automatically relieved of any and all obligations and liabilities on the part of Landlord accruing from and after the date of such transfer and Tenant agrees to attorn to the transferee.

35. RIGHT TO PERFORM. If Tenant shall fail to pay any sum of money, other than Basic Rent required to be paid by it hereunder, or shall fail to perform any other act on its part to be performed hereunder, and such failure shall continue for ten (10) days after written notice thereof by Landlord, Landlord may, but shall not be obligated so to do, and without waiving or releasing Tenant from any obligations of Tenant, make any such payment or perform any such other act on Tenant's part to be made or performed as provided in this Lease. Tenant shall reimburse Landlord for all costs incurred in connection with such payment or performance immediately upon demand.

36. NOTICES. All notices under this Lease shall be in writing and sent to the parties at the following addresses or at such other address as any party hereto may designate to the other by notice delivered as provided herein:

To Landlord:	San Rafael Land Company, LLC 2350 Kerner Blvd., Suite 340 San Rafael, California 94901 Attention: Bruce W. Jones Telephone No.: (415) 362-8900 Facsimile No.: (415) 362-8911
With a copy to:	Mr. Norbert J. Dickman San Rafael Land Company, LLC 303 West Wall Avenue, Suite 1900 Midland, Texas 79701-5116 Telephone No.: (432) 687-1777 Ext 1804 Facsimile No.: (432) 687-0669
To Tenant:	Managed Health Network, Inc. c/o Health Net, Inc. Post Office Box 2470 Rancho Cordova, California 95741-2470 Attention: Director of Real Estate Telephone No.: (916) 935-1317 Facsimile No.: (916) 935-4406 For overnight couriers only: c/o Health Net, Inc. 11971 Foundation Place Rancho Cordova, California 95670 Attention: Director of Real Estate Telephone No.: (916) 935-1317 Facsimile No.: (916) 935-4406

Any such notices shall be sent by (i) U.S. certified mail, postage prepaid, return receipt requested, in which case notice shall be deemed delivered three (3) business days after timely deposit in the mail, (ii) a nationally recognized overnight courier, in which case notice shall be deemed delivered one (1) business day after timely deposit with such courier; (iii) personally delivered, in which case notice shall be deemed delivered upon receipt, or (iv) electronic communication, whether by telex, telegram, electronic mail or facsimile, in which case notice shall be deemed delivered on the date of machine-generated confirmed receipt if a copy of such notice is also sent by overnight courier on the same day.

37. **WAIVER OF RIGHT TO JURY TRIAL. TO THE EXTENT PERMITTED BY APPLICABLE LAW, LANDLORD AND TENANT WAIVE THEIR RESPECTIVE RIGHTS TO TRIAL BY JURY OF ANY CONTRACT OR TORT CLAIM, COUNTERCLAIM, CROSS-COMPLAINT, OR CAUSE OF ACTION IN ANY ACTION, PROCEEDING, OR HEARING BROUGHT BY EITHER PARTY AGAINST THE OTHER ON ANY MATTER ARISING OUT OF OR IN ANY WAY CONNECTED WITH THIS LEASE, THE RELATIONSHIP OF LANDLORD AND TENANT, OR TENANT'S USE OR OCCUPANCY OF THE PREMISES, INCLUDING WITHOUT LIMITATION ANY CLAIM OF INJURY OR DAMAGE OR THE ENFORCEMENT OF ANY REMEDY UNDER ANY CURRENT OR FUTURE LAW, STATUTE, REGULATION, CODE, OR ORDINANCE.** Landlord and Tenant agree that this paragraph constitutes a written consent to waiver of trial by jury within the meaning of California Code of Civil Procedure Section 631(d)(2), and Tenant does hereby authorize and empower Landlord to file this paragraph and/or this Lease, as required, with the clerk or judge of any court of competent jurisdiction as a written consent to waiver of jury trial. If the waiver set forth in this Section 631 (d)(2) is determined by any court to be invalid because it was executed prior to the commencement of any action, then Landlord and Tenant each covenant and agree to execute and deliver to the other, within five (5) days of a written request by the other, a waiver of the right to trial by jury similar in terms and scope to the waiver set forth in this Section 33 at such time following the commencement of such action as such waiver, if then made, would be valid.

38. ATTORNEYS' FEES. If either party places the enforcement of this Lease or any part hereof, or the collection of any Basic Rent, additional rent or other charges or sums due or to become due hereunder, or recovery of the possession of the Premises, in the hands of an attorney, or files suit upon the same, the non-prevailing (or defaulting) party shall pay the other party's reasonable legal and attorneys' fees, costs and expenses, including legal and attorneys' fees, costs and expenses incurred in connection with any appeals and any bankruptcy or insolvency proceedings involving Tenant or this Lease. If Landlord is named as a defendant in any suit brought against Tenant in connection with or arising out of Tenant's occupancy hereunder, Tenant shall pay to Landlord its costs and expenses in such suit, including its reasonable attorneys' fees. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Lease shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Lease and to survive and not be merged into any such judgment. The terms *"attorneys' fees"* and *"attorneys' fees, costs and expenses"* shall mean the fees, costs and expenses of counsel to the parties hereto, which may include printing, photocopying, duplicating and other expenses, air freight charges, and fees billed for law clerks, paralegals and other persons not admitted to the bar but performing services

under the supervision of an attorney, and the costs and fees incurred in connection with the enforcement or collection of any judgment obtained in any such proceeding, and shall include, specifically, all fees, costs and expenses of expert witnesses. For purposes of this Section 38, the term *"prevailing party"* shall include a prevailing party as defined in California Code of Civil Procedure Section 998.

39. SURRENDER OF PREMISES. On expiration of the Term or the earlier termination of this Lease in accordance with its terms, Tenant shall quit and surrender the Premises to Landlord, broom clean, in good order, condition and repair as required by Section 10(d), with all of Tenant's movable equipment, telecommunications and data equipment and wiring, furniture, trade fixtures and other personal property removed therefrom. Tenant shall reimburse Landlord upon the expiration or earlier termination of the Term of this Lease for the reasonable cost of removing all telecommunications and data cabling installed in the Premises by, or for the use of, Tenant. Unless Tenant has obtained Landlord's agreement in writing that it can remove an Alteration or item of Tenant Improvements, or unless Landlord has elected to require pursuant to the provisions hereof that all or certain non-permanent Alterations be removed by Tenant, all Alterations and Tenant Improvements shall be surrendered with the Premises in good condition and repair, subject to reasonable wear and tear (but only to an extent consistent with the Premises remaining in good condition and repair) and casualty damage that is not required to be repaired by Tenant hereunder. Any property of Tenant not removed hereunder shall be deemed, at Landlord's option, to be abandoned by Tenant and Landlord may store such property in Tenant's name at Tenant's expense, and/or dispose of the same in any manner permitted by law. If Landlord desires to have the Premises, or any part or parts thereof, restored to a condition that existed prior to installation of any non-permanent Alteration thereto, Landlord shall, subject to the provisions of Section 10(c), so notify Tenant in writing not later than sixty (60) days prior to the expiration of the Term; and upon receipt of such notice, Tenant shall, at Tenant's sole cost and expense, so restore the Premises, or such part or parts thereof, before the end of the Term. Tenant shall repair at its sole cost and expense, all damage caused to the Premises or the Project by removal of Tenant's movable equipment or furniture and such Tenant Improvements and Alterations as Tenant shall be allowed or required pursuant to the provisions hereof to remove from the Premises by Landlord. If, following the expiration or earlier termination of this Lease, the Premises is not surrendered in the manner and condition herein specified, then: (i) Landlord may, after ten (10) days written notice to Tenant, perform the obligations which Tenant failed to perform, and Tenant shall reimburse Landlord for all expenses incurred by Landlord in performing such obligations, including an administration fee equal to ten percent (10%) of the aggregate of such expenses, such reimbursement to be made within ten (10) days of the receipt by Tenant of a written request from Landlord for such reimbursement, accompanied by reasonable evidence of the expenses incurred by Landlord; and (ii) Tenant shall indemnify, defend, protect and hold Landlord harmless against all loss, liability, claim, cost or expense (including attorneys' fees) resulting from or caused by Tenant's failure in so surrendering the Premises in such manner or condition, including, without limitation, any claims made by any succeeding tenant due to such failure, provided that such indemnity shall be effective only if such failure continues for a period of greater than ninety (90) days following the expiration or earlier termination of this Lease.

40. HOLDING OVER. Tenant shall be permitted to hold over after the expiration or earlier termination of the Term for a period of ninety (90) days with or without the express prior written consent of Landlord, at a rental rate equal to one hundred fifty percent (150%) of the Basic Rent in effect upon the date of such expiration or earlier termination (subject to adjustment as provided in Section 5 hereof and prorated on a daily basis), plus the additional rent and other charges in effect upon the date of such expiration. If Tenant holds over after the expiration or earlier termination of the Term for a period of greater than ninety (90) days with or without the express prior written consent of Landlord, Tenant shall become a tenant at sufferance only (but shall be given not less than three (3) days' notice to vacate the Premises), at a rental rate equal to two hundred percent (200%) of the Basic Rent in effect upon the date of such expiration or earlier termination (subject to adjustment as provided in Section 5 hereof and prorated on a daily basis). Any such holding over shall otherwise be subject to the terms, covenants and conditions herein specified, so far as applicable. Acceptance by Landlord of rent after such expiration or earlier termination shall not result in a renewal of this Lease. If Tenant holds over after the expiration or earlier termination of the Term without the express prior written consent of Landlord for a period of greater than ninety (90) days, Tenant shall indemnify, defend and hold Landlord harmless from all loss or liability, including without limitation, any claim made by any succeeding tenant founded on or resulting from such failure to surrender.

41. NON-WAIVER. Neither the acceptance of rent nor any other act or omission of Landlord at any time or times after the happening of any event authorizing the cancellation or forfeiture of this Lease shall operate as a waiver of any past or future violation, breach or failure to keep or perform any covenant, agreement, term or condition hereof, or deprive Landlord of its right to cancel or forfeit this Lease, upon the notice required by law, at any time that cause for cancellation or forfeiture may exist, or be construed so as to at any future time stop Landlord from promptly exercising any other option, right or remedy that it may have under any term or provision of this Lease.

42. MORTGAGEE PROTECTION. In the event of any default on the part of Landlord, Tenant will give written notice by registered or certified mail to any beneficiary of a deed of trust or mortgagee under a mortgage covering the Project or the Building whose address shall have been furnished to Tenant, and shall offer such beneficiary or mortgagee a reasonable opportunity to cure the default, including time to obtain possession of the Project or the Building by power of sale or a judicial foreclosure, if such should prove necessary to effect a cure.

43. FINANCIAL STATEMENTS. Upon the written request of Landlord (which request shall not be made more than once per calendar year during the Term) Tenant shall, within fifteen (15) days following such written request, furnish Landlord with financial statements dated no earlier than one (1) year before the date of such written request, certified as accurate by Tenant, reflecting Tenant's then current financial condition, in such form and detail as is prepared by Tenant in its ordinary course of business.

44. CHANGES TO THE PROJECT. Landlord reserves the right at any time to make changes, alterations, reductions and additions to the Project (including, without limitation, the right to change, add to, eliminate or reduce the extent, size, shape or configuration of the Common Areas of the Project), including the construction of other buildings or improvements in the Project, the leasing of space to restaurant uses, the building of additional stories on any building, without any liability or responsibility to Tenant. Landlord will not block ingress and egress to the Premises. No rights to any view or to light or air over any property, whether

belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed by reason of any repairs, improvements, maintenance or cleaning in or about the Project, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease, provided Landlord makes commercially reasonable efforts to limit the extent and duration of any such darkening or obstruction.

45. RIGHT OF FIRST OFFER.

(a) Right of First Offer. During the Term of this Lease, Tenant shall have the ongoing right of first offer (*"Right of First Offer"*) with respect to the rentable space contiguous to the Premises depicted on Exhibit A-1 hereto and identified thereon as the North Wing (E-1) (*"Offering Space"*).

(b) Terms of Advice. Prior to the time Landlord offers the Offering Space for lease to a third-party (other than to an existing tenant of such Offering Space, or a party holding a right of first offer, right of first refusal, expansion option or other right to lease or occupy such Offering Space granted to it by Landlord prior to the date of this Lease), Landlord shall advise Tenant (the *"Advice"*) of the terms under which Landlord is prepared to lease such Offering Space to Tenant, which terms shall reflect (i) the Fair Market Rental Value for such Offering Space as reasonably determined by Landlord, (ii) a term of lease with respect to such Offering Space (the *"Offering Space Term"*) which shall be equivalent to the term of lease which Landlord would have offered to such third-party absent the Right of First Offer; provided, however, that the Offering Space Term shall be proposed by Landlord to be coterminous with the Term of this Lease in the event the Offering Space Term is scheduled to commence at a time during which there is at least four (4) years remaining in the Term of this Lease; (iii) an allowance (*"Offering Space Alterations Allowance"*) in reimbursement for the costs (or a portion of the costs) for designing and constructing Alterations to such Offering Space in an amount equal to Fifty Dollars ($50.00) per square foot of Rentable Area contained in such Offering Space, or, if such Offering Space then exists in shell condition (or will exist in shell condition as of the commencement of the Offering Space Term), in an amount equal to Twelve Dollars ($12.00) per square foot of Rentable Area contained in such Offering Space; and (iv) a Base Year with respect to such Offering Space equal to the first full calendar year during the Offering Space Term.

(c) Exercise of Right of First Offer. Tenant may lease such Offering Space in its entirety only, under such terms, by delivering written notice of exercise to Landlord (the *"Notice of Exercise"*) within five (5) business days of the date Tenant receives the Advice, except that Tenant shall have no such Right of First Offer and Landlord need not provide Tenant with an Advice, if: (i) an Event of Default exists at the time that Landlord would otherwise deliver the Advice; (ii) more than twenty-five percent (25%) of the Premises is sublet (other than to an Affiliate or Successor) at the time Landlord would otherwise deliver the Advice; (iii) Tenant is not occupying the Premises on the date Landlord would otherwise deliver the Advice; or (iv) such Offering Space is not intended for the exclusive use of Tenant during the Term. Notwithstanding the foregoing, if (x) Tenant was entitled to exercise its Right of First Offer, but failed to provide Landlord with a Notice of Exercise within the five (5) business day period provided above; and (y) Landlord does not enter into a lease for the Offering Space with a third-

party within a period of six (6) months following the date of the Advice with a rental rate equal to at least ninety-five percent (95%) of the basic rent set forth in the Advice, Tenant shall once again have a Right of First Offer with respect to such Offering Space; provided, however, that if Landlord enters into a lease for the Offering Space following Tenant's failure to provide Landlord with a Notice of Exercise within the five (5) business day period provided above, and such lease is entered into following such six (6) month period or with a rental rate less than ninety-five percent (95%) of the basic rent set forth in the Advice, any rights or options to extend or renew the term of such lease granted by Landlord to such third-party shall be superior to Tenant's renewed Right of First Offer.

(d) Acceptance of Possession of Offering Space. Offering Space Term shall commence upon the commencement date of the Offering Space Term stated in the Advice and shall terminate on the termination date of the Offering Space Term stated in the Advice, and upon commencement of the Offering Space Term, such Offering Space shall be considered a part of the Premises, provided that all of the terms stated in the Advice shall govern Tenant's leasing of such Offering Space and only to the extent that they do not conflict with the terms of the Advice, the terms and conditions of this Lease shall apply to such Offering Space. Such Offering Space (including improvements and personalty, if any) shall, subject to the terms of the Advice, be accepted by Tenant in "AS IS" condition, and Landlord's only obligation with respect to the condition of such Offering Space as of the commencement of the Offering Space Term shall be to deliver them in such condition.

(e) Offering Space Alterations Allowance. In the event Tenant exercises the Right of First Offer and the Offering Space becomes a part of the Premises under this Lease, Landlord shall provide Tenant the Offering Space Alterations Allowance in reimbursement for the costs (or a portion of the costs) for designing and constructing Alterations to such Offering Space. Such reimbursements from the Offering Space Alterations Allowance shall be made by Landlord within thirty (30) days following the latest to occur of: (i) the presentation by Tenant to Landlord of reasonable evidence of the amounts so incurred and paid by Tenant for such Alterations; or (ii) the presentation by Tenant to Landlord of all appropriate lien releases from all contractors, subcontractors, sub-subcontractors, suppliers, materialmen and design professionals performing work or services on behalf of Tenant with respect to such Alterations. The other provisions of this Section 45(e) notwithstanding: (i) Landlord shall not be required to pay any part of the Offering Space Alterations Allowance on or following the eighteen (18) month anniversary of the commencement of the Offering Space Term, and, (ii) Landlord shall not be required to pay any part of Landlord's Contribution if there then exists an Event of Default under this Lease.

(f) Subordination. Notwithstanding anything herein to the contrary, the Right of First Offer is subject and subordinate to the rights of any party holding a right of first offer, right of first refusal, expansion option or other right to lease or occupy such Offering Space granted to it by Landlord prior to the date of this Lease.

46. GENERAL PROVISIONS.

(a) Entire Agreement. This Lease contains all of the agreements of the parties, and there are no verbal or other agreements which modify or affect this Lease. This Lease supersedes any and all prior agreements made or executed by or on behalf of the parties hereto regarding the Premises.

(b) Terms and Headings. The words *"Landlord"* and *"Tenant"* include the plural as well as the singular, and words used in any gender include all genders. The titles to sections of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof. Wherever the term "including" or "includes" is used in this Lease, it shall be construed as if followed by the phrase "without limitation." The term "month," when not specified to be a "Lease Month" or calendar month, shall mean a period commencing as of a particular date and continuing to and including the day immediately preceding the same day of the next calendar month (or, if the next calendar month does not contain such a same date due to it being shorter in duration, then continuing to and including the last day of such next calendar month). References to sections or provisions of any statutes, codifications of statutes, rules, regulations or ordinances shall be deemed to also refer to any successor sections or provisions pertaining to the same subject matter.

(c) Successors and Assigns. All of the covenants, agreements, terms and conditions contained in this Lease shall inure to and be binding upon Landlord and Tenant and their respective permitted successors in interest and assigns.

(d) Brokers.

(i) Landlord hereby warrants and represents to Tenant that Landlord has not voluntarily incurred, on its behalf or on behalf of Tenant or on behalf of both Landlord and Tenant, any obligation to pay a commission or finder's fee to any real estate broker or other person or entity in connection with this Lease, other than Tenant's broker identified on the Basic Lease Information (*"Tenant's Broker"*) and Orion Partners Ltd. (*"Landlord's Broker"*), with which Landlord has a separate agreement with respect to the payment of a commission in connection with this transaction. Landlord hereby agrees to indemnify, defend and hold Tenant harmless from claims for any commission or finder's fee charges by any real estate broker or other person or entity (including, without limitation, Tenant's Broker, but only to the extent that the claim of Tenant's Broker is based upon the separate agreement between Landlord and Tenant's Broker or Orion Partners Ltd.) arising from an agreement, whether express or implied, between Landlord and such broker or other person or entity or otherwise arising from the conduct of Landlord. In no event shall Landlord's separate agreement with Landlord's Broker or Tenant's Broker bind Tenant with regard to any future brokerage agreements Tenant may enter into regarding this Lease or prevent any such future broker(s) as Tenant may retain from obtaining a commission with regard to such future Lease transactions.

(ii) Tenant hereby warrants and represents to Landlord that Tenant has not voluntarily incurred, on its behalf or on behalf of Landlord or on behalf of both Landlord and Tenant, any obligation to pay a commission or finder's fee to any real estate broker or other person or entity in connection with this Lease, other than Tenant's Broker. Tenant is not aware of any obligation of Landlord to Tenant's Broker other than those set forth in the separate agreement between Landlord and Tenant's Broker or Orion Partners Ltd. Tenant hereby agrees to indemnify, defend and hold Landlord harmless from claims for any commission or finder's fee charges by any real estate broker or other person or entity arising from an agreement, whether express or implied, between Tenant and such broker or other person or entity or otherwise arising from the conduct of Tenant.

(e) Liability of Landlord. Landlord's obligations and liability to Tenant under this Lease shall be limited solely to Landlord's interest in the Project, and neither Landlord nor any of the members in Landlord, nor any officer, director, member, shareholder or partner of or in Landlord or of any members in Landlord shall have or incur any personal liability whatsoever with respect to this Lease.

(f) Management of Building. Landlord may elect to manage the Building on its own behalf, though an affiliate of Landlord or pursuant to a management agreement with a third-party manager. Any management agreement with a third-party manager shall provide that such manager shall operate the Building in a first-class institutional manner and in the most cost-effective manner possible, in an effort to minimize Operating Expenses, consistent with providing first-class, institutional, high quality services.

(g) Independent Covenants. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent and not dependent and Tenant agrees that if Landlord fails to perform its obligations set forth herein, Tenant shall not be entitled to make any repairs or perform any acts hereunder at Landlord's expense or to any setoff of amounts owing hereunder against Landlord, except as otherwise set forth in this Lease; provided, however, that the foregoing shall in no way impair the right of Tenant to commence a separate action against Landlord for any violation by Landlord of the provisions hereof so long as notice is first given to Landlord and any holder of a mortgage or deed of trust covering the Building or the Project or any portion thereof, and an opportunity is granted to Landlord and such mortgage holder to correct such violations as provided above.

(h) Waiver of Redemption by Tenant. Tenant hereby waives, for Tenant and for all those claiming under Tenant, any and all rights now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease.

(i) Severability. Any provision of this Lease which shall prove to be invalid, void or illegal shall in no way affect, impair or invalidate any other provision hereof, and the remaining provisions hereof shall nevertheless remain in full force and effect.

(j) Force Majeure. Except as may be otherwise specifically provided herein, time periods for Landlord's or Tenant's performance under any provisions of this Lease not involving the payment of money shall be extended for periods of time during which the nonperforming party's performance is prevented or delayed due to events or circumstances of Force Majeure. For purposes of this Lease, *"Force Majeure"* shall mean events or circumstances beyond the applicable party's reasonable control, including, without limitation, strikes, embargoes, governmental regulations or procedures (including, without limitation, governmental regulations or procedures related to the issuance of building or similar permits outside the ordinary expectations of the parties), acts of God, weather, war or other strife. Tenant hereby waives and releases its right to terminate this Lease under Section 1932(1) of the California Civil Code or under any similar law, statute or ordinance now or hereafter in effect.

(k) Authority of Tenant. The persons executing this Lease on behalf of Tenant warrants and represents to Landlord that Tenant has the right and power to enter into this Lease and that the execution and performance by Tenant of its obligations under this Lease has been duly authorized by Tenant and that no further authorizations are required.

(l) Examination of Lease. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option to lease, and it is not effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

(m) No Warranty. In executing and delivering this Lease, Tenant has not relied on any representations, including, but not limited to, any representation as to the amount of any item comprising additional rent or the amount of the additional rent in the aggregate or that Landlord is furnishing the same services to other tenants, at all, on the same level or on the same basis, or any warranty or any statement of Landlord which is not set forth herein or in one or more of the exhibits attached hereto.

(n) Right to Lease. Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interests of the Building and the San Rafael office center. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Term, occupy any space in the Building or the San Rafael office center.

(o) Modification for Lender. If, in connection with Landlord's obtaining construction, interim or permanent financing for the Building or Project, the lender shall request reasonable modifications in this Lease as a condition to such financing, Tenant will not unreasonably withhold, delay or defer its consent thereto, provided that such modifications do not increase the obligations of Tenant hereunder or materially adversely affect the leasehold interest hereby created or Tenant's rights hereunder.

(p) Recording. Neither Landlord nor Tenant shall record this Lease nor a short form memorandum hereof without the consent of the other.

(q) Applicable Laws. This Lease shall be governed by and construed pursuant to the laws of the State of California.

(r) OFAC Certification. Tenant represents and warrants that Tenant is not acting, directly or indirectly, for or on behalf of any person, group, entity, or nation named by any Executive Order or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person," or other banned or blocked person, group, entity, nation, or transaction pursuant to any law, order, rule, or regulation that is enforced or administered by the Office of Foreign Assets Control and that it is not engaged in this transaction, directly or indirectly, on behalf of, or instigating or facilitating this transaction, directly or indirectly, on behalf of any such person, group, entity, or nation.

(s) Relationship of Parties. Nothing contained in this Lease shall be deemed or construed by the parties hereto or by any third party to create the relationship of principal and agent, partnership, joint venture or any association between Landlord and Tenant, it being expressly understood and agreed that neither the method of computation of rent nor any act or omission of the parties hereto shall be deemed to create any relationship between Landlord and Tenant other than the relationship of landlord and tenant.

(t) Project or Building Name and Signage. Landlord shall have the right at any time to change the name of the Building or Project and to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not use the name of the Project or the Building or use pictures or illustrations of the Project or the Building in advertising or other publicity, without the prior written consent of Landlord.

(u) Survival of Obligations. All provisions of this Lease which require the payment of money or the delivery of property after the termination of this Lease or require Tenant to indemnify, defend or hold Landlord harmless shall survive the termination of this Lease.

(v) Execution in Counterparts. This Agreement may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

(w) Demands and Consents. Whenever a provision of this Lease (i) requires that the consent of a party be obtained, such consent shall not be unreasonably withheld or delayed, unless such provision of this Lease expressly provides otherwise (including, without limitation, if such provision provides that such consent may be withheld in the party's sole or absolute discretion), or (ii) provides that a party may make a demand or request of the other party, such demand or request shall be reasonable and made in good faith.

(x) HIPAA. Landlord agrees that from time to time during the Term, Landlord, its agents, employees or assigns, may be exposed to, or have access to, Protected Health Information ("*PHI*"), as defined by Health Insurance Portability and Accountability Act of 1996, 45 CFR Parts 160 and 164. Landlord agrees that Landlord, its agents, employees or assigns will not use or disclose PHI for any purpose unless expressly authorized by Tenant or required by a court of competent jurisdiction or by any governmental authority or by any state or federal law.

IN WITNESS WHEREOF, the parties hereto have executed this Lease as of the date first above written.

TENANT: Managed Health Network, Inc.,
a Delaware corporation

By: /s/ Dennis Bell
Name: Dennis Bell
Title: Vice President Real Estate Management

LANDLORD: San Rafael Land Company, LLC,
a California limited liability company

By: /s/ Norbert J. Dickman
Name: Norbert J. Dickman
Title: Manager

Exhibit 10.102

FIRST AMENDMENT TO OFFICE LEASE
2370 KERNER BOULEVARD, SAN RAFAEL, CALIFORNIA

THIS FIRST AMENDMENT TO OFFICE LEASE (this "*First Amendment*") is entered into as of the 17th day of December, 2008, by and between SAN RAFAEL LAND COMPANY, LLC, a California limited liability company ("*Landlord*"), and MANAGED HEALTH NETWORK, INC., a Delaware corporation ("*Tenant*").

RECITALS

This First Amendment is entered into on the basis of the following facts, understandings and intentions of the parties:

A. Landlord and Tenant are parties to that certain Office Lease dated as of February 6, 2008 (the "*Lease*"), pursuant to which Tenant leases certain space consisting of approximately Sixty-Two Thousand Six Hundred Forty-Seven (62,647) square feet of Rentable Area on the Second (2nd) and Third (3rd) Floors (the "*Existing Premises*") of the commercial office building located at 2370 Kerner Boulevard, San Rafael, California (the "*Building*"). All capitalized terms used herein and not otherwise defined herein shall have the meaning or meanings given them in the Lease.

B. Landlord and Tenant now desire to amend the Lease in order to: (i) confirm the Commencement Dates under the Lease; (ii) retroactively modify the Rentable Area of the Existing Premises; (iii) revise the Premises by providing for certain additional space to be added to the Premises; (iv) revise the Base Rent; (v) provide for the improvement of such additional space; and (vi) supplement and/or modify certain other provisions of the Lease.

NOW, THEREFORE, in consideration of the mutual covenants and promises of Landlord and Tenant, Landlord and Tenant hereby agree as follows:

1. CERTAIN DEFINITIONS.

(a) "*Estimated Date*" shall mean May 1, 2009.

(b) "*Expansion Premises*" shall mean the area more particularly identified on Exhibit A-2 attached hereto as the "Expansion Premises", containing approximately Seven Thousand Seven Hundred Thirty-Three (7,733) square feet of Rentable Area located on a portion of the Third (3rd) Floor of the North Wing of the Building. Landlord and Tenant acknowledge and agree that the Rentable Area of the Expansion Premises is the product of: (x) the "usable area" of the Expansion Premises, as calculated pursuant to the BOMA Standard; multiplied by (y) one hundred twelve percent (112%).

(c) "*Expansion Premises Commencement Date*" shall mean the date of Expansion Premises Substantial Completion. Landlord and Tenant presently estimate that Expansion Premises Substantial Completion will occur on the Estimated Date.

(d) "*Expansion Premises Substantial Completion*" or "*EPSC*" shall mean that: (i) the Expansion Premises Tenant Improvements have been completed in accordance with the Final First Amendment Plans (as defined in Paragraph 3 of Exhibit B-1 hereto), even though minor details, adjustments or punch list items that do not materially interfere with Tenant's use or occupancy of the Expansion Premises for normal business operations may remain to be completed; (ii) appropriate governmental authorities have signed the permit card or otherwise indicated clearance for temporary or permanent occupancy of the Expansion Premises; and (iii) all Building systems and equipment are operational to the extent necessary to service the Expansion Premises. Landlord and Tenant shall inspect the Expansion Premises after Expansion Premises Substantial Completion, and shall together prepare a punchlist, and Landlord shall use commercially reasonable efforts to cause its contractors to remedy the items on the punchlist as promptly as is feasible in the circumstances.

(e) "*Expansion Premises Tenant Improvements*" shall have the meaning given that term in Paragraph 1 of Exhibit B-1 hereto. All Expansion Premises Tenant Improvements shall be deemed to be Alterations for purposes of the Lease upon completion thereof.

(f) "*Expansion Premises Term*" shall mean the period commencing as of the Expansion Premises Commencement Date and continuing to and including the date of expiration or earlier termination of the Term of the Lease.

(g) "*First Amendment Tenant Improvement Allowance*" shall mean an aggregate amount equal to Three Hundred Eighty-Six Thousand Six Hundred Fifty and No/100ths Dollars ($386,650.00), based on Fifty Dollars ($50.00) per square foot on Seven Thousand Seven Hundred Thirty-Three (7,733) square feet of Rentable Area contained in the Expansion Premises. The foregoing and anything to the contrary contained in the Lease notwithstanding, the First Amendment Tenant Improvement Allowance shall be automatically reduced by the aggregate amount of money or funds in excess of the Tenant Improvement Allowance (the definition of which has been modified pursuant to Section 8 below) that Landlord has, as of the date of this First Amendment, paid, applied or credited in connection with the construction and/or installation of the Tenant Improvements, such that the total of the Tenant Improvement Allowance and the First Amendment Tenant Improvement Allowance shall not exceed Three Million Three Hundred Sixty-Four Thousand Six Hundred Fifty and No/100ths Dollars ($3,364,650.00), based on Fifty Dollars ($50.00) per square foot on Sixty-Seven Thousand Two Hundred Ninety-Three (67,293) square feet of Rentable Area.

2. CONFIRMATION OF COMMENCEMENT DATES. Landlord and Tenant acknowledge and agree that (i) the North Wing Commencement Date occurred on May 14, 2008, and shall for all purposes under the Lease be May 14, 2008, (ii) the Second Floor South Wing Commencement Date occurred on June 12, 2008, and shall for all purposes under the Lease be June 12, 2008, and (iii) the Third Floor South Wing Commencement Date occurred on June 25, 2008, and shall for all purposes under the Lease be June 25, 2008.

3. REMEASUREMENT OF EXISTING PREMISES.

(a) Effective retroactively as of the North Wing Commencement Date and continuing to and including the day immediately preceding the Expansion Premises Commencement Date, Section 1(c)(i)(A) of the Lease shall be amended in its entirety to provide as follows:

" *'Rentable Area'* of the Premises shall be the product of: (x) the 'usable area' of the Premises, as calculated pursuant to the Standard Method for Measuring Floor Area in Office Buildings, [ANSI Z65.1 – 1996] (*'BOMA Standard'*); multiplied by (y) one hundred twelve percent (112%) (or one hundred fifteen percent (115%) with respect to the portion of the North Wing located on the Third (3rd) Floor of the Building)."

(b) Effective retroactively as of the North Wing Commencement Date and continuing to and including the day immediately preceding the Expansion Premises Commencement Date, Section 1(c)(i)(B) of the Lease shall be amended in its entirety to provide as follows:

" *'Rentable Area'* of the Project shall be the product of: (x) the aggregate 'usable area' of the Project, as designed and as calculated pursuant to the BOMA Standard; multiplied by (y) one hundred twelve percent (112%) (or one hundred fifteen percent (115%) with respect to the portion of the North Wing located on the Third (3rd) Floor of the Building)."

(c) Landlord and Tenant acknowledge and agree that, prior to the date of this First Amendment, the Rentable Area of the Existing Premises and each portion thereof were remeasured pursuant to the modified definition of "Rentable Area" set forth in Section 3(a) above. In accordance with such remeasurement, effective retroactively as of the North Wing Commencement Date and continuing to and including the day immediately preceding the Expansion Premises Commencement Date, the Rentable Area of the Existing Premises shall for all purposes under the Lease be as follows:

(i) as to the North Wing, approximately Twenty-Two Thousand Seven Hundred Seventeen (22,717) square feet of Rentable Area;

(ii) as to the Second Floor South Wing, approximately Nineteen Thousand Two Hundred Ten (19,210) square feet of Rentable Area;

(iii) as to the Third Floor South Wing, approximately Seventeen Thousand Eight Hundred Twenty-Three (17,823) square feet of Rentable Area; and

(iv) as to the entire Existing Premises, approximately Fifty-Nine Thousand Seven Hundred Fifty (59,750) square feet of Rentable Area.

(d) Tenant's Proportionate Share shall be retroactively adjusted to be 48.95% effective as of the North Wing Commencement Date and continuing to and including the day immediately preceding the Expansion Premises Commencement Date to reflect that (i) the Premises then contained (and will contain during such period) approximately Fifty-Nine Thousand Seven Hundred Fifty (59,750) square feet of Rentable Area, and (ii) the Project then contained (and will contain during such period) approximately One Hundred Twenty-Two Thousand Fifty-Two (122,052) square feet of Rentable Area.

(e) Effective as of the date of this First Amendment, Section 1(c)(ii) and Section 1(c)(iii) of the Lease shall be deleted in their entirety and be of no force or effect.

4. ADDITION OF EXPANSION PREMISES.

(a) Effective as of the North Wing Commencement Date and continuing to and including the day immediately precedent the Expansion Premises Commencement Date, the Premises shall be as provided in the Lease.

(b) Effective as of the Expansion Premises Commencement Date, the Premises shall be revised to include the Expansion Premises, and all references to the "Premises" in the Lease shall be deemed to mean, collectively, the Existing Premises and Expansion Premises. Tenant's obligations with respect to the Expansion Premises shall commence upon the Expansion Premises Commencement Date (except as otherwise provided in the Lease, as amended, with respect to obligations arising earlier or later) and shall continue in full force for the Expansion Premises Term. Either Landlord or Tenant, at the request of the other, shall execute a declaration specifying the Expansion Premises Commencement Date within a reasonable period of time following the Expansion Premises Commencement Date.

(c) Tenant has inspected the Expansion Premises and agrees to accept the same "AS IS" without any agreements, representations, understandings or obligations on the part of Landlord to perform any alterations, repairs or improvements to the Expansion Premises, subject to Landlord's obligation to construct the Expansion Premises Tenant Improvements in accordance with the provisions of this First Amendment. Landlord shall have no other obligation of any kind or character, express or implied, with respect to the design or condition of the Expansion Premises as of the Expansion Premises Commencement Date or the suitability thereof for Tenant's purposes, and Tenant acknowledges that it has neither received nor relied upon any representation or warranty made by or on behalf of Landlord with respect to such matters.

(d) Landlord shall provide Tenant and its representatives access to the Expansion Premises reasonably following the date upon which Landlord executes and delivers a countersigned original of this First Amendment. Such access shall be utilized by Tenant for the sole purpose of installing its telecommunications installations, data cabling, furniture and special fixtures in the Expansion Premises in connection with the commencement of its business operations therein. Upon such entry, Tenant shall, with respect to the Expansion Premises, perform all of the obligations of Tenant applicable under the Lease during the Expansion Premises Term (except the obligation with respect to the Expansion Premises to pay Basic Rent, Tenant's Proportionate Share of Operating Expenses, the costs of parking at the Project, the cost

of using the Building freight elevator and loading docks, or the cost of utilities or temporary heating, ventilating and air conditioning provided by Landlord to the Expansion Premises during such early access or entry period), including, without limitation, obligations pertaining to insurance, indemnity, compliance with laws and Hazardous Materials. Subject to the provisions of Sections 23 and 24 of the Lease, Tenant acknowledges and agrees that Landlord shall not be liable to Tenant or any Tenant Party for any injury, loss or damage to person or property which may occur in connection with such entry, the same being at Tenant's or any such Tenant Party's sole risk and liability.

5. RENTABLE AREA OF PREMISES FOLLOWING EXPANSION.

(a) Effective as the North Wing Commencement Date and continuing to and including the day immediately precedent the Expansion Premises Commencement Date, the Rentable Area of the Premises shall, as provided in Section 3 above, be approximately Fifty-Nine Thousand Seven Hundred Fifty (59,750) square feet of Rentable Area.

(b) Effective as of the Expansion Premises Commencement Date, Section 1(c)(i)(A) of the Lease shall be amended in its entirety to provide as follows:

" *'Rentable Area'* of the Premises shall be the product of: (x) the 'usable area' of the Premises, as calculated pursuant to the Standard Method for Measuring Floor Area in Office Buildings, [ANSI Z65.1 – 1996] (*'BOMA Standard'*), taking into consideration that Tenant is leasing the entire Second (2nd) and Third (3rd) Floors of the Building; multiplied by (y) one hundred twelve percent (112%)."

(c) Effective as of the Expansion Premises Commencement Date, Section 1(c)(i)(B) of the Lease shall be amended in its entirety to provide as follows:

" *'Rentable Area'* of the Project shall be the product of: (x) the aggregate 'usable area' of the Project, as designed and as calculated pursuant to the BOMA Standard taking into consideration that Tenant is leasing the entire Second (2nd) and Third (3rd) Floors of the Building; multiplied by (y) one hundred twelve percent (112%)."

(d) Landlord and Tenant acknowledge and agree that the definition of "Rentable Area" is being modified as provided in Sections 5(b) and 5(c) above in order to reflect that Tenant will be leasing the entire Second (2nd) and Third (3rd) Floors of the Building as of the Expansion Premises Commencement Date. In accordance with the foregoing, effective as of the Expansion Premises Commencement Date, the Rentable Area of the Premises shall for all purposes under the Lease be as follows:

(i) as to the North Wing, approximately Twenty-Two Thousand Five Hundred Twenty-Seven (22,527) square feet of Rentable Area;

(ii) as to the Second Floor South Wing, approximately Nineteen Thousand Two Hundred Ten (19,210) square feet of Rentable Area;

(iii) as to the Third Floor South Wing, approximately Seventeen Thousand Eight Hundred Twenty-Three (17,823) square feet of Rentable Area;

(iv) as to the Expansion Premises, approximately Seven Thousand Seven Hundred Thirty-Three (7,733) square feet of Rentable Area; and

(v) as to the entire Premises, approximately Sixty-Seven Thousand Two Hundred Ninety-Three (67,293) square feet of Rentable Area.

(e) Landlord and Tenant acknowledge and agree that the Rentable Area of the entire Premises and each portion thereof as specified in Section 5(d) above have been determined in accordance with the modified definition of "Rentable Area" set forth in Section 5(b) above.

(f) Tenant's Proportionate Share shall be adjusted to be 55.32% on and effective as of the Expansion Premises Commencement Date to reflect that (i) the Premises will then contain approximately Sixty-Seven Thousand Two Hundred Ninety-Three (67,293) square feet of Rentable Area, and (ii) the Project will then contain approximately One Hundred Twenty-One Thousand Six Hundred Fifty-Four (121,654) square feet of Rentable Area.

6. BASIC RENT. In consideration of the confirmation of the Commencement Dates as provided in Section 2 above, and in consideration of the retroactive adjustment of the Rentable Area of the Existing Premises as provide in Section 3 above, effective retroactively as of the North Wing Commencement Date, Tenant shall pay Basic Rent at the rates set forth in the following table and otherwise in the manner provided under the Lease:

Period of Term	Monthly Rate per Square Foot of Rentable Area in the Premises	Cumulative Rentable Area contained in the Premises	Basic Rent per Month
5/14/08 through 6/11/08	$ 2.95	22,717	$ 67,015.15
6/12/08 through 6/24/08	$ 2.95	41,927	$123,684.65
6/25/08 to EPSC	$ 2.95	59,750	$176,262.50
EPSC through 6/24/09	$ 2.95	67,293	$198,514.35
6/25/09 through 6/24/10	$ 3.04	67,293	$204,570.72
6/25/10 through 6/24/11	$ 3.13	67,293	$210,627.09
6/25/11 through 6/24/12	$ 3.22	67,293	$216,683.46
6/25/12 through 6/24/13	$ 3.32	67,293	$223,412.76
6/25/13 through 6/24/14	$ 3.42	67,293	$230,142.06
6/25/14 through 6/24/15	$ 3.52	67,293	$236,871.36

7. EXPANSION PREMISES TENANT IMPROVEMENTS. All Expansion Premises Tenant Improvements shall be installed by Landlord pursuant to the provisions of Exhibit B-1 hereto. Although the Expansion Premises Tenant Improvements are intended to be

constructed for the convenience of Tenant, the Expansion Premises Tenant Improvements are not intended to be a substitute for Rent or any part thereof. Nothing in this Section 7 or in Exhibit B-1 hereto shall affect the obligations of Tenant with respect to any other alterations, additions or improvements to the Premises, including without limitation, any obligation to obtain the prior written consent of Landlord thereto.

8. MODIFICATION OF TENANT IMPROVEMENT ALLOWANCE. Effective as of the date of the Lease, all references in the Lease to "Landlord's Contribution" shall be deemed to mean the Tenant Improvement Allowance. In addition, effective retroactively as of the date of the Lease, the second to last row of the Basic Lease Information describing the Tenant Improvement Allowance shall be amended in its entirety to provide as follows:

"Tenant Improvement Allowance:	An aggregate amount equal to Two Million Nine Hundred Eighty-Seven Thousand Five Hundred and No/100ths Dollars ($2,987,500.00), based on Fifty Dollars ($50.00) per square foot on Fifty-Nine Thousand Seven Hundred Fifty (59,750) square feet of Rentable Area contained in the Premises"

9. DELETION OF RIGHT OF FIRST OFFER. Effective as of the date of this First Amendment, Section 45 of the Lease shall be deleted in its entirety and be of no force or effect.

10. BROKERAGE COMMISSIONS.

(a) Landlord hereby warrants and represents to Tenant that Landlord has not voluntarily incurred, on its behalf or on behalf of Tenant or on behalf of both Landlord and Tenant, any obligation to pay a commission or finder's fee to any real estate broker or other person or entity in connection with this Lease, other than CB Richard Ellis, Inc. (*"Tenant's First Amendment Broker"*) and Landlord's Broker, with which Landlord has a separate agreement with respect to the payment of a commission in connection with this transaction. Landlord's obligation to Tenant's First Amendment Broker with respect to the payment of a commission in connection with this transaction shall be as provided in such separate agreement between Landlord and Landlord's Broker. Landlord hereby agrees to indemnify, defend and hold Tenant harmless from claims for any commission or finder's fee charges by any real estate broker or other person or entity (including, without limitation, Tenant's First Amendment Broker, but only to the extent that the claim of Tenant's First Amendment Broker is based upon such separate agreement between Landlord and Landlord's Broker) arising from an agreement, whether express or implied, between Landlord and such broker or other person or entity or otherwise arising from the conduct of Landlord.

(b) Tenant hereby warrants and represents to Landlord that Tenant has not voluntarily incurred, on its behalf or on behalf of Landlord or on behalf of both Landlord and Tenant, any obligation to pay a commission or finder's fee to any real estate broker or other person or entity in connection with this Lease, other than Tenant's First Amendment Broker. Tenant is not aware of any obligation of Landlord to Tenant's First Amendment Broker other than those set forth in the separate agreement between Landlord and Landlord's Broker referred to in Section 10(a) above. Tenant hereby agrees to indemnify, defend and hold Landlord harmless from claims for any commission or finder's fee charges by any real estate broker or other person or entity arising from an agreement, whether express or implied, between Tenant and such broker or other person or entity or otherwise arising from the conduct of Tenant.

11. ENTIRE AGREEMENT. This First Amendment contains all of the agreements of the parties with respect to the matters contained herein, and there are no verbal or other agreements which modify or affect this First Amendment. This First Amendment supersedes any and all prior agreements made or executed by or on behalf of the parties hereto regarding the Expansion Premises.

12. EXECUTION IN COUNTERPARTS. This First Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed shall be deemed to be an original and all of which taken together shall constitute one and the same agreement.

13. EXHIBITS. All exhibits attached to this First Amendment are hereby incorporated herein by this reference.

14. LEASE REMAINS IN FULL FORCE AND EFFECT. Except as modified above, the Lease shall remain in full force and effect.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment as of the date first above written.

TENANT: Managed Health Network, Inc., a Delaware corporation

By: /s/ Dennis Bell
Name: Dennis Bell
Title: Vice President Real Estate Management

LANDLORD: San Rafael Land Company, LLC,
a California limited liability company

By: /s/ Norbert J. Dickman
Name: Norbert J. Dickman
Title: Manager

Exhibit 10.103

OFFICE LEASE

by and between

GK TRIANGLE CORPORATE PARK III, LLC,
("Landlord")

and

HEALTH NET HEALTH PLAN OF OREGON, INC.,
("Tenant")

Dated as of

March 18, 2009

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Exhibit A-1 Floor Plan(s)
Exhibit A-2 Legal Description of the Project
Exhibit B Work Letter
Exhibit C Utilities and Services
Exhibit D Building Rules and Regulations
Exhibit E Form Estoppel Certificate
Exhibit F Tenant Commencement Certificate
Exhibit G ADA

Addendum One One Renewal Option (Market)
Addendum Two Right of First Offer
Addendum Three Termination Option
Addendum Four Contraction Option (including Schedule One)

OFFICE LEASE

THIS OFFICE LEASE is made between **GK TRIANGLE CORPORATE PARK III, LLC,** a Delaware limited liability company ("**Landlord**"), and the Tenant described in Item 1 of the Basic Lease Provisions.

LEASE OF PREMISES

Landlord hereby leases to Tenant and Tenant hereby leases from Landlord, subject to all of the terms and conditions set forth herein, those certain premises (the "Premises") described in Item 3 of the Basic Lease Provisions and as shown in the drawing attached hereto as *Exhibit A-1*. The Premises are located in the Building described in Item 2 of the Basic Lease Provisions. The Building is located on that certain land (the "Land") more particularly described on *Exhibit A-2* attached hereto, which is also improved with landscaping, parking facilities and other improvements, fixtures and common areas and appurtenances now or hereafter placed, constructed or erected on the Land (sometimes referred to herein as the "Project").

BASIC LEASE PROVISIONS

1.	**Tenant:**	HEALTH NET HEALTH PLAN OF OREGON, INC., an Oregon corporation ("Tenant")
2.	**Building:**	13221 SW 68th Parkway Tigard, OR 97223
3.	**Description of Premises:**	Suites 010, 020, 030, 103, 105, 107, 200 and 300
	Rentable Area:	54,579 square feet, being 8,190 square feet in the basement, plus 46,389 square feet on the 2nd and 3rd floors
4.	**Tenant's Proportionate Share of Operating Costs:**	42.70% (54,579 rsf / 127,833 rsf) (See Paragraph 3) (36.29% for the 2nd and 3rd floor space) (6.41% for the basement space)
5.	**Basic Annual Rent:**	(See Paragraph 2)
	Months 1 to 5, inclusive: Monthly Installment:	$24,346.83 ($26.00/sf/annum for the Contraction Area only; Basic Annual Rent for the remainder of the Premises shall be abated)
	Months 6 to 12, inclusive: Monthly Installment:	$100,509.50 for the 2nd and 3rd floor space ($26.00/sf/annum) $10,237.50 for the basement space ($15.00/sf/annum)
	Months 13 to 24, inclusive: Monthly Installment:	$103,524.79 for the 2nd and 3rd floor space ($26.78/sf/annum) $10,544.63 for the basement space ($15.45/sf/annum)

	Months 25 to 36, inclusive: Monthly Installment:	$106,630.53 for the 2nd and 3rd floor space ($27.58/sf/annum) $10,860.96 for the basement space ($15.91/sf/annum)
	Months 37 to 48, inclusive: Monthly Installment:	$109,829.44 for the 2nd and 3rd floor space ($28.41/sf/annum) $11,186.79 for the basement space ($16.39/sf/annum)
	Months 49 to 60, inclusive: Monthly Installment:	$113,129.33 for the 2nd and 3rd floor space ($29.26/sf/annum) $11,522.40 for the basement space ($16.88/sf/annum)
	Months 61 to 72, inclusive: Monthly Installment:	$116,518.06 for the 2nd and 3rd floor space ($30.14/sf/annum) $11,868.07 for the basement space ($17.39/sf/annum)
	Months 73 to 84, inclusive: Monthly Installment:	$120,013.60 for the 2nd and 3rd floor space ($31.05/sf/annum) $12,224.11 for the basement space ($17.91/sf/annum)
6.	**Installment Payable Upon Execution:**	N/A
7.	**Security Deposit Payable Upon Execution:**	N/A (See Paragraph 2(c))
8.	**Base Year for Operating Costs:**	2009 (See Paragraph 3)
9.	**Initial Term:**	Eighty-four (84) months, commencing on the Commencement Date and ending on the Termination Date (See Paragraph 1)
10.	**Commencement Date:**	July 1, 2009
11.	**Termination Date:**	June 30, 2016
12.	**Broker(s)** (See Paragraph 19(k)):	
	Landlord's Broker:	CB Richard Ellis 1300 SW 5th Avenue, Suite 200 Portland, OR 97201
	Tenant's Broker:	CB Richard Ellis 555 Capitol Mall, Suite 100 Sacramento, CA 95814

13. **Number of Parking Spaces:** Four (4) uncovered, unreserved parking spaces per 1,000 feet of Rentable Area in the Premises, at no additional charge to Tenant during the Term (See Paragraph 18)

14. **Addresses for Notices:**

To: TENANT:

Health Net Health Plan of Oregon, Inc.
c/o Health Net, Inc.
P. O. Box 2470
Rancho Cordova, CA 95791-2410
Attn: Director of Real Estate

To: LANDLORD:

Project Management Office:

c/o CBRE
Attention: Sr. Real Estate Manager
1300 SW 5th Avenue, Suite 200
Portland, OR 97201

With a copy to:

KBS Realty Advisors, LLC
201 California Street, Suite 470
San Francisco, CA 94111
Attn: Steve Silva, Senior Vice President

15. **Place of Payment** All payments payable under this Lease shall be sent to Landlord at the Project Management Office at the address specified in *Item 14* or to such other address as Landlord may designate in writing.

16. **Guarantor:** N/A

17. **Date of this Lease:** See cover page

18. **Landlord's Construction Allowance:** Up to $12.00 per square foot of area, if Tenant does not exercise the Addendum Four Contraction Option;

Up to $16.00 per square foot of remaining area, if Tenant does exercise the Addendum Four Contraction Option

(See *Exhibit B*)

19. **The "State" is the State of Oregon.**

This Lease consists of the foregoing introductory paragraphs and Basic Lease Provisions, the provisions of the Standard Lease Provisions (the "Standard Lease Provisions") (consisting of Paragraphs 1 through 19 which follow) and *Exhibits A-1* through *A-2* and *Exhibits B* through *Exhibit G*, and the following Addenda: Addendum One- One Renewal Option (Market); Addendum Two- Right of First Offer; Addendum Three- Termination Option; and Addendum Four (including Schedule One thereto)- Contraction Option, all of which are incorporated herein by this reference. In the event of any conflict between the provisions of the Basic Lease Provisions and the provisions of the Standard Lease Provisions, the Standard Lease Provisions shall control.

[remainder of page left intentionally blank]

STANDARD LEASE PROVISIONS

1. TERM

(a) The Initial Term of this Lease and the Rent (defined below) shall commence on July 1, 2009 (the "Commencement Date"). Unless earlier terminated in accordance with the provisions hereof, the Initial Term of this Lease shall be the period shown in *Item 9* of the Basic Lease Provisions. As used herein, "Lease Term" shall mean the Initial Term referred to in *Item 9* of the Basic Lease Provisions, subject to any extension of the Initial Term hereof exercised in accordance with the terms and conditions expressly set forth herein. This Lease shall be a binding contractual obligation effective upon execution hereof by Landlord and Tenant, notwithstanding the later commencement of the Initial Term of this Lease.

(b) As of the Date of this Lease, Tenant is a subtenant of Cadence Design Systems, Inc. ("Cadence"), Inc., pursuant to a Sublease dated February 25, 2003, between Cadence (as sublandlord) and Tenant (as subtenant) (such Sublease, as amended, the "Sublease"). Cadence (as successor-in-interest to OrCAD, Inc.) leases the Premises from Landlord (as successor-in-interest to Tigard Triangle I, LLC ("Prior Landlord")) pursuant to a Lease Agreement between Prior Landlord and OrCAD, Inc. dated February 20, 1998 (such Lease Agreement, as amended, the "Existing Master Lease"). The Sublease and the Existing Master Lease are each scheduled to expire of their own terms prior to the Commencement Date. Landlord and Tenant agree that, as of the Commencement Date, this Lease is the sole and exclusive agreement between Landlord and Tenant with respect to the Project (provided, this sentence and the foregoing sentence shall not be deemed to nullify any provisions of the Sublease or the Existing Master Lease which, by their terms, survive the expiration of the Sublease or the Existing Master Lease). Landlord and Tenant further agree, without limiting the foregoing two sentences, that any extension, expansion, termination, first offer, first refusal or other rights or options afforded to Tenant under the Sublease or the Existing Master Lease are of no further force or effect as of the Date of this Lease, and that Tenant hereby waives the same (if any).

(c) Notwithstanding anything to the contrary contained in this Lease, the effectiveness of this Lease is expressly conditioned on the Existing Master Lease expiring (without any options on the part of Cadence (or any subtenant or assignee thereof) to further extend the term of the Existing Master Lease) on or before the Commencement Date.

2. BASIC ANNUAL RENT AND SECURITY DEPOSIT

(a) Tenant agrees to pay during each month of the Lease Term as Basic Annual Rent ("Basic Annual Rent") for the Premises the sums shown for such periods in *Item 5* of the Basic Lease Provisions.

(b) Except as expressly provided to the contrary herein, Basic Annual Rent shall be payable in equal consecutive monthly installments, in advance, without demand, deduction or offset, commencing on the Commencement Date and continuing on the first day of each calendar month thereafter until the expiration of the Lease Term. Landlord agrees that all payments of rent under this Lease may be made via electronic funds transfer, and prior to the Commencement Date, Landlord shall provide documentation to Tenant to set up such payment system. Except as is expressly provided to the contrary herein, the obligation of Tenant to pay Rent and other sums to Landlord and the obligations of Landlord under this Lease are independent obligations. If the Commencement Date is a day other than the first day of a calendar month, or the Lease Term expires on a day other than the last day of a calendar month, then the Rent for such partial month shall be calculated on a per diem basis. In the event Landlord delivers possession of the Premises to Tenant prior to the Commencement Date, Tenant agrees it shall be bound by and subject to all terms, covenants, conditions and obligations of this Lease during the period between the date possession is delivered and the Commencement Date, other than the payment of Basic Annual Rent, in the same manner as if delivery had occurred on the Commencement Date.

(c) INTENTIONALLY DELETED

(d) The parties agree that for all purposes hereunder the Premises shall be stipulated to contain the number of square feet of Rentable Area described in *Item 3* of the Basic Lease Provisions.

3. ADDITIONAL RENT

(a) If Operating Costs (defined below) for the Project for any calendar year during the Lease Term exceed Base Operating Costs (defined below), Tenant shall pay to Landlord as additional rent ("Additional Rent") an amount equal to Tenant's Proportionate Share (defined below) of such excess.

(b) "Tenant's Proportionate Share" is, subject to the provisions of Paragraph 18, the percentage number described in *Item 4* of the Basic Lease Provisions. Tenant's Proportionate Share represents, subject to the provisions of Paragraph 18, a fraction, the numerator of which is the number of square feet of Rentable Area in the Premises and the denominator of which is the number of square feet of Rentable Area in the Project, as determined by Landlord pursuant to Paragraph 18.

(c) "Base Operating Costs" means all Operating Costs incurred or payable by Landlord during the calendar year specified as Tenant's Base Year in *Item 8* of the Basic Lease Provisions. Landlord acknowledges and agrees that the Landlord is maintaining both earthquake and flood insurance for the Project during the Base Year and the cost for earthquake and flood insurance is included into Base Operating Costs. During the Lease Term, Landlord shall use substantially the same accounting methods for calculating Operating Costs for the Project, including Base Operating Costs. If during the Lease Term, Landlord decides to change the accounting methods used for calculating Operating Costs, then Landlord shall also recalculate the Base Operating Costs using the new accounting methods for determining Operating Costs for the Project.

(d) "Operating Costs" means all costs, expenses and obligations reasonably incurred or payable by Landlord in connection with the operation, management, repair or maintenance of the Building and the Project during or allocable to the Lease Term, including without limitation, the following:

(i) Any form of assessment, license fee, license tax, business license fee, commercial rental tax, levy, charge, improvement bond, tax, water and sewer rents and charges, utilities and communications taxes and charges or similar or dissimilar imposition imposed by any authority having the direct power to tax, including any city, county, state or federal government, or any school, agricultural, lighting, drainage or other improvement or special assessment district thereof, or any other governmental charge, general and special, ordinary and extraordinary, foreseen and unforeseen, which may be assessed against any legal or equitable interest of Landlord in the Premises, Building, Common Areas or Project (collectively, ("Real Estate Taxes"). Real Estate Taxes shall also include, without limitation:

(A) any tax on Landlord's "right" to rent or "right" to other income from the Premises or as against Landlord's business of leasing the Premises;

(B) any assessment, tax, fee, levy or charge in substitution, partially or totally, of any assessment, tax, fee, levy or charge previously included within the definition of real property tax, including, without limitation, any assessments, taxes, fees, levies and charges may be imposed by governmental agencies for such services as fire protection, street, sidewalk and road maintenance, refuse removal and for other governmental services formerly provided without charge to property owners or occupants. It is the intention of Tenant and Landlord that all such new and increased assessments, taxes, fees, levies and charges be included within the definition of "Real Estate Taxes" for the purposes of this Lease;

(C) any assessment, tax, fee, levy or charge allocable to or measured by the area of the Premises or other premises in the Building or the rent payable by Tenant hereunder or other tenants of the Project, including, without limitation, any gross receipts tax or excise tax levied by state, city or federal government, or any political subdivision thereof, with respect to the receipt of such rent, or upon or with respect to the possession, leasing, operation, management, maintenance, alteration, repair, use or occupancy by Tenant of the Premises, or any portion thereof but not on Landlord's other operations;

(D) any assessment, tax, fee, levy or charge upon this transaction or any document to which Tenant is a party, creating or transferring an interest or an estate in the Premises;

(E) any assessment, tax, fee, levy or charge by any governmental agency related to any transportation plan, fund or system (including assessment districts) instituted within the geographic area of which the Project is a part; and/or

(F) any costs and expenses (including, without limitation, reasonable attorneys fees) incurred in attempting to protest, reduce or minimize Real Estate Taxes.

Notwithstanding the foregoing, in no event shall Real Estate Taxes included in Operating Costs for any year subsequent to the Base Year be less than Real Estate Taxes included in Operating Costs for the Base Year.

(ii) The cost of utilities (including taxes and other charges incurred in connection therewith) provided to the Premises, the Building or the Project, fuel, supplies, equipment, tools, materials, service contracts, janitorial services, waste and refuse disposal, gardening and landscaping; insurance, including, but not limited to, public liability, fire, property damage, earthquake, flood, rental loss, rent continuation, boiler machinery, business interruption, contractual indemnification and Special Perils coverage insurance for up to the full replacement cost of the Project and such other insurance as is customarily carried by operators of other similar class office buildings in the city in which the Project is located, to the extent carried by Landlord in its discretion, and the deductible portion of any insured loss otherwise covered by such insurance (the size of which deductible shall be reasonable and customary for comparable projects in the Area); the cost of compensation, including employment, welfare and social security taxes, paid vacation days, disability, pension, medical and other fringe benefits of all persons (including independent contractors) at or below the level of Project Manager who perform services connected with the operation, maintenance, repair or replacement of the Project; personal property taxes on and maintenance and repair of equipment and other personal property used in connection with the operation, maintenance or repair of the Project; such reasonable auditors' fees and legal fees as are incurred in connection with the operation, maintenance or repair of the Project; a management fee not to exceed three and one-half percent (3.5%) of total gross rents (base rent and additional rent) received for the Project; the maintenance of any easements or ground leases benefitting the Project, whether by Landlord or by an independent contractor; a reasonable allowance for depreciation of personal property used in the operation, maintenance or repair of the Project; license, permit and inspection fees; all costs and expenses required by any governmental or quasi-governmental authority or by applicable law, but only to the extent necessary to comply with laws not in effect as of the Commencement Date, including capital improvements, and the cost of any capital improvements made to the Project by Landlord that improve life-safety systems or reduce operating expenses (such costs to be amortized over such reasonable periods as Landlord shall reasonably determine); the cost of air conditioning, heating, ventilating, plumbing, elevator maintenance, and repair (to include the replacement of components) and other mechanical and electrical systems repair and maintenance; sign maintenance; and Common Area (defined below) repair, resurfacing, operation and maintenance; and the cost of providing security services, if any, deemed appropriate by Landlord.

Notwithstanding anything in this paragraph to the contrary, the following items shall be excluded from Operating Costs:

(A) capital expenditures of any kind (with the exception of those required in order to comply with applicable laws not in effect as of the Commencement Date or to increase the safety or improve the energy efficiency of the Building;

(B) leasing commissions, attorneys' fees, costs and disbursements and other expenses incurred in connection with leasing, renovating or improving vacant space in the Project for tenants or prospective tenants of the Project;

(C) costs (including permit, license and inspection fees) incurred in renovating or otherwise improving or decorating, painting or redecorating space for tenants or vacant space;

(D) Landlord's costs of any services sold to tenants for which Landlord is entitled to be reimbursed by such tenants as an additional charge or rental over and above the Basic Annual Rent and Operating Costs payable under the lease with such tenant or other occupant;

(E) any depreciation or amortization of the Project except as expressly permitted herein;

(F) costs incurred due to a violation of Law (defined below) by Landlord relating to the Project;

(G) interest on debt or amortization payments on any mortgages or deeds of trust or any other debt for borrowed money;

(H) all items and services for which Tenant or other tenants reimburse Landlord outside of Operating Costs;

(I) repairs or other work occasioned by fire, windstorm or other work paid for through insurance or condemnation proceeds (excluding any deductible, the size of which is reasonable and customary for comparable projects in the Area);

(J) repairs resulting from any defect in the original design or construction of the Project;

(K) any cost representing an amount paid to any person, firm, corporation or other entity related to or affiliated with Landlord, which amount is in excess of the amount which would have reasonably been paid in the absence of such relationship for comparable work or services involving the Building or comparable buildings in the general vicinity of the Building;

(L) the cost of curing of construction or design defects;

(M) costs of complying with environmental regulations including, but not limited to, the costs and expenses of clean-up, remediation, environmental surveys/assessments, compliance with environmental laws, consulting fees, treatment and monitoring charges, transportation expenses and disposal fees, etc.; and

(N) the following fees, costs and expenses relating to a sale of the Project: attorney fees, transfer taxes, escrow fees, title insurance fees and costs, and other similar expenses, but expressly excluding any increase in taxes or assessments related to a reappraisal or increase in valuation of the Project due to a sale of the Project;

(O) any new category of costs and expenses not included in the Base Operating Costs, provided, however, Landlord shall be able to pass through any new category of costs and expenses if Landlord recalculates the Base Operating Costs to include such new category of costs and expenses; and

(P) any net income, franchise or capital gains tax, transfer tax, inheritance tax or estate tax.

(e) Operating Costs for any calendar year during which actual occupancy of the Project is less than ninety-five percent (95%) of the Rentable Area of the Project shall be appropriately adjusted to reflect ninety-five percent (95%) occupancy of the existing Rentable Area of the Project during such period and as if all tenants were paying full rent (as opposed to free rent or half-rent, it being the parties intention that any expense, such as a management fee, that varies with the amount of rent paid shall be calculated as if all tenants were paying full rent). The foregoing sentence shall not apply, however, to Operating Costs that do not vary based upon the occupancy level of the Project. In determining Operating Costs, if any services or utilities are separately charged to tenants of the Project or others, Operating Costs shall be adjusted by Landlord to reflect the amount of expense which would

have been incurred for such services or utilities on a full time basis for normal Project operating hours. Operating Costs for the Base Year (as defined in *Item 8* of the Basic Lease Provisions) shall not include (i) Operating Costs attributable to temporary market-wide labor-rate increases and/or utility rate increases due to extraordinary circumstances, including, but not limited to Force Majeure, conservation surcharges, boycotts, embargoes, or other shortages, or (ii) one-time special assessments, charges, costs or fees or extraordinary charges or costs incurred in the Base Year only. In no event shall the components of Operating Costs for any calendar year related to any utility costs (including, without limitation, electrical costs) be less than the components of Operating Costs related to such utility costs in the Base Year. In addition, if in any calendar year subsequent to the Base Year, the amount of Operating Costs decreases due to a reduction in the cost of providing utilities, security and/or other services to the Project for any reason, including without limitation, because of deregulation of the utility industry and/or reduction in rates achieved in contracts with utilities and/or service providers, then for purposes of the calendar year in which such decrease in Operating Costs occurred and all subsequent calendar years, the Operating Costs for the Base Year shall be decreased by an amount equal to such decrease. In the event (i) the Commencement Date shall be a date other than January 1, (ii) the date fixed for the expiration of the Lease Term shall be a date other than December 31, (iii) of any early termination of this Lease, or (iv) of any increase or decrease in the size of the Premises, then in each such event, an appropriate adjustment in the application of this Paragraph 3 shall, subject to the provisions of this Lease, be made to reflect such event on a basis determined by Landlord to be consistent with the principles underlying the provisions of this Paragraph 3. Notwithstanding anything in this Section 3 to the contrary, any capital expenditures or government-imposed special assessments having a useful life of 3 years or more shall be amortized over the useful life of such improvements in accordance with the Internal Revenue Code requirements.

(f) Prior to the commencement of each calendar year of the Lease Term following the Commencement Date, Landlord shall have the right to give to Tenant a written estimate of Tenant's Proportionate Share of the projected excess, if any, of the Operating Costs for the Project for the ensuing year over the Base Operating Costs. Tenant shall pay such estimated amount to Landlord in equal monthly installments, in advance on the first day of each month. Within a reasonable period after the end of each calendar year, Landlord shall furnish Tenant a statement indicating in reasonable detail (including, but not limited to any "gross up" of Operating Costs) the excess of Operating Costs over Base Operating Costs for such period and the parties shall, within thirty (30) days thereafter, make any payment or allowance necessary to adjust Tenant's estimated payments to Tenant's actual share of such excess as indicated by such annual statement. Any payment due Landlord shall be payable by Tenant on demand from Landlord. Any amount due Tenant shall be credited against installments next becoming due under this Paragraph 3(f) or refunded to Tenant, if requested by Tenant.

(g) [INTENTIONALLY DELETED]

(h) Tenant shall pay ten (10) days before delinquency, all taxes and assessments (i) levied against any personal property, tenant improvements or trade fixtures of Tenant in or about the Premises and (ii) based upon this Lease or any document to which Tenant is a party creating or transferring an interest in this Lease or an estate in all or any portion of the Premises. If any such taxes or assessments are levied against Landlord or Landlord's property or if the assessed value of the Project is increased by the inclusion therein of a value placed upon such personal property or trade fixtures, Tenant shall upon demand reimburse Landlord for the taxes and assessments so levied against Landlord, or such taxes, levies and assessments resulting from such increase in assessed value.

(i) Any delay or failure of Landlord in (i) delivering any estimate or statement described in this Paragraph 3, or (ii) computing or billing Tenant's Proportionate Share of excess Operating Costs shall not constitute a waiver of its right to require an increase in Rent, or in any way impair, the continuing obligations of Tenant under this Paragraph 3; provided, however, that Landlord's failure to bill Tenant for any item of Operating Costs within one (1) year after the calendar year in which such Operating Costs were incurred shall be deemed to be an unconditional waiver of Landlord's right to collect such Operating Costs. In the event of any dispute as to any Additional Rent due under this Paragraph 3, an officer of Tenant or Tenant's certified public accountant shall have the right after reasonable notice and at reasonable times to inspect and make copies of (at Tenant's expense, subject to the reimbursement provisions of this Paragraph 3(i)) Landlord's accounting records at Landlord's accounting office. If after such inspection, Tenant still disputes such Additional Rent, upon Tenant's written request therefor, a certification as to the proper amount of Operating Costs and the amount due to or payable by Tenant shall be made by an independent certified public accountant mutually agreed to by Landlord and Tenant. If Landlord and Tenant

cannot mutually agree to an independent certified public accountant, then the parties agree that Landlord shall choose an independent certified public accountant to conduct the certification as to the proper amount of Tenant's Proportionate Share of Operating Costs due by Tenant for the period in question; provided, however, such certified public accountant shall not be the accountant who conducted Landlord's initial calculation of Operating Costs to which Tenant is now objecting. Such certification shall be final and conclusive as to all parties. If the certification reflects that Tenant has overpaid Tenant's Proportionate Share of Operating Costs for the period in question, then Landlord shall credit such excess to Tenant's next payment of Operating Costs or, at the request of Tenant, promptly refund such excess to Tenant and conversely, if Tenant has underpaid Tenant's Proportionate Share of Operating Costs, Tenant shall promptly pay such additional Operating Costs to Landlord. Tenant agrees to pay the cost of such certification and the investigation with respect thereto and no adjustments in Tenant's favor shall be made unless it is determined that Landlord's original statement was in error in Landlord's favor by more than three percent (3%), in which case Landlord shall pay the cost of the certification and shall reimburse all reasonable Tenant audit costs up to a maximum amount of $3,500.00. Tenant waives the right to dispute any matter relating to the calculation of Operating Costs or Additional Rent under this Paragraph 3 if any claim or dispute is not asserted in writing to Landlord within one (1) year after delivery to Tenant of the original billing statement with respect thereto. Landlord shall maintain in a safe and orderly manner all of its records pertaining to the Additional Rent payable by Tenant pursuant to this Article 3 for a period of eighteen (18) months after the completion of each calendar year of the Lease Term and shall retain records for the Base Year for the duration of this Lease. Tenant may include in its audit of the records for any such calendar year a review of the records for Operating Costs incurred in the Base Year.

(j) Even though the Lease Term has expired and Tenant has vacated the Premises, when the final determination is made of Tenant's Proportionate Share of excess Operating Costs for the year in which this Lease terminates, Tenant shall immediately pay any increase due over the estimated Operating Costs paid, and conversely, any overpayment made by Tenant shall be promptly refunded to Tenant by Landlord.

(k) Tenant shall not be obligated to pay for Controllable Operating Costs in any calendar year to the extent they have increased by more than five percent (5%) over the immediately preceding calendar year. For purposes of this Lease, Controllable Operating Costs shall mean all Operating Costs except for Real Estate Taxes, insurance premiums and utility costs and all costs and expenses for security for the Building and the Project. Controllable Operating Costs shall be determined on an aggregate basis and not on an individual basis, and the cap on Controllable Operating Costs shall be determined on Operating Costs as they have been adjusted for vacancy or usage pursuant to the terms of the Lease.

(l) The Basic Annual Rent, as adjusted pursuant to Paragraphs 2, 3 and 7, and other amounts required to be paid by Tenant to Landlord hereunder, are sometimes collectively referred to as, and shall constitute, "Rent".

4. IMPROVEMENTS AND ALTERATIONS

(a) Landlord's sole construction obligation under this Lease is set forth in the Work Letter attached hereto as *Exhibit B*.

(b) Any alterations, additions, or improvements made by or on behalf of Tenant to the Premises ("Alterations") shall be subject to Landlord's prior written consent. Notwithstanding the foregoing sentence to the contrary, Tenant need not obtain Landlord's consent for any minor, cosmetic non-structural Alterations totaling less than $50,000 in any calendar year during the Lease Term, provided Tenant otherwise complies with the provisions of this Paragraph 4 in installing such Alterations. Tenant shall cause, at its sole cost and expense, all Alterations to comply with insurance requirements and with Laws and shall construct, at its sole cost and expense, any alteration or modification required by Laws as a result of any Alterations. All Alterations shall be constructed at Tenant's sole cost and expense and in a good and workmanlike manner by contractors reasonably acceptable to Landlord and only good grades of materials shall be used. All plans and specifications for any Alterations shall be submitted to Landlord for its approval, which approval will not be unreasonably withheld, delayed or conditioned. Landlord may monitor construction of the Alterations. Landlord's right to review plans and specifications and to monitor construction shall be solely for its own benefit, and Landlord shall have no duty to see that such plans and specifications or construction comply with applicable laws, codes, rules and regulations. Landlord shall have the right, in its sole discretion, to instruct Tenant to remove those improvements or Alterations from the Premises which

(i) were not approved in advance by Landlord, (ii) were not built in material conformance with the plans and specifications approved by Landlord, or (iii) Landlord specified during its review of plans and specifications for Alterations would need to be removed by Tenant upon the expiration of this Lease. If Landlord approved the construction of Alterations, then Tenant shall not be obligated to remove such Alterations at the expiration of this Lease. Landlord shall not unreasonably withhold, condition or delay its approval with respect to what improvements or Alterations Landlord may require Tenant to remove at the expiration of the Lease. If upon the termination of this Lease Landlord requires Tenant to remove any or all of such Alterations from the Premises, then Tenant, at Tenant's sole cost and expense, shall promptly remove such Alterations and improvements and Tenant shall repair and restore the Premises to its original condition as of the Commencement Date, reasonable wear and tear excepted. Any Alterations remaining in the Premises following the expiration of the Lease Term or following the surrender of the Premises from Tenant to Landlord, shall become the property of Landlord unless Landlord notifies Tenant otherwise. Tenant shall provide Landlord with the identities and mailing addresses of all persons performing work or supplying materials, prior to beginning such construction, and Landlord may post on and about the Premises and record any notices of non-responsibility pursuant to applicable law. Tenant shall assure payment for the completion of all work free and clear of liens and shall provide certificates of insurance for worker's compensation and other coverage in amounts and from an insurance company reasonably satisfactory to Landlord protecting Landlord against liability for bodily injury or property damage during construction. Tenant shall pay to Landlord, as additional rent, the actual and reasonable costs of Landlord's engineers and other consultants (but not Landlord's on-site management personnel) for review of all plans, specifications and working drawings for the Alterations and for the incorporation of such Alterations in the Landlord's master Building drawings, within ten (10) business days after Tenant's receipt of invoices either from Landlord or such consultants. In addition to such costs, Tenant shall pay to Landlord, within ten (10) business days after completion of any Alterations, the actual, reasonable costs incurred by Landlord for services rendered by Landlord's management personnel and engineers to coordinate and/or supervise any of the Alterations to the extent such services are provided in excess of or after the normal on-site hours of such engineers and management personnel.

(c) Tenant shall keep the Premises, the Building and the Project free from any and all liens arising out of any Alterations, work performed, materials furnished, or obligations incurred by or for Tenant. In the event that Tenant shall not, within twenty (20) days following the imposition of any such lien, cause the same to be released of record by payment or posting of a bond in a form and issued by a surety acceptable to Landlord, Landlord shall have the right, but not the obligation, to cause such lien to be released by such means as it shall deem proper (including payment of or defense against the claim giving rise to such lien); in such case, Tenant shall reimburse Landlord for all reasonable and actual amounts so paid by Landlord in connection therewith, together with all of Landlord's reasonable and actual costs and expenses, with interest thereon at the Default Rate (defined below). Tenant agrees to indemnify, defend and hold Landlord, the Premises and the Project, harmless from all claims (including all costs and expenses of defending against such claims) arising or alleged to arise from any act or omission of Tenant or Tenant's agents, employees, contractor, subcontractors, suppliers, materialmen, architects, designers, surveyors, engineers, consultants, laborers, or invitees, or arising from any bodily injury or property damage occurring or alleged to have occurred incident to any of the work to be performed by Tenant or its contractors or subcontractors with respect to the Premises, including the Tenant Improvements as set forth in Exhibit B to this Lease. Tenant's indemnification of Landlord contained in this Paragraph shall survive the expiration or earlier termination of this Lease. Such rights of Landlord shall be in addition to all other remedies provided herein or by law.

(d) NOTICE IS HEREBY GIVEN THAT LANDLORD SHALL NOT BE LIABLE FOR ANY LABOR, SERVICES OR MATERIALS FURNISHED OR TO BE FURNISHED TO TENANT, OR TO ANYONE HOLDING THE PREMISES THROUGH OR UNDER TENANT, AND THAT NO MECHANICS' OR OTHER LIENS FOR ANY SUCH LABOR, SERVICES OR MATERIALS SHALL ATTACH TO OR AFFECT THE INTEREST OF LANDLORD IN THE PREMISES.

5. REPAIRS

(a) Landlord shall keep the Common Areas of the Building and the Project in a clean and neat condition and repair and shall operate the Building in the same manner as other similar class office buildings in the Portland, Oregon metropolitan area. Subject to subparagraph (b) below, Landlord shall maintain and make all necessary repairs to (i) the structural portion of the Building, including the exterior walls, exterior doors, exterior

locks on exterior doors and windows of the Building, the foundation, floor/ceiling slabs, roof, exterior glass and mullions, columns, beams and shafts (including elevator shafts), (ii) the Common Areas, including stairs, parking areas, stairwells, escalators, elevator cabs, plazas, pavement, sidewalks, curbs, entrances, landscaping, artwork, sculptures, washrooms, mechanical, electrical and telephone closets in all public areas and (iii) public corridors and other public areas of the Project not constituting a portion of any tenant's premises (collectively the "Landlord Obligations") and shall keep all Building standard equipment used by Tenant in common with other tenants and the mechanical, electrical, life safety, plumbing, sprinkler systems and HVAC systems serving the Common Areas (the "Building Systems") in good condition and repair and to replace same at the end of such equipment's normal and useful life, reasonable wear and tear and casualty loss excepted. Except as expressly provided in Paragraph 7(f) and Paragraph 9 of this Lease, there shall be no abatement of Rent and no liability of Landlord by reason of any injury to or interference with Tenant's business arising from the making of any repairs, alterations or improvements in or to any portion of the Premises, the Building or the Project. Except as otherwise specifically provided in this Lease, Tenant waives the right to make repairs at Landlord's expense under any law, statute or ordinance now or hereafter in effect. Notwithstanding anything in this Lease to the contrary, Landlord agrees that in the event of an Emergency (as defined herein) to the Premises which necessitates prompt maintenance, repair or replacement of items to the Premises which are otherwise required by this Lease to be maintained, repaired or replaced by Landlord, and Tenant is unable to contact Landlord and Landlord's property manager and advise it of such Emergency condition, or Landlord otherwise fails to promptly perform the required maintenance, repair or replacement following such notification of an Emergency, Tenant, within 24 hours after such written notice to Landlord, may at its option proceed forthwith to make such repairs for such Emergency and pay the cost thereof; provided, however, Tenant shall use reasonable efforts to notify Landlord and its management company prior to proceeding to make any repairs to the Premises in an Emergency. The term "Emergency" shall mean a situation which requires, in the good faith judgment of Tenant, immediate action in order to prevent death, bodily injury or material property damage or loss of business. Landlord agrees to reimburse Tenant for the cost of such repairs in the event of an Emergency up to the maximum amount of $20,000 within thirty (30) days after written demand by Tenant for such reimbursement. Additionally, if Landlord fails to maintain the Landlord Obligations or Building Systems as set forth above ("Landlord Repairs"), then Tenant will have the right (but is not required) to perform such Landlord Repairs if Tenant notifies Landlord in writing that Tenant intends to perform such Landlord Repairs, Landlord does not dispute in writing of the need for such repairs, and Landlord fails to commence such Landlord Repairs within thirty (30) days following receipt of Tenant's written notice or thereafter fails to continue to prosecute such Landlord Repairs to completion with due diligence. If Tenant performs such Landlord Repairs, then Landlord shall reimburse Tenant for any and all reasonable actual costs incurred by Tenant (as evidenced by written invoices) in performing such Landlord Repairs within thirty (30) days after written demand by Tenant for such reimbursement.

(b) Tenant, at its expense, (i) shall keep the Premises and all fixtures contained therein in a safe, clean and neat condition, and (ii) shall bear the cost of maintenance and repair, by contractors selected by Tenant and reasonably acceptable to Landlord, of all facilities which are not expressly required to be maintained or repaired by Landlord and which are located in the Premises, including, without limitation, lavatory, shower, toilet, wash basin and kitchen facilities, and supplemental heating and air conditioning systems exclusively serving the Premises (including all plumbing connected to said facilities or systems installed by or on behalf of Tenant or existing in the Premises at the time of Landlord's delivery of the Premises to Tenant). Tenant shall make all repairs to the Premises not required to be made by Landlord under subparagraph (a) above with replacements of any materials to be made by use of materials of equal or better quality. Tenant shall do all decorating, remodeling, alteration and painting required by Tenant during the Lease Term. Tenant shall pay for the cost of any repairs to the Premises, the Building or the Project made necessary by any gross negligence or willful misconduct of Tenant or any of its assignees, subtenants, employees or their respective agents, representatives, contractors, or other persons permitted in or invited to the Premises or the Project by Tenant, subject to the provisions of Paragraph 8(e) below. If Tenant fails to make such repairs or replacements within fifteen (15) days after written notice from Landlord, Landlord may at its option make such repairs or replacements, and Tenant shall upon demand pay Landlord for the cost thereof. Tenant's failure to notify Landlord of the need for any item of repair or replacement shall not modify Landlord's maintenance and repair obligations under this Lease.

(c) Upon the expiration or earlier termination of this Lease, Tenant shall surrender the Premises in a safe, clean and neat condition, normal wear and tear and casualty loss excepted. Prior to the expiration or earlier termination of this Lease, Tenant shall remove from the Premises (i) all trade fixtures, furnishings and other personal

property of Tenant, except as otherwise set forth in Paragraph 4(b) of this Lease, and (ii) all Alterations and improvements as directed by Landlord (except that Tenant shall not have to remove any Alterations or improvements to which Landlord consented in writing unless Landlord indicated, along with such consent, the need for such removal), and Tenant shall repair all damage caused by such removal, and shall restore the Premises to its original condition, reasonable wear and tear excepted. In no event shall Tenant be required to remove any portion of the Tenant Improvements. In addition to all other rights Landlord may have, in the event Tenant does not so remove any such fixtures, furnishings or personal property after ten (10) days prior written notice, Tenant shall be deemed to have abandoned the same, in which case Landlord may store the same at Tenant's expense, appropriate the same for itself, and/or sell the same in its discretion.

6. USE OF PREMISES

(a) Tenant shall use the Premises only for general office uses and shall not use the Premises or permit the Premises to be used for any other purpose. Landlord shall have the right to deny its consent to any change in the permitted use of the Premises in its sole and absolute discretion.

(b) Tenant shall not at any time use or occupy the Premises, or permit any act or omission in or about the Premises in violation of any covenant of record, law, statute, building or zoning code, ordinance, or governmental order, condition of approval, rule or regulation (including, but not limited to, Title III of the Americans With Disabilities Act of 1990), as well as the same may be amended and supplemented from time to time (collectively, "Law" or "Laws") and Tenant shall, upon written notice from Landlord, discontinue any use of the Premises which is declared by any governmental authority to be a violation of Law. If any Law shall, by reason of the nature of Tenant's use or occupancy of the Premises for other than general office use, impose any duty upon Tenant or Landlord with respect to (i) modification or other maintenance of the Premises, the Building or the Project, or (ii) the use, alteration or occupancy thereof, Tenant shall comply with such Law at Tenant's sole cost and expense. This Lease shall be subject to and Tenant shall comply with all financing documents encumbering the Building or the Project and all covenants, conditions and restrictions affecting the Premises, the Building or the Project, including, but not limited to, Tenant's execution of any subordination agreements requested by a mortgagee of the Premises, the Building or the Project. Landlord shall cause the Building (excluding the Premises) and Common Areas to be in compliance with all Laws during the Initial Term and any extensions thereof, and Tenant shall cause the Premises to be in compliance with all Laws during the Initial Term and any extensions thereof. If the Building (excluding the Premises) or Common Areas are determined by applicable governmental agencies to not be in compliance with Laws applicable to the Project as of the Commencement Date, then Landlord shall be fully responsible, at its sole cost and expense (which shall not be included in Operating Costs), for making all alterations and repairs to the Building (excluding the Premises) and the Common Areas required by such governmental agencies so that the Building (excluding the Premises) or the Common Areas comply with all such Laws. Notwithstanding the foregoing sentence, if there is a "new" Law (a Law first enacted or made applicable to the Project after the Commencement Date of this Lease) affecting the Building (excluding the Premises) or the Common Areas, and governmental agencies require Landlord to make capital expenditures or repairs to the Building (excluding the Premises) or the Common Areas, the invoiced cost and expense of such capital expenditures or repairs shall be an Operating Cost which shall be reimbursed by the tenants in the Project over the lesser of (i) the useful life of such capital expenditures, or (ii) ten (10) years. Subject to applicable Laws (including any "grandfather" provisions pertaining thereto), Landlord agrees to maintain the Building (except the Premises) and Common Areas in compliance with all Laws. To Landlord's knowledge, as of the Date of this Lease, Landlord has not received written notice of any violation of Laws pertaining to the Premises and the Building. The term "to Landlord's knowledge" shall mean the current actual knowledge of Steve Silva, without any duty of inquiry or investigation.

(c) Tenant shall not at any time use or occupy the Premises in violation of the certificates of occupancy issued for or restrictive covenants pertaining to the Building or the Premises, and in the event that any architectural control committee or department of the State or the city or county in which the Project is located shall at any time contend or declare that the Premises are used or occupied in violation of such certificate or certificates of occupancy or restrictive covenants, Tenant shall, upon five (5) days' notice from Landlord or any such governmental agency, immediately discontinue such use of the Premises (and otherwise remedy such violation). The failure by Tenant to discontinue such use shall be considered a default under this Lease and Landlord shall have

the right to exercise any and all rights and remedies provided herein or by Law. Any statement in this Lease of the nature of the business to be conducted by Tenant in the Premises shall not be deemed or construed to constitute a representation or guaranty by Landlord that such business will continue to be lawful or permissible under any certificate of occupancy issued for the Building or the Premises, or otherwise permitted by Law.

(d) Tenant shall not do or permit to be done anything which may invalidate or increase the cost of any fire, All Risk or other insurance policy covering the Building, the Project and/or property located therein and shall comply with all rules, orders, regulations and requirements of the appropriate fire codes and ordinances or any other organization performing a similar function. If Tenant fails to comply with this Paragraph 6(d), and such failure continues following five (5) days prior written notice, then in addition to all other remedies of Landlord, Landlord may require Tenant, promptly upon demand, to reimburse Landlord for the full amount of any additional premiums charged for such policy or policies by reason of Tenant's failure to comply with the provisions of this Paragraph 6.

(e) Tenant shall not in any way interfere with the rights or quiet enjoyment of other tenants or occupants of the Premises, the Building or the Project. Tenant shall not use or allow the Premises to be used for any improper, immoral, unlawful or objectionable purpose, nor shall Tenant cause, maintain, or permit any nuisance in, on or about the Premises, the Building or the Project. Tenant shall not place weight upon any portion of the Premises exceeding the structural floor load (per square foot of area) which such area was designated (and is permitted by Law) to carry or otherwise use any Building system in excess of its capacity or in any other manner which may damage such system or the Building. Tenant shall not create within the Premises a working environment with a density of greater than one (1) person per 185 square feet of Rentable Area. Business machines and mechanical equipment shall be placed and maintained by Tenant, at Tenant's expense, in locations and in settings sufficient in Landlord's reasonable judgment to absorb and prevent vibration, noise and annoyance. Tenant shall not commit or suffer to be committed any waste in, on, upon or about the Premises, the Building or the Project.

(f) Tenant shall take all reasonable steps necessary to adequately secure the Premises from unlawful intrusion, theft, fire and other hazards, and shall keep and maintain any and all security devices in or on the Premises in good working order, including, but not limited to, exterior door locks for the Premises and smoke detectors and burglar alarms located within the Premises and shall cooperate with Landlord and other tenants in the Project with respect to access control and other safety matters. Tenant shall have the right to install or maintain, at Tenant's expense, a card access or other secured access system for the Premises. Tenant shall be granted access to the Premises twenty-four (24) hours per day, every day of the year, provided that such access shall: (i) be in accordance with all reasonable security measures as may be imposed by Landlord from time to time and as are generally applicable to tenants of the Building and their invitees; and, (ii) be subject to restrictions on access recommended or imposed as a result of an emergency.

(g) As used herein, the term "Hazardous Material" means any hazardous or toxic substance, material or waste which is or becomes regulated by any local governmental authority, the State or the United States Government, including, without limitation, any material or substance which is (A) defined or listed as a "hazardous waste," "pollutant," "extremely hazardous waste," "restricted hazardous waste," "hazardous substance" or "hazardous material" under any applicable federal, state or local Law or administrative code promulgated thereunder, (B) petroleum, or (C) asbestos.

(i) Tenant agrees that all operations or activities upon, or any use or occupancy of the Premises, or any portion thereof, by Tenant, its assignees, subtenants, and their respective agents, servants, employees, representatives and contractors (collectively referred to herein as "Tenant Affiliates"), throughout the term of this Lease, shall be in all respects in compliance with all federal, state and local Laws then governing or in any way relating to the generation, handling, manufacturing, treatment, storage, use, transportation, release, spillage, leakage, dumping, discharge or disposal of any Hazardous Materials.

(ii) Tenant agrees to indemnify, defend and hold Landlord and its Affiliates (defined below) harmless for, from and against any and all claims, actions, administrative proceedings (including informal proceedings), judgments, damages, punitive damages, penalties, fines, costs, liabilities, interest or losses, including reasonable attorneys' fees and expenses, court costs, consultant fees, and expert fees, together with all other costs and expenses of any kind or nature that arise during or after the Lease Term directly or

indirectly from or in connection with the presence, suspected presence, or release of any Hazardous Material in or into the air, soil, surface water or groundwater at, on, about, under or within the Premises, or any portion thereof, all to the extent caused by Tenant or Tenant Affiliates.

(iii) In the event any investigation or monitoring of site conditions or any clean-up, containment, restoration, removal or other remedial work (collectively, the "Remedial Work") is required under any applicable federal, state or local Law, by any judicial order, or by any governmental entity as the result of operations or activities upon, or any use or occupancy of any portion of the Premises by Tenant or Tenant Affiliates, Landlord shall perform or cause to be performed the Remedial Work in compliance with such Law or order at Tenant's sole cost and expense. All Remedial Work shall be performed by one or more contractors, selected and approved by Landlord, and under the supervision of a consulting engineer, selected by Tenant and approved in advance in writing by Landlord. All costs and expenses of such Remedial Work shall be paid by Tenant, including, without limitation, the charges of such contractor(s), the consulting engineer, and Landlord's reasonable attorneys' fees and costs incurred in connection with monitoring or review of such Remedial Work.

(iv) To Landlord's knowledge and subject to all matters disclosed in that certain Phase I Environmental Report dated July 18, 2005 prepared by Environ International Corporation, Landlord has not received written notice of any violation of environmental Laws pertaining to the Premises and the Building. The term "to Landlord's knowledge" shall mean the current actual knowledge of Steve Silva, without any duty of inquiry or investigation.

(v) Each of the covenants and agreements of Tenant and Landlord set forth in this Paragraph 6(g) shall survive the expiration or earlier termination of this Lease.

7. UTILITIES AND SERVICES

(a) Landlord shall furnish, or cause to be furnished to the Premises, the utilities and services described in *Exhibit C* attached hereto, subject to the conditions and in accordance with the standards set forth therein and in this Lease.

(b) Tenant agrees to cooperate fully at all times with Landlord and to comply with all non-discriminatory regulations and requirements which Landlord may from time to time prescribe for the use of the utilities and services described herein and in *Exhibit C*. Landlord shall not be liable to Tenant for the failure of any other tenant, or its assignees, subtenants, employees, or their respective invitees, licensees, agents or other representatives to comply with such regulations and requirements.

(c) If Tenant requires utilities or services in quantities greater than or at times other than that generally furnished by Landlord pursuant to *Exhibit C*, Tenant shall pay to Landlord, upon receipt of a written statement therefor, Landlord's actual and reasonable charge for such use. In the event that Tenant shall require additional electric current, water or gas for use in the Premises and if, in Landlord's judgment, such excess requirements cannot be furnished unless additional risers, conduits, feeders, switchboards and/or appurtenances are installed in the Building, subject to the conditions stated below, and Tenant does not withdraw its request within ten (10) days of written notice of such additional installations, Landlord shall proceed to install the same at the sole cost of Tenant, payable upon demand in advance. The installation of such facilities shall be conditioned upon Landlord's consent, and a determination that the installation and use thereof (i) shall be permitted by applicable Law and insurance regulations, (ii) shall not cause permanent damage or injury to the Building or adversely affect the value of the Building or the Project, and (iii) shall not cause or create a dangerous or hazardous condition or interfere with or disturb other tenants in the Building. Subject to the foregoing, Landlord shall, upon reasonable prior notice by Tenant, furnish to the Premises additional elevator, heating, air conditioning and/or cleaning services upon such reasonable terms and conditions as shall be determined by Landlord, including payment of Landlord's charge therefor. As of the Date of this Lease, Landlord's current charge for "after-hours" heating and air conditioning is $_____ per hour. In the case of any additional utilities or services to be provided hereunder, Landlord may require a switch and metering system to be installed so as to measure the amount of such additional utilities or services. The cost of installation, maintenance and repair thereof shall be paid by Tenant upon demand.

(d) Landlord shall not be liable for, and Tenant shall not be entitled to, any damages, abatement or reduction of Rent, or other liability by reason of any failure to furnish any services or utilities described herein or in *Exhibit C* for any reason (other than Landlord's gross negligence or willful misconduct), including, without limitation, when caused by accident, breakage, repairs, Alterations or other improvements to the Project, strikes, lockouts or other labor disturbances or labor disputes of any character, governmental regulation, moratorium or other governmental action, inability to obtain electricity, water or fuel, or any other cause beyond Landlord's control. Landlord shall be entitled to cooperate with the energy conservation efforts of governmental agencies or utility suppliers. No such failure, stoppage or interruption of any such utility or service shall be construed as an eviction of Tenant, nor shall the same relieve Tenant from any obligation to perform any covenant or agreement under this Lease. In the event of any failure, stoppage or interruption thereof, Landlord shall use reasonable efforts to attempt to restore all services promptly. No representation is made by Landlord with respect to the adequacy or fitness of the Building's ventilating, air conditioning or other systems to maintain temperatures as may be required for the operation of any computer, data processing or other special equipment of Tenant. Tenant hereby waives any applicable existing or future law, ordinance or governmental regulation permitting the termination of this Lease due to an interruption, failure or inability to provide any services. Notwithstanding anything in this Paragraph 7 to the contrary, if an interruption or cessation of a utility service to the Premises from a cause within the reasonable control of Landlord results in the Premises being unusable by Tenant for the conduct of Tenant's business, then Basic Annual Rent shall be abated commencing on that date which is five (5) consecutive business days following the date Tenant delivers written notice to Landlord of such interruption and continuing until either such utility service to the Premises is restored or the Premises is again usable for the conduct of Tenant's business. If, however, Tenant reoccupies any portion of the Premises during such abatement period, the Basic Annual Rent allocable to such reoccupied portion, based on the proportion that the Rentable Area of such reoccupied portion of the Premises bears to the total Rentable Area of the Premises, shall be payable by Tenant from the date Tenant reoccupies such portion of the Premises. Such right to abate Basic Annual Rent shall be Tenant's sole and exclusive remedy at law or in equity in the event of an interruption or cessation of a utility service to the Premises.

(e) Landlord reserves the right from time to time to make reasonable and nondiscriminatory modifications to the above standards (including, without limitation, those described in Exhibit C) for utilities and services.

8. NON-LIABILITY AND INDEMNIFICATION OF LANDLORD; INSURANCE

(a) Except as otherwise specifically provided in this Paragraph 8 or elsewhere in this Lease, neither Landlord nor any of its partners, officers, trustees, affiliates, directors, employees, contractors, agents or representatives (collectively, "Affiliates") shall be liable for and there shall be no abatement of Rent (except in the event of a casualty loss or a condemnation as set forth in Paragraphs 9 and 10 of this Lease) for (i) any damage to Tenant's property stored with or entrusted to Affiliates of Landlord, (ii) loss of or damage to any property by theft or any other wrongful or illegal act, or (iii) any injury or damage to persons or property resulting from fire, explosion, falling plaster, steam, gas, electricity, water or rain which may leak from any part of the Building or the Project or from the pipes, appliances, appurtenances or plumbing works therein or from the roof, street or sub-surface or from any other place or resulting from dampness or any other cause whatsoever or from the acts or omissions of other tenants, occupants or other visitors to the Building or the Project or from any other cause whatsoever, (iv) any diminution or shutting off of light, air or view by any structure which may be erected on lands adjacent to the Building, whether within or outside of the Project. Tenant shall give prompt notice to Landlord in the event of (i) the occurrence of a fire or accident in the Premises (or in the Building, if involving Tenant or any Tenant Affiliates) or (ii) Tenant's discovery of a defect therein or in the fixtures or equipment thereof. This Paragraph 8(a) shall survive the expiration or earlier termination of this Lease.

(b) Tenant hereby agrees to indemnify, protect, defend and hold harmless Landlord and its designated property management company, and their respective partners, members, affiliates and subsidiaries, and all of their respective officers, directors, shareholders, employees, servants, partners, representatives, insurers and agents (collectively, "Landlord Indemnitees") for, from and against all liabilities, claims, fines, penalties, costs, damages or injuries to persons, damages to property, losses, liens, causes of action, suits, judgments and expenses (including court costs, attorneys' fees, expert witness fees and costs of investigation), of any nature, kind or description of any person or entity, directly or indirectly arising out of, caused by, or resulting from (in whole or part) (1) Tenant's

construction of or use, occupancy or enjoyment of the Premises, (2) any activity, work or other things done, permitted or suffered by Tenant and its agents and employees in or about the Premises, (3) any breach or default in the performance of any of Tenant's obligations under this Lease, (4) Intentionally Deleted, or (5) any damage to Tenant's property, or the property of Tenant's agents, employees, contractors, business invitees or licensees, located in or about the Premises (collectively, "Liabilities"). Tenant shall not be required to defend, save harmless or indemnify Landlord from any liability, loss accidents or damage to any person or property resulting from Landlord's negligence or willful acts or omissions, or those of Landlord's officers, agents, contractors or employees. In addition, Tenant's indemnity obligations are subject to the mutual waiver of recovery set forth in Paragraph 8(e) below. Landlord agrees to protect, defend, indemnify and hold harmless Tenant, and its authorized representatives ("Tenant Indemnitees") from all claims, costs (including attorneys' and experts' fees), expenses, liabilities and/or damage to any person or property resulting from Landlord's negligence or willful acts or omissions and liabilities (i) arising from and out of any occurrence in the Common Areas, or (ii) arising from and out of any breach of Landlord's representations, warranties or covenants under the Lease. Landlord shall not be required to defend, save harmless or indemnify Tenant from any costs, claims, expenses, liabilities, losses, accidents or damage to any person or property resulting from Tenant's negligence or willful acts or omissions, or those of Tenant's officers, agents, contractors or employees. In addition, Landlord's indemnity obligations are subject to the mutual waiver of recovery set forth in Paragraph 8(e) below and the business interruption waiver by Tenant in Paragraph 8(f) below. This Paragraph 8(b) shall survive the expiration or earlier termination of this Lease.

(c) Either party shall promptly advise the other in writing of any action, administrative or legal proceeding or investigation as to which the indemnification provisions in Paragraph 8(b) may apply, and the indemnifying party, at such party's expense, shall assume on behalf of each and every Landlord Indemnitee or Tenant Indemnitee, as applicable, and conduct with due diligence and in good faith the defense thereof with counsel reasonably satisfactory to the indemnified party; provided, however, that any indemnified party shall have the right, at its option, to be represented therein by advisory counsel of its own selection and at its own expense. In the event of failure by the indemnifying party to fully perform in accordance with this Paragraph, the indemnified party, at its option, and without relieving the indemnifying party of its obligations hereunder, may so perform, but all costs and expenses so incurred by the indemnified party in that event shall be reimbursed by the indemnifying party to the indemnified party, together with interest on the same from the date any such expense was paid by indemnified party until reimbursement, at the rate of interest provided to be paid on judgments, by the law of the jurisdiction to which the interpretation of this Lease is subject. The indemnification provided in Paragraph 8(b) shall not be limited to damages, compensation or benefits payable under insurance policies, workers' compensation acts, disability benefit acts or other employees' benefit acts.

(d) Insurance.

(i) Tenant at all times during the Lease Term shall, at its own expense, keep in full force and effect (A) commercial general liability insurance providing coverage against bodily injury and disease, including death resulting therefrom, bodily injury and property damage to a combined single limit of $2,000,000 to one or more than one person as the result of any one accident or occurrence, which shall include provision for contractual liability coverage insuring Tenant for the performance of its indemnity obligations set forth in this Paragraph 8 of this Lease, but only to the extent included in a typical general liability policy, (B) worker's compensation insurance to the statutory limit, if any, and employer's liability insurance to the limit of $500,000 per occurrence, and (C) All Risk or Causes of Loss – Special Form property insurance, including fire and extended coverage, sprinkler leakage, vandalism, malicious mischief and earthquake and flood coverage, covering full replacement value of all of Tenant's personal property, trade fixtures and improvements in the Premises. Landlord and its designated property management firm shall be named an additional insured on each of said policies (excluding the worker's compensation policy) and said policies shall be issued by an insurance company or companies authorized to do business in Oregon and which have policyholder ratings not lower than "A-" and financial ratings not lower than "VII" in Best's Insurance Guide (latest edition in effect as of the Date of Lease and subsequently in effect as of the date of renewal of the required policies). EACH OF SAID WORKER'S COMPENSATION AND PROPERTY INSURANCE POLICIES (BUT NOT THE COMMERCIAL GENERAL LIABILITY POLICY) SHALL ALSO INCLUDE A WAIVER OF SUBROGATION PROVISION OR ENDORSEMENT IN FAVOR OF LANDLORD, AND EACH OF SAID POLICIES (INCLUDING THE

COMMERCIAL GENERAL LIABILITY POLICY) SHALL INCLUDE AN ENDORSEMENT PROVIDING THAT INSURER SHALL ENDEAVOR TO PROVIDE LANDLORD WITH THIRTY (30) DAYS (OR, TEN (10) DAYS, IN THE EVENT OF NON-PAYMENT OF PREMIUM) PRIOR WRITTEN NOTICE OF ANY CANCELLATION OF, NONRENEWAL OF, REDUCTION OF COVERAGE OR MATERIAL CHANGE IN COVERAGE ON SAID POLICIES. Tenant hereby waives its right of recovery against any Landlord Indemnitee of any amounts paid by Tenant or on Tenant's behalf to satisfy applicable worker's compensation laws. The duly executed certificates of policies showing the material terms for the same, together with satisfactory evidence of the payment of the premiums therefor, shall be deposited with Landlord on the date Tenant first occupies the Premises and upon renewals of such policies not less than fifteen (15) days prior to the expiration of the term of such coverage.

(ii) It is expressly understood and agreed that the coverages required represent Landlord's minimum requirements and such are not to be construed to void or limit Tenant's obligations contained in this Lease, including without limitation Tenant's indemnity obligations hereunder. Neither shall (A) the insolvency, bankruptcy or failure of any insurance company carrying Tenant, (B) the failure of any insurance company to pay claims occurring nor (C) any exclusion from or insufficiency of coverage be held to affect, negate or waive any of Tenant's indemnity obligations under this Paragraph 8 and Paragraph 6(g)(ii) or any other provision of this Lease. With respect to insurance coverages, except worker's compensation, maintained hereunder by Tenant and insurance coverages separately obtained by Landlord, all insurance coverages afforded by policies of insurance maintained by Tenant shall be primary insurance as such coverages apply to Landlord, but only as to the acts or omissions of Tenant or its agents, contractors, employees or licensees, and such insurance coverages separately maintained by Landlord shall be excess, and Tenant shall have its insurance policies so endorsed. The amount of liability insurance under insurance policies maintained by Tenant shall not be reduced by the existence of insurance coverage under policies separately maintained by Landlord. Tenant shall be solely responsible for any premiums, assessments, penalties, deductible assumptions, retentions, audits, retrospective adjustments or any other kind of payment due under its policies.

(iii) Tenant's occupancy of the Premises without delivering the certificates of insurance shall not constitute a waiver of Tenant's obligations to provide the required coverages. If Tenant provides to Landlord a certificate that does not evidence the coverages required herein, or that is faulty in any respect, such shall not constitute a waiver of Tenant's obligations to provide the proper insurance.

(iv) Throughout the Lease Term, Landlord agrees to maintain (i) fire and extended coverage insurance, and, at Landlord's option earthquake damage coverage and additional property insurance coverage, all in amounts and of the types similar to that maintained by owners of similar class office buildings in the Portland, Oregon metropolitan area, on the insurable portions of Building and the remainder of the Project in an amount not less than the fair replacement value thereof, subject to reasonable deductibles (ii) boiler and machinery insurance amounts and with deductibles that would be considered standard for similar class office building in Portland, Oregon metropolitan area and (iii) commercial general liability insurance with a combined single limit coverage of at least $2,000,000.00 per occurrence. All such insurance shall be obtained from insurers Landlord reasonably believes to be financially responsible in light of the risks being insured. The premiums for any such insurance shall be a part of Operating Costs.

(e) Mutual Waivers of Recovery. Landlord, Tenant, and all parties claiming under them, each mutually release and discharge each other from responsibility for that portion of any loss or damage paid or reimbursed by an insurer of Landlord or Tenant under any fire, extended coverage or other property insurance policy maintained by Tenant with respect to its Premises or by Landlord with respect to the Building or the Project (or which would have been paid had the insurance required to be maintained hereunder been in full force and effect), no matter how caused, including negligence, and each waives any right of recovery from the other including, but not limited to, claims for contribution or indemnity, which might otherwise exist on account thereof. Any fire, extended coverage or property insurance policy maintained by Tenant with respect to the Premises, or Landlord with respect to the Building or the Project, shall contain, in the case of Tenant's policies, a waiver of subrogation provision or endorsement in favor of Landlord, and in the case of Landlord's policies, a waiver of subrogation provision or

endorsement in favor of Tenant, or, in the event that such insurers cannot or shall not include or attach such waiver of subrogation provision or endorsement, Tenant and Landlord shall obtain the approval and consent of their respective insurers, in writing, to the terms of this Lease. Tenant agrees to indemnify, protect, defend and hold harmless each and all of the Landlord Indemnitees from and against any claim, suit or cause of action asserted or brought by Tenant's insurers for, on behalf of, or in the name of Tenant, including, but not limited to, claims for contribution, indemnity or subrogation, brought in contravention of this paragraph. The mutual releases, discharges and waivers contained in this provision shall apply EVEN IF THE LOSS OR DAMAGE TO WHICH THIS PROVISION APPLIES IS CAUSED SOLELY OR IN PART BY THE NEGLIGENCE OF LANDLORD OR TENANT.

(f) Business Interruption. Landlord shall not be responsible for, and Tenant releases and discharges Landlord from, and Tenant further waives any right of recovery from Landlord for, any loss for or from business interruption or loss of use of the Premises suffered by Tenant in connection with Tenant's use or occupancy of the Premises, EVEN IF SUCH LOSS IS CAUSED SOLELY OR IN PART BY THE NEGLIGENCE OF LANDLORD, except as otherwise specifically set forth in this Lease.

(g) Adjustment of Claims. Tenant shall cooperate with Landlord and Landlord's insurers in the adjustment of any insurance claim pertaining to the Building or the Project or Landlord's use thereof.

(h) Increase in Landlord's Insurance Costs. Tenant agrees to pay to Landlord any increase in premiums for Landlord's insurance policies resulting from Tenant's use or occupancy of the Premises for other than general office use.

(i) Failure to Maintain Insurance. Any failure of Tenant to obtain and maintain the insurance policies and coverages required hereunder or failure by Tenant to meet any of the insurance requirements of this Lease shall constitute an event of default hereunder, and such failure shall entitle Landlord to pursue, exercise or obtain any of the remedies provided for in Paragraph 12(b), and Tenant shall be solely responsible for any loss suffered by Landlord as a result of such failure. In the event of failure by Tenant to maintain the insurance policies and coverages required by this Lease or to meet any of the insurance requirements of this Lease, and if such failure continues for a period of ten (10) days following written notice to Tenant, Landlord, at its option, and without relieving Tenant of its obligations hereunder, may obtain said insurance policies and coverages or perform any other insurance obligation of Tenant, but all costs and expenses incurred by Landlord in obtaining such insurance or performing Tenant's insurance obligations shall be reimbursed by Tenant to Landlord, together with interest on same from the date any such cost or expense was paid by Landlord until reimbursed by Tenant, at the rate of interest provided to be paid on judgments, by the law of the jurisdiction to which the interpretation of this Lease is subject.

9. FIRE OR CASUALTY

(a) Subject to the provisions of this Paragraph 9, in the event the Premises, or access thereto, is wholly or partially destroyed by fire or other casualty, Landlord shall (to the extent permitted by Law and covenants, conditions and restrictions then applicable to the Project) rebuild, repair or restore the Premises and access thereto to substantially the same condition as existing immediately prior to such destruction and this Lease shall continue in full force and effect. Notwithstanding the foregoing, (i) Landlord's obligation to rebuild, repair or restore the Premises shall not apply to any personal property, above-standard tenant improvements or other items installed or contained in the Premises, and (ii) Landlord shall have no obligation whatsoever to rebuild, repair or restore the Premises with respect to any damage or destruction occurring during the last twelve (12) months of the term of this Lease or any extension of the term.

(b) Landlord may elect to terminate this Lease in any of the following cases of damage or destruction to the Premises, the Building or the Project: (i) where the cost of rebuilding, repairing and restoring (collectively, "Restoration") of the Building or the Project, would, regardless of the lack of damage to the Premises or access thereto, in the reasonable opinion of Landlord, exceed twenty percent (20%) of the then replacement cost of the Building; (ii) where, in the case of any damage or destruction to any portion of the Building or the Project by uninsured casualty, the cost of Restoration of the Building or the Project, in the reasonable opinion of Landlord, exceeds $500,000; or (iii) where, in the case of any damage or destruction to the Premises or access thereto by

uninsured casualty, the cost of Restoration of the Premises or access thereto, in the reasonable opinion of Landlord, exceeds twenty percent (20%) of the replacement cost of the Premises. Any such termination shall be made by thirty (30) days' prior written notice to Tenant given within sixty (60) days of the date of such damage or destruction. If Landlord terminates the Lease under this Paragraph 9(b), Landlord also shall terminate the leases of all similarly situated tenants in the Project which Landlord has the right to terminate. If this Lease is not terminated by Landlord and as the result of any damage or destruction, the Premises, or a portion thereof, are rendered untenantable, the Basic Annual Rent shall abate reasonably during the period of Restoration (based upon the extent to which such damage and Restoration materially interfere with Tenant's business in the Premises). This Lease shall be considered an express agreement governing any case of damage to or destruction of the Premises, the Building or the Project. This Lease sets forth the terms and conditions upon which this Lease may terminate in the event of any damage or destruction. Accordingly, the parties hereby waive the provisions of any existing or future statutes which provision(s) permit the parties to terminate this Lease as a result of any damage or destruction.

10. EMINENT DOMAIN

In the event the whole of the Premises, the Building or the Project shall be taken under the power of eminent domain, or sold to prevent the exercise thereof (collectively, a "Taking"), this Lease shall automatically terminate as of the date of such Taking. In the event a Taking of a portion of the Project, the Building or the Premises shall, in the reasonable opinion of Landlord, substantially interfere with Landlord's operation thereof, Landlord may terminate this Lease upon thirty (30) days' written notice to Tenant given at any time within sixty (60) days following the date of such Taking. For purposes of this Lease, the date of Taking shall be the earlier of the date of transfer of title resulting from such Taking or the date of transfer of possession resulting from such Taking. In the event that a portion of the Premises is so taken and this Lease is not terminated, Landlord shall, with reasonable diligence, use commercially reasonable efforts to proceed to restore (to the extent permitted by Law and covenants, conditions and restrictions then applicable to the Project) the Premises (other than Tenant's personal property and fixtures, and above-standard tenant improvements) to a complete, functioning unit. In such case, the Basic Annual Rent shall be reduced proportionately based on the portion of the Premises so taken. If all or any portion of the Premises is the subject of a temporary Taking, this Lease shall remain in full force and effect and Tenant shall continue to perform each of its obligations under this Lease; in such case, Tenant shall be entitled to receive the entire award allocable to the temporary Taking of the Premises. Except as provided herein, Tenant shall not assert any claim against Landlord or the condemning authority for, and hereby assigns to Landlord, any compensation in connection with any such Taking, and Landlord shall be entitled to receive the entire amount of any award therefor, without deduction for any estate or interest of Tenant. Nothing contained in this Paragraph 10 shall be deemed to give Landlord any interest in, or prevent Tenant from seeking any award against the condemning authority for the Taking of personal property, fixtures, above standard tenant improvements of Tenant or for relocation or moving expenses recoverable by Tenant from the condemning authority. This Paragraph 10 shall be Tenant's sole and exclusive remedy in the event of a Taking. This Lease sets forth the terms and conditions upon which this Lease may terminate in the event of a taking. Accordingly, the parties waive the provisions of any existing or future statutes which provision(s) permit the parties to terminate this Lease as a result of a taking.

11. ASSIGNMENT AND SUBLETTING

(a) Tenant shall not directly or indirectly, voluntarily or involuntarily, by operation of law or otherwise, assign, sublet, mortgage, hypothecate or otherwise encumber all or any portion of its interest in this Lease or in the Premises or grant any license in or suffer any person other than Tenant or its employees to use or occupy the Premises or any part thereof without obtaining the prior written consent of Landlord, which consent shall not be unreasonably withheld, conditioned or delayed. Any such attempted assignment, subletting, license, mortgage, hypothecation, other encumbrance or other use or occupancy without the consent of Landlord shall be null and void and of no effect. Any mortgage, hypothecation or encumbrance of all or any portion of Tenant's interest in this Lease or in the Premises and any grant of a license or sufferance of any person other than Tenant or its employees to use or occupy the Premises or any part thereof shall be deemed to be an "assignment" of this Lease. In addition, as used in this Paragraph 11, the term "Tenant" shall also mean any entity that has guaranteed Tenant's obligations under this Lease, and the restrictions applicable to Tenant contained herein shall also be applicable to such guarantor.

Provided no event of monetary default has occurred and is continuing under this Lease (beyond applicable notice and cure periods), Tenant may assign this Lease or sublease the Premises to an entity that (1) controls, is controlled by, or under common control with Tenant, or (2) results from the transfer of all or substantially all of Tenant's assets or stock, or (3) results from the merger or consolidation of Tenant with another entity ("Approved Entity"), provided (i) such merger, consolidation, or transfer of assets is for a good business purpose and not principally for the purpose of transferring Tenant's leasehold estate, and (ii) Tenant provides written notice of the assignment or sublease to Landlord within twenty (20) days of the effective date thereof. The term "controlled by" or "commonly controlled with" shall mean the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such controlled person or entity; and the ownership, directly or indirectly, of at least fifty-one percent (51%) of the voting securities of, or possession of the right to vote, in the ordinary direction of its affairs, at least fifty-one percent (51%) of the voting interest in, any person or entity shall be presumed to constitute such control.

(b) No permitted assignment or subletting shall relieve Tenant of its obligation to pay the Rent and to perform all of the other obligations to be performed by Tenant hereunder. The acceptance of Rent by Landlord from any other person shall not be deemed to be a waiver by Landlord of any provision of this Lease or to be a consent to any subletting or assignment. Consent by Landlord to one subletting or assignment shall not be deemed to constitute a consent to any other or subsequent attempted subletting or assignment. If Tenant desires at any time to assign this Lease or to sublet the Premises or any portion thereof, it shall first notify Landlord of its desire to do so and shall submit in writing to Landlord all pertinent information relating to the proposed assignee or sublessee, all pertinent information relating to the proposed assignment or sublease, and all such financial information as Landlord may reasonably request concerning the proposed assignee or subtenant. Any approved assignment or sublease shall be expressly subject to the terms and conditions of this Lease.

(c) [INTENTIONALLY DELETED]

(d) Tenant acknowledges that it shall be reasonable for Landlord to withhold its consent to a proposed assignment or sublease in any of the following instances:

(i) The assignee or sublessee is not, in Landlord's reasonable opinion, sufficiently creditworthy to perform the obligations such assignee or sublessee will have under this Lease;

(ii) The intended use of the Premises by the assignee or sublessee is not the same as set forth in this Lease or otherwise reasonably satisfactory to Landlord;

(iii) The intended use of the Premises by the assignee or sublessee would materially increase the pedestrian or vehicular traffic to the Premises or the Building;

(iv) Occupancy of the Premises by the assignee or sublessee would, in the good faith judgment of Landlord, violate any agreement binding upon Landlord, the Building or the Project with regard to the identity of tenants, usage in the Building, or similar matters;

(v) The assignee or sublessee is then negotiating with Landlord or has negotiated with Landlord within the previous three (3) months, or is a current tenant or subtenant within the Building or Project, and at the time of Tenant's request or shortly thereafter, Landlord then has similarly sized space available in the Building;

(vi) The identity or business reputation of the assignee or sublessee will, in the good faith judgment of Landlord, tend to damage the goodwill or reputation of the Building or Project; or

(vii) In the case of a sublease, the subtenant has not acknowledged that the Lease controls over any inconsistent provision in the sublease.

The foregoing criteria shall not exclude any other reasonable basis for Landlord to refuse its consent to such assignment or sublease.

(e) Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times during the initial term and any subsequent renewals or extensions remain fully responsible and liable for the payment of the rent and for compliance with all of Tenant's other obligations under this Lease. In the event that the Rent due and payable by a sublessee or assignee (or a combination of the rental payable under such sublease or assignment, plus any bonus or other consideration therefor or incident thereto), net of any commissions, tenant allowances, attorneys' fees or other costs incurred by Tenant in connection with such sublease or assignment, exceeds the Rent payable under this Lease, then Tenant shall be bound and obligated to pay Landlord, as additional rent hereunder, fifty percent (50%) of such excess Rent and other excess consideration within ten (10) days following receipt thereof by Tenant.

(f) If this Lease is assigned or if the Premises is subleased (whether in whole or in part), or in the event of the mortgage, pledge, or hypothecation of Tenant's leasehold interest, or grant of any concession or license within the Premises, or if the Premises are occupied in whole or in part by anyone other than Tenant, then upon a monetary default by Tenant hereunder (beyond applicable notice and cure periods) Landlord may collect Rent from the assignee, sublessee, mortgagee, pledgee, party to whom the leasehold interest was hypothecated, concessionee or licensee or other occupant and, except to the extent set forth in the preceding paragraph, apply the amount collected to the next Rent payable hereunder; and all such Rent collected by Tenant shall be held in deposit for Landlord and immediately forwarded to Landlord. No such transaction or collection of Rent or application thereof by Landlord, however, shall be deemed a waiver of these provisions or a release of Tenant from the further performance by Tenant of its covenants, duties, or obligations hereunder.

(g) If Tenant effects an assignment or sublease or requests the consent of Landlord to any proposed assignment or sublease, then Tenant shall, upon demand, pay Landlord a non-refundable administrative fee of Five Hundred Dollars ($500.00), plus any reasonable attorneys' and paralegal fees and costs incurred by Landlord in connection with such assignment or sublease or request for consent. Acceptance of the Five Hundred Dollars ($500.00) administrative fee and/or reimbursement of Landlord's attorneys' and paralegal fees shall in no event obligate Landlord to consent to any proposed assignment or sublease.

(h) Notwithstanding any provision of this Lease to the contrary, in the event this Lease is assigned to any person or entity pursuant to the provisions of the Bankruptcy Code, any and all monies or other consideration payable or otherwise to be delivered in connection with such assignment shall be paid or delivered to Landlord, shall be and remain the exclusive property of Landlord and shall not constitute the property of Tenant or Tenant's estate within the meaning of the Bankruptcy Code. All such money and other consideration not paid or delivered to Landlord shall be held in trust for the benefit of Landlord and shall be promptly paid or delivered to Landlord.

12. DEFAULT

(a) Events of Default. The occurrence of any one or more of the following events shall constitute an event of default (herein so called) under this Lease by Tenant: (i) the failure by Tenant to make any payment of Rent or any other payment required to be made by Tenant hereunder, where such failure continues for five (5) days after written notice thereof from Landlord that such payment was not received; (ii) the failure by Tenant to observe or perform any of the express or implied covenants or provisions of this Lease to be observed or performed by Tenant, other than monetary failures as specified in clause (i) Paragraphs 12(a)(i) above, where such failure shall continue for a period of fifteen (15) days after written notice thereof from Landlord to Tenant; provided, however, that if the nature of Tenant's default is such that more than fifteen (15) days are reasonably required for its cure, then Tenant shall not be deemed to be in default if Tenant shall commence such cure within said fifteen (15) day period and thereafter diligently prosecute such cure to completion, which completion shall occur not later than sixty (60) days from the date of such notice from Landlord; (iii) the making by Tenant or any guarantor hereof of any general assignment for the benefit of creditors, (iv) the filing by or against Tenant or any guarantor hereof of a petition to have Tenant or any guarantor hereof adjudged a bankrupt or a petition for reorganization or arrangement under any law relating to bankruptcy (unless, in the case of a petition filed against Tenant or any guarantor hereof, the same is dismissed within sixty (60) days), (v) the appointment of a trustee or receiver to take possession of substantially all of Tenant's assets located at the Premises or of Tenant's interest in this Lease or of substantially all of guarantor's assets, where possession is not restored to Tenant or guarantor within sixty (60) days, or (vi) the attachment, execution or other judicial seizure of substantially all of Tenant's assets located at the Premises or of substantially

all of guarantor's assets or of Tenant's interest in this Lease where such seizure is not discharged within sixty (60) days; (vii) any material representation or warranty made by Tenant or guarantor in this Lease or any other document delivered in connection with the execution and delivery of this Lease or pursuant to this Lease proves to be incorrect in any material respect; or (viii) Tenant or guarantor shall be liquidated or dissolved or shall begin proceedings towards its liquidation or dissolution.

Any notice sent by Landlord to Tenant pursuant to this Paragraph 12(a) shall be in lieu of, and not in addition to, any notice required under any applicable law.

(b) Landlord's Remedies; Termination. In the event of any event of default by Tenant, in addition to any other remedies available to Landlord under this Lease, at law or in equity, Landlord shall have the immediate option to terminate this Lease and all rights of Tenant hereunder. In the event that Landlord shall elect to so terminate this Lease, then Landlord may recover from Tenant:

(i) the worth at the time of award of any unpaid rent which had been earned at the time of such termination; plus

(ii) the worth at the time of the award of the amount by which the unpaid rent which would have been earned after termination until the time of award exceeds the amount of such rental loss that Tenant proves could have been reasonably avoided; plus

(iii) the worth at the time of award of the amount by which the unpaid rent for the balance of the term after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(iv) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which, in the ordinary course of things, would be likely to result therefrom including, but not limited to: unamortized Tenant Improvement costs; attorneys' fees; brokers' commissions; the costs of refurbishment, alterations, renovation and repair of the Premises; and removal (including the repair of any damage caused by such removal) and storage (or disposal) of Tenant's personal property, equipment, fixtures, Alterations and any other items which Tenant is required under this Lease to remove but does not remove.

As used in subparagraphs (i) and (ii) of Paragraph 12(b) above, the "worth at the time of award " is computed by allowing interest at the Default Rate (as defined below). As used in subparagraph (iii) of Paragraph 12(b) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of the Federal Reserve Bank of San Francisco at the time of award plus one percent (1%). The term "Default Rate" as used in this Lease shall mean the lesser of (A) ten percent (10%), or (B) the maximum rate of interest permitted by applicable law.

(c) Landlord's Remedies; Re-Entry Rights. [INTENTIONALLY DELETED]

(d) Continuation of Lease. If Landlord does not elect to terminate this Lease on account of any event of default by Tenant, Landlord may, from time to time, without terminating this Lease, enforce all of its rights and remedies under this Lease, including the right to recover all rent as it becomes due.

(e) Landlord's Right to Perform. Except as specifically provided otherwise in this Lease, all covenants and agreements by Tenant under this Lease shall be performed by Tenant at Tenant's sole cost and expense and without any abatement or offset of rent. If Tenant shall fail to pay any sum of money (other than Monthly Basic Rent) or perform any other act on its part to be paid or performed hereunder and such failure shall continue for five (5) days with respect to monetary obligations (or fifteen (15) days with respect to non-monetary obligations, except in case of emergencies, in which such case, such shorter period of time as is reasonable under the circumstances) after Tenant's receipt of written notice thereof from Landlord, Landlord may, without waiving or releasing Tenant from any of Tenant's obligations, make such payment or perform such other act on behalf of Tenant. All sums so paid by Landlord and all necessary incidental costs incurred by Landlord in performing such other acts shall be payable by Tenant to Landlord within five (5) days after demand therefor as additional rent.

(f) Interest. If any monthly installment of Rent or Operating Expenses, or any other amount payable by Tenant hereunder is not received by Landlord by the date when due, it shall bear interest at the Default Rate from the date due until paid; provided, however, that as to the first (1st) late payment in any twelve (12) month period during the Term, no interest charge shall apply until ten (10) days after written notice of delinquency. All interest, and any late charges imposed pursuant to Paragraph 12(g) below, shall be considered additional rent due from Tenant to Landlord under the terms of this Lease.

(g) Late Charges. Tenant acknowledges that, in addition to interest costs, the late payments by Tenant to Landlord of any monthly installment of Basic Annual Rent, Additional Rent or other sums due under this Lease will cause Landlord to incur costs not contemplated by this Lease, the exact amount of such costs being extremely difficult and impractical to fix. Such other costs include, without limitation, processing, administrative and accounting charges and late charges that may be imposed on Landlord by the terms of any mortgage, deed of trust or related loan documents encumbering the Premises, the Building or the Project. Accordingly, if any monthly installment of Annual Basic Rent, Additional Rent or any other amount payable by Tenant hereunder is not received by Landlord by the due date thereof, Tenant shall pay to Landlord an additional sum of five percent (5%) of the overdue amount as a late charge, but in no event more than the maximum late charge allowed by law; provided, however, that as to the first (1st) late payment in any twelve (12) month period during the Term, no late charge shall apply until ten (10) days after written notice of delinquency. The parties agree that such late charge represents a fair and reasonable estimate of the costs that Landlord will incur by reason of any late payment as hereinabove referred to by Tenant, and the payment of late charges and interest are distinct and separate in that the payment of interest is to compensate Landlord for the use of Landlord's money by Tenant, while the payment of late charges is to compensate Landlord for Landlord's processing, administrative and other costs incurred by Landlord as a result of Tenant's delinquent payments. Acceptance of a late charge or interest shall not constitute a waiver of Tenant's default with respect to the overdue amount or prevent Landlord from exercising any of the other rights and remedies available to Landlord under this Lease or at law or in equity now or hereafter in effect.

(h) Rights and Remedies Cumulative. All rights, options and remedies of Landlord contained in this Paragraph 12 and elsewhere in this Lease shall be construed and held to be cumulative, and no one of them shall be exclusive of the other, and Landlord shall have the right to pursue any one or all of such remedies or any other remedy or relief which may be provided by law or in equity, whether or not stated in this Lease. Nothing in this Paragraph 12 shall be deemed to limit or otherwise affect Tenant's indemnification of Landlord pursuant to any provision of this Lease.

(i) Tenant's Waiver of Redemption. Tenant hereby waives and surrenders for itself and all those claiming under it, including creditors of all kinds, (i) any right and privilege which it or any of them may have under any present or future law to redeem any of the Premises or to have a continuance of this Lease after termination of this Lease or of Tenant's right of occupancy or possession pursuant to any court order or any provision hereof, and (ii) the benefits of any present or future law which exempts property from liability for debt or for distress for rent.

(j) Costs Upon Default and Litigation. Tenant shall pay to Landlord and its mortgagees as additional rent all the expenses incurred by Landlord or its mortgagees in connection with any default by Tenant hereunder or the exercise of any remedy by reason of any default by Tenant hereunder, including reasonable attorneys' fees and expenses. If Landlord or its mortgagees shall be made a party to any litigation commenced against Tenant or any litigation pertaining to this Lease or the Premises, at the option of Landlord and/or its mortgagees, Tenant, at its expense, shall provide Landlord and/or its mortgagees with counsel approved by Landlord and/or its mortgagees and shall pay all costs incurred or paid by Landlord and/or its mortgagees in connection with such litigation.

13. ACCESS; CONSTRUCTION

Landlord reserves the right to use the roof and exterior walls of the Premises and the area beneath, adjacent to and above the Premises, together with the right to install, use, maintain, repair, replace and relocate equipment, machinery, meters, pipes, ducts, plumbing, conduits and wiring through the Premises, which serve other portions of the Building or the Project in a manner and in locations which do not unreasonably interfere with Tenant's use of the Premises. In addition, Landlord shall have free access to any and all mechanical installations of Landlord, including, without limitation, machine rooms, telephone rooms and electrical closets. Tenant agrees that there shall

be no construction of partitions or other obstructions which materially interfere with or which threaten to materially interfere with Landlord's free access thereto, or materially interfere with the moving of Landlord's equipment to or from the enclosures containing said installations. Upon at least twenty-four (24) hours' prior notice (except in the event of an emergency, when no notice shall be necessary), Landlord reserves and shall at any time and all times have the right to enter the Premises to inspect the same, to supply janitorial service and any other service to be provided by Landlord to Tenant hereunder, to exhibit the Premises to prospective purchasers, lenders or tenants, to post notices of non-responsibility, to alter, improve, restore, rebuild or repair the Premises or any other portion of the Building, or to do any other act permitted or contemplated to be done by Landlord hereunder, all without being deemed guilty of an eviction of Tenant and without liability for abatement of Rent or otherwise. For such purposes, Landlord may also erect scaffolding and other necessary structures where reasonably required by the character of the work to be performed, provided, however, Landlord shall use commercially reasonable efforts to minimize any disruption to Tenant's business relating to such scaffolding or structures. Landlord shall conduct all such inspections and/or improvements, alterations and repairs so as to minimize, to the extent reasonably practical, any interruption of or interference with the business of Tenant. Tenant hereby waives any claim for damages for any injury or inconvenience to or interference with Tenant's business, any loss of occupancy or quiet enjoyment of the Premises, and any other loss occasioned thereby. For each of such purposes, Landlord shall at all times have and retain a key with which to unlock all of the doors in, upon and about the Premises (excluding Tenant's vaults and safes, access to which shall be provided by Tenant upon Landlord's reasonable request). Landlord shall have the right to use any and all means which Landlord may deem proper in an emergency in order to obtain entry to the Premises or any portion thereof, and Landlord shall have the right, at any time during the Lease Term, to provide whatever access control measures it deems reasonably necessary to the Project, without any interruption or abatement in the payment of Rent by Tenant. Any entry into the Premises obtained by Landlord by any of such means shall not under any circumstances be construed to be a forcible or unlawful entry into, or a detainer of, the Premises, or any eviction of Tenant from the Premises or any portion thereof. Landlord shall advise Tenant of any emergency entry within twenty-four (24) hours thereof. No provision of this Lease shall be construed as obligating Landlord to perform any repairs, Alterations or decorations to the Premises or the Project except as otherwise expressly agreed to be performed by Landlord pursuant to the provisions of this Lease.

14. BANKRUPTCY

(a) If at any time on or before the Commencement Date there shall be filed by or against Tenant in any court, tribunal, administrative agency or any other forum having jurisdiction, pursuant to any applicable law, either of the United States or of any state, a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver, trustee or conservator of all or a portion of Tenant's property, or if Tenant makes an assignment for the benefit of creditors, this Lease shall ipso facto be canceled and terminated and in such event neither Tenant nor any person claiming through or under Tenant or by virtue of any applicable law or by an order of any court, tribunal, administrative agency or any other forum having jurisdiction, shall be entitled to possession of the Premises and Landlord, in addition to the other rights and remedies given by Paragraph 12 hereof or by virtue of any other provision contained in this Lease or by virtue of any applicable law, may retain as damages any Rent, Security Deposit or moneys received by it from Tenant or others on behalf of Tenant.

(b) If, after the Commencement Date, or if at any time during the term of this Lease, there shall be filed against Tenant in any court, tribunal, administrative agency or any other forum having jurisdiction, pursuant to any applicable law, either of the United States or of any state, a petition in bankruptcy or insolvency or for reorganization or for the appointment of a receiver, trustee or conservator of all or a portion of Tenant's property, and the same is not dismissed after sixty (60) calendar days, or if Tenant makes an assignment for the benefit of creditors, this Lease, at the option of Landlord exercised within a reasonable time after notice of the happening of any one or more of such events, may be canceled and terminated and in such event neither Tenant nor any person claiming through or under Tenant or by virtue of any statute or of an order of any court shall be entitled to possession or to remain in possession of the Premises, but shall forthwith quit and surrender the Premises, and Landlord, in addition to the other rights and remedies granted by Paragraph 12 hereof or by virtue of any other provision contained in this Lease or by virtue of any applicable law, may retain as damages any Rent, Security Deposit or moneys received by it from Tenant or others on behalf of Tenant.

(c) In the event of the occurrence of any of those events specified in this Paragraph 14, if Landlord shall not choose to exercise, or by applicable law, shall not be able to exercise, its rights hereunder to terminate this Lease upon the occurrence of such events, then, in addition to any other rights of Landlord hereunder or by virtue of applicable law, (i) Landlord shall not be obligated to provide Tenant with any of the utilities or services specified in Paragraph 7, unless Landlord has received compensation in advance for such utilities or services, and the parties agree that Landlord's reasonable estimate of the compensation required with respect to such services shall control, and (ii) neither Tenant, as debtor-in-possession, nor any trustee or other person (hereinafter collectively referred to as the "Assuming Tenant") shall be entitled to assume this Lease unless on or before the date of such assumption, the Assuming Tenant (x) cures, or provides adequate assurance that the latter will promptly cure, any existing default under this Lease, (y) compensates, or provides adequate assurance that the Assuming Tenant will promptly compensate Landlord for any pecuniary loss (including, without limitation, attorneys' fees and disbursements) resulting from such default, and (z) provides adequate assurance of future performance under this Lease, it being covenanted and agreed by the parties that, for such purposes, any cure or compensation shall be effected by the immediate payment of any monetary default or any required compensation, or the immediate correction or bonding of any nonmonetary default. For purposes of this Lease, (i) any "adequate assurance" of such cure or compensation shall be effected by the establishment of an escrow fund for the amount at issue or by the issuance of a bond, and (ii) "adequate assurance" of future performance shall be effected by the establishment of an escrow fund for the amount at issue or by the issuance of a bond.

15. SUBSTITUTION OF PREMISES

INTENTIONALLY DELETED

16. SUBORDINATION; ATTORNMENT; ESTOPPEL CERTIFICATES

(a) Subject to the non-disturbance provisions set forth at the end of this Paragraph 16(a), Tenant agrees that this Lease and the rights of Tenant hereunder shall be subject and subordinate to any and all deeds of trust, security interests, mortgages, master leases, ground leases or other security documents and any and all modifications, renewals, extensions, consolidations and replacements thereof (collectively, "Security Documents") which now or hereafter constitute a lien upon or affect the Project, the Building or the Premises. Such subordination shall be effective without the necessity of the execution by Tenant of any additional document for the purpose of evidencing or effecting such subordination. In addition, Landlord shall have the right to subordinate or cause to be subordinated any such Security Documents to this Lease and in such case, in the event of the termination or transfer of Landlord's estate or interest in the Project by reason of any termination or foreclosure of any such Security Documents, Tenant shall, notwithstanding such subordination, attorn to and become the Tenant of the successor in interest to Landlord at the option of such successor in interest. Furthermore, Tenant shall within fifteen (15) days of demand therefor execute any instruments or other documents which may be required by Landlord or the holder of any Security Document and specifically shall execute, acknowledge and deliver within fifteen (15) days of demand therefor a subordination of lease or subordination of deed of trust, in the form required by the holder of the Security Document requesting the document; the failure to do so by Tenant within such time period shall be a material default hereunder; provided, however, the new landlord or the holder of any Security Document shall agree that Tenant's quiet enjoyment of the Premises shall not be disturbed as long as Tenant is not in default under this Lease.

(b) If any proceeding is brought for default under any ground or master lease to which this Lease is subject or in the event of foreclosure or the exercise of the power of sale under any mortgage, deed of trust or other Security Document made by Landlord covering the Premises, Tenant shall attorn to and recognize the same as Landlord under this Lease, provided such successor expressly agrees in writing to be bound to all future obligations by the terms of this Lease, including the non-disturbance provisions set forth in Paragraph 16(a) above. Tenant hereby waives its rights under any current or future law which gives or purports to give Tenant any right to terminate or otherwise adversely affect this Lease and the obligations of Tenant hereunder in the event of any such foreclosure proceeding or sale.

(c) In addition to any statutory lien for Rent in Landlord's favor, Landlord (the secured party for purposes hereof) shall have and Tenant (the debtor for purposes hereof) hereby grants to Landlord, an express contract lien and a continuing security interest to secure the payment of all Rent due hereunder from Tenant, upon

all goods, wares, equipment, fixtures, furniture, inventory and other personal property of Tenant (and any transferees or other occupants of the Premises) presently or hereafter situated on the Premises and upon all proceeds of any insurance which may accrue to Tenant by reason of damage or destruction of any such property. In the event of a default under this Lease, Landlord shall have, in addition to any other remedies provided herein or by law, all rights and remedies under the Uniform Commercial Code of the state in which the Premises is located, including without limitation the right to sell the property described in this paragraph at public or private sale upon ten (10) days' notice to Tenant, which notice Tenant hereby agrees is adequate and reasonable. Tenant hereby agrees to execute such other instruments necessary or desirable in Landlord's discretion to perfect the security interest hereby created. Any statutory lien for Rent is not hereby waived, the express contractual lien herein granted being in addition and supplementary thereto. Landlord and Tenant agree that this Lease and the security interest granted herein serve as a financing statement, and a copy or photographic or other reproduction of this paragraph of this Lease may be filed of record by Landlord and have the same force and effect as the original. Tenant warrants and represents that the collateral subject to the security interest granted herein is not purchased or used by Tenant for personal, family or household purposes. Tenant further warrants and represents to Landlord that the lien granted herein constitutes a first and superior lien and that Tenant will not allow the placing of any other lien upon any of the property described in this paragraph without the prior written consent of Landlord. Notwithstanding the provisions of this Paragraph 16(c) to the contrary, if Tenant desires to obtain a loan secured by Tenant's personal property in the Premises and requests that Landlord execute a lien waiver in connection therewith, Landlord may, in its sole discretion, based upon Landlord's review of Tenant's financial condition, agree to subordinate its lien rights to the rights of Tenant's lender pursuant to a lien subordination on Landlord's standard form, provided that Tenant delivers such request in writing to Landlord. Nothing in this Paragraph 16(c) shall permit Tenant to encumber its leasehold interest in the Premises.

(d) Tenant shall, upon not less than twenty (20) days' prior notice by Landlord, execute, acknowledge and deliver to Landlord a statement in writing certifying to those facts for which certification has been requested by Landlord or any current or prospective purchaser, holder of any Security Document, ground lessor or master lessor, including, but without limitation, that (i) this Lease is unmodified and in full force and effect (or if there have been modifications, that the same is in full force and effect as modified and stating the modifications), (ii) the dates to which the Basic Annual Rent, Additional Rent and other charges hereunder have been paid, if any, and (iii) whether or not to the best knowledge of Tenant, Landlord is in default in the performance of any covenant, agreement or condition contained in this Lease and, if so, specifying each such default of which Tenant may have knowledge. The form of the statement attached hereto as *Exhibit E* is hereby approved by Tenant for use pursuant to this subparagraph (d); however, at Landlord's option, Landlord shall have the right to use other forms for such purpose, provided such other forms are substantially similar to Exhibit E. Tenant's failure to execute and deliver such statement within such time shall, at the option of Landlord, constitute a material default under this Lease. Any statement delivered pursuant to this Paragraph 16 may be relied upon by any prospective purchaser of the fee of the Building or the Project or any mortgagee, ground lessor or other like encumbrancer thereof or any assignee of any such encumbrance upon the Building or the Project.

17. SALE BY LANDLORD; TENANT'S REMEDIES; NONRECOURSE LIABILITY

(a) In the event of a sale or conveyance by Landlord of the Building or the Project, Landlord shall be released from any and all liability under this Lease. If the Security Deposit has been made by Tenant prior to such sale or conveyance, Landlord shall transfer the Security Deposit to the purchaser, and upon delivery to Tenant of notice thereof, Landlord shall be discharged from any further liability in reference thereto.

(b) Landlord shall not be in default of any obligation of Landlord hereunder unless Landlord fails to perform any of its obligations under this Lease within thirty (30) days after receipt of written notice of such failure from Tenant; provided, however, that if the nature of Landlord's obligation is such that more than thirty (30) days are required for its performance, Landlord shall not be in default if Landlord commences to cure such default within the thirty (30) day period and thereafter diligently prosecutes the same to completion. All obligations of Landlord under this Lease will be binding upon Landlord only during the period of its ownership of the Premises and not thereafter. All obligations of Landlord hereunder shall be construed as covenants, not conditions; and, except as may be otherwise expressly provided in this Lease, Tenant may not terminate this Lease for breach of Landlord's obligations hereunder, but except as otherwise specifically provided in this Lease, Tenant shall be entitled to all other remedies available at law or in equity.

(c) Notwithstanding anything contained in this Lease to the contrary, the obligations of Landlord under this Lease (including any actual or alleged breach or default by Landlord) do not constitute personal obligations of the individual partners, directors, officers, members or shareholders of Landlord or Landlord's members or partners, and Tenant shall not seek recourse against the individual partners, directors, officers, members or shareholders of Landlord or against Landlord's members or partners or against any other persons or entities having any interest in Landlord, or against any of their personal assets for satisfaction of any liability with respect to this Lease. Any liability of Landlord for a default by Landlord under this Lease, or a breach by Landlord of any of its obligations under the Lease, shall be limited solely to its interest in the Project, (including, but not limited to, its interest in any rent, profits or insurance) and in no event shall any personal liability be asserted against Landlord in connection with this Lease nor shall any recourse be had to any other property or assets of Landlord, its partners, directors, officers, members, shareholders or any other persons or entities having any interest in Landlord. Tenant's sole and exclusive remedy for a default or breach of this Lease by Landlord shall be either (i) an action for damages, or (ii) an action for injunctive relief; Tenant hereby waiving and agreeing that Tenant shall have no offset rights or right to terminate this Lease on account of any breach or default by Landlord under this Lease, except as otherwise expressly set forth in this Lease. Under no circumstances whatsoever shall Landlord ever be liable for punitive, consequential or special damages under this Lease and Tenant waives any rights it may have to such damages under this Lease in the event of a breach or default by Landlord under this Lease.

(d) As a condition to the effectiveness of any notice of default given by Tenant to Landlord, Tenant shall also concurrently give such notice under the provisions of Paragraph 17(b) to each beneficiary under a Security Document encumbering the Project of whom Tenant has received written notice (such notice to specify the address of the beneficiary). In the event neither Landlord nor such beneficiary cures any breach or default within the time period specified in subparagraph (b), then Tenant may pursue any remedy therefor pursuant to the provisions of this Lease.

(e) In the event Landlord becomes bankrupt and Landlord's obligations hereunder are not being performed by Landlord's receiver or trustee, Tenant may cancel the Lease upon sixty (60) days prior written notice to Landlord unless such receiver or trustee rectifies such default within such sixty (60) day period.

18. PARKING; COMMON AREAS

(a) Tenant shall have the right to the nonexclusive use of the number of parking spaces located in the parking areas of the Project specified in Item 13 of the Basic Lease Provisions for the parking of operational motor vehicles used by Tenant, its officers, employees, contractors, vendors and invitees only. Landlord reserves the right, at any time upon written notice to Tenant, to designate the location of Tenant's parking spaces as determined by Landlord in its reasonable discretion. The use of such spaces shall be subject to the rules and regulations adopted by Landlord from time to time for the use of the parking areas. Landlord further reserves the right to make such changes to the parking system as Landlord may deem necessary or reasonable from time to time; i.e., Landlord may provide for one or a combination of parking systems, including, without limitation, self-parking, single or double stall parking spaces, and valet assisted parking. Tenant shall pay no fee or charge for its use of the parking areas. Tenant agrees that Tenant, its officers and employees shall not be entitled to park in any reserved or specially assigned areas designated by Landlord from time to time in the Project's parking areas. Landlord may require execution of an agreement with respect to the use of such parking areas by Tenant and/or its officers and employees in form reasonably satisfactory to Tenant as a condition of any such use by Tenant, its officers and employees. A default by Tenant, its officers or employees in the compliance with such rules and regulations, or the performance of such agreement(s) shall constitute a material default by Tenant hereunder. Tenant shall not permit or allow any vehicles that belong to or are controlled by Tenant or Tenant's officers, employees, suppliers, shippers, customers or invitees to be loaded, unloaded or parked in areas other than those designated by Landlord for such activities. If Tenant permits or allows any of the prohibited activities described in this Paragraph, then Landlord shall have the right, upon reasonable prior written notice, in addition to such other rights and remedies that it may have, to remove or tow away the vehicle involved and charge the cost to Tenant, which cost shall be payable upon ten (10) days written notice from `Landlord.

(b) Subject to subparagraph (c) below and the remaining provisions of this Lease, Tenant shall have the nonexclusive right, in common with others, to the use of such entrances, lobbies, restrooms, elevators, ramps, drives, stairs, and similar access ways and service ways and other common areas and facilities in and adjacent to the Building and the Project as are designated from time to time by Landlord for the general nonexclusive use of Landlord, Tenant and the other tenants of the Project and their respective employees, agents, representatives, licensees and invitees ("Common Areas"). The use of such Common Areas shall be subject to the rules and regulations contained herein and the provisions of any covenants, conditions and restrictions affecting the Building or the Project. Tenant shall keep all of the Common Areas free and clear of any obstructions created or permitted by Tenant or resulting from Tenant's operations, and shall use the Common Areas only for normal activities, parking and ingress and egress by Tenant and its employees, agents, representatives, licensees and invitees to and from the Premises, the Building or the Project. If, in the reasonable opinion of Landlord, unauthorized persons are using the Common Areas by reason of the presence of Tenant in the Premises, Tenant, upon demand of Landlord, shall correct such situation by appropriate action or proceedings against all such unauthorized persons. Nothing herein shall affect the rights of Landlord at any time to remove any such unauthorized persons from said areas or to prevent the use of any of said areas by unauthorized persons. Landlord reserves the right to make such changes, alterations, additions, deletions, improvements, repairs or replacements in or to the Building, the Project (including the Premises) and the Common Areas as Landlord may reasonably deem necessary or desirable, including, without limitation, constructing new buildings and making changes in the location, size, shape and number of driveways, entrances, parking spaces, parking areas, loading areas, landscaped areas and walkways; provided, however, that there shall be no unreasonable permanent obstruction of access to or use of the Premises resulting therefrom. In the event that the Project is not completed on the date of execution of this Lease, Landlord shall have the sole judgment and discretion to determine the architecture, design, appearance, construction, workmanship, materials and equipment with respect to construction of the Project. Notwithstanding any provision of this Lease to the contrary, the Common Areas shall not in any event be deemed to be a portion of or included within the Premises leased to Tenant and the Premises shall not be deemed to be a portion of the Common Areas. This Lease is granted subject to the terms hereof, the rights and interests of third parties under existing liens, ground leases, easements and encumbrances affecting such property, all zoning regulations, rules, ordinances, building restrictions and other laws and regulations now in effect or hereafter adopted by any governmental authority having jurisdiction over the Project or any part thereof.

(c) Notwithstanding any provision of this Lease to the contrary, Landlord specifically reserves the right to redefine the term "Project" for purposes of allocating and calculating Operating Costs so as to include or exclude areas as Landlord shall from time to time determine or specify (and any such determination or specification shall be without prejudice to Landlord's right to revise thereafter such determination or specification). In addition, Landlord shall have the right to contract or otherwise arrange for amenities, services or utilities (the cost of which is included within Operating Costs) to be on a common or shared basis to both the Project (i.e., the area with respect to which Operating Costs are determined) and adjacent areas not included within the Project, so long as the basis on which the cost of such amenities, services or utilities is allocated to the Project is determined on an arms-length basis or some other basis reasonably determined by Landlord. In the case where the definition of the Project is revised for purposes of the allocation or determination of Operating Costs, Tenant's Proportionate Share shall be appropriately revised to equal the percentage share of all Rentable Area contained within the Project (as then defined) represented by the Premises. Notwithstanding the foregoing, Landlord agrees that in no event shall Tenant's Proportionate Share of Operating Costs increase due to Landlord redefining the term "Project." Landlord shall have the sole right to determine which portions of the Project and other areas, if any, shall be served by common management, operation, maintenance and repair. Landlord shall also have the right, in its sole discretion, to allocate and prorate any portion or portions of the Operating Costs on a building-by-building basis, on an aggregate basis of all buildings in the Project, or any other reasonable manner, and if allocated on a building-by-building basis, then Tenant's Proportionate Share shall, as to the portion of the Operating Costs so allocated, be based on the ratio of the Rentable Area of the Premises to the Rentable Area of the Building.

19. MISCELLANEOUS

(a) Attorneys' Fees. In the event of any legal action or proceeding brought by either party against the other arising out of this Lease, the prevailing party shall be entitled to recover reasonable attorneys' fees and costs (including, without limitation, court costs and expert witness fees) incurred in such action. Such amounts shall be included in any judgment rendered in any such action or proceeding. Any reference in this Lease to attorneys' fees shall include, without limitation, fees at trial, on appeal, or in a bankruptcy or similar proceeding.

(b) Waiver. No waiver by Landlord of any provision of this Lease or of any breach by Tenant hereunder shall be deemed to be a waiver of any other provision hereof, or of any subsequent breach by Tenant. Landlord's consent to or approval of any act by Tenant requiring Landlord's consent or approval under this Lease shall not be deemed to render unnecessary the obtaining of Landlord's consent to or approval of any subsequent act of Tenant. No act or thing done by Landlord or Landlord's agents during the term of this Lease shall be deemed an acceptance of a surrender of the Premises, unless in writing signed by Landlord. The delivery of the keys to any employee or agent of Landlord shall not operate as a termination of the Lease or a surrender of the Premises. The acceptance of any Rent by Landlord following a breach of this Lease by Tenant shall not constitute a waiver by Landlord of such breach or any other breach unless such waiver is expressly stated in a writing signed by Landlord.

(c) Notices. Any notice, demand, request, consent, approval, disapproval or certificate ("Notice") required or desired to be given under this Lease shall be in writing and given by certified mail, return receipt requested, by personal delivery or by Federal Express or a similar nationwide overnight delivery service providing a receipt for delivery. Notices may not be given by facsimile. The date of giving any Notice shall be deemed to be the date upon which delivery is actually made by one of the methods described in this Section 19(c) (or attempted if said delivery is refused or rejected). If a Notice is received on a Saturday, Sunday or legal holiday, it shall be deemed received on the next business day. All notices, demands, requests, consents, approvals, disapprovals, or certificates shall be addressed at the address specified in *Item 14* of the Basic Lease Provisions or to such other addresses as may be specified by written notice from Landlord to Tenant and if to Tenant, at the Premises. Either party may change its address by giving reasonable advance written Notice of its new address in accordance with the methods described in this Paragraph; provided, however, no notice of either party's change of address shall be effective until fifteen (15) days after the addressee's actual receipt thereof.

(d) Access Control. Landlord shall be the sole determinant of the type and amount of any access control or courtesy guard services to be provided to the Project, if any. IN ALL EVENTS, LANDLORD SHALL NOT BE LIABLE TO TENANT, AND TENANT HEREBY WAIVES ANY CLAIM AGAINST LANDLORD, FOR (I) ANY UNAUTHORIZED OR CRIMINAL ENTRY OF THIRD PARTIES INTO THE PREMISES, THE BUILDING OR THE PROJECT, (II) ANY DAMAGE TO PERSONS, OR (III) ANY LOSS OF PROPERTY IN AND ABOUT THE PREMISES, THE BUILDING OR THE PROJECT, BY OR FROM ANY UNAUTHORIZED OR CRIMINAL ACTS OF THIRD PARTIES, REGARDLESS OF ANY ACTION, INACTION, FAILURE, BREAKDOWN, MALFUNCTION AND/OR INSUFFICIENCY OF THE ACCESS CONTROL OR COURTESY GUARD SERVICES PROVIDED BY LANDLORD.

(e) Storage. Any storage space at any time leased to Tenant hereunder shall be used exclusively for storage. Notwithstanding any other provision of this Lease to the contrary, (i) Landlord shall have no obligation to provide heating, cleaning, water or air conditioning therefor, and (ii) Landlord shall be obligated to provide to such storage space only such electricity as will, in Landlord's judgment, be adequate to light said space as storage space.

(f) Holding Over. If Tenant retains possession of the Premises after the termination of the Lease Term, unless otherwise agreed in writing, such possession shall be subject to immediate termination by Landlord at any time, and all of the other terms and provisions of this Lease (excluding any expansion or renewal option or other similar right or option) shall be applicable during such holdover period, except that Tenant shall pay Landlord from time to time, upon demand, as Basic Annual Rent for the holdover period, an amount equal to (i) 125% of the Basic Annual Rent in effect on the termination date, computed on a monthly basis for each month or part thereof during the first ninety (90) days of such holding over, and (ii) 150% of the Basic Annual Rent in effect on the termination date, computed on a monthly basis for each month or part thereof commencing on the ninety-first (91st) day after the termination date and continuing throughout the remainder of such holding over by Tenant. All other payments shall continue under the terms of this Lease. In addition, if Landlord notifies Tenant that a new tenant has leased all or any portion of the Premises, and Tenant holds over for a period of forty-five (45) days after the expiration of the Lease Term, then Tenant shall be liable for all damages incurred by Landlord as a result of such holding over, including, without limitation, any claim made by any succeeding tenant based thereon. No holding over by Tenant, whether with or without consent of Landlord, shall operate to extend this Lease except as otherwise expressly provided, and this Paragraph shall not be construed as consent for Tenant to retain possession of the Premises.

(g) Condition of Premises. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS LEASE, LANDLORD HEREBY DISCLAIMS ANY EXPRESS OR IMPLIED REPRESENTATION OR WARRANTY THAT THE PREMISES ARE SUITABLE FOR TENANT'S INTENDED PURPOSE OR USE, WHICH DISCLAIMER IS HEREBY ACKNOWLEDGED BY TENANT. THE TAKING OF POSSESSION BY TENANT SHALL BE CONCLUSIVE EVIDENCE THAT TENANT:

(i) ACCEPTS THE PREMISES, THE BUILDING AND LEASEHOLD IMPROVEMENTS AS SUITABLE FOR THE PURPOSES FOR WHICH THE PREMISES WERE LEASED;

(ii) INTENTIONALLY DELETED;

(iii) ACCEPTS THE PREMISES AND PROJECT AS BEING IN GOOD AND SATISFACTORY CONDITION SUBJECT TO LANDLORD'S MAINTENANCE OBLIGATIONS AND LANDLORD'S COMPLETION OF MINOR FINISH WORK ITEMS THAT DO NOT INTERFERE WITH TENANT'S OCCUPANCY OF THE PREMISES; AND

(iv) WAIVES ALL CLAIMS BASED ON ANY IMPLIED WARRANTY OF SUITABILITY OR HABITABILITY.

Tenant specifically does not waive and Landlord shall remain responsible for the correction of any latent defects in the Premises and the Project.

(h) Quiet Possession. Upon Tenant's paying the Rent reserved hereunder and observing and performing all of the covenants, conditions and provisions on Tenant's part to be observed and performed hereunder, Tenant shall have quiet possession of the Premises for the term hereof without hindrance or ejection by any person lawfully claiming under Landlord, subject to the provisions of this Lease and to the provisions of any (i) covenants, conditions and restrictions, (ii) master lease, or (iii) Security Documents to which this Lease is subordinate or may be subordinated.

(i) Matters of Record. Except as otherwise provided herein, this Lease and Tenant's rights hereunder are subject and subordinate to all matters affecting Landlord's title to the Project recorded in the Real Property Records of the County in which the Project is located, prior to and subsequent to the date hereof, including, without limitation, all covenants, conditions and restrictions. Tenant agrees for itself and all persons in possession or holding under it that it will comply with and not violate any such covenants, conditions and restrictions or other matters of record. Landlord reserves the right, from time to time, to grant such easements, rights and dedications as Landlord deems necessary or desirable, and to cause the recordation of parcel maps and covenants, conditions and restrictions affecting the Premises, the Building or the Project, as long as such easements, rights, dedications, maps, and covenants, conditions and restrictions do not materially interfere with the use of the Premises by Tenant. At Landlord's request, Tenant shall join in the execution of any of the aforementioned documents.

(j) Successors and Assigns. Except as otherwise provided in this Lease, all of the covenants, conditions and provisions of this Lease shall be binding upon and shall inure to the benefit of the parties hereto and their respective heirs, personal representatives, successors and assigns. Tenant shall attorn to each purchaser, successor or assignee of Landlord.

(k) Brokers. Landlord has entered into an agreement with Landlord's Broker specified in *Item 12* of the Basic Lease Provision as representing Landlord, and Landlord shall pay any commissions or fees that are payable to Landlord's Broker with respect to this Lease in accordance with the provisions of a separate commission contract. Landlord shall have no further or separate obligation for payment of commissions or fees to any other real estate broker, finder or intermediary. Tenant represents that it has not had any dealings with any real estate broker, finder or intermediary with respect to this Lease, other than Landlord's Broker and Tenant's Broker specified in *Item 12* of the Basic Lease Provision as representing Tenant. Any commissions or fees payable to Tenant's Broker

with respect to this Lease shall be paid exclusively by Landlord's Broker. Each party represents and warrants to the other, that, to its knowledge, no other broker, agent or finder (a) negotiated or was instrumental in negotiating or consummating this Lease on its behalf, and (b) is or might be entitled to a commission or compensation in connection with this Lease. With regard to this initial Lease only and not to any renewal, extension or expansion of the Premises or the Lease Term under a subsequent document, Tenant shall indemnify, protect, defend (by counsel reasonably approved in writing by Landlord) and hold Landlord harmless from and against any and all claims, judgments, suits, causes of action, damages, losses, liabilities and expenses (including attorneys' fees and court costs) resulting from any breach by Tenant of the foregoing representation, including, without limitation, any claims that may be asserted against Landlord by any broker, agent or finder undisclosed by Tenant herein. Landlord shall indemnify, protect, defend (by counsel reasonably approved in writing by Tenant) and hold Tenant harmless from and against any and all claims, judgments, suits, causes of action, damages, losses, liabilities and expenses (including attorneys' fees and court costs) resulting from any breach by Landlord of the foregoing representation, including, without limitation, any claims that may be asserted against Tenant by any broker, agent or finder undisclosed by Landlord herein. Landlord and Tenant acknowledge and agree that any agreement between Landlord and Tenant's current broker regarding the payment of future commissions in connection with any extension of the Lease Term or expansion of the Premises (whether pursuant to an express right set forth in this Lease or not) shall not be binding on Tenant, and that Tenant may choose to be represented by a different broker in any such future expansion or extension transactions, and that only such chosen broker would be entitled to a commission in connection with such future transaction. The foregoing indemnities shall survive the expiration or earlier termination of this Lease.

(l) Name. Landlord shall have the exclusive right at all times during the Lease Term to change, modify, add to or otherwise alter the name, number, or designation of the Building and/or the Project, and Landlord shall not be liable for claims or damages of any kind which may be attributed thereto or result therefrom.

(m) Examination of Lease. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of or option for lease, and it is not effective as a lease or otherwise until execution by and delivery to both Landlord and Tenant.

(n) Time. Time is of the essence of this Lease and each and all of its provisions.

(o) Defined Terms and Marginal Headings. The words "Landlord" and "Tenant" as used herein shall include the plural as well as the singular and for purposes of Articles 5, 7, 13 and 18, the term Landlord shall include Landlord, its employees, contractors and agents. If more than one person is named as Tenant the obligations of such persons are joint and several. The marginal headings and titles to the articles of this Lease are not a part of this Lease and shall have no effect upon the construction or interpretation of any part hereof.

(p) Conflict of Laws; Prior Agreements; Separability. This Lease shall be governed by and construed pursuant to the laws of the State of Oregon. This Lease contains all of the agreements of the parties hereto with respect to any matter covered or mentioned in this Lease. No prior agreement, understanding or representation pertaining to any such matter shall be effective for any purpose. No provision of this Lease may be amended or added to except by an agreement in writing signed by the parties hereto or their respective successors in interest. The illegality, invalidity or unenforceability of any provision of this Lease shall in no way impair or invalidate any other provision of this Lease, and such remaining provisions shall remain in full force and effect.

(q) Authority. If either Landlord or Tenant is a corporation, each individual executing this Lease on behalf of Landlord or Tenant hereby covenants and warrants that Landlord or Tenant is a duly authorized and existing corporation, that Tenant has and is qualified to do business in the State, that the corporation has full right and authority to enter into this Lease, and that each person signing on behalf of the corporation is authorized to do so. If Landlord or Tenant is a partnership or trust, each individual executing this Lease on behalf of Landlord or Tenant hereby covenants and warrants that he is duly authorized to execute and deliver this Lease on behalf of Landlord or Tenant in accordance with the terms of such entity's partnership or trust agreement. Each party to this Lease shall provide the other party on demand with such evidence of such authority as the other party shall reasonably request, including, without limitation, resolutions, certificates and opinions of counsel.

(r) Joint and Several Liability. If two or more individuals, corporations, partnerships or other business associations (or any combination of two or more thereof) shall sign this Lease as Tenant, the liability of each such individual, corporation, partnership or other business association to pay Rent and perform all other obligations hereunder shall be deemed to be joint and several, and all notices, payments and agreements given or made by, with or to any one of such individuals, corporations, partnerships or other business associations shall be deemed to have been given or made by, with or to all of them. In like manner, if Tenant shall be a partnership or other business association, the members of which are, by virtue of statute or federal law, subject to personal liability, then the liability of each such member shall be joint and several.

(s) Rental Allocation. For purposes of Section 467 of the Internal Revenue Code of 1986, as amended from time to time, Landlord and Tenant hereby agree to allocate all Rent to the period in which payment is due, or if later, the period in which Rent is paid.

(t) Rules and Regulations. Tenant agrees to comply with all rules and regulations of the Building and the Project imposed by Landlord as set forth on *Exhibit D* attached hereto, as the same may be changed from time to time upon reasonable notice to Tenant. Landlord shall not be liable to Tenant for the failure of any other tenant or any of its assignees, subtenants, or their respective agents, employees, representatives, invitees or licensees to conform to such rules and regulations, provided that Landlord enforces such rules in a non-discriminatory manner.

(u) Joint Product. This Agreement is the result of arms-length negotiations between Landlord and Tenant and their respective attorneys. Accordingly, neither party shall be deemed to be the author of this Lease and this Lease shall not be construed against either party.

(v) Financial Statements. Upon Landlord's written request, Tenant shall promptly furnish Landlord, from time to time, with the most current financial statements prepared in accordance with Tenant's standard practices, certified by Tenant to be true and correct, reflecting Tenant's then current financial condition.

(w) Force Majeure. Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, acts of war, terrorism, terrorist activities, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire, flood, earthquake or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to Rent and other charges to be paid by Tenant pursuant to this Lease and except as to Tenant's obligations under Article 6 and Article 8 of this Lease (collectively, a "Force Majeure"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and, therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance caused by a Force Majeure.

(x) WAIVER OF TRIAL BY JURY. EACH PARTY HEREBY WAIVES ANY RIGHT TO A TRIAL BY JURY IN ANY ACTION SEEKING SPECIFIC PERFORMANCE OF ANY PROVISION OF THIS LEASE, FOR DAMAGES FOR ANY BREACH UNDER THIS LEASE, OR OTHERWISE FOR ENFORCEMENT OF ANY RIGHT OR REMEDY HEREUNDER.

(y) Submission of Lease. Submission of this instrument for examination or signature by Tenant does not constitute a reservation of, option for or option to lease, and it is not effective as a lease or otherwise until execution and delivery by both Landlord and Tenant.

(z) Project or Building Name and Signage. Landlord shall have the right at any time to change the name of the Project or Building (other than to the name of one of the Tenant's competitors) and to install, affix and maintain any and all signs on the exterior and on the interior of the Project or Building as Landlord may, in Landlord's sole discretion, desire. Tenant shall not use the name of the Project or Building or use pictures or illustrations of the Project or Building in advertising or other publicity or for any purpose other than as the address of the business to be conducted by Tenant in the Premises, without the prior written consent of Landlord.

(aa) Office and Communications Services. Landlord has advised Tenant that certain office and communications services may be offered to tenants of the Building by a concessionaire under contract to Landlord ("Provider"). Tenant shall be permitted to contract with Provider for the provision of any or all of such services on such terms and conditions as Tenant and Provider may agree. Tenant acknowledges and agrees that: (i) Landlord has made no warranty or representation to Tenant with respect to the availability of any such services, or the quality, reliability or suitability thereof; (ii) the Provider is not acting as the agent or representative of Landlord in the provision of such services, and Landlord shall have no liability or responsibility for any failure or inadequacy of such services, or any equipment or facilities used in the furnishing thereof, or any act or omission of Provider, or its agents, employees, representatives, officers or contractors; (iii) Landlord shall have no responsibility or liability for the installation, alteration, repair, maintenance, furnishing, operation, adjustment or removal of any such services, equipment or facilities; and (iv) any contract or other agreement between Tenant and Provider shall be independent of this Lease, the obligations of Tenant hereunder, and the rights of Landlord hereunder, and, without limiting the foregoing, no default or failure of Provider with respect to any such services, equipment or facilities, or under any contract or agreement relating thereto, shall have any effect on this Lease or give to Tenant any offset or defense to the full and timely performance of its obligations hereunder, or entitle Tenant to any abatement of rent or additional rent or any other payment required to be made by Tenant hereunder, or constitute any accrual or constructive eviction of Tenant, or otherwise give rise to any other claim of any nature against Landlord.

(bb) Counterparts. This Lease may be executed in several counterparts, each of which shall be deemed an original, and all of which shall constitute but one and the same instrument.

(cc) OFAC Compliance

(i) Certification. Tenant certifies, represents, warrants and covenants that:

(A) It is not acting and will not act, directly or indirectly, for or on behalf of any person, group, entity, or nation named by any Executive Order or the United States Treasury Department as a terrorist, "Specially Designated National and Blocked Person", or other banned or blocked person, entity, nation or transaction pursuant to any law, order, rule, or regulation that is enforced or administered by the Office of Foreign Assets Control; and

(B) It is not engaged in this transaction, directly or indirectly on behalf of, or instigating or facilitating this transaction, directly or indirectly on behalf of, any such person, group, entity or nation.

(ii) Indemnity. Tenant hereby agrees to defend (with counsel reasonably acceptable to Landlord), indemnify and hold harmless Landlord and the Landlord Indemnitees from and against any and all Claims arising from or related to any such breach of the foregoing certifications, representations, warranties and covenants.

(dd) Signage. Provided that (x) Tenant is the Tenant originally named herein (or an Approved Entity), (y) Tenant (or an Approved Entity) is leasing and actually occupies at least at least 34,000 square feet of Rentable Area in the Building under this Lease, and (z) no event of default or event which but for the passage of time or the giving of notice, or both, would constitute an event of default has occurred and is continuing, Tenant shall be entitled to retain the right to its monument and exterior signage as the same exists as of the Date of this Lease ("Tenant's Exterior Signage"). Tenant shall be solely responsible for the cost and expense of obtaining and maintaining any necessary permits for Tenant's Exterior Signage and any sign licenses related thereto, and for the cost and expense of maintenance and utilities for Tenant's Exterior Signage (including all metered electrical usage). Additionally, Tenant shall maintain Tenant's Exterior Signage in a first class manner in accordance with all applicable Laws. All rights and remedies of Landlord under the Lease (including, without limitation, Landlord's self-help remedies) shall apply in the event Tenant fails to maintain Tenant's Exterior Signage as herein required. Upon the expiration or earlier termination of the Lease, Tenant shall pay all costs associated with the removal of Tenant's Exterior Signage and the restoration of the area of the Project where Tenant's Exterior Signage is located to as near its original condition as may then be reasonably required by Landlord. The terms and provisions of this paragraph shall survive the expiration or earlier termination of this Lease.

(ee) Glass Cleaning. Landlord agrees to clean all lobby glass as needed and to clean the interior and exterior sides of all outside window walls at least two (2) times per year. The expense of such cleaning shall be included in Operating Costs.

(ff) Demands and Consents. Whenever a provision of the Lease (i) requires that the consent of a party be obtained, such consent shall not be unreasonably withheld or delayed, or (ii) provides that party may make a demand or request of the other party, such demand or request shall be reasonable and made in good faith.

(gg) HIPAA. Landlord agrees that from time to time during the Term, Landlord, its agents, employees, or assigns, may be exposed to, or have access to, Protected Health Information ("PHI"), as defined by Health Insurance Portability and Accountability Act of 1996, 45 CFR Parts 160 and 164, Landlord agrees that Landlord, its agents, employees or assigns will not use or disclose PHI for any purpose unless expressly authorized by Tenant or required by a court of competent jurisdiction or by any governmental authority or by any state or federal law.

REST OF PAGE INTENTIONALLY LEFT BLANK—SIGNATURE PAGE FOLLOWS

SIGNATURE PAGE TO OFFICE LEASE BY AND BETWEEN
GK TRIANGLE CORPORATE PARK III, LLC, AS LANDLORD,
AND HEALTH NET HEALTH PLAN OF OREGON, INC., AS TENANT

IN WITNESS WHEREOF, the parties have executed this Lease to be effective as of the Date of this Lease.

"LANDLORD"

GK TRIANGLE CORPORATE PARK III, LLC,
a Delaware limited liability company

By: KBS Realty Advisors, LLC,
a Delaware limited liability company,
as agent

By: /s/ Steve Silva
Steve Silva
Senior Vice President

"TENANT"

HEALTH NET HEALTH PLAN OF OREGON, INC.,
an Oregon corporation

By: /s/ Dennis Bell
Name: Dennis Bell
Title: Vice President Real Estate Management

ADDENDUM ONE

ONE RENEWAL OPTION AT MARKET

ATTACHED TO AND A PART OF THE LEASE AGREEMENT BY AND BETWEEN

GK TRIANGLE CORPORATE PARK III, LLC,

and

HEALTH NET HEALTH PLAN OF OREGON, INC.

(a) Provided that as of the time of the giving of the Extension Notice and the Commencement Date of the Extension Term, (i) Tenant is the Tenant originally named herein (or an Approved Entity), (ii) Tenant actually occupies all of the Premises initially demised under this Lease (as the same may be contracted under the Contraction Option set forth in Addendum Four) and any space added to the Premises, and (iii) no Event of Default exists or would exist but for the passage of time or the giving of notice, or both; then Tenant shall have the right to extend the Lease Term for an additional term of sixty (60) months (such additional term is hereinafter called the "Extension Term") commencing on the day following the expiration of the Lease Term (hereinafter referred to as the "Commencement Date of the Extension Term"). Tenant may extend the Lease Term as set forth herein as to the entire Premises, or as to such full floor increments of the Premises as Tenant shall choose (that is, as to the all of the Rentable Area of the Premises located on the second floor of the Building, all of the Rentable Area of the Premises located on the third floor of the Building (as the same may be contracted under the Contraction Option set forth in Addendum Four), all of the Rentable Area of the Premises located in the basement of the Building, or any combination of the foregoing full-floor increments). Tenant shall give Landlord notice (hereinafter called the "Extension Notice") of its election to extend the term of the Lease Term at least nine (9) months, but not more than twelve (12) months, prior to the scheduled expiration date of the Lease Term.

(b) The Basic Annual Rent payable by Tenant to Landlord during the Extension Term shall be the then prevailing market rate for comparable space in the Project and comparable buildings in the vicinity of the Project, taking into account the size and location of the Premises being leased, the length of the renewal term, market escalations, the annual rental rates per rentable square foot, the standard of measurement by which the rentable square footage is measured, the ratio of rentable square feet to usable square feet, the type of escalation clause (e.g., whether increases in additional rent are determined on a net or gross basis, and if gross, whether such increases are determined according to a base year or a base dollar amount expense stop), the extent of Tenant's liability under the Lease, abatement provisions reflecting free rent and/or no rent during the period of construction or subsequent to the commencement date as to the space in question, brokerage commissions, if any, which would be payable by Landlord in similar transactions, building standard work letter and/or tenant improvement allowances, if any, other generally applicable conditions of tenancy and the credit of Tenant (the "Fair Market Rental Rate"). In the event Landlord and Tenant fail to reach an agreement on such rental rate and execute the Amendment (defined below) at least six (6) months prior to the expiration of the Lease, then the Fair Market Rental Rate shall be determined in accordance with the following procedure:

(i) Each party will appoint an appraiser who must be a qualified appraiser, who is either a member of MAI or who has at least 15 years experience in appraising commercial buildings within a 10 mile radius of the Project, to determine the Fair Market Rental Rate no later than 3 months prior to the expiration of the Lease Term. If one party fails so to designate an appraiser within the time required, the determination of the Fair Market Rental Rate of the one appraiser who has been timely designated by the other party will be binding on both parties.

(ii) The appraisers will submit their determinations of the Fair Market Rental Rate to both parties within 30 days after their selection. If the difference between the two determinations is 10% or less of the higher appraisal, then the average between the two determinations will be the Annual Basic Rent for the Premises during the Extension Term.

(iii) If the difference between the two appraisers' determinations is greater than 10%, then, within 10 days of the date the second determination is submitted to the parties, the two appraisers will designate a third appraiser who must also meet the qualifications set forth in subparagraph (i) above. The sole responsibility of the third appraiser will be to determine which of the determinations made by the first two appraisers is most accurate. The third appraiser has no right to propose a middle ground or any modification of either of the determinations, made by the first two appraisers. The third appraiser's choice will be submitted to the parties within 20 days after his or her selection. Such determination will bind both of the parties and will establish the Basic Annual Rent for the Premises during the Extension Term.

(iv) Each party will pay the fees and expenses of the appraiser selected by it, and they will pay equal shares of the fees and expenses of the third appraiser.

(c) The determination of Basic Annual Rent does not reduce the Tenant's obligation to pay or reimburse Landlord for Operating Costs and other reimbursable items as set forth in the Lease, and Tenant shall reimburse and pay Landlord as set forth in the Lease with respect to such Operating Costs and other items with respect to the Premises during the Extension Term without regard to any cap on such expenses set forth in the Lease.

(d) Except for the Basic Annual Rent as determined above, Tenant's occupancy of the Premises during the Extension Term shall be on the same terms and conditions as are in effect immediately prior to the expiration of the initial Lease Term; provided, however, Tenant shall have no further right to any allowances, credits or abatements or any options to expand, contract, terminate, renew or extend the Lease, except as otherwise set forth in the Lease.

(e) If Tenant does not give the Extension Notice within the period set forth in Paragraph (a) above, Tenant's right to extend the Lease Term shall automatically terminate. Time is of the essence as to the giving of the Extension Notice.

(f) Landlord shall have no obligation to refurbish or otherwise improve the Premises for the Extension Term. The Premises shall be tendered on the Commencement Date of the Extension Term in "as-is" condition.

(g) If the Lease is extended for the Extension Term, then Landlord shall prepare and Tenant shall execute a commercially reasonable form of amendment to the Lease confirming the extension of the Lease Term and the other provisions applicable thereto (the "Amendment").

(h) If Tenant exercises its right to extend the term of the Lease for the Extension Term pursuant to this Addendum, the term "Lease Term" as used in the Lease, shall be construed to include, when practicable, the Extension Term except as provided in Paragraph (d) above.

ADDENDUM TWO

RIGHT OF FIRST OFFER

ATTACHED TO AND A PART OF THE LEASE AGREEMENT BY AND BETWEEN

GK TRIANGLE CORPORATE PARK III, LLC,

and

HEALTH NET HEALTH PLAN OF OREGON, INC.

(a)) "Offered Space" shall mean that 22,220 square foot portion on the first floor of the Building and that 11,237 square foot portion of the third floor of the Building as more particularly described on Schedule 1 to this Addendum Two.

(b) Provided that as of the date of the giving of the First Offer Notice, (i) Tenant is the Tenant originally named herein (or an Approved Entity), (ii) Tenant actually occupies all of the Premises originally demised under this Lease and any premises added to the Premises, and (iii) no event of default or event which but for the passage of time or the giving of notice, or both, would constitute an event of default has occurred and is continuing, if at any time during the Lease Term any portion of the Offered Space is vacant and unencumbered by any rights of any third party, then Landlord, before offering such Offered Space to anyone, other than the tenant then occupying such space (or its affiliates), shall offer to Tenant the right to include the Offered Space within the Premises on the same terms and conditions upon which Landlord intends to offer the Offered Space for lease. Notwithstanding anything to the contrary in the Lease, the right of first offer granted to Tenant under this Addendum Two shall be subject and subordinate to (i) the rights of all tenants at the Project under existing leases, and (ii) the herein reserved right of Landlord to renew or extend the term of any lease with the tenant then occupying such space (or any of its affiliates), provided such lease contains a renewal or extension right as of the Date of this Lease.

(c) Such offer shall be made by Landlord to Tenant in a written notice (hereinafter called the "First Offer Notice") which offer shall designate the space being offered and shall specify the terms which Landlord intends to offer with respect to any such Offered Space. Tenant may accept the offer set forth in the First Offer Notice by delivering to Landlord an unconditional acceptance (hereinafter called "Tenant's Notice") of such offer within five (5) business days after delivery by Landlord of the First Offer Notice to Tenant. Time shall be of the essence with respect to the giving of Tenant's Notice. If Tenant does not accept (or fails to timely accept) an offer made by Landlord pursuant to the provisions of this Addendum Two with respect to the Offered Space designated in the First Offer Notice and execute the Amendment (defined below) within thirty (30) days after the delivery of the First Offer Notice, then Landlord shall be under no further obligation with respect to such space by reason of this Addendum Two, except as otherwise set forth in Paragraph (e) below.

(d) Tenant must accept all Offered Space offered by Landlord at any one time if it desires to accept any of such Offered Space and may not exercise its right with respect to only part of such space. In addition, if Landlord desires to lease more than just the Offered Space to one tenant, Landlord may offer to Tenant pursuant to the terms hereof all such space which Landlord desires to lease, and Tenant must exercise its rights hereunder with respect to all such space and may not insist on receiving an offer for just the Offered Space.

(e) If Tenant at any time declines any Offered Space offered by Landlord, Tenant shall be deemed to have irrevocably waived all further rights under this Addendum Two, and Landlord shall be free to lease the Offered Space to third parties including on terms which may be less favorable to Landlord than those offered to Tenant provided, however, Landlord must lease the Offered Space to such third party with the base rent being equal to or greater than 95% of the base rent set forth in the First Offer Notice. Without limiting the foregoing, if during negotiations with any such tenant Landlord accepts from such tenant a lease with the base rent being less than 95% of the base rent set forth in the First Offer Notice, then Landlord shall provide an additional First Offer Notice to Tenant with the new proposed base rent and Tenant's right of first offer as set forth above shall be reinstated.

(f) In the event that Tenant exercises its rights to any Offered Space pursuant to this Addendum Two, then Landlord shall prepare, and Tenant shall execute, a commercially reasonable form of amendment to the Lease which confirms such expansion of the Premises and the other provisions applicable thereto (the "Amendment").

ADDENDUM THREE

TERMINATION OPTION

ATTACHED TO AND A PART OF THE LEASE AGREEMENT BY AND BETWEEN

GK TRIANGLE CORPORATE PARK III, LLC,

and

HEALTH NET HEALTH PLAN OF OREGON, INC.

Provided no event of default shall then exist under the Lease and no condition shall then exist which with the passage of time or giving of notice, or both, would constitute an event of default under the Lease, Tenant shall have the right at any time on or before October 1, 2013 to send Landlord irrevocable written notice (the "Termination Notice") that Tenant has elected to terminate this Lease, effective on June 30, 2014 ("Termination Date").

If Tenant elects to terminate this Lease pursuant to the immediately preceding sentence, the effectiveness of such termination shall be conditioned upon Tenant surrendering the Premises in the condition required by Section 5(c) of this Lease on or before the Termination Date, and upon Tenant paying to Landlord, simultaneously with Tenant's delivery of the Termination Notice to Landlord, a termination fee equal to the sum of the unamortized portion of the sum of Landlord's Construction Allowance (to the extent actually disbursed to Tenant) and leasing commissions paid in connection with the Lease, calculated as of the Termination Date (all such amounts being amortized on a straight-line basis over the initial Lease Term plus interest on all such amortized amounts, payable at a rate of eight percent (8%) per annum), plus the rental (Basic Annual Rent) that would have been due for December 2014, January 2015, and February 2015 (collectively the "Termination Fee"). Such Termination Fee is consideration for Tenant's option to terminate and shall not be applied to Rent or any other obligation of Tenant. Landlord and Tenant shall be relieved of all obligations accruing under this Lease after the Termination Date, but not any obligations accruing under the Lease prior to the effective date of such termination. Both Landlord and Tenant acknowledge and agree that it would be impracticable or extremely difficult to affix damages if Tenant terminates this Lease and that the Termination Fee set forth above represents a reasonable estimate of Landlord's damages in the event Tenant terminates this Lease under this Addendum. If Tenant does not timely deliver the Termination Notice or Termination Fee to Landlord, or timely surrender the Premises in the condition required by this Addendum, then this termination option shall become null and void and the Lease shall continue in full force and effect.

ADDENDUM FOUR

CONTRACTION OPTION

ATTACHED TO AND A PART OF THE LEASE AGREEMENT BY AND BETWEEN

GK TRIANGLE CORPORATE PARK III, LLC,

and

HEALTH NET HEALTH PLAN OF OREGON, INC.

Provided no event of default shall then exist under the Lease and no condition shall then exist which with the passage of time or giving of notice, or both, would constitute an event of default under the Lease, Tenant shall have the right at any time on or after the date this Lease is executed, but prior to December 31, 2009, to send Landlord irrevocable written notice (the "Contraction Notice") that Tenant has elected to terminate this Lease only as to the 11,237 square foot portion of the third floor Premises shown on Schedule 1 of this Addendum Four (the "Contraction Area), effective on a date to be specified in the Contraction Notice. Tenant shall give Landlord at least one hundred twenty (120) days prior written notice to Landlord of such contraction date (the "Contraction Date").

If Tenant elects to exercise its herein provided contraction option, the effectiveness of such exercise shall be conditioned upon Tenant surrendering the Contraction Area in the condition required for surrender of the Premises by Section 5(c) of this Lease on or before the Contraction Date, and constructing a demising wall between the Contraction Area and the remaining 12,898 square foot portion of the third floor Premises (as further described in the Exhibit B Work Letter) on or before the Contraction Date, it being stipulated that reconfiguring the third floor to be a multi-tenant floor will result in Tenant retaining such 12, 898 square foot portion). After the Contraction Date, Landlord and Tenant shall be relieved of all obligations accruing under this Lease as to the Contraction Area only, but not any obligations accruing under the Lease prior to the Contraction Date, and not any obligations accruing under the Lease as to that portion of the Premises exclusive of the Contraction Area (as to which remaining portion this Lease shall remain in full force and effect). If Tenant elects to exercise its contraction option, Landlord and Tenant shall enter into a commercial reasonable form of amendment to the Lease reflecting revisions to the Premises (i.e., replacing Exhibit A-1 to the Lease), Basic Annual Rent schedule, Tenant's Proportionate Share of Operating Costs and Landlord's Construction Allowance. If Tenant does not timely deliver the Contraction Notice to Landlord, or timely surrender, in the condition required by this Addendum, the Contraction Area, then this Contraction Option shall become null and void and the Lease shall continue in full force and effect as to the entire Premises (including the Contraction Area).

Upon the delivery of a Contraction Notice to Landlord, notwithstanding Section 5 of the Basic Lease Provisions to the contrary, Tenant shall receive an abatement of Basic Annual Rent for the Contraction Area only for a period of ninety (90) days following the date of delivery of the Contraction Notice.

Exhibit 10.104

FIRST AMENDMENT TO OFFICE LEASE

This First Amendment to Office Lease (this "First Amendment") is made and entered into effective as of October 1, 2009 (the "Effective Date"), by and between **GK TRIANGLE CORPORATE PARK III, LLC,** a Delaware limited liability company ("Landlord"), and **HEALTH NET HEALTH PLAN OF OREGON, INC.,** an Oregon corporation ("Tenant").

W I T N E S S E T H:

WHEREAS, Landlord and Tenant are parties to that certain Office Lease dated March 18, 2009 (the "Lease"), pursuant to which Tenant is currently leasing certain premises containing a total of 54,579 square feet of Rentable Area (the "Existing Premises", being 8,190 square feet in the basement, plus 46,389 square feet on the 2nd and 3rd floors of the Building), in the building located at 13221 SW 68th Parkway, Tigard, Oregon (the "Building"); and

WHEREAS, Tenant has exercised the Contraction Option set forth in Addendum Four to the Lease; and

WHEREAS, Landlord and Tenant desire to amend the terms of the Lease to surrender a portion of the Existing Premises, and modify certain terms and provisions of the Lease, all as more particularly provided hereinbelow;

NOW, THEREFORE, pursuant to the foregoing, and in consideration of the mutual covenants and agreements contained in the Lease and herein, the Lease, effective as of the Effective Date, is hereby modified and amended as set out below:

1. Definitions. All capitalized terms used herein shall have the same meaning as defined in the Lease, unless otherwise defined in this First Amendment.

2. Release of Contraction Area. Tenant agrees to surrender, effective as of January 31, 2010 (the "Contraction Date"), that certain 10,463 square foot area designated as Suite 310 on *Exhibit A-1* to this First Amendment (the "Contraction Area"), subject to the terms set forth below. The foregoing definition of the Contraction Area supersedes the definition set forth in Addendum Four to the Lease.

   (a) As of the Contraction Date, Tenant agrees to surrender the Contraction Area in accordance with the terms Addendum Four to the Lease. Tenant hereby releases, as of the Contraction Date, all of its right, title and interest in, and in respect of, the Contraction Area. Tenant covenants, agrees and represents that Tenant shall have no further right to use, occupy or have possession of the Contraction Area or any portion thereof after the Contraction Date.

   (b) Tenant covenants and agrees that it has full right, power and authority to terminate and surrender the Contraction Area in the manner aforesaid.

   (c) Subject to Paragraph 2(a) above and Paragraphs 2(e) and 2(f) below, WITH RESPECT TO THE CONTRACTION SPACE ONLY, Landlord agrees (i) to forever release and discharge Tenant from all obligations, covenants and agreements of Tenant arising under or in connection with the Lease after the Contraction Date and (ii) not to sue Tenant for obligations, covenants and agreements of Tenant arising under or in connection with the Lease after the Contraction Date.

(d) Subject to Paragraph 2(e) below, WITH RESPECT TO THE CONTRACTION SPACE ONLY, Tenant agrees (i) to forever release and discharge Landlord from all obligations, covenants and agreements of Landlord arising under or in connection with the Lease after the Contraction Date and (ii) not to sue Landlord for obligations, covenants and agreements of Landlord arising under or in connection with the Lease after the Contraction Date.

(e) Notwithstanding anything to the contrary herein contained, with respect to the Contraction Area, the parties acknowledge and agree that each shall continue to be fully liable to the other to the extent set forth in the Lease for any claim for personal injury or property damage arising prior to the Contraction Date. Tenant shall also be responsible for any additional rent reimbursable with respect to the Contraction Area that may be due, when the actual Operating Costs for the calendar year 2010 for the Building are determined.

(f) Notwithstanding anything in the Lease or herein to the contrary, Tenant must complete the demising wall separating the Contraction Area from the Remaining Existing Premises on or before the Contraction Date, as set forth in the Work Letter attached as *Exhibit B* to the Lease. Tenant hereby acknowledges and agrees to be fully responsible and liable to Landlord and to immediately reimburse Landlord for any and all damages incurred by Landlord due to any holding over by Tenant in the Contraction Area beyond the Contraction Date, or for failure to complete such demising wall in accordance with the provisions of such Work Letter on or before the Contraction Date. Tenant also covenants and agrees with Landlord that Tenant will not holdover in the Contraction Area.

(g) Landlord and Tenant hereby confirm, stipulate and agree that, subject to the above provisions of this Paragraph 2, effective on and as of the Contraction Date, (i) the Premises shall be deemed to consist solely of those certain 44,279 square feet of Rentable Area (the "Remaining Existing Premises"), being the 22,900 square feet comprising Suite 200 of the Building, the 13,189 square feet comprising Suite 300 of the Building (as shown on *Exhibit A-1* to this First Amendment), and the 8,190 square feet in the basement of the Building; (ii) *Exhibit A-1* to this First Amendment shall replace page A-1—3 of *Exhibit A-1* to the Lease, and (iii) Tenant's Proportionate Share of Operating Costs shall be 34.7696% (44,279 rsf/ 127,350 rsf) (10.3565% for Suite 300, 17.9820% for Suite 200, and 6.4311% for the portion of the Premises in the basement of the Building).

3. Basic Annual Rent. From the Effective Date through the Contraction Date, Basic Annual Rent for the Premises (which shall still consist of the entire Existing Premises) shall be as follows:

Period	Space	Monthly Installment	Amount/rsf/annum
10/01/09-11/30/09	Existing Premises	$ -0-	$ -0-
12/01/09-12/31/09	Suites 200, 300 and 310	$ 76,162.67	$ 26.00
	Basement	$ 10,237.50	$ 15.00
01/01/10-01/31/10	Suites 200, 300 and 310	$100,509.50	$ 26.00
	Basement	$ 10,237.50	$ 15.00

As of February 1, 2010, Basic Annual Rent for the Premises (which shall then consist solely of the Remaining Existing Premises) shall be as follows:

Period	Space	Monthly Installment	Amount/rsf/annum
02/01/10-06/30/10	Suites 200 and 300	$78,192.83	$ 26.00
	Basement	$10,237.50	$ 15.00
07/01/10-06/30/11	Suites 200 and 300	$80,538.62	$ 26.78
	Basement	$10,544.63	$ 15.45
07/01/11-06/30/12	Suites 200 and 300	$82,944.55	$ 27.58
	Basement	$10,860.96	$ 15.91
07/01/12-06/30/13	Suites 200 and 300	$85,440.71	$ 28.41
	Basement	$11,186.79	$ 16.39
07/01/13-06/30/14	Suites 200 and 300	$87,997.01	$ 29.26
	Basement	$11,522.40	$ 16.88
07/01/14-06/30/15	Suites 200 and 300	$90,643.54	$ 30.14
	Basement	$11,868.07	$ 17.39
07/01/15-06/30/16	Suites 200 and 300	$93,380.29	$ 31.05
	Basement	$12,224.11	$ 17.91

The above provisions of this Paragraph 3 are expressly conditioned on Tenant timely surrendering the Contraction Area and constructing the demising wall in accordance with the provisions of Paragraph 2 above.

4. Landlord's Construction Allowance. Landlord's Construction Allowance is hereby stipulated to be Seven Hundred Eight Thousand, Four Hundred Sixty-Four and 00/100 Dollars ($708,464.00).

5. Additional Rent. Subject to Paragraph 2 above, Tenant shall continue to pay all items of additional rent as set forth in the Lease.

6. Contraction Option. By virtue of Tenant's exercise of its Contraction Option, as of the Effective Date, Addendum Four to the Lease is of no further force or effect.

7. Broker. Tenant warrants that it has had no dealings with any broker or agent other than CB Richard Ellis ("Broker") in connection with the negotiation or execution of this First Amendment, and Tenant agrees to indemnify Landlord and hold Landlord harmless from and against any and all costs, expenses or liability for commissions or other compensations or charges claimed by any broker or agent, other than Broker, with respect to this First Amendment.

8. Miscellaneous. With the exception of those terms and conditions specifically modified and amended herein, the herein referenced Lease shall remain in full force and effect in accordance with all its terms and conditions. In the event of any conflict between the terms and provisions of this First Amendment and the terms and provisions of the Lease, the terms and provisions of this First Amendment shall supersede and control.

9. Counterparts. This First Amendment may be executed in any number of counterparts, each of which shall be deemed an original, and all of such counterparts shall constitute one agreement. To facilitate execution of this First Amendment, the parties may execute this First Amendment via counterparts and exchange facsimile copies of such executed counterparts via telefax or e-mail, and such telefaxed or e-mailed facsimile counterparts shall serve as originals.

IN WITNESS WHEREOF, the parties hereto have executed this First Amendment to Office Lease on the dates shown below, to be effective, however, as of the Effective Date.

LANDLORD:

GK TRIANGLE CORPORATE PARK III, LLC, a Delaware limited liability company

By: KBS Realty Advisors, LLC, a Delaware limited liability company, as agent

By: /s/ Steve Silva
Steve Silva, Senior Vice President

Date: 12/23, 2009

TENANT:

HEALTH NET HEALTH PLAN OF OREGON, INC.,
an Oregon corporation

By: /s/ Dennis Bell

Name: Dennis Bell

Title: Vice President Real Estate Management

Date: 12/3, 2009

Exhibit 10.106

BUSINESS TRANSITION AGREEMENT

by and among

HEALTH NET, INC.,

HEALTH NET OF THE NORTHEAST, INC.,

HEALTH NET LIFE INSURANCE COMPANY,

UNITEDHEALTHCARE INSURANCE COMPANY,

OXFORD HEALTH PLANS, LLC,

OXFORD HEALTH INSURANCE, INC.

and

UNITEDHEALTH GROUP INCORPORATED,

SOLELY WITH RESPECT TO SECTION 4.8(b) AS GUARANTOR

December 11, 2009

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2.4(a)(i) Form of Additional Enrollment Report Information
2.4(a)(ii) Form of Accumulator Report Information
4.6(a) Form of Underwriting Report

BUSINESS TRANSITION AGREEMENT

THIS BUSINESS TRANSITION AGREEMENT (this "Agreement") is made and entered into on December 11, 2009 (the "Effective Date"), by and among Health Net, Inc., a Delaware corporation ("Parent"), Health Net of the Northeast, Inc., a Delaware corporation ("Seller"), Health Net Life Insurance Company, a California corporation ("HN Life"), Oxford Health Plans, LLC, a Delaware limited liability company ("Buyer"), UnitedHealthcare Insurance Company, a Connecticut stock insurance company ("UHIC"), Oxford Health Insurance, Inc., a New York corporation ("Oxford" and together with UHIC, "United") and, solely with respect to Section 4.8(b), UnitedHealth Group Incorporated, a Minnesota corporation ("UHG") (each a "Party" and collectively the "Parties").

RECITALS

WHEREAS, Parent, Seller, Buyer and UHG have entered into that certain Stock Purchase Agreement (the "Stock Purchase Agreement"), dated as of July 20, 2009, which provides for, among other things, the sale of all of the issued and outstanding shares of Health Net of Connecticut, Inc., a Connecticut corporation, FOHP, Inc., a New Jersey corporation, Health Net of New Jersey, Inc., a New Jersey corporation, Health Net of New York, Inc., a New York corporation, Health Net Insurance of New York, Inc., a New York corporation, and Health Net Services (Bermuda) Ltd., a Bermuda company, and for a membership renewal rights transaction with respect to the Connecticut and New Jersey business of HN Life;

WHEREAS, United is an Affiliate of the following entities, Oxford Health Insurance, Inc., Oxford Health Plans (NY), Inc., Oxford Health Plans (CT), Inc., Oxford Health Plans (NJ), Inc., UnitedHealthcare Insurance Company, UnitedHealthcare Insurance Company of New York, and UnitedHealthcare Service, LLC (each a "Legacy United Entity" and collectively the "Legacy United Entities"), which are licensed to offer, collectively, health insurance products in the Applicable States;

WHEREAS, HN Life is a licensed life and health insurance company offering health insurance and health benefit products in the Applicable States;

WHEREAS, in connection with the Stock Purchase Agreement, the Parties desire to transition the Membership, which shall not include Medicare or Medicaid members, of HN Life to the Legacy United Entities and to enroll the Membership in Legacy United Entities' Plans; and

WHEREAS, in connection with such transition, Seller and HN Life desire to permit United and the Legacy United Entities access to certain information regarding the Membership and HN Life Employer Groups and to do such other things as are set forth in this Agreement in order to facilitate the efforts of the Legacy United Entities to enroll the Membership as Transferred Members in Legacy United Entities' Plans, all upon the terms and subject to the conditions set forth in this Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual benefits to be received by the Parties and the mutual covenants and agreements contained herein, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I.

DEFINITIONS

Capitalized terms used in this Agreement but not defined herein, unless otherwise indicated, have the respective meanings assigned to them in the Stock Purchase Agreement.

As used in this Agreement, the following terms shall have the meanings set forth herein:

"Accumulator Report" shall have the meaning ascribed to it in Section 2.4(a)(ii).

"Affiliate" shall mean, with respect to any Person, any other Person directly or indirectly controlling or controlled by, or under direct or indirect common control with, such Person. For purposes of this definition, a Person shall be deemed to control another Person if it owns or controls more than fifty percent (50%) of the voting equity of the other Person (or comparable ownership if the Person is not a corporation).

"Agreement" shall have the meaning ascribed to it in the first paragraph.

"Applicable States" shall mean the following states: Connecticut and New Jersey.

"ASO Contracts" means any administrative services only contract entered into by a Person for the administration of health care benefits or services for which an employer group remains financially responsible on a self-insured basis. For purposes of this definition, a contract is not an ASO Contract because it is experience rated, retrospectively rated, or a minimum premium or similar arrangement so long as an insurance or HMO license is required under applicable Law to issue the contract.

"Books and Records" shall mean claims files, underwriting files, contract form files, rate files and filings, enrollment files, billing files, actuarial support files, premium receivable files and enrollment census information regarding the Membership under the HN Life Health Plan Contracts in the Applicable States, whether stored electronically or otherwise, in form and substance as are maintained by HN Life, either directly or indirectly through an Affiliate or other entity providing administrative services for HN Life. For the avoidance of doubt, Books and Records shall not include data regarding members other than the Members.

"Broker/Consultant Materials" shall have the meaning ascribed to it in Section 3.2.

"Brokers/Consultants" shall mean all Persons who are parties to broker, producer, consultant, agency or other similar agreements pursuant to which such Persons arrange for sales of HN Life Health Plan Contracts to Employer Groups in the Applicable States. The definition of Brokers/Consultants does not include HN Life or Persons who are employees of HN Life or its Affiliates.

"Business" shall mean HN Life's business in the Applicable States relating to the Membership.

"Buyer" shall have the meaning ascribed to it in the first paragraph.

"Chosen Courts" shall have the meaning ascribed to it in Section 8.6.

"Commissions" means all commissions, expense allowances, benefit credits, service fees, payments and other fees and compensation payable to Brokers/Consultants with respect to the HN Life Health Plan Contracts.

"Communication Plan" shall have the meaning ascribed to it in Section 3.1.

"Effective Date" shall have the meaning ascribed to it in the first paragraph.

"Enrollment Report" shall have the meaning ascribed to it in Section 2.4(a).

"Excluded Business" shall mean any and all of HN Life's membership, assets, books and records, business, contracts or business process outsourcing arrangements, other than HN Life Health Plan Contracts with HN Life Employer Groups.

"Fully Insured Contract" shall mean a contract for the provision of services for a broad spectrum of medical health benefits to an individual or group under which the risk of loss is borne by the insurer (including contracts pursuant to which the insured bears a portion of the risk through deductibles, co-payments and other Member cost-sharing features).

"HN Life" shall have the meaning ascribed to it in the first paragraph.

"HN Life Employer Groups" shall mean any or all Employer Groups sitused in the Applicable States which contract to provide health benefits on behalf of their eligible employees, members or beneficiaries who are enrolled pursuant to HN Life Health Plan Contracts, consistent with HN Life's past practices, as of or following the Effective Date.

"HN Life Health Plan Contracts" shall mean (a) the commercial group health care benefit insurance contracts to which HN Life is a party and (i) which involve the arrangement, delivery, provision or payment of health care benefits to Members, (ii) which were entered into pursuant to a license maintained by HN Life, and (iii) in which the risk of loss is borne by HN Life (including contracts pursuant to which the insured bears a portion of the risk of loss through deductibles, co-payments and other Member cost-sharing features); and (b) commercial group health care benefit contracts between HN Life, as a third party administrator, and an Employer Group in which the economic risk of medical claims is borne by the health and welfare benefit plan or trust sponsored or established by the Employer Group.

"Law" means any applicable federal, state or local statute, law (including common law), ordinance, regulation, rule, ruling, order, writ, injunction, decree, regulatory settlement or stipulation of or by any Governmental Entity, including all applicable health care and insurance laws.

"Legacy United Entities" shall have the meaning ascribed to it in the second recital.

"Legacy United Entities' Plans" shall mean the commercial group (large and small) health benefit products offered, sold or maintained by a Legacy United Entity and, if applicable, approved from time to time by the applicable Governmental Entities for use in the Applicable States. Legacy United Entities' Plans include both self-funded benefit plans administered by a Legacy United Entity and medical benefit products sold by a Legacy United Entity and products under which a Legacy United Entity bears insurance risk or insures with respect to the cost of covered services.

"Legacy United Entity" shall have the meaning ascribed to it in the second recital.

"Member Materials" shall have the meaning ascribed to it in Section 3.2.

"Members" shall mean covered individuals and dependents who are properly enrolled pursuant to HN Life Health Plan Contracts as of or following the Effective Date.

"Membership" shall mean the commercial group (large and small) membership enrolled by HN Life pursuant to HN Life Health Plan Contracts issued to HN Life Employer Groups sitused in the Applicable States. The Membership shall include all Members under a HN Life Health Plan Contract that was sold by HN Life to a HN Life Employer Group sitused in an Applicable State, whether or not each individual Member under such HN Life Health Plan Contract is resident in an Applicable State, based on HN Life's ordinary course records.

"Nonpublic Personal Information" shall have the meaning ascribed to it in Section 5.3(a).

"Oxford" shall have the meaning ascribed to it in the first paragraph.

"Parent" shall have the meaning ascribed to it in the first paragraph.

"Party" and "Parties" shall have the meanings ascribed to them in the first paragraph.

"Person" shall mean any individual, corporation, partnership, limited partnership, joint venture, limited liability company, trust or unincorporated organization or Governmental Entity or any other entity.

"Renewal Contracts" shall have the meaning ascribed to it in Section 4.2.

"Representative" shall have the meaning ascribed to it in Section 5.1.

"Seller" shall have the meaning ascribed to it in the first paragraph.

"Stock Purchase Agreement" shall have the meaning ascribed to it in the first recital.

"Termination Notice" shall have the meaning ascribed to it in Section 3.2.

"Transferred Member" shall mean a Member who Renews in a Legacy United Entities' Plan after the termination or expiration of such Member's enrollment under a HN Life Health Plan Contract during the period commencing on the Effective Date and ending on the last day of the Transition Period.

"Transition Period" shall have the meaning ascribed to it in Section 2.1(a).

"Transition Report" shall have the meaning ascribed to it in Section 2.4(b).

"Transition Schedule" shall have the meaning ascribed to it in Section 2.1(a).

"UHG" shall have the meaning set forth in the first paragraph.

"UHIC" shall have the meaning ascribed to it in the first paragraph.

"United" shall have the meaning ascribed to it in the first paragraph.

ARTICLE II.
TRANSITION OF MEMBERSHIP

Section 2.1. Transition of Members. Subject to and upon the terms and conditions of this Agreement, the Parties agree to the following:

(a) Announcement. As soon as practicable after the Effective Date, and subject to applicable Laws (including any required regulatory notice or approval), HN Life shall announce the plans of HN Life to exit the Business and terminate its operations with respect to the Business, in the Applicable States, and shall commence the process of assisting in the transition of HN Life Employer Groups and Members to the Legacy United Entities; provided, however, that such announcement and process shall be conducted in accordance with the Communication Plan and Schedule 2.1(a) (the "Transition Schedule"). The Transition Schedule created by the Parties shall take into account various factors related to the timing and coordination of the announcement and transition process, including coordination of the timing of HN Life's exiting the Business in the Applicable States with the exit of the Acquired Companies, and timing considerations regarding HN Life Health Plan Contracts that have plans with features administered by both HN Life and an Acquired Company. Seller and HN Life shall use commercially reasonable efforts to facilitate the issuance by Legacy United Entities of Legacy United Entities' Plans in replacement of the in-force policies and other products that constitute the Business until the termination of each policy or other product that constitutes the Business (the "Transition Period").

(b) Enrollment. United shall commence the process of offering, selling and enrolling HN Life Employer Groups and Members who request enrollment in a Legacy United Entities' Plan in the Applicable States in accordance with the Communication Plan and Transition Schedule as soon as practicable after the Effective Date. During the Transition Period, United and its Affiliates shall not offer or sell Fully Insured Contracts to Members or HN Life Employer Groups or enroll Members or HN Life Employer Groups in Fully Insured

Contracts or ASO Contracts other than through a Legacy United Entity and Legacy United Entities' Plan. For the avoidance of doubt, the preceding sentence shall not apply to United's or United's Affiliates' offer or sale to Members or HN Life Employer Groups of, or enrollment of Members or HN Life Employer Groups in, vision, dental, pharmacy, behavioral health or any other products other than contracts or plans for the provision of Fully Insured Contracts.

Section 2.2. Transition Efforts.

(a) From and after the Effective Date, Seller and HN Life shall exclusively endorse the Legacy United Entities as the recommended replacement carrier or administrative services provider (as applicable), subject to applicable Laws and in accordance with the Communication Plan and the Transition Schedule, and shall facilitate the transition of the HN Life Employer Groups and Members to the Legacy United Entities. Seller and HN Life shall cooperate with United and the HN Life Employer Groups in order to assist them in effectuating the transition of HN Life Employer Groups and Members from HN Life to Legacy United Entities. If a Legacy United Entity and HN Life Employer Group (and if required, Broker/Consultant) agree that such HN Life Employer Group will enter into a Legacy United Entities' Plan prior to the scheduled expiration date of the HN Life Health Plan Contract then in effect, then upon receipt of written notice from United relating thereto, the Legacy United Entity shall provide to the HN Life Employer Group a mutual cancellation agreement to cancel coverage under the HN Life Health Plan Contract as of the effective date of coverage under the Legacy United Entities' Plan. HN Life shall execute such mutual cancellation agreement promptly upon United's request. United will use its commercially reasonable efforts to rewrite any such cancelled HN Life Health Plan Contracts, subject to Legacy United Entities' Plans underwriting guidelines and other requirements, as determined in such Legacy United Entity's discretion and as such underwriting guidelines and other requirements are applied by such Legacy United Entity in a manner consistent with such Legacy United Entity's application of underwriting guidelines and requirements to business other than the Business.

(b) After the Effective Date, at the first opportunity to enroll eligible HN Life Employer Groups (if not already enrolled with a Legacy United Entity Plan in accordance with Section 2.2(a)) and Members (e.g., upon applicable policy anniversary or other renewal date of HN Life Health Plan Contracts after the Effective Date), United shall offer each eligible HN Life Employer Group and Member one or more of Legacy United Entities' Plans; provided, however, that United in its discretion may elect not to offer enrollment to HN Life Employer Groups or Members if such HN Life Employer Groups or Members do not satisfy the underwriting guidelines and rating methodology of United in the applicable market, as such underwriting guidelines and rating methodology are applied by United in a manner consistent with United's application of underwriting guidelines and rating methodology to business other than the Business. Furthermore, United in its discretion may elect not to enroll in a Legacy United Entity Plan any HN Life Employer Group or Member (i) who fails to satisfy any eligibility requirements of the applicable Legacy United Entity Plan, as such eligibility requirements are applied by United in a manner consistent with United's application of eligibility requirements to business other than the Business; (ii) for whom premiums or fees are not current in any HN Life Health Plan Contracts; or (iii) who has terminated, has been terminated by HN Life, or submitted a notice of termination of, or intent to terminate, such membership pursuant to such HN Life Health Plan Contracts. In addition to the activities set forth in Sections 3.2 and 3.3, HN Life shall use commercially reasonable efforts to (x) cause qualified employees to attend and participate in meetings lead by United, in the manner and to the extent such attendance and

participation is requested by United with reasonable advance notice, with HN Life Employer Groups that are large groups or Brokers/Consultants, and (y) cooperate with United's efforts to transition HN Life Employer Groups and Members to Legacy United Entities' Plans and to gain the commitment of Brokers/Consultants to do business with the Legacy United Entities in the Applicable States.

(c) In accordance with the Transition Schedule, the Parties shall use commercially reasonable efforts to transfer each HN Life Employer Group's health care benefits provided by HN Life and the Acquired Companies as a whole (e.g., with respect to a HN Life Employer Group that has health care benefit insurance products administered by HN Life and health care benefit insurance products administered by one of the Acquired Companies, the Parties shall use commercially reasonable efforts to attempt to transition all such products to products (or comparable products) that are offered by one or more Legacy United Entities), to the extent that comparable products are offered by Legacy United Entities and subject to the choice of the HN Life Employer Group and the applicable Legacy United Entity's underwriting guidelines, rating methodologies, eligibility requirements and other requirements, as such guidelines, methodologies and requirements are applied by United in a manner consistent with United's application thereof to business other than the Business.

(d) In connection with the transition of Membership pursuant to Section 2.1, and upon the terms and subject to the conditions set forth in this Agreement, Seller and HN Life shall use commercially reasonable efforts to (i) cause qualified employees of HN Life or its Affiliates, to the extent such employees have not been hired by Buyer in accordance with the terms of the Stock Purchase Agreement, to attend and participate in meetings lead by United, in the manner and to the extent such attendance and participation is requested by United with reasonable advance notice, with hospitals and hospital systems, other major health care providers and other significant vendors with contractual relationships with HN Life, in the Applicable States, as listed in Schedule 2.2(d) and (ii) cooperate with United's efforts to gain the commitment of such persons to do business with the Legacy United Entities in the Applicable States.

Section 2.3. Compensation. No cash consideration will be paid to Parent and its Affiliates, on the one hand, or United and its Affiliates, on the other hand, for the facilitation of the transition of the Business and Membership from HN Life to Legacy United Entities. The sole consideration for such transition of the Business and Membership shall be the performance of the respective Parties' obligations hereunder.

Section 2.4. Reporting.

(a) Enrollment Reports. HN Life shall prepare and deliver to United (i) on the Effective Date and on or before the tenth Business Day of each calendar quarter after the Effective Date until the end of the Transition Period enrollment reports (each, an "Enrollment Report") which list, as of the last day of the calendar month preceding each such Enrollment Report, the name, address, telephone number and renewal date of each HN Life Employer Group, the name, address and telephone number of each HN Life Employer Group plan administrator and Broker/Consultant, the names of Members, including any HN Life Employer Groups or Members added to the Membership as a result of retroactive adjustments, any off-

cycle termination since the previous month's report, and such other information as specified in Schedule 2.4(a)(i) and (ii) on the Effective Date and on a weekly basis thereafter (with the exact day of delivery to be agreed upon by the Parties), reports (each, an "Accumulator Report") which list, as of the end of the week preceding each such Accumulator Report, accumulator data, as prepared in accordance with HN Life's past practices, for each HN Life Employer Group and Member, including such other information as specified in Schedule 2.4(a)(ii). Each Accumulator Report shall be provided in a consistent electronic format. Any updates to a previously delivered Enrollment Report resulting from retroactive adjustments to Membership shall be reflected on the next applicable Enrollment Report following the availability of such data. For the avoidance of doubt, HN Life's obligation to deliver Enrollment Reports to United shall be in addition to Seller's obligation to deliver the Initial Membership Statement, the Effective Date Membership Statement and updates thereto pursuant to the terms of the Stock Purchase Agreement.

(b) United's Transition Reports. Within ten (10) Business Days following each calendar month that ends during the Transition Period, United shall (i) prepare a report setting forth the number of Members who became Transferred Members during the preceding quarter (each a "Transition Report") and (ii) deliver such Transition Report to Seller. For the avoidance of doubt, United's obligation to deliver Transition Reports to Seller shall be in addition to its obligation to deliver Membership Renewal Statements pursuant to the terms of the Stock Purchase Agreement.

(c) Verification. Each Party shall afford to the other Party and its representatives reasonable access during normal business hours, and upon reasonable notice by the requesting Party, to such information reasonably necessary to verify and audit the accuracy of the Enrollment Reports and the Transition Reports.

Section 2.5. Excluded Business. For the avoidance of doubt, the Excluded Business is not being sold, transferred or transitioned to United or any of its Affiliates pursuant to this Agreement.

ARTICLE III.

COMMUNICATIONS

Section 3.1. Communication Plan. The Parties shall comply with the communication plan (the "Communication Plan") attached hereto as Exhibit A. The intent of the Communication Plan is for Seller and HN Life to assist United in efforts to gain the commitment of HN Life Employer Groups, Members and Brokers/Consultants to the transition of the Membership to Legacy United Entities. The Communication Plan shall require that all communication templates be approved by HN Life and United prior to use. It shall identify specific information to be disseminated to HN Life Employer Groups, Members and Brokers/Consultants, or any subsets thereof, and it shall include when, to whom and by whom such information is to be disseminated. The Communication Plan shall also include (a) a schedule of mailing dates of letters of termination and introduction, which mailing dates shall comply with policy language and requirements of applicable Law, and (b) information that may be provided to HN Life Employer Groups, Members and Brokers/Consultants regarding whom to contact and how to contact such persons about operational issues arising in the implementation of this Agreement.

Section 3.2. Notice of Transition. Consistent with Section 2.1(a), in accordance with the Communication Plan and Transition Schedule, HN Life shall deliver to every HN Life Employer Group and Member a notice (the "Termination Notice") that their HN Life Health Plan Contract will be terminated or non-renewed as soon as permitted by applicable Law. To the extent required by applicable Law or deemed necessary or advisable by HN Life, HN Life shall cause the Termination Notice to be reviewed by and found acceptable to the applicable Governmental Entities prior to mailing. HN Life shall include in the mailing containing such Termination Notices a separate notice prepared by United which shall inform the HN Life Employer Groups and Members of, among other things, the availability of Legacy United Entities' Plans and include a description of options with respect to HN Life Health Plan Contracts and Legacy United Entities' Plans (the "Member Materials"). HN Life shall deliver to each Broker/Consultant, on behalf of United, a notice prepared by United which shall inform the Brokers/Consultants of the proposed transition and contain sufficient information to enable the Brokers/Consultants to respond to questions from HN Life Employer Groups and Members and effectively assist in the transition of HN Life Employer Groups and Members to Legacy United Entities' Plans (the "Broker/Consultant Materials"). To the extent required by applicable Law or deemed necessary or advisable by United, United shall cause the Member Materials and the Broker/Consultant Materials to be reviewed by and found acceptable to the applicable Governmental Entities prior to mailing. The Termination Notice, Member Materials and Broker/Consultant Materials shall be substantially in the form set forth on Exhibit B. United shall supply HN Life with sufficient copies of the Member Materials and Broker/Consultant Materials for the mailings contemplated by this Agreement, and shall bear sole responsibility for, and all costs and expenses associated with, the timely printing of such materials. HN Life shall produce sufficient copies of the Termination Notice for the mailings contemplated by this Agreement, and shall bear sole responsibility for, and all costs and expenses associated with, the timely printing of such materials. United hereby covenants that any Member Materials and Broker/Consultant Materials to be included in the mailings contemplated by this Agreement shall comply with applicable Law. Seller and HN Life hereby covenant that any Termination Notices to be included by Seller or HN Life in the mailings contemplated under this Agreement shall comply with applicable Law.

Section 3.3. Mailings. HN Life shall mail promptly, and in no event later than the dates set forth in the Communication Plan, the Termination Notice and Member Materials to every HN Life Employer Group and Member (provided that, with respect to Members who reside at the same address, HN Life may mail one set of such materials to the shared address), and the Broker/Consultant Materials to each Broker/Consultant, with HN Life and United each responsible for its pro rata share (based on the amount of materials provided by such Party in the relevant mailing) of the costs and expenses (other than printing costs and expenses) associated with such initial mailings; provided, however, that (a) United shall have no responsibility for any costs or expenses for any such initial mailings that do not include Member Materials or Broker/Consultant Materials, and (b) United shall solely bear responsibility for the costs and expenses associated with any subsequent or repeat mailings made by United or at United's written request of Member Materials and Broker/Consultant Materials or other materials United desires to send to HN Life Employer Groups, Members or Broker/Consultants. HN Life, at HN

Life's sole cost and expense, shall be responsible for all non-renewal and cancellation notifications and other requirements under applicable Law with respect to the HN Life Health Plan Contracts, HN Life Employer Groups and the Membership, including those notifications and other requirements required in the event that the Legacy United Entities choose not to enroll any HN Life Employer Group or Member upon expiration of the applicable HN Life Health Plan Contract. United and HN Life agree to cooperate with each other with respect to the timing and content of such non-renewal and, if requested, cancellation notifications to the Membership in order to facilitate HN Life's fulfillment of its legal obligations with respect to the Membership.

ARTICLE IV.

ADDITIONAL COVENANTS

Section 4.1. Rates.

(a) United shall have sole authority for: (i) developing the rates for Legacy United Entities' Plans; (ii) if and to the extent required by applicable Law, obtaining approval from the appropriate Governmental Entities for the rates and other terms of the Legacy United Entities' Plans and of any activities of United related to the transition of HN Life Employer Groups and Members or otherwise in connection with the transactions contemplated hereby; (iii) utilizing such rates to calculate premiums according to established underwriting guidelines, as such guidelines are applied by United in a manner consistent with United's application thereof to business other than the Business, for Legacy United Entities' Plans in compliance with applicable Law; (iv) subject to the provisions of Sections 2.2(b), 3.1, 3.2, 3.3 and 4.5 hereof, soliciting, marketing to, and otherwise contacting Brokers, Consultants and HN Life Employer Groups with regard to Legacy United Entities' Plans; and (v) negotiating the terms of all Legacy United Entities' Plans.

(b) Notwithstanding the foregoing, for any Members renewed on HN Life Health Plan Contracts, whether under guaranteed renewable HN Life Health Plan Contracts or as otherwise required by applicable Law, HN Life shall have sole authority for determining applicable rates.

Section 4.2. Cessation of Renewals. From and after the Effective Date, with respect to each HN Life Health Plan Contract, HN Life shall cease renewing such contracts as soon as allowable by applicable Law, except (i) for new or renewal contracts arising from quotations outstanding as of the Effective Date; provided that the effective date for such new or renewal contracts is not later than ninety (90) days after the Effective Date, or (ii) with respect to those insurance contracts that are guaranteed renewable such that they cannot, by their terms or under applicable Law, be terminated at such time by notice from, or by other unilateral action initiated or taken by, HN Life (the "Renewal Contracts"). HN Life shall determine the applicable fees or rates and term of such required renewal, and unless otherwise agreed by the Parties, any such required renewal by HN Life shall be renewed for a term that is limited to the minimum requirements of such guarantees or applicable Law.

Section 4.3. Termination of Operations. In connection with the transactions contemplated by this Agreement, subject to Section 4.2, HN Life agrees to terminate its operations with respect to the Business in the Applicable States as soon as reasonably possible, consistent with applicable Law and in accordance with the Transition Schedule.

Section 4.4. Brokers/Consultants.

(a) HN Life shall provide United the name and contact information for, and introductions to, Brokers/Consultants, and shall use commercially reasonable efforts to introduce United to such Broker/Consultants. United shall, in United's discretion, consider (i) appointing such Brokers/Consultants to the extent that they are not currently appointed by the Legacy United Entities to serve as Brokers/Consultants on behalf of one or more Legacy United Entities' Plans and (ii) entering into contracts with such Brokers/Consultants.

(b) All commissions and other consideration payable to any broker, consultant, producer, agent or other intermediary as a result of the sale of Legacy United Entities' Plans pursuant to this Agreement shall be the sole responsibility of United. Any commissions or other consideration payable to any Broker/Consultant or other intermediary for the sale of HN Life Health Plan Contracts shall be the sole responsibility of Parent, Seller and HN Life. United shall send HN Life retroactive membership information following the transfer of HN Life Employer Groups to Legacy United Entities' Plans (to allow HN Life to apply any membership changes to HN Life's systems and adjust Commissions accordingly).

Section 4.5. Regulatory Matters.

(a) United shall use commercially reasonable efforts to ensure that the Legacy United Entities are and shall remain during the Transition Period, and their respective employees, agents and representatives are, or shall become and remain during the Transition Period, licensed by the Governmental Entities of all jurisdictions in which they are required to be in order to offer, sell or enroll HN Life Employer Groups and Members in a Legacy United Entities' Plan. Each of the Legacy United Entities shall bear all costs and expenses relating to its own licensing and the licensing of its employees, agents and representatives.

(b) HN Life shall use commercially reasonable efforts to ensure that it is and shall remain during the Transition Period, and its respective employees, agents and representatives are, or shall become and remain during the Transition Period, licensed by the Governmental Entities of all jurisdictions in which they are required to be in order to Conduct and administer the Business. HN Life shall bear all costs and expenses relating to its own licensing and the licensing of its employees, agents and representatives.

(c) Each Party shall use its commercially reasonable efforts to secure any regulatory approval, consent, authorization or permit of, or filings with or notifications to, any Governmental Entity necessary for the performance of its obligations under this Agreement. Each Party shall provide to the other Party and their respective counsel the opportunity to review in advance and comment on all filings referred to or necessary to effectuate the transactions contemplated by this Agreement that are made with any Governmental Entity.

Section 4.6. Additional Undertakings by Seller and HN Life with Respect to the Business. Seller and HN Life shall or shall cause their Affiliates to:

(a) Prepare and deliver to United, in accordance with the timeframes set forth in the Transition Schedule, underwriting reports which list, as of the effective date of each such report, (i) Member census data (including zip code, age or date of birth, gender and plan type (e.g., employee-only, employee and spouse, employee-spouse-dependent)), (ii) agreed upon financial data (including premiums, claims data and large claims reporting (by group)) and (iii) risk scores, if any. A form of agreed upon underwriting report is attached hereto as Schedule 4.6(a).

(b) Permit reasonable access by United to personnel and Books and Records pertaining to the Business, including its underwriting accounts and experience files, to assist in the transition of the Business to Legacy United Entities. Such access shall be during normal business hours and on reasonable notice. To the extent any Books and Records include information unrelated to the Business or the Membership or information the disclosure of which would violate any contractual obligations of Seller, HN Life or their Affiliates, Seller and HN Life may, within a reasonable time period, redact such information from the Books and Records prior to providing access to United. If it is not reasonably practicable for Seller or HN Life to redact such information, Seller or HN Life may, at their expense, appoint a third party acceptable to United and Seller to review and confirm any information reasonably requested by United in connection therewith.

(c) Conduct and administer the Business in the ordinary course of business throughout the Transition Period consistent with past practice, taking into account the winding up and running out of the Business as contemplated under this Agreement. Without limiting the generality of the foregoing sentence, HN Life and Seller shall, taking into account the winding up and running out of the Business as contemplated under this Agreement, and as reasonably practicable taking into consideration the modifications to Seller's and HN Life's business pursuant to the Stock Purchase Agreement and Administrative Services Agreements, use commercially reasonable effort to (i) preserve their relationships with Governmental Entities, Brokers/Consultants, employees, HN Life Employer Groups and Members and (ii) maintain the facilities, systems, personnel and other resources necessary to enable them to comply with this Section 4.6(c). For the avoidance of doubt, the obligations of Seller and HN Life to use their commercially reasonable efforts in accordance with the preceding sentence shall not require either of them to (A) provide any compensation (or incur any other material cost or expense) with respect to an employee in excess of any such employee's normal compensation in effect from time to time or (B) make any non-monetary change to their employment practices. Except as provided in this Agreement, HN Life shall not terminate existing contracts with self-funded HN Life Employer Groups, if any, following the Effective Date without the prior consent of United, which shall not be unreasonably withheld, delayed or conditioned.

Section 4.7. Sales or Use Taxes. Each Party shall pay any and all federal, state or local sales or use taxes, or other governmental assessments, if any, for which such Party is legally obligated as the result of the consummation of the transactions contemplated by this Agreement. Each Party shall timely prepare and timely file all returns and reports in respect of such taxes or assessments and cause the taxes or assessments to be timely remitted to the appropriate Governmental Authorities.

Section 4.8. Guarantees.

(a) Parent hereby guarantees the full, complete and timely performance by Seller and HN Life of each and every obligation of Seller and HN Life under this Agreement. If either Seller or HN Life defaults in the performance of any such obligations, then Parent will perform or cause to be performed such obligation immediately upon notice from United specifying the default. United may proceed to enforce its rights against Parent from time to time prior to, contemporaneously with, or after any enforcement against Seller or HN Life or without any enforcement against Seller or HN Life. The guarantee set forth in this Section shall be deemed a continuing guarantee and shall remain in full force and effect until the satisfaction in full or all obligations of Seller and HN Life under this Agreement.

(b) UHG hereby guarantees the full, complete and timely performance by United of each and every obligation of United under this Agreement. If United defaults in the performance of any such obligations, then UHG will perform or cause to be performed such obligation immediately upon notice from Seller specifying the default. Seller may proceed to enforce its rights against UHG from time to time prior to, contemporaneously with, or after any enforcement against United or without any enforcement against United. The guarantee set forth in this Section shall be deemed a continuing guarantee and shall remain in full force and effect until the satisfaction in full or all obligations of United under this Agreement.

ARTICLE V.

CONFIDENTIALITY AND PRIVACY

Section 5.1. Use of Confidential Information. The Parties acknowledge that each Party will have access to confidential and proprietary information concerning the other Parties and their respective businesses, which information is not readily available to the public, and acknowledge that the Parties have taken, and will continue to take, reasonable actions to ensure such information is not made available to the public. The Parties further agree that neither they nor their Representatives will at any time (during the term hereof or thereafter) disclose to any Person (except the Parties and their respective Affiliates, and the officers, directors, employees, agents, consultants and advisors (each a "Representative") of each Party and their respective Affiliates, in each case, who reasonably require such information in order to perform their duties in connection with the services provided hereunder), directly or indirectly, or make any use of, for any purpose other than those contemplated by the Stock Purchase Agreement, the Administrative Services Agreements or this Agreement, any confidential information or trade secrets relating to the Business or the business affairs of the Parties.

Section 5.2. Disclosure. Subject to the terms and conditions set forth herein, a Party may disclose confidential information in the following circumstances (or as otherwise provided by this Agreement):

(a) if the confidential information is or becomes generally publicly known and available, through no act or omission by such Party or on its behalf or by any of its Representatives;

(b) in response to a court order or formal discovery request after notice to the other Parties is given and after providing such other Parties an opportunity to intervene in or object to such order or request, if permitted by Law; provided, however, that such disclosure shall be limited only to the extent that is required by such court order or formal disclosure request;

(c) if a proper request is made by any Governmental Entity, including pursuant to any market conduct, financial or other Governmental Entity examinations, after notice to the other Parties is given and after providing such other Parties an opportunity to object to such request, if permitted by Law; provided, however, that such disclosure shall be limited only to the extent that is required by such Governmental Entity;

(d) at the proper request of United; provided, however, that such disclosure shall be limited only to the extent that is reasonably necessary to satisfy such a request;

(e) as disclosed in any discussions with auditors, actuaries or outside counsel; or

(f) as otherwise required by applicable Law.

Section 5.3. Privacy Requirements. Each Party shall, and shall cause its Affiliates to, comply in all material respects with all applicable confidentiality and security obligations in connection with the collection, use, disclosure, maintenance and transmission of personal, private, health or financial information about individual insureds, enrolled beneficiaries or loss payment recipients (collectively "Nonpublic Personal Information"), that arise under those Laws applicable to such Party which are currently in place or which may become effective during the term of this Agreement, including the Gramm-Leach-Bliley Act and the Standards for Privacy of Individually Identifiable Health Information and all other privacy or security regulations promulgated by the U.S. Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act of 1996.

ARTICLE VI.

COOPERATION

Each Party hereto shall cooperate fully with the other in all reasonable respects in order to accomplish the objectives of this Agreement, including making available its respective officers and employees for interviews and meetings with Governmental Entities and furnishing any additional assistance, information and documents as may be reasonably requested by a Party from time to time. If, at any time after the Effective Date, any further action is necessary or desirable to effectuate the purposes of this Agreement, each Party, as the case may be, shall execute and deliver or cause to be executed and delivered such instruments and other documents as shall be mutually agreed upon and shall take or cause to be taken all such further lawful and necessary action as mutually agreed upon including amending this Agreement, executing additional ancillary, delegation or other agreements, or taking such steps and measures as reasonably required, advisable or necessary pursuant to applicable Law or applicable accreditation or certification organizations.

ARTICLE VII.

INDEMNIFICATION

The Parties acknowledge and agree that the indemnification provisions of Article VII of the Stock Purchase Agreement shall apply to this Agreement.

ARTICLE VIII.

MISCELLANEOUS

Section 8.1. Amendment and Modification. This Agreement may be amended, modified or supplemented, only by a written agreement signed by each of the Parties. No course of dealing between or among any of the Parties hereto shall be deemed effective to modify or amend any part of this Agreement or any rights or obligations of any Party under or by reason of this Agreement.

Section 8.2. Waiver of Compliance; Consents. Any failure of United, on the one hand, or Parent, Seller or HN Life, on the other hand, to comply with any obligation, covenant, agreement or condition herein may be waived by United or Parent, or Seller, respectively, only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of any Party, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 8.2.

Section 8.3. Notices. All notices and other communications under this Agreement shall be in writing and shall be deemed to have been duly given when delivered in person, by telecopier (with a confirmed receipt thereof) or registered or certified mail (postage prepaid, return receipt requested), and on the next Business Day when sent by overnight courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

(a) to Seller and HN Life at:

Health Net, Inc. 21650 Oxnard Street
Woodland Hills, CA 91367
Attention: Linda V. Tiano, Senior Vice President,
General Counsel and Secretary
Facsimile: 818.676.7503

with a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, CA 90071-1560
Attention: James Beaubien, Esq.
Julian Kleindorfer, Esq.
Facsimile: 213.891.8763

(b) to United:

UnitedHealthcare, Inc.
5901 Lincoln Drive
Edina, MN 55426-1611
Attention: General Counsel
and
Attention: President and Chief Financial Officer
Facsimile: 952.992.5250

and

UnitedHealth Group Incorporated
9900 Bren Road East
Minnetonka, MN 55343
Attention: General Counsel
Facsimile: 952.936.0044
Attention: Vice President, Corporate
Development
Facsimile: 952.936.3007

and

Oxford Health Plans, LLC
One Penn Plaza
New York, NY 10019
Facsimile: (203) 459-7171
Attention: Northeast Region Chief Executive Officer

with a copy to:

Dorsey & Whitney LLP
Suite 1500
50 South Sixth Street
Minneapolis, MN 55402
Attention: Neal N. Peterson, Esq.
Facsimile: (612) 340-2868

Section 8.4. Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by either of the Parties without the prior written consent of the other Party; provided, however, that United shall have the right, without the consent of Parent or Seller, to assign all of its rights, duties and obligations under this Agreement (a) to any Subsidiary of United or (b) in connection with the sale of all or substantially all of the capital stock or assets of United. For the avoidance of doubt, no such assignment shall relieve Parent or UHG of its obligations under Section 4.8.

Section 8.5. Change in Status. Seller or HN Life shall notify United promptly (a) following public announcement of entry by either such Person into any agreement that would result in (i) a majority of the capital stock of Seller or HN Life no longer being owned or controlled, directly or indirectly, by Parent (or its successor), or (ii) the sale or transfer of assets by Seller or HN Life, such that Seller or HN Life would be unable to perform their obligations under this Agreement, to a Person other than an Affiliate of Seller or HN Life, and (b) following the adoption of any plan to liquidate, merge or dissolve any of such entities. At least thirty (30) days prior to the closing of any sale, transfer or merger contemplated by the preceding sentence, at Parent's election, either (A) the successor or survivor of the transaction shall reaffirm its obligations under this Agreement in writing to Buyer or (B) Parent shall certify to Buyer that it will fulfill, or caused to be fulfilled, the obligations of HN Life or Seller (as applicable) under this Agreement.

Section 8.6. Governing Law; Consent to Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by and construed in accordance with the internal laws of the state of New York applicable to agreements made and to be performed entirely within such state, without regard to the choice of law principles thereof. Each of the Parties hereby irrevocably and unconditionally consents to submit to the sole and exclusive jurisdiction of the courts of the State of New York sitting in the Borough of Manhattan, the City of New York, and of the United States District Court for the Southern District of New York (the "Chosen Courts") for any litigation arising out of or relating to this Agreement, or the negotiation, validity or performance of this Agreement, or the transactions contemplated hereby (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the laying of venue of any such litigation in the Chosen Courts and agrees not to plead or claim in any Chosen Court that such litigation brought therein has been brought in any inconvenient forum. The Parties waive the right to trial by jury with respect to any claims hereunder. The Parties further irrevocably consent to the service of process out of the Chosen Courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the Parties at their addresses referred to in Section 8.3 hereof.

Section 8.7. Counterparts. This Agreement may be executed and delivered (including by facsimile transmission or by electronic mail with a pdf scanned attachment) in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 8.8. Interpretation. The article and section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the Parties and shall not in any way affect the meaning or interpretation of this Agreement. The Parties are sophisticated, represented by counsel and jointly have participated in the negotiation and drafting of this Agreement and there shall be no presumption or burden of proof favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

Section 8.9. Specific Performance. The Parties agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof and that the parties shall be entitled to an injunction to prevent breaches of this Agreement and to enforce specifically the terms and provisions hereof in the Chosen Courts, this being in addition to any other remedy to which they are entitled at Law in equity.

Section 8.10. Entire Agreement; Further Assurance. This Agreement, the Stock Purchase Agreement (including the agreements, schedules, exhibits, documents or instruments referred to therein) and the other Transaction Documents embody the entire agreement and understanding of the Parties in respect of the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, among the parties, or between any of them, with respect to the subject matter hereof and thereof. The Parties agree that, on and after the Effective Date, they shall execute any documents, instruments or conveyances of any kind which may be reasonably necessary to carry out any of the provisions hereof.

Section 8.11. No Third Party Beneficiaries. This Agreement is not intended to, and does not, create any rights or benefits of any party other than the Parties.

Section 8.12. Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated hereby to be unreasonable.

Section 8.13. Construction. Unless the context of this Agreement otherwise requires: (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms “hereof,” “herein,” “hereby” and derivative or similar words refer to this entire Agreement; (iv) the terms “Article” or “Section” refer to the specified Article or Section of this Agreement; (v) the term “or” has, except where otherwise indicated, the inclusive meaning represented by the phrase “and/or”; (vi) the term “including” means “including without limitation”; (vii) the term “foreign” is used with respect to the United States; and (viii) unless the context otherwise requires, an accounting term not otherwise defined in this Agreement has the meaning assigned thereto in accordance with GAAP, consistently applied in accordance with the historical practices of Parent, Seller and HN Life, as the case may be, insofar as such practices are in accordance with GAAP. Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

Section 8.14. Duration. This Agreement shall commence as of the Effective Date and shall continue in effect until the termination date of the final HN Life Health Plan Contract and Renewal Contract, on which date it shall automatically terminate.

Section 8.15. Survival. Articles V, VI, VII and VIII (other than Section 8.5) shall survive the termination of this Agreement.

[Signature Pages follow]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be executed by their respective duly authorized officers, as of the Effective Date.

UNITEDHEALTH GROUP INCORPORATED

By: /s/ G. Mike Mikan
Name: G. Mike Mikan
Title: Executive Vice President
and Chief Financial Officer

UNITED HEALTHCARE INSURANCE COMPANY

By: /s/ G. Mike Mikan
Name: G. Mike Mikan
Title: Executive Vice President
and Chief Financial Officer

OXFORD HEALTH PLANS, LLC

By: /s/ Jeffrey D. Alter
Name: Jeffrey D. Alter
Title: Chairman and Chief Executive Officer

OXFORD HEALTH INSURANCE, INC.

By: /s/ Jeffrey D. Alter
Name: Jeffrey D. Alter
Title: Chairman and Chief Executive Officer

HEALTH NET, INC.

By: /s/ Jay M. Gellert
Name: Jay M. Gellert
Title: President and Chief Executive Officer

HEALTH NET OF THE NORTHEAST, INC.

By: /s/ Paul Lambdin
Name: Paul Lambdin
Title: President

HEALTH NET LIFE INSURANCE COMPANY

By: /s/ Steven J. Sell
Name: Steven J. Sell
Title: President

Exhibit 10.107

TRANSITIONAL TRADEMARK LICENSE AGREEMENT

This **TRANSITIONAL TRADEMARK LICENSE AGREEMENT** ("Agreement") is effective as of the Closing Date (as defined in the SPA), by and among Health Net, Inc., a Delaware corporation ("Parent"), and each of the Acquired Companies (as defined in the SPA).

WHEREAS, Parent, Health Net of the Northeast, Inc., a Delaware corporation, Oxford Health Plans, LLC, a Delaware limited liability company and, solely with respect to Section 8.16, UnitedHealth Group Incorporated, a Minnesota corporation, have entered into a Stock Purchase Agreement, dated as of July 20, 2009 (the "SPA"); and

WHEREAS, in connection with the foregoing, Parent desires to grant to the Acquired Companies a limited license to use certain Licensed Marks (as defined below);

NOW, THEREFORE, in consideration of the mutual promises of the parties hereto, and of good and valuable consideration, it is agreed by and between the parties as follows:

1. **Definitions**. For the purpose of this Agreement, unless specifically defined otherwise in this Agreement, all defined terms will have the meanings set forth in the SPA:

1.1. "**Licensed Marks**" means the Trademarks of Parent, as well as any common law trademarks actually used in connection with and which are necessary for the Acquired Companies, and set forth in Exhibit A attached hereto, which may be updated from time to time by the mutual agreement of the parties.

1.2. "**Trademark Usage Guidelines**" means the written guidelines for proper usage of the Licensed Marks, as in use by Parent immediately prior to the Closing Date. All such guidelines may be revised and updated by Parent from time to time during the term of the license in its reasonable discretion; provided that any changes to such guidelines shall be generally applicable and not be specifically directed at the Acquired Companies.

2. **Licenses; Warranty and Indemnification**.

2.1. License Grants. Subject to the terms and conditions of this Agreement, Parent grants to each of the Acquired Companies a royalty-free, non-exclusive, non-transferable license during the term of this Agreement for each of the Acquired Companies to use the Licensed Marks solely for the purpose of offering, selling, administering or providing healthcare benefits under the Administered Contracts and to wind-up the Business (as defined in the Administrative Services Agreement) (the "Purpose"). This license includes making new materials, websites or electronic media using the Licensed Marks and continuing use of the HEALTH NET mark in Acquired Company names for the Purpose.

2.2. License Restrictions. Each of the Acquired Companies agrees not to use the Licensed Marks in any manner except for the Purpose. The Acquired Companies shall not misrepresent to any Person the scope of their authority under this Agreement, or incur or authorize any expenses or liabilities chargeable to Parent. The Acquired Companies shall use the Licensed Marks during the term of the license only in a manner that is consistent with Parent's Trademark Usage Guidelines, including all required trademark notices. The Acquired

Companies agree not to take any action inconsistent with such ownership and further agree to provide, at Parent's reasonable expense, any commercially reasonable assistance to Parent, which Parent deems necessary to establish and preserve Parent's exclusive rights in and to the Licensed Marks. In the event Parent takes any action that claims damages for infringement of the Licensed Marks, the Acquired Companies shall be entitled any recovery or award that relates to damages incurred by the Acquired Companies, provided that the affected Acquired Company reimburse Parent for its costs related to such recoveries and awards, including reasonable attorney's fees. The Acquired Companies shall not adopt, use or attempt to register any trademarks or trade names that are confusingly similar to the Licensed Marks or in such a way as to create combination marks with the Licensed Marks. The Acquired Companies shall provide Parent's representative [name] at [address and e-mail address] with samples of all materials that use the Licensed Marks for Parent's quality control purposes, prior to any public use or display of such materials or upon Parent's written request (unless such materials have been used by an Acquired Company prior to the Closing Date or have been created by the Administrator in connection with its services under the Administrative Services Agreements).

2.3. Warranty and Indemnification. Parent represents and warrants that (a) it owns all right, title and interest in and to the Licensed Marks; (b) it has the right to grant the licenses granted in this Agreement; (c) to Parent's knowledge, there is no pending, existing or threatened opposition or other legal or governmental proceeding before any court or registration authority against or involving the Licensed Marks; (d) except as Parent has disclosed in the Seller Disclosure Schedule of the SPA, no claims have been made by Parent against any third party alleging that such third party is interfering with, infringing upon or misappropriating any of the Licensed Marks; (e) the grant of rights as set forth in Section 2.1 will not require any approval of any Governmental Entity or the consent of any third party in respect of the Licensed Marks; (f) to Parent's knowledge, the Acquired Companies' use of the Licensed Marks pursuant to the terms of this Agreement will not interfere with, infringe upon, dilute or misappropriate any intellectual property right of any third party; (g) as of the Closing Date, there are no settlements, judgments, orders or other agreements which restrict the rights of Parent, and which may restrict the rights of the Acquired Companies, to use the Licensed Marks as permitted under the terms of this Agreement; and (h) the Licensed Marks identified as registered marks include all registered marks used in the Business as of the Closing Date. Parent agrees to indemnify, hold harmless and defend each Acquired Company against any third party claim, demand, cause of action, debt, expense or liability (including reasonable attorney's fees and costs), to the extent that it is based upon a claim that as a result of the material uncured breach of one of the foregoing warranties, an Acquired Company's use of the registered Licensed Marks as permitted in this Agreement is an infringement or other violation of the rights of such third party. In the event an Acquired Company indemnified party has a claim for indemnity against Parent under the terms of the SPA, the parties shall follow the procedures set forth in Section 7.4(a) and 7.4(b) of the SPA and the indemnity shall be subject to the limits and other terms regarding indemnification set forth in the SPA as well as this Agreement.

3. **Ownership of Licensed Marks; Maintenance**. The Acquired Companies acknowledge Parent's claim of exclusive ownership of the Licensed Marks. As between the parties hereto, Parent shall own all right, title and interest in the Licensed Marks. The Acquired Companies agree not to challenge the ownership or validity of the Licensed Marks. The Acquired

Companies' use of the Licensed Marks shall inure exclusively to the benefit of Parent, and the Acquired Companies shall not acquire or assert any rights therein. The Acquired Companies recognize the value of the goodwill associated with the Licensed Marks, and that the Licensed Marks may have acquired secondary meaning in the minds of the public. Parent agrees to use commercially reasonable efforts, at its cost and expense, to maintain any and all registrations and/or applications for any registered Licensed Marks in full force and effect for the duration of this Agreement, provided that such Licensed Marks continue to be used commercially by either of Parent or any of the Acquired Companies.

4. **Term of License**. The term of the license granted pursuant to Section 2.1 hereof shall begin on the Closing Date and extend through the administration of the Administered Contracts and the Business (as defined in the Administrative Services Agreement), including any run-off under the Claims Servicing Agreements, and the wind-up of all of the Acquired Companies, to the extent reasonably necessary for such wind-up, unless terminated sooner pursuant to the provisions of Section 5 below.

5. **Termination**.

5.1. Termination for Cause. If Parent notifies an Acquired Company that the Acquired Company's use of the Licensed Marks does not materially comply with the Trademark Usage Guidelines, or if Parent notifies an Acquired Company that the Acquired Company is otherwise in material breach of its obligations under this Agreement (in each case specifying the non-compliance or breach), the affected Acquired Company shall immediately correct such identified defects or cure such material breach. If such defects are not corrected or such material breach is not cured to Parent's reasonable satisfaction within thirty (30) days from delivery of notice, Parent shall have the right to terminate this Agreement, as to the affected Acquired Company.

5.2. Effect of Termination. Immediately upon termination of this Agreement, the license granted in Section 2.1 shall terminate, and the Acquired Companies shall cease and desist all use of the Licensed Marks for any and all purposes, subject to a reasonable period to phase out use and exhaust inventories of cards, letterheads, advertisement and promotional materials and other materials using the Licensed Marks and to change the names of the Acquired Companies. The Acquired Companies shall have the right after the expiration of the term or any termination to (a) keep existing records and other historical or archived documents containing or referencing the Licensed Marks, (b) use the Licensed Marks to the extent required by or permitted as a fair use under any applicable laws, rules or regulations (including without limitation any continued use of the Licensed Marks reasonably necessary to comply with applicable state-level department of insurance requirements), (c) refer to the historical fact that the Acquired Companies have previously conducted their respective businesses under the Licensed Marks; and (d) use as minimally required for the administration of the Administered Contracts and the Business (as defined in the Administrative Services Agreement), including any run-off under the Claims Servicing Agreements, not completed before the wind-up of all of the Acquired Companies.

5.3. Survival. Sections 2.3, 3, 5.2, 5.3, 6 and 7 shall survive the termination of this Agreement.

6. **Limitation of Liability**. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, IN NO EVENT SHALL PARENT BE LIABLE TO THE ACQUIRED COMPANIES, OR TO ANY THIRD PARTY CLAIMING THROUGH OR UNDER THE ACQUIRED COMPANIES, FOR ANY LOST PROFITS, OR FOR ANY INDIRECT, SPECIAL OR CONSEQUENTIAL DAMAGES, EVEN IF PARENT HAS BEEN ADVISED OF THE POSSIBILITY THEREOF. Each party hereto acknowledges that the foregoing limitations are an essential element of the Agreement between the parties and that in the absence of such limitations the pricing and other terms set forth in this Agreement would be substantially different.

7. **Miscellaneous**.

7.1. No Obligation to Obtain Marks. Neither the Acquired Companies nor Parent, nor any of their Subsidiaries or Affiliates, are obligated to: (a) file any new application for registration of any trademark, or to secure any new rights in any trademarks; or (b) provide any assistance, except for the obligations expressly assumed in this Agreement, including Section 3.

7.2. Amendment and Modification. This Agreement may be amended, modified or supplemented, only by a written agreement signed by each of the parties hereto.

7.3. Waiver of Compliance; Consents. Any failure of the Acquired Companies, on the one hand, or Parent, on the other hand, to comply with any obligation, covenant, agreement or condition herein may be waived by Parent or the Acquired Companies, respectively, only by a written instrument signed by the party or parties granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Agreement requires or permits consent by or on behalf of any party, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 7.3.

7.4. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by telecopier (with a confirmed receipt thereof) or registered or certified mail (postage prepaid, return receipt requested), and on the next Business Day when sent by overnight courier service, to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) if to the Acquired Companies, to:

UnitedHealthcare, Inc.
5901 Lincoln Drive
Edina, MN 55426-1611
Facsimile: (952) 992-5250
Attention: Chief Financial Officer & General Counsel

and

Oxford Health Plans, LLC
One Penn Plaza
New York, NY 10019
Facsimile: (203) 459-7171
Attention: Northeast Region Chief Executive Officer

and

UnitedHealth Group Incorporated
9900 Bren Road East
Minnetonka, MN 55343
Facsimile: (952) 936-0044
Attention: General Counsel
and
Facsimile: (952) 936-3007
Attention: Vice President, Corporate Development

with a copy to:

Dorsey & Whitney LLP
Suite 1500
50 South Sixth Street
Minneapolis, MN 55402
Facsimile: (612) 340-2868
Attention: Neal N. Peterson, Esq.

(b) if to Parent, to:

Health Net, Inc.
21650 Oxnard Street
Woodland Hills, CA 91367
Facsimile: (818) 676-7503
Attention: Linda V. Tiano, Senior Vice President, General Counsel and Secretary

with a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, CA 90071-1560
Facsimile: (213) 891-8763
Attention: James Beaubien, Esq.
Julian Kleindorfer, Esq.

7.5. Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any of the parties without the prior written consent of the other parties, which shall not be unreasonably withheld or delayed.

7.6. Governing Law; Submission to Jurisdiction; Waiver of Jury Trial. This Agreement shall be governed by and construed in accordance with the internal laws of the state of New York applicable to agreements made and to be performed entirely within such state, without regard to the choice of law principles thereof. Each of Parent and the Acquired Companies hereby irrevocably and unconditionally consents to submit to the sole and exclusive jurisdiction of the United States District Court for the Southern District of New York and of any New York State Court sitting in the Borough of Manhattan, the City of New York (the "Chosen Courts") for any litigation arising out of or relating to this Agreement, or the negotiation, validity or performance of this Agreement (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the laying of venue of any such litigation in the Chosen Courts and agrees not to plead or claim in the Chosen Courts that such litigation brought therein has been brought in any inconvenient forum. The parties waive the right to trial by jury with respect to any claims hereunder. The parties further irrevocably consent to the service of process out of the Chosen Courts in any such action or proceeding by the mailing of copies thereof by registered or certified mail, postage prepaid, to the parties at their addresses referred to in Section 7.4 hereof.

7.7. Interpretation. The section headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Agreement. The parties hereto are sophisticated, represented by counsel and jointly have participated in the negotiation and drafting of this Agreement and there shall be no presumption or burden of proof favoring or disfavoring any party by virtue of the authorship of any provision of this Agreement.

7.8. Specific Performance. The parties hereto agree that irreparable damage would occur in the event any of the provisions of this Agreement were not to be performed in accordance with the terms hereof and that the parties shall be entitled to specific performance of the terms hereof in addition to any other remedies at law or in equity.

7.9. No Third Party Beneficiaries. This Agreement is not intended to, and does not, create any rights or benefits of any party other than the parties hereto; provided that Oxford Health Plans, LLC shall be a third party beneficiary for purposes of enforcing the rights of the Acquired Companies.

7.10. Severability. Wherever possible, each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated hereby to be unreasonable.

7.11. Construction. Unless the context of this Agreement otherwise requires: (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Agreement; (iv) the term "Section" refers to the specified Section of this Agreement; (v) the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or"; and (vi) the term "including" means "including without limitation". Whenever this Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

7.12. Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed to be an original and all of which together shall be deemed to be one and the same instrument. Copies of executed counterparts transmitted by telecopy, telefax or other electronic transmission service shall be considered original executed counterparts for purposes of this Section 7.12, provided that receipt of copies of such counterparts is confirmed.

(Signature Pages Follow)

IN WITNESS WHEREOF, the parties hereto have signed this Transitional Trademark License Agreement effective as of the Closing Date first set forth above.

PARENT:

HEALTH NET, INC.

By: /s/ Jay M. Gellert
Name: Jay M. Gellert
Title: President and Chief Executive Officer

ACQUIRED COMPANIES:

HEALTH NET OF CONNECTICUT, INC.

By: /s/ Paul Lambdin
Name: Paul Lambdin
Title: President

HEALTH NET OF NEW YORK, INC.

By: /s/ Anju Sikka, M.D.
Name: Anju Sikka, M.D.
Title: President

HEALTH NET INSURANCE OF NEW YORK, INC.

By: /s/ Steven J. Sell
Name: Steven J. Sell
Title: President

FOHP, INC.

By: /s/ Paul Lambdin
Name: Paul Lambdin
Title: President

HEALTH NET OF NEW JERSEY, INC.

By: /s/ Paul Lambdin
Name: Paul Lambdin
Title: President

HEALTH NET SERVICES (BERMUDA) LTD.

By: HEALTH NET OF THE NORTHEAST, INC.

By: /s/ Steven J. Sell
Name: Steven J. Sell
Title: President

EXHIBIT A

LICENSED MARKS

Registered Marks

A Better Decision, including U.S. Reg. No. 3,514,033

Decision Power, including U.S. Reg. No. 3,136,525

Health Net, including U.S. Reg. Nos. 2,927,099, 1,147,331

HN (logo), including U.S. Reg. No. 2,729,806

MHN, including U.S. Reg. No. 2,212,107

Pregnancy Matters, including U.S. Reg. No. 2,765,239

Quitting Matters, including U.S. Reg. No. 2,730,393

Other Marks

All other common law marks and domain names in use by the Acquired Companies as of the Closing Date.

Exhibit 10.108

ADMINISTRATIVE SERVICES AGREEMENT

by and among

HEALTH NET, INC.,

HEALTH NET OF THE NORTHEAST, INC.,

_____,[1]

UNITED HEALTHCARE SERVICES, INC.,

and

UNITEDHEALTH GROUP INCORPORATED,

Solely with Respect to Section 2.4(b)

Dated December 11, 2009

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[1] Each of the following entities has entered into an Administrative Services Agreement based on this form: Health Net of Connecticut, Inc., Health Net of New Jersey, Inc., Health Net Insurance of New York, Inc., Health Net of New York, Inc. and Health Net Services (Bermuda) Ltd.

The Administrative Services Agreements of Health Net of New Jersey, Inc. and Health Net of New York, Inc. do not contain the provisions regarding Medicare products, plans, or businesses found herein.

The Administrative Services Agreements of Health Net of Connecticut, Inc., Health Net Services (Bermuda) Ltd., Health Net of New York, Inc. and Health Net Insurance of New York do not contain the provisions regarding Medicaid products, plans, or businesses found herein.

The Administrative Services Agreements of Health Net of Connecticut, Inc., Health Net of New York, Inc. and Health Net of New Jersey, Inc. do not contain the provisions regarding the Joint Medicare PDP Contract found herein.

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ADMINISTRATIVE SERVICES AGREEMENT

This ADMINISTRATIVE SERVICES AGREEMENT (this "Administrative Services Agreement") is made and entered into on December 11, 2009, 2009 (the "Effective Date"), by and among Health Net, Inc., a Delaware corporation (the "Parent"), Health Net of the Northeast, Inc., a Delaware corporation (the "Administrator"), UnitedHealth Group Incorporated, a Minnesota corporation ("UHG"), United HealthCare Services, Inc., a Minnesota corporation ("United") and _____, a _____ (the "Company") (each a "Party" and collectively the "Parties"). UHG is a Party to this Administrative Services Agreement solely for the purposes of Section 2.4(b).

RECITALS

WHEREAS, the Company and Administrator are parties to the Stock Purchase Agreement (as defined below), which provides for, among other things, the Company and the Administrator to enter into this Administrative Services Agreement;

WHEREAS, the Company has determined that it will wind down its businesses and exit the market in which the Business operates as soon as practicable after the Effective Date;

WHEREAS, the Company wishes to appoint the Administrator to provide certain administrative services with respect to the Business and the Administered Contracts during the period between the Effective Date and the wind down of the Company, and the Administrator desires to provide such administrative services; and

WHEREAS, this Administrative Services Agreement, duly executed by the Parties, must be delivered at the closing of the transactions contemplated by the Stock Purchase Agreement.

AGREEMENT

NOW, THEREFORE, in consideration of the mutual benefits to be received by the Parties and the mutual covenants and agreements contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties agree as follows:

ARTICLE I.

DEFINITIONS

Capitalized terms used in this Administrative Services Agreement but not defined herein, unless otherwise indicated, have the respective meanings assigned to them in the Business Transition Agreement, as applicable.

The following terms shall have the respective meanings set forth below throughout this Administrative Services Agreement:

"Administered Contracts" shall mean the Insurance/HMO Contracts, and the ASO Contracts, and the Medicaid Plan Contract, and the Medicare Plan Contracts, including in each case any Renewal Contracts, each as set forth on Schedule 1 and as updated pursuant to Section 10.3(e), which Schedule 1 shall include, among other items, the name, address, telephone number and plan type of each Contract Holder and the renewal date of each such Administered Contract. The information on Schedule 1, as updated pursuant to Section 10.3(e), may include Nonpublic Personal Information, the treatment of which shall be governed by Section 13.3.

"Administrative Services" shall have the meaning set forth in Section 2.1(a).

"Administrative Services Agreement" means this Administrative Services Agreement.

"Administrative Services Agreements" means, collectively, this Administrative Services Agreement together with each other Administrative Services Agreement entered into pursuant to the Stock Purchase Agreement.

"Administrative Services Fee" means the "fully loaded" amount of the Administrator's direct and indirect costs and expenses incurred by the Administrator or its Affiliates in connection with the provision of the Administrative Services hereunder.

"Administrator" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

"Affiliate" shall mean any Person controlling, controlled by or under common control with such Person and shall also include any Person 50% or more of whose outstanding voting power is owned by the specified Person either directly or indirectly through Subsidiaries.

"ASO" shall mean administrative services only business, if any, of the Company for employers' self-funded benefit plans.

"ASO Contracts" shall mean those contracts, if any, in which the Company agrees to provide administrative services with respect to employers' self-funded benefit plans constituting part of the Business which were entered into by the Company prior to or on the Effective Date or which are Renewal Contracts.

"Bank Account" shall have that meaning set forth in Section 15.1.

"Baseball Arbitrator" shall have that meaning set forth in Section 12.3.

"Books and Records" shall mean claims files, underwriting files, contract form files, rate files and filings, enrollment files, billing files, regulatory compliance files, Broker/Consultant files and records, actuarial support files, franchise tax records, enrollment change history by effective date records, Premium tax records, assessment and state stop-loss/risk pool records, Premium receivable files and information with respect to plan designs and enrollment census information regarding the Company's membership, whether stored electronically or otherwise, as maintained by the Company, either directly or through an Affiliate or other entity providing administrative services for the Company.

"Brokers/Consultants" shall mean all Persons who are parties to broker, producer, consultant, agency or other similar agreements pursuant to which such Persons arrange for sales of Administered Contracts to Customers. The definition of Brokers/Consultants does not include the Company or Persons who are employees of the Company or its Affiliates.

"Business" means the Company's business of offering, selling, administering or providing health care benefits under the Administered Contracts, including the Medicare Business and Medicaid Business, as conducted by the Company prior to the Effective Date.

"Business Day" means any day which is not a Saturday, Sunday or legal holiday recognized by the United States of America.

"Business Transition Agreement" means the Business Transition Agreement by and between UHG, Parent, the Administrator, Health Net Life, Inc., UnitedHealthcare Insurance Company, Oxford Health Plans, LLC, and Oxford Health Insurance, Inc. dated as of the Effective Date.

"Buyer TNE Account" shall have the meaning set forth in Section 2.7.

"CAP" shall have the meaning set forth in Section 3.1(c).

"Chosen Courts" shall have the meaning set forth in Section 18.5.

"Claim" or "Claims" means any and all claims, requests, demands or notices made by or on behalf (whether by Providers or otherwise) of Contract Holders for the payment of benefits, payment of amounts owed to Providers who have entered into capitated or other risk-sharing contracts, partial withdrawals, surrenders, returns of Premiums or any other payments or benefits alleged to be due under or in connection with the Administered Contracts, including interest payable thereon in accordance with applicable Law.

"Claimants" shall have the meaning set forth in Section 6.2(a).

"Commissions" means all commissions, expense allowances, benefit credits, service fees, payments and other fees and compensation payable to Brokers/Consultants with respect to the Administered Contracts.

"Company" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

"Contract Holders" means with respect to each Administered Contract, any individual Person identified as a policyholder, enrollee, insured (including any additional insured) or permitted assignee (other than Providers in their capacity as a Provider and not as a Customer) under the Administered Contract, including any Medicare or Medicaid members.

"Covered Services" shall mean such medical, hospital and other health care services eligible for payment or reimbursement pursuant to an Administered Contract.

"Customer" means any Person, other than Administrator or the Company, who is a party to an Administered Contract (except that with respect to group plans maintained by the Administrator with respect to its own employees, the Administrator is also a Customer).

"Effective Date" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

"Equity Interest" means, with respect to any Person, any share of capital stock of, general, limited or other partnership interest, membership interest or similar ownership interest under the Laws of a jurisdiction outside the United States, in such Person.

"Expiration Date" shall have the meaning set forth in Section 16.1.

"Governmental Entity" means any foreign, federal, state, municipal or other governmental department, commission, board, bureau, agency or instrumentality.

"Health Assessments Monthly Accounting" shall have that meaning set forth in Section 10.3(c).

"Health Care Costs" means the costs and expenses reflected on the Company's general ledger under the accounts set forth on Exhibit 1, Post-Effective Date Assessments, Premium Taxes and Commissions.

"HIPAA" shall have that meaning set forth in Section 13.3(a).

"HN Life" means Health Net Life Insurance Company, a California corporation.

"Insurance/HMO Contracts" means collectively, all contracts of insurance or certificates of coverage or health maintenance organization products constituting part of the Business which were entered into by the Company prior to or on the Effective Date or which are Renewal Contracts, including policies, certificates, riders, binders, slips and certificates (including applications therefor and all supplements, endorsements, riders and agreements in connection therewith), and any other agreements of insurance or reinsurance, and binding quotations written by or on behalf of the Company in connection with the Business prior to or on the Effective Date or in connection with Renewal Contracts.

"Joint Medicare PDP Contract" shall mean Contract Number S5678 between HN Life, Health Net Insurance of New York, Inc. and CMS.

"JOR" shall have that meaning set forth in Section 12.2.

"Law" means any applicable federal, state or local statute, law (including common law), ordinance, regulation, rule, ruling, order, writ, injunction, decree, regulatory settlement or stipulation, including all applicable health care and insurance laws.

"Legal Proceeding" or "Legal Proceedings" shall have the meaning set forth in Section 7.2(a)(i).

"Management Functions" means any function for which the Company may contract only with the approval of an applicable Governmental Entity, including (1) maintenance of the Books and Records; (2) disposition of assets and incurrence of liabilities normally associated with the day to day operations of the Company; (3) implementation of policies affecting the delivery of health care services; (4) Claims payment; (5) implementation of the Company's budgets and provision for annual audits; (6) quality assurance and improvement activities; (7) any utilization review activity; and (8) investigation of cases of suspected fraudulent and abusive activity and fraud and abuse prevention and reduction activities under the Company's fraud and abuse prevention plan.

"Material Subcontract" shall have the meaning set forth in Section 3.4.

"Medicaid Business" means the Company's business of providing services to individuals who receive their coverage under the Company's Medicaid Plan Contract.

"Medicaid Plan Contract" means the Agreement to Provide HMO Services between Health Net of New Jersey, Inc. and the State of New Jersey, Department of Human Services, Division of Medical Assistance and Health Services (DMAHS), effective October 1, 2000, as amended.

"Medical Management Programs" shall have the meaning set forth in Section 8.4.

"Medicare Business" means the Company's business of providing services to groups and individuals who receive their coverage under the Company's Medicare Plan Contracts.

"Medicare Plan Contracts" means the following contracts: (i) Contract Number H0755 between Health Net of Connecticut, Inc. and CMS and (ii) Contract Number H5721 between Health Net Insurance of New York, Inc. and CMS, in each case, including any renewals of such contract[s] through the Expiration Date, and (iii) the Joint Medicare PDP Contract, solely to the extent applicable to Medicare Part D plan members in New York sponsored by Health Net Insurance of New York, Inc.

"Monthly Accountings" shall have the meaning set forth in Section 10.4

"Monthly Compliance Report" shall have the meaning set forth in Section 3.1(d).

"Monthly Premium-By-State Report" shall have the meaning set forth in Section 10.3(a).

"Monthly Premium Tax Accounting" shall have the meaning set forth in Section 10.4.

"Nonpublic Personal Information" shall have that meaning set forth in Section 13.3(a).

"NY Medicare PDP Members" shall have the meaning set forth in Section 9.3.

"Parent" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

"Participating Providers" shall mean those physicians, facilities, and other health care providers who provide Covered Services pursuant to a provider agreement with the Company or the Administrator.

"Party" or "Parties" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

"PBM Services" shall have the meaning set forth in Section 9.1(d).

"Person" shall mean any individual, corporation, partnership, limited partnership, joint venture, limited liability company, trust or unincorporated organization or Governmental Entity or any other entity.

"Post-Effective Date Assessments" shall have that meaning set forth in Section 10.3(c).

"Premiums" means premiums, considerations, deposits and similar receipts with respect to the Administered Contracts.

"Providers" shall mean physicians, facilities, and other health care providers whether or not they are a Participating Provider.

"Quarterly Compliance Report" shall have that meaning set forth in Section 3.1(c).

"Renewal Contracts" shall have that meaning set forth in Article V.

"Representative" shall have that meaning set forth in Section 13.1.

"Retained Services" shall have that meaning set forth in Section 2.3(b).

"Seller Commercial Account" shall have the meaning set forth in Section 2.7.

"Service Standards" shall have that meaning set forth in Section 3.1(a).

"Stock Purchase Agreement" means the Stock Purchase Agreement dated as of July 20, 2009 entered into by and among Oxford Health Plans, LLC, UHG, the Administrator, and the Parent.

"Subcontractor" shall have the meaning set forth in Section 3.4.

"Subsidiary" means, with respect to any Person, any corporation 50% or more of the outstanding voting power of which, or any partnership, joint venture, limited liability company or other entity 50% or more of the total Equity Interest of which, is directly or indirectly owned by such Person. For purposes of this Agreement, all references to "Subsidiaries" of a Person shall be deemed to mean "Subsidiary" if such Person has only one subsidiary.

"Tax" means all taxes, charges, fees, levies or other assessments, however denominated and imposed by a taxing authority whether within or without the United States, including all net income, gross income, gross receipts, sales, use, net proceeds, ad valorem, turnover, real, personal and other property (tangible and intangible), goods and services, capital, transfer, Premium, franchise, profits, license, withholding, payroll, employment, excise, estimated, severance, stamp, leasing, lease, user, transfer, fuel, excess profits, interest equalization, windfall profits, occupation, custom, duties, fees, assessments or charges of any kind whatsoever, including, without limitation, all interest and penalties thereon, any liability for taxes of a predecessor entity, and the recapture of any tax items such as investment tax credits, together with any interest and any penalties, additions to tax or additional amounts with respect thereto, whether computed on a separate or consolidated, unitary or combined basis or in any other manner, whether disputed or not and including any obligation to indemnify or otherwise assume or succeed to the tax liability of other persons, or with respect to any information reporting requirements imposed by any Governmental Entity.

"Tax Returns" means, collectively, all returns, declarations, reports, claims for refund, information returns and statements required to be filed with any Governmental Entity under applicable federal, state, local or any foreign Tax Law, and all returns, forms or other documents required to be retained by the Company in compliance with applicable Tax reporting and withholding Laws.

"Third Party" shall have the meaning set forth in Section 9.1(d).

"Transition G&A" shall have the meaning set forth in Section 16.2(e).

"UHG" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

"United" shall have the meaning set forth in the preamble of this Administrative Services Agreement.

ARTICLE II.

AUTHORITY; ADMINISTRATIVE SERVICES; RETAINED SERVICES

Section 2.1. Appointment.

(a) Subject to Section 2.3 hereof, the Company hereby appoints the Administrator, and the Administrator hereby accepts such appointment, to provide as an independent contractor of the Company, from and after the Effective Date, on the terms as set forth in this Administrative Services Agreement, administrative services to administer and operate the Business and to administer and comply with the Administered Contracts, including delegated Management Functions, other than the Retained Services (collectively, the "Administrative Services"). The Administrative Services include those services set forth on the attached Schedule 2.1. Nothing in this Administrative Services Agreement shall relieve the Company from any obligation or duty under any existing contract with a Governmental Entity, as set forth in the attached Exhibit 2.5 or Exhibit 2.6.

(b) The Company acknowledges and agrees that, pursuant to applicable Law, it is required to, and shall exercise oversight over the performance of the Administrator's duties as described herein.

(c) The Company has determined to wind down its business operations. From and after the Effective Date, with respect to each Administered Contract, Administrator shall cease renewing such contracts on behalf of the Company as soon as allowable by applicable Law, except for Renewal Contracts.

(d) For the avoidance of doubt, nothing in this Administrative Services Agreement will require the Administrator to provide Administrative Services other than with respect to the Administered Contracts or the Business.

(e) [The governing authority of Company shall retain ongoing responsibility for statutory and regulatory compliance. Company's responsibilities are in no way lessened by entering into this Administrative Services Agreement. Any powers not specifically delegated to Administrator through the provisions of this Administrative Services Agreement remain with the governing authority of Company.][2]

Section 2.2. Administrative Services.

(a) The Administrator shall serve as the Company's finance, accounting, marketing, claims and administrative agent for the Administered Contracts, and as the provider of the Administrative Services.

(b) In order for the Administrator to fulfill its obligations pursuant to this Administrative Services Agreement, the Company hereby appoints the Administrator as its attorney-in-fact, and grants the Administrator the authority to act on behalf of the Company with respect to matters arising in the ordinary course of business, to carry out the Company's obligations under its contracts, including the Administered Contracts and contracts with vendors, and as necessary to perform the Administrator's duties under this Administrative Services Agreement.

Section 2.3. Retained Authority.

(a) Nothing herein is intended or shall be construed to relieve the Company of ultimate responsibility for compliance with all applicable Law or the terms of the Administered Contracts. [The governing authority of Company shall be responsible for the establishment and oversight of Company's policies, management and overall operation, regardless of the existence of this Administrative Services Agreement or any other management contract.][3]

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[2] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

[3] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

(b) Notwithstanding any other provision of this Administrative Services Agreement to the contrary, (i) the Company retains any such authority as may be required by Law [sufficient authority and control to discharge its responsibility as the governing authority of Company, including the authority to discharge Administrator][4], and (ii) the Company shall, for the term of this Administrative Services Agreement, continue to provide on its own behalf those administrative services with respect to the Business or the Administered Contracts that are required under applicable Law to be performed by the Company (the "Retained Services"). Specifically, the Company retains (1) direct independent authority to hire or terminate the Company's chief executive officer; (2) the power to adopt budgets and exercise independent control over the Books and Records; (3) authority over the disposition of assets and the authority to incur on behalf of the Company liabilities not normally associated with the day to day operation of the Company, and in this connection directs the Administrator to wind down the business of the Company as soon as practicable consistent with applicable Law; (4) independent adoption and/or enforcement of policies affecting the operation of the Company and the delivery of health care services; provided that Administrator's obligations to implement such policies are subject to this Administrative Services Agreement; (5) oversight by the Company of any Management Functions delegated to the Administrator and any other management contractor; (6) underwriting and pricing of the Insurance/HMO Contracts and the Renewal Contracts, subject to Article V; (7) the right to direct the Administrator to perform necessary action required or contemplated by the Administered Contracts or the administration thereof to comply with applicable Law, or to cease performing any action that constitutes a violation of applicable Law; and (8) primary responsibility for the development and implementation of the Company's fraud and abuse prevention plan, and in that connection hereby adopts the fraud and abuse plan set forth in Schedule 2.3.

Section 2.4. Parent and UHG Guarantees.

(a) Parent hereby guarantees the full, complete and timely performance by the Administrator of the obligations of the Administrator under this Administrative Services Agreement. If the Administrator defaults in the performance of any such obligations, then Parent will perform or cause to be performed such obligation immediately upon notice from the Company or any of its Affiliates specifying the default. The Company or any of its Affiliates may proceed to enforce its rights against Parent from time to time prior to, contemporaneously with, or after any enforcement against the Administrator or without any enforcement against the Administrator. The guarantee set forth in this Section 2.4(a) shall be deemed a continuing guarantee and shall remain in full force and effect until the satisfaction in full of all obligations of the Administrator under this Administrative Services Agreement.

(b) UHG hereby guarantees the full, complete and timely performance by the Company and United of the obligations of the Company and United under this Administrative Services Agreement. If the Company or United defaults in the performance of any such obligations, then UHG will perform or cause to be performed such obligation immediately upon notice from the Administrator or any of its Affiliates specifying the default. The Administrator or any of its Affiliates may proceed to enforce its rights against UHG from time to time prior to, contemporaneously with, or after any enforcement against the Company or United or without any enforcement against the Company or United. The guarantee set forth in this Section 2.4(b) shall be deemed a continuing guarantee and shall remain in full force and effect until the satisfaction in full of all obligations of the Company and United under this Administrative Services Agreement.

[4] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 2.5. Administration of Medicare Business. The Administrator shall administer the Medicare Business (including any run-out of claims incurred prior to novation or transfer, if any, of such Medicare Business to a Legacy United Entity Plan) as set forth in Exhibit 2.5. To the extent that the provisions set forth in Exhibit 2.5 conflict with any other provisions set forth herein, the provisions of Exhibit 2.5 shall be controlling with respect to administration of the Medicare Plan Contracts.

Section 2.6. Administration of Medicaid Business. The Administrator shall administer the Medicaid Business (including any run-out of claims incurred prior to novation or transfer, if any, of such Medicaid Business to a Legacy United Entity Plan) as set forth in Exhibit 2.6. To the extent that the provisions set forth in Exhibit 2.6 conflict with any other provisions set forth herein, the provisions of Exhibit 2.6 shall be controlling with respect to administration of the Medicaid Plan Contract.

Section 2.7. Investment Authority. Pursuant to the Stock Purchase Agreement, the Company has segregated the cash and securities held by it from time to time into two notional accounts (the "Buyer TNE Account" and "Seller Commercial Account", as defined in the Stock Purchase Agreement). After the Effective Date, each of the Buyer TNE Account and the Seller Commercial Account shall be credited and debited with cash or securities in accordance with the Stock Purchase Agreement. The Company shall administer and manage all cash and securities deemed to be held in the Seller Commercial Account pursuant to the investment policy attached as Schedule 2.7; provided, however, the Administrator may at any time give the Company express instructions regarding the Seller Commercial Account, which the Company shall be obligated to follow so long as such instructions are not in violation of such investment policy.

ARTICLE III.

STANDARDS FOR SERVICES

Section 3.1. Service Standards.

(a) The Administrator shall perform Administrative Services in all material respects at the level performed by the Administrator (on behalf of the Company) immediately prior to the Effective Date, taking into account the winding up and running out of the Business as contemplated under this Administrative Services Agreement. Without limiting the generality of the foregoing, the Administrator shall provide the Administrative Services in all material respects (i) in accordance with the terms of the Administered Contracts, (ii) in compliance with applicable Law, (iii) consistent with the Company's historical practices and (iv) in accordance with the standards and targets set forth in the attached Exhibit 3.1(a) (collectively, the "Service Standards"). The Company may not change, amend or alter the Service Standards without the Administrator's prior written consent; provided, however, to the extent material changes in Law (including changes in interpretation of existing Law by a Governmental Entity) result in a degradation of the Administrator's ability to comply with the Service Standards, the Parties will cooperate to develop adjustments to the Service Standards, taking into account such change in Law.

(b) Within twenty (20) days after each calendar month after the Effective Date, the Administrator shall prepare and submit to the Company a report of the Administrator's compliance with the Service Standards for the immediately preceding month and all prior months subsequent to the Effective Date (the "Monthly Compliance Report"), determined in accordance with the past practices of the Administrator and the Company, as applicable, immediately prior to the Effective Date. If the Monthly Compliance Report establishes the Administrator's non-compliance with any Service Standard during the preceding month, then the Administrator shall promptly take steps, using commercially reasonable efforts, to correct the deficiency. For purposes of this Section 3.1 and Section 16.2, "non-compliance" means the Administrator (or its permitted Subcontractor) failed to meet a Service Standard target set forth in Exhibit 3.1(a).

(c) If the Monthly Compliance Report received by the Company after each calendar quarter (the "Quarterly Compliance Report") reveals that the Administrator has failed, on average, to comply with any Service Standard for such calendar quarter, the Administrator shall, within ten (10) Business Days after the delivery of such Quarterly Compliance Report to the Company, (i) develop a corrective action plan ("CAP") with respect to such Service Standard and (ii) shall pay the Company the penalty for the applicable Service Standard, as set forth on Schedule 3.1(a). Each CAP shall include a reasonable estimate of the timeframe expected for implementing the CAP and correcting the Service Standard deficiency. The Company shall approve or disapprove of such CAP within ten (10) Business Days of receipt, such approval not to be unreasonably withheld. If the Company disapproves such CAP, then the Parties shall work together in good faith to arrive at a mutually acceptable CAP. The Administrator shall promptly commence implementation of such CAP upon approval of the CAP by the Company.

(d) In each Monthly Compliance Report submitted to the Company after the approval of a CAP, the Administrator shall include a summary of its compliance with any outstanding CAPs.

(e) The implementation of a CAP does not relieve the Administrator from any monetary penalties due under this Section 3.1 or any indemnification obligation related to the failure to meet any Service Standard.

(f) If the Administrator does not comply with a Service Standard as a result of the Company's failure to perform a Retained Service (i.e., the Administrator would have achieved the Service Standard but for the Company's failure to perform such Retained Service) or due to the circumstances described in Section 9.1(b), the Administrator shall be relieved, to the extent permitted by applicable Law, of any obligation to comply with such Service Standard and shall not be obligated to adopt a CAP or pay any monetary penalty unless and until the Company resumes performance of the Retained Service or the Services Standards are adjusted as set forth in Section 9.1(b).

Section 3.2. Systems and Personnel. The Administrator shall provide and maintain necessary facilities, including physical space, systems and trained personnel in sufficient numbers and with sufficient experience, skill and expertise, to perform its obligations under this Administrative Services Agreement in accordance with the Service Standards set forth herein. Prior to the Expiration Date, Administrator shall not sunset, decommission or otherwise eliminate any Claims payment, financial or other systems or databases holding information primarily related to the Business, if such sunset, decommission or elimination would materially impair the Administrator's ability to meet the Service Standards, without the prior written consent of United (which consent will not be unreasonably withheld or delayed). Notwithstanding the foregoing, nothing in this Section 3.2 shall prohibit the Administrator from migrating the portion or components of existing Claims payment, financial or other systems or databases holding information related to the Medicare Business to other systems or databases maintained by Parent or its Affiliates as of the Effective Date; provided, that following such migration, the Administrator shall still be subject to the Service Standards. Following the Expiration Date, the Administrator may, in its sole discretion, sunset, decommission or otherwise eliminate any Claims payment, financial or other systems or databases holding information primarily related to the Business without the consent of United, in each case, subject to the Administrator's ability (a) to provide Claims administration services under a Claims Servicing Agreement following the Expiration Date under Section 16.1; (b) to comply with records retention Laws and other applicable Laws; (c) to comply with any continuing obligations under the Administered Contracts; and (d) to respond adequately to Governmental Entity requests and other Legal Proceedings. Notwithstanding anything in this Section 3.2, after any such sunset, decommission or elimination, the Administrator shall maintain back-up of such records, data or other information in a manner as is necessary to comply with any ongoing obligation under the Administered Contracts or as required by applicable Law.

Section 3.3. Compliance; Licensure.

(a) The Administrator shall comply, in all material respects, with all applicable Laws in connection with the performance of its duties hereunder and shall act consistently in all material respects with, and not cause the Company to be out of material compliance with, the terms of the Administered Contracts. Should the Administrator violate any Law relating to the subject matter of this Administrative Services Agreement that results in a fine, penalty or other monetary payment, or settlement imposed (including expense reimbursement) on United or its Affiliates (other than the Company), the Administrator shall bear the expense of such fine, penalty, monetary payment or settlement, unless such expense is identified as a Buyer Cost pursuant to the terms of the Stock Purchase Agreement. The Administrator shall communicate promptly to the Company upon knowledge of the non-renewal, lapse, suspension or termination of any material licenses required by applicable Law in connection with the administration of the Administered Contracts. If, in the ordinary course of operations, the Administrator determines that there exists any material operational concerns or failures with respect to any of the Administered Contracts, the Administrator shall notify the Company and, in consultation with the Company, take all reasonable actions necessary to bring such Administered Contracts into operational compliance.

(b) The Administrator shall use commercially reasonable efforts to ensure that it or any of its Affiliates that is subcontracted to provide any Administrative Services continue to be, and their respective employees, agents and representatives are, or shall become and remain, licensed, in whatever capacity is required, including without limitation utilization review and third-party administrator licenses, by the Governmental Entity of all jurisdictions in which the Company is licensed as of the Effective Date. The Administrator shall bear all costs and expenses relating to its own licensing and the licensing of its employees, agents and representatives.

(c) [The parties acknowledge and agree that this Agreement shall be subject to the requirements of N.J. Rev. Stat. 17B-27B-6 as set forth in the provisions of the Agreement and in the provisions of attached Addendum 1, which is incorporated herein by reference as if fully set forth herein. The provisions of Addendum 1 shall prevail over any provision in the Agreement which may conflict or appear inconsistent with any provision in the Addendum.][5]

Section 3.4. Subcontracting.

(a) The Administrator shall not subcontract the performance of (a) any Management Function or (b) any Administrative Services pursuant to an Administered Contract with annual estimated expenditures with respect to the Acquired Business of at least $200,000 to another Person (the "Subcontractor") (each of (a) or (b), a "Material Subcontract") without the prior written consent of Company (which consent shall not be unreasonably withheld, conditioned or delayed); provided, however, that in any case, the Company's consent will not be required (i) if the applicable subcontractor is an Affiliate of the Administrator, (ii) if the Administrator or any of its Affiliates subcontracts an Administrative Service in connection with a program undertaken by Parent or any of its Affiliates substantially on a nationwide basis or (iii) for the subcontracting of any information technology (other than in the case of this clause (iii), information technology supporting Claims processing activities), telephone or similar operations or services. In the event that the Company consents to any such subcontracting, the Administrator shall not be relieved from any of its obligations or liabilities hereunder, including compliance with Law and maintenance of proper licensure, and the Administrator shall remain responsible for all obligations or liabilities of such Subcontractor with respect to the providing of such service or services as if provided by the Administrator. As of the date of this Administrative Services Agreement, the Administrator, Parent or its Affiliates have, and the Company has consented to, agreements with the Subcontractors identified on Schedule 3.4 which are related to the Business. The Administrator represents and warrants that Subcontractors providing Claims processing, data, network or other information technology services through procured or managed third party relationships have the requisite authority under such relationships to provide such services to Administrator or the Administrator has such authority in its own right with respect to such relationships for the purposes of providing the Administrative Services to the Company, except where failure to be so authorized would not reasonably be expected to have a material impact on Administrator's ability to comply with the Service Standards and to perform the Administrative Services.

(b) [In the event that Administrator proposes to subcontract any Management Functions, the subcontractor must be a signatory to this Administrative Services Agreement and this Administrative Services Agreement must be modified in accordance with section 18.1 herein to expressly provide for the subcontracting of such Management Functions to subcontractor. The subcontractor will be subject to the provisions of 10 NYCRR Subpart 98-1 to the same extent as Administrator, including all termination provisions, provided that the subcontractor may also be terminated by Administrator upon at least ninety (90) days notice and with the prior written approval of the Commissioner of the New York State Department of Health.][6]

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[5] This provision is found only in the Administrative Services Agreement of Health Net of New Jersey, Inc.

[6] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 3.5. Independent Contractor. For all purposes hereof, except as explicitly set forth herein, the Administrator shall at all times solely act as an independent contractor and the Administrator and its Affiliates, on the one hand, and the Company and its Affiliates, on the other hand, shall not be deemed an agent, lawyer, employee, representative, joint venturer or fiduciary of one another, nor shall this Administrative Services Agreement or the Administrative Services or any activity or any transaction contemplated hereby, or any commission or omission by any Party, be deemed to create any partnership, joint venture, agency or employment between the Parties or among their Affiliates. As an independent contractor, the Administrator shall have no liability for obligations of the Company, and all payments of the Company's obligations by the Administrator shall be made in accordance with Sections 14.1 and 15.2.

Section 3.6. Disaster Recovery. During the term of this Administrative Services Agreement, the Administrator shall, and shall cause its Affiliates to, maintain, in all material respects, backup, business continuation and disaster recovery plans for the operation of the Business and the provision of the Administrative Services as such plans are in effect by the Company on the date hereof.

Section 3.7. Inability to Perform. In the event that the Administrator is unable to perform all or a material portion of the Administrative Services for any reason for a period that can reasonably be expected to exceed five (5) Business Days, the Administrator shall provide notice to the Company of its inability to perform the Administrative Services and shall cooperate with the Company in obtaining an alternative means of providing such Administrative Services that is reasonably acceptable to the Company. Notwithstanding the preceding sentence, the Company may elect to provide the Administrative Services on its own during such interruption of Administrative Services, in which case the Administrator shall provide Company access to its facilities and systems as reasonably necessary for the Company to perform such Administrative Services until such time as the Administrator is able to resume the performance of Administrative Services or an alternative provider can provide such Administrative Services to the reasonable satisfaction of the Company and the Administrator. [In either event, the Company will not arrange for other means of obtaining Administrative Services that the Administrator was to perform, or perform such services on its own behalf, without prior written approval from the New York State Department of Health.][7] Other than in the case of an inability to perform under Section 3.8, the Administrator shall be responsible for all reasonable costs and expenses incurred in order to obtain such alternative means of providing the Administrative Services and in order to restore the Administrative Services.

[7] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 3.8. Force Majeure. Neither Party shall have any liability for any failure to perform this Administrative Services Agreement if such failure arises out of unforeseeable causes beyond such Party's control. Such unforeseeable causes may include acts of civil or military authority, war, terrorism, accidents, explosions, sabotage, riots, strikes, lockouts or other labor disturbances, or acts of God, including fires, floods, storms, earthquakes, and natural disasters, or national emergency. A force majeure event shall not include the non-performance or failure of any vendor or subcontractor (unless such non-performance or failure results from an unforeseen cause of the kind described in the preceding sentence). If a Party is unable to perform any provision of this Administrative Services Agreement (including, with respect to the Administrator, the provision of Administrative Services) for any of the reasons described in this Section 3.8, such provision (including, if applicable, the provision of Administrative Services) shall be suspended for the duration, and to the extent of, such force majeure event. The Party experiencing the force majeure event agrees to give the other Party notice promptly following the occurrence of a force majeure event, and to use diligent efforts to re-commence performance as promptly as commercially practicable. Notwithstanding the foregoing, nothing in this Section 3.8 shall be construed as relieving the Administrator of its obligation to implement applicable disaster recovery plans upon the occurrence of a force majeure event and to comply with the provisions of Section 3.6.

ARTICLE IV.

COLLECTION SERVICES

From and after the Effective Date, the Administrator shall assume all rights and responsibilities for the billing, receipt and processing of all Premiums, recoverables, deposits and other amounts with respect to the Administered Contracts, including administering, drawing down and collecting any letters of credit, funds held in or under trust agreements, loss funds, Premium deposits, deductible deposits, outstanding cash advances and any proceeds thereof provided by third-party reinsurers, Brokers/Consultants, Contract Holders or Customers to cover losses and/or reinsurance or other recoverables; provided, that United will provide the Administrator retroactive membership information following the transfer of Company Employer Groups to Legacy United Entities' Plans to allow the Administrator to apply any membership changes to the Administrator's systems and adjust Premiums accordingly. The Administrator may initiate litigation relating to collections under this Article IV subject to Section 7.5.

ARTICLE V.

RENEWAL CONTRACTS AND TRANSITION

The Company and its Affiliates intend to transfer the membership (as contemplated by Section 10.8 below) of the Company to Legacy United Entities' Plans at or before the first renewal of any Insurance/HMO Contract or ASO Contract following the Effective Date. However, the Company may choose or may be required by applicable Law to renew Insurance/HMO Contracts or ASO Contracts until the date on which the Company is no longer obligated by applicable Law or the terms of any such ASO Contract to offer such renewal. The Company will not write new business or renew any Administered Contracts beyond such date without the Administrator's prior written consent, except (i) for new or renewal contracts arising from quotations outstanding as of the Effective Date; provided that the effective date for such new or renewal contracts is not later than ninety (90) days after the Effective Date or such later date as applicable if such quotations are irrevocable, and provided further that the Administrator shall have the right to rescind, on behalf of the Company, any quotes outstanding after the Effective Date in accordance with applicable Law; (ii) with respect to those Insurance/HMO Contracts that are guaranteed renewable such that they cannot, by their terms or under applicable Law, be terminated at such time by notice from, or by other unilateral action initiated or taken by, the Company; or (iii) for Medicare and Medicaid business (for which the Company and its Affiliates shall not write new business or renew any Administered Contracts except as contemplated pursuant to the Stock Purchase Agreement) (any new contract or contract so renewed due to the requirements of applicable Law or in compliance with this sentence, a "Renewal Contract"). The Administrator shall be responsible for providing the Administrative Services for the Renewal Contracts. The Administrator shall, upon consultation with the Company, determine the applicable fees or rates and term of any such required renewal, and unless otherwise agreed by the Parties, any such required renewal by the Administrator on behalf of the Company shall be renewed for a term that is limited to the minimum requirements of such guarantees or applicable Law.

ARTICLE VI.

CLAIMS HANDLING

Section 6.1. Claim Administration Services. From and after the Effective Date, the Administrator shall acknowledge, consider, review, deny, settle, pay or otherwise dispose of each Claim reported under each Administered Contract. Notwithstanding the preceding sentence, the Company retains the final binding and exclusive discretionary authority with regard to the administration and disposition of all Claims.

Section 6.2. Description of Claim Administration Services. Without limiting the foregoing, the Administrator shall, consistent with the past practices of the Company, to the extent such practices are compliant with applicable Law:

(a) provide claimants under the Administered Contracts and their authorized representatives (collectively, "Claimants"), with Claim forms or with access to Claim forms available for download or printing via the Company's website as allowed by applicable Law, and provide instructions on how to submit a Claim upon request by such Claimants to Claimants in connection therewith;

(b) establish, maintain and organize Claim files and maintain and organize other Claims-related records;

(c) receive, process, and evaluate Claims filed by or on behalf of Customers or Contract Holders, determine whether the Claimant is eligible for benefits and if so, the nature and extent of such benefits, and pay such Claims in accordance with the terms and conditions of the Administered Contracts and the Law or propose to deny, in accordance with the terms and conditions of the Administered Contracts and the Law, or deny such Claims in whole or in part;

(d) provide Claimants with written notice of approval or disapproval of Claims and discharging other contractual obligations under the Administered Contracts, including issuances of explanation of benefits and provider remittance advices;

(e) respond to all written or oral Claims-related communications that the Administrator reasonably believes to require a response or as required by applicable Law;

(f) maintain a record of any appeals and grievances with respect to the Administered Contracts in accordance with applicable requirements of Governmental Entities and provide a copy of such log upon Company's request; and

(g) comply in all material respects with all applicable Laws of any Governmental Entity related to Claims processing or payment, including prompt pay Laws.

ARTICLE VII.

REGULATORY AND LEGAL PROCEEDINGS

Section 7.1. Regulatory Complaints and Proceedings.

(a) From and after the Effective Date, but subject to Section 2.3, the Administrator shall:

(i) respond to any Claims payment related complaints or investigations made by any Governmental Entity with respect to the Business (including relating to Contract Holder or Provider payment complaints or assertions of improper or unfair practices and procedures) within the Governmental Entity's requested time frame for response (including any extensions thereof) or, if no such time frame is provided, within the time frame as allowed by applicable Law; provided, that, subject to meeting such time frames (including any extensions thereof), if the complaint or investigation involves a material issue, the Administrator shall provide promptly a copy of such response to the Company for its prior review, reasonable comment (which the Administrator shall substantially incorporate into any response) and reasonable approval; provided, further, that if the time frame for response makes the Company's prior review impractical, the Administrator shall promptly provide a copy of such response to the Company after submitting such response;

(ii) promptly notify the Company of any written non-Claims payment related complaints or investigations initiated by a Governmental Entity with respect to the Business and relating to a material issue and of any proceedings (either Claims or non-Claims related) initiated by a Governmental Entity with respect to the Business, and prepare and send to the Governmental Entity, with a copy to the Company, a response within the Governmental Entity's requested time frame for response (including any extensions thereof) or, if no such time frame is provided, within the time frame as allowed by applicable Law; provided, that, subject to meeting such time frames (including any extensions thereof), if the complaint or investigation involves a material issue, the Administrator shall provide promptly any response to the Claims or non-Claims related complaints or investigations to the Company for its prior review, reasonable comment (which the Administrator shall substantially incorporate into any response) and reasonable approval; provided, further, that if the time frame for response makes the Company's prior review impractical, the Administrator shall promptly provide a copy of such response to the Company after submitting such response;

(iii) supervise, assume and control the investigation, contest, defense and/or settlement of all complaints, investigations and proceedings by Governmental Entities related to the Business; provided, however, that Company shall have the right to choose to participate in or control (at the Company's option) in the investigation, contest, defense and/or settlement of any complaints, investigations and proceedings by Governmental Entities related to the Business; provided, further, that Administrator shall obtain the Company's consent with respect to the settlement of any such complaints, investigations or proceedings by Government Entities related to a material issue, which consent the Company shall exercise in its sole discretion; and

(iv) at the Company's request, provide to the Company a report in a form substantially similar to the type of reports used by the Company immediately prior to the Effective Date with respect to any such complaints, investigations or proceedings by Governmental Entities and copies of any files or other documents that the Company may reasonably request in connection with its review of these matters. The Administrator will cooperate to provide supplemental information with respect to any such complaints, investigations or proceedings by Governmental Entities reasonably requested by the Company from time to time.

(b) The Company shall have the right to timely review and approve all filings submitted to any Governmental Entity related to the Company, to attend and/or lead (in the Company's sole discretion) any meetings with Governmental Entities related to the Company, and shall retain the authority to control, at any time, all interactions related to complaints, investigations, or proceedings by Governmental Entities related to the Company; provided that any such review and approval process does not prejudice the Administrator's ability to respond in a timely and complete manner to such Governmental Entities.

Section 7.2. Legal Proceedings.

(a) From and after the Effective Date, but subject to Section 2.3, the Administrator shall:

(i) notify the Company promptly of any lawsuit, arbitration or other dispute resolution proceedings ("Legal Proceeding(s)") to the extent known to the Administrator that are instituted with respect to any matter relating to the Business other than any grievances or appeals with respect to Provider or Contract Holder disputes that are reviewed and decided solely by the Company or that do not constitute a material issue, within such time as to permit timely response by the Company and in no event more than five (5) Business Days after receipt of notice thereof, and promptly furnish to the Company copies of all pleadings received in connection with any such Legal Proceeding (other than grievances or appeals with respect to Provider or Contract Holder disputes that are reviewed and decided solely by the Company or that do not constitute a material issue); provided, however, that promptly following receipt of notice of any Legal Proceeding, in a collaborative effort to reduce administrative costs, the Administrator shall provide pleadings to the Company with respect to such Legal Proceeding unless the Company provides notice to the Administrator that the Company does not wish to continue to receive pleadings with respect to such Legal Proceeding;

(ii) supervise, assume and control the investigation, contest, defense and/or settlement of all Legal Proceedings with respect to the Business and in the name of the Company; provided, however, that Company shall have the right to choose to participate in or control the investigation, contest, defense and/or settlement of any Legal Proceeding at any time; provided, further, that the Administrator shall obtain the Company's consent for any settlement of a Legal Proceeding related to a material issue (other than a Legal Proceeding related to a material issue falling solely under clause (b) of the definition of "material issue"; provided that Administrator shall provide the Company notice prior to the settlement of such Legal Proceeding), which consent the Company shall exercise in its sole discretion; and

(iii) promptly respond to any request by the Company for information on the progress of any Legal Proceedings handled by the Administrator in which the Company is named a party and, at the Company's request, provide to the Company a report summarizing the nature of such Legal Proceedings, and copies of any files or other documents that the Company may reasonably request in connection with its review of these matters.

(b) The Company shall have the right to timely review and approve all material court filings in any Legal Proceeding related to a material issue; provided that such review and approval process does not prejudice the Administrator's ability to defend the Legal Proceeding.

(c) In the event any Legal Proceeding engaged in by Administrator pursuant to the terms of this Administrative Services Agreement continues beyond the Expiration Date, Administrator shall make available to the Company all necessary Books and Records, documents, legal work product (created at the request of the Administrator on behalf of the Company), and provide reasonable access to personnel (all at Administrator's cost) in the event that the Company chooses to assume the control of such Legal Proceeding. The assumption of control of such a Legal Proceeding by the Company shall not relieve the Administrator or the Administrator's Affiliates of any indemnification obligations. If the Company chooses not to assume control of any such Legal Proceedings, the Administrator shall be obligated to continue its management of such Legal Proceedings pursuant to the terms of this Administrative Services Agreement.

(d) [The New York State Department of Health shall be given notice of any arbitration or other dispute resolution proceedings and shall not be bound by any decision arising from arbitration or other dispute resolution proceedings.][8]

Section 7.3. Notice to Administrator. The Company shall give prompt notice to the Administrator of any Legal Proceeding made or brought against the Company after the Effective Date arising under or in connection with the Business, to the extent known to it within such time as to permit timely response by the Administrator, and in no event more than five (5) Business Days after receipt of notice thereof, and shall promptly furnish to the Administrator copies of all pleadings received in connection therewith. The Company's failure to provide notice pursuant to the terms of this Section 7.3 shall not be deemed a waiver of the Company's or its Affiliates' right to indemnification under the Stock Purchase Agreement other than to the extent that such failure prejudices the defense of the Legal Proceeding by the Administrator.

Section 7.4. Final Authority. Notwithstanding the foregoing, the Parties recognize that, as the issuing company, the Company retains the final authority with respect to the resolution of any complaints, investigations or proceedings by Governmental Authorities and any Legal Proceeding, with respect to which it shall take into account the recommendations of the Administrator provided to the Company.

Section 7.5. Initiation of Litigation. The Administrator shall not have the authority to institute any legal action on behalf of the Company relating to the Business against any Member, Provider, Broker/Consultant or Contract Holder, in each case in their capacity as such, or Governmental Entity, without the written consent of the Company, which consent may be withheld in the sole discretion of the Company. For the avoidance of doubt, notwithstanding the foregoing, the Administrator shall have the authority to institute any legal action on behalf of the Company relating to the Business against any Person other than a Member, Provider, Broker/Consultant or Contract Holder, in each case in their capacity as such, or Governmental Entity; provided, that in such matters, the Administrator shall receive the Company's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed). Should the Administrator recommend, in good faith and consistent with past practice of the Company, the initiation of any legal action referenced in the preceding two sentences (to the extent such action reasonably alleges amounts owed to the Company or involves fraud and abuse with respect to the Administered Contracts) in order to make claims against parties for monetary damages potentially due to the Company, and should the Company refuse to give such consent, then United will pay to the Administrator the amount of the mutually agreed upon monetary damages, to the extent the damages would not be a Buyer Cost (as defined in the Stock Purchase Agreement), that would become due to the Company were the Company to bring a legal action against such third party and prosecute such legal action to conclusion, excluding any alleged punitive or consequential damages. To the extent United and the Administrator are unable to mutually agree on the amount of the monetary damages due the Company, such dispute shall be subject to arbitration pursuant to Section 12.3, and upon final resolution thereof, United will pay to the Administrator the amount of damages determined by the Baseball Arbitrator within five (5) Business Days.

[8] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 7.6. Cooperation. In the event that the Company participates in, at any level or at any time, assumes the lead of any investigation, contest, defense and/or settlement of any complaints, investigations and proceedings by Governmental Entities related to the Business or any Legal Proceeding, or initiates litigation with respect to the Business, the Administrator shall and shall cause its Affiliates, attorneys, employees, and agents to reasonably cooperate with the Company. In addition, the Company shall and shall cause its Affiliates, attorneys, employees, and agents to reasonably cooperate with the Administrator with respect to any investigation, contest, defense and/or settlement of any complaints, inquiries and proceedings by Governmental Entities related to the Business or any Legal Proceeding lead by the Administrator. Such cooperation contemplated by this Section 7.6 of either Party shall include the execution of affidavits, appearances, testimony and production of documents pursuant to federal and state criminal and civil subpoenas, depositions, interrogatories and other requests.

Section 7.7. Material Issue Definition. For the purposes of this Article VII only, "material issue" shall mean (a) with respect to a matter involving a Governmental Entity, any issue (or series of related issues) involving an amount (as reasonably determined by the Administrator based on available information) equal to or more than $200,000, (b) with respect to any other Legal Proceeding (not involving a Governmental Entity), any issue (or series of related issues) involving an amount (as reasonably determined by the Administrator based on available information) equal to or more than $500,000, (c) any commitment, including any operational commitment, market under-taking, or any obligation on the Company or any of its Affiliates required by a Governmental Authority or pursuant to a Legal Proceeding, that would limit the ability of the Company to wind-down the Business, or (d) any issue which the Company reasonably determines could have an adverse consequence or impact (other than an immaterial consequence or impact) on the operations of United or its Affiliates.

ARTICLE VIII.

MISCELLANEOUS SERVICES

Section 8.1. Contract Holder and Customer Services. From and after the Effective Date, subject to Section 2.3, the Administrator shall provide all Contract Holders and Customer services in connection with the Administered Contracts, including the following:

(a) preparing and mailing all necessary, required or appropriate Contract Holder statements, reports and communications, including Premium notices;

(b) providing usual and customary services for Contract Holders, including processing reinstatements, cancellations or other changes provided for under the Administered Contracts and calculations relating thereto;

(c) processing all necessary Customer notifications and collections in connection with the Administered Contracts;

(d) answering all inquiries relating to the Administered Contracts; and

(e) processing all necessary Contract Holder Tax reporting, Customer notifications and collection in connection with the Administered Contracts.

Section 8.2. Brokers/Consultants. The Administrator, on behalf of the Company at the Company's expense, shall calculate and pay all Commissions to Brokers/Consultants entitled thereto for the Administered Contracts; provided that United will provide the Administrator retroactive membership information following the transfer of Company Employer Groups to Legacy United Entities' Plans (to allow the Administrator to apply any membership changes to the Administrator's systems and adjust Commissions accordingly); provided further that the Administrator's obligation to calculate and pay such Commissions shall cease upon termination, non-renewal or novation to United (or its Affiliates, as applicable) of such Administered Contracts, or such other transfer of membership under a Medicare Plan Contract to a contract between CMS and United (or its Affiliates, as applicable), as CMS may allow, and United (or its Affiliates, as applicable) shall be obligated to calculate and pay Commissions to Brokers/Consultants entitled thereto for periods following any such novations, in the case of Administered Contracts novated to United or its Affiliates, or following any such transfer of membership under a Medicare Plan Contract, and for periods following the transfer of Company Employer Groups to Legacy United Entities' Plans. The Administrator shall be responsible for monitoring and complying with all applicable regulatory and licensing requirements relating to Brokers/Consultants for the Administered Contracts including requirements established by the Centers for Medicare & Medicaid Service, as applicable.

Section 8.3. Call-Centers; Inquiries and Complaints. The Administrator shall maintain telephone call-center operations to accept and respond to inquiries, requests for information or complaints during normal business hours or as required by Law, by Customers, Contract Holders and Providers in connection with the Administered Contracts. As of the Effective Date, the Company has adopted and maintains a grievance and complaint resolution plan for the resolution of Customer, Contract Holder or Provider appeals, grievances and complaints that is the same as the plan in effect for the Business immediately prior to the Effective Date. From and after the Effective Date, such plan shall be amended solely to the extent necessary to comply with applicable Law. The Administrator shall operate the telephone call-centers and such plan in all material respects in the same manner as the call center and plan were operated by Administrator immediately prior to the Effective Date, taking into account the winding up and running out of the Business as contemplated under this Administrative Services Agreement and in consideration of any permitted amendments of such plan by the Company. The Company (a) is entitled to send a representative or representatives to any proceeding involving a Customer, Contract Holder or Provider, and (b) has the final binding and exclusive discretionary authority with regard to the management and handling of all Customer, Contract Holder and Provider appeals, grievances or complaints arising from the Business.

Section 8.4. Utilization Management. The Administrator shall perform utilization management including utilization review, case management, disease management, or quality assurance ("Medical Management Programs") in connection with the Business in all material respects in the manner performed by the Administrator (on behalf of the Company) immediately prior to the Effective Date, taking into account the winding up and running out of the Business as contemplated under this Administrative Services Agreement[.] [:]

(a) [Quality Assurance/Quality Improvement Standards. Administrator shall utilize Company's quality assurance and quality improvement standards.

(b) Utilization Review Standards. Administrator shall utilize Company's clinical review standards for utilization review, or Company shall approve of Administrator's clinical review standards, if such standards are substantially equivalent to those of Company and to those of other management contractors performing similar functions for the same or similar services. Administrator's utilization review processes must comply with article 49 of the N.Y. Public Health Law and must be approved by the Commissioner of the New York State Department of Health. Administrator hereby represents and warrants that it is a registered utilization review agent, as defined in article 49 of the N.Y. Public Health Law.][9]

Section 8.5. Coordination of Benefits. The Administrator shall conduct coordination of benefits consistent with the terms of the Administered Contracts in connection with the Business in all material respects in the manner performed by the Administrator (on behalf of the Company) immediately prior to the Effective Date, taking into account the winding up and running out of the Business as contemplated under this Administrative Services Agreement.

Section 8.6. Risk Management. The Administrator and United shall cooperate to maintain an appropriate risk management program on behalf of the Company, with such program to include the operation of an effective corporate compliance program. United shall make available to the Company appropriate types and levels of insurance coverage (with risk reduction levels consistent with the historical practice of the Company) at United's incurred incremental cost.

[9] These provisions are found only in the Administrative Services Agreement of Health Net of New York, Inc.

ARTICLE IX.

CERTAIN ACTIONS BY THE COMPANY

Section 9.1. Provider Network Access.

(a) Subject to the Administrator's responsibilities under Section 8.3, the Company and its Affiliates shall be responsible for Participating Provider contracting and Participating Provider relations with respect to the Business (but only with respect to contracts to which the Company is a party); provided, however, that the Administrator shall be responsible for contracting for and administering mental health and pharmaceutical Provider networks and benefits for the Company as set forth in Section 9.1(d). With respect to new or renewal Provider contracts, the Company and its Affiliates shall not intentionally seek to impose higher rates for Providers under a Company Provider contract in order to favor United Affiliates, other than the Acquired Companies, with such Provider; provided, however, the Parties acknowledge that such efforts will be affected by the fact that the Company is winding down the Business.

(b) The Company and its Affiliates shall promptly provide the Administrator with a copy of any proposed amendment to or renewal of a Provider contract with respect to the Business that changes the reimbursement structure with such Provider or any proposed new Provider contract with respect to the Business for the Administrator's prior review and reasonable approval solely for the purpose of determining that Administrator is able to administer such Provider contract without incurring undue cost or expense inconsistent with the Company's past practice (whether for systems implementation, loading, manual administration or otherwise) and without degradation of its ability to comply with the Service Standards. The Company will consider the Administrator's reasonable input with respect to proposed changes to Provider contracts to improve administrative efficiency and reduce costs (including systems implementation, automatic payment, and ease of loading). To the extent new or renewal Provider contracts result in a degradation of the Administrator's ability to comply with the Service Standards, the parties will cooperate to develop adjustments to the Service Standards, taking into account such new or renewal Provider contracts. The Company may not terminate any Provider contract without the Administrator's prior written consent (which consent shall not be unreasonably withheld, conditioned or delayed).

(c) If necessary to maintain sufficient network adequacy for the Business or to meet the Company's expected medical costs per unit on an aggregate basis, United will permit (or cause one or more of its Affiliates to permit) the Company access to certain Provider contracts and rates of the Company's Affiliates for the purpose of providing services to Contract Holders covered under the Administered Contracts and only as allowed by such Provider contracts and applicable Law; provided, however, that the United and its Affiliates shall not intentionally seek to charge the Company higher rates than those charged to any of the Company's Affiliates for similar services. In the event such access is necessary and permissible, the Parties will mutually agree upon a reasonable transition plan, on a case-by-case basis, before access to such Provider contracts as set forth in this Section 9.1 will begin.

(d) The Company acknowledges and agrees that the agreements between the Company and Health Net Pharmaceutical Services, Inc. and MHN Services, Inc. with respect to pharmacy benefit management services (including mail order, retail network, claims processing, specialty pharmacy and other administrative services) (collectively "PBM Services") and behavioral health services respectively, are expected to remain in effect as of the Effective Date with such amendments as are necessary to effectuate the purposes of this Administrative Services Agreement and the Stock Purchase Agreement. The Administrator shall administer such agreements substantially in the same manner as such contracts were administered prior to the Effective Date. The Administrator represents that all agreements for PBM Services that are in effect as of the Effective Date, or that are entered into by the Administrator on behalf of the Company after the Effective Date, contain competitive information that is confidential to the vendor, manufacturer, and other third parties (each a "Third Party") and to the Administrator's Affiliates. The Administrator represents that disclosure of pricing or other confidential or competitive information directly to the Company or its Affiliates could result in termination of such agreements or allegations of breach by any such Third Party, or otherwise result in a loss of competitive pricing and terms for the Company. The Administrator and the Company agree to cooperate to obtain permission from such Third Parties to provide limited personnel of the Company with access to a redacted version of any such agreements for PBM Services, solely on a need-to-know basis; provided, however, that the failure to obtain the permission of any such Third Party shall not excuse the performance of the Company's obligations under this Administrative Services Agreement or otherwise constitute a breach by the Administrator of its obligations hereunder. The Company may confirm that it is receiving the benefit of the PBM Services by engaging an independent auditor reasonably acceptable to the Administrator, to perform a confidential review of such agreements of which the Company is not a party. Prior to performing the confidential review, the independent auditor shall enter into a confidentiality agreement, reasonably acceptable to the Administrator and the applicable Third Party. For any agreement with a Third Party for PBM Services that is required to be filed with or approved by a Governmental Entity, the Administrator shall file, and cooperate with the Company in obtaining any required Governmental Entity approvals of, such agreements and any related amendments; provided that such filing shall not relieve the Parties of their obligations or representations set forth in this Section 9.1(d).

Section 9.2. Filings. Subject to Section 2.3, if required by applicable Law, the Company shall prepare any filings required to be made with any Governmental Entity that relate to the Administered Contracts, including filings with guaranty associations and filings of Premium Tax Returns with taxing authorities. Pursuant to Article X, if the Company is required to make any such filings, the Administrator shall provide promptly to the Company all information with respect to the Administered Contracts that Administrator possesses that may be reasonably required for the Company or for the Administrator on behalf of the Company to prepare such filings and Tax Returns.

Section 9.3. [Joint Medicare PDP Contract. The Company acknowledges and agrees that the Joint Medicare PDP Contract is expected to remain in effect as of the Effective Date with such amendments as may be necessary to effectuate the purposes of this Administrative Services Agreement. From the Effective Date through December 31, 2010, the Administrator shall administer the Joint Medicare PDP Contract substantially in the same manner as such contract was administered with respect to the Medicare Part D plan members in New York sponsored by the Company prior to the Effective Date (the "NY Medicare PDP Members") and as otherwise required hereunder. Only to the extent that certain Joint Enterprise Agreement by and between HN Life, Health Net Insurance of Connecticut and Health Net Insurance of New York, Inc., dated March 31, 2005, as amended, is not terminated, United shall, or shall cause the Company to, prepare and submit to CMS the application for the 2011 fiscal year and any fiscal years thereafter with respect to the NY Medicare PDP Members, including any requests required to separate out the NY Medicare PDP Members from the Joint Medicare PDP Contract; provided, however, in the event the Closing has not occurred as of the deadline for submitting such application, Parent shall cause the Company and HN Life, respectively, to prepare and submit to CMS separate applications with respect to the NY Medicare PDP Members and all other Medicare Part D plan members sponsored by HN Life. For the avoidance of doubt, (a) as long as the Closing occurs before the deadline for submitting the application for the NY Medicare PDP Members, neither Parent nor the Administrator shall have any obligation to assist the Company or United with, or to prepare or submit, such application, and (b) Parent and its Affiliates retain the right to prepare and submit to CMS an application for the 2011 fiscal year and any fiscal years thereafter with respect to all Medicare Part D plan members sponsored, or to be sponsored, by HN Life or any of Parent's other Affiliates.][10]

[10] This provision is found only in the Administrative Services Agreement of Health Net Insurance of New York, Inc.

Section 9.4. [Vendor Agreements. Company and Administrator each acknowledges that on the Effective Date Company has also executed (i) an Amendment to the November 1, 2003 Administrative Services Agreement by and between MHN Services and Company; and (ii) an Amendment to the November 28, 2007 Pharmacy Benefits Management Services Agreement by and between Health Net Pharmaceutical Services ("HNPS") and Company (and CaremarkPCS Health, L.P. for the limited purpose of acting as a subcontractor of HNPS with respect to the provision of delegated management services for claims processing) (the "Vendor Agreements"). Company shall notify the New York State Department of Health of any event or occurrence related to this Administrative Services Agreement that would cause a change in the terms or conditions, including termination or expiration, of either of the Vendor Agreements. Such notice shall be specific in identifying the Vendor Agreement to be affected, the parties involved, the nature of the change, and, as appropriate, the date of the termination or expiration. In the event that the event or occurrence related to this Administrative Services Agreement causes a termination or material amendment of a Vendor Agreement, such notice shall be submitted to the Department at least 90 days prior to proposed implementation and shall be effective only with the prior written consent of the Department.][11]

ARTICLE X.

REGULATORY MATTERS AND REPORTING

Section 10.1. Regulatory Compliance and Reporting. At the Company's reasonable request, during the term of this Administrative Services Agreement, the Administrator shall (a) provide the Company with information with respect to the Business that the Administrator possesses, as is reasonably required to satisfy any requirements imposed by any Governmental Entity, (b) prepare reports and summaries, including statistical summaries and certifications, as are reasonably required to satisfy any requirements imposed by a Governmental Entity upon the Company with respect to the Business, (c) file, or provide to the Company to file if required by Law, any filings required to be made with any Governmental Entity that relate to the Business, and (d) assist and cooperate with the Company in a commercially reasonably manner in connection with any market conduct, financial or other Governmental Entity examinations to the extent related to the Business. With respect to any Governmental Entity report or filing the Administrator is obligated to file, the Administrator shall provide a draft of such report or filing to the Company as soon as possible but no later than fifteen (15) days prior to any submission deadline in order for the Company to review and revise such report or filing, as necessary, and shall periodically provide the Company with additional updated drafts that include all material changes prior to such submission deadline; provided that, the Administrator shall submit a substantially final draft to the Company no later than one (1) day prior to such report or filing's deadline; and provided further, that if the time frame for submission of the report makes the Company's prior review impractical, the Administrator shall work cooperatively with the Company to permit the Company to fulfill its legal and fiduciary obligations with respect to the filing of such report. The Administrator shall notify the Company of any required filing that may be filed in an untimely manner.

[11] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 10.2. Financial Reporting and Accountings. The Administrator shall be responsible for financial reporting and accounting for the Company, including maintaining the Company's general ledger and financial records, preparing financial regulatory filings, preparing minimum loss ratio and high claimant filings, reconciling general ledger accounts, conducting monthly claims reserve valuation, and facilitating annual independent public accountant audits. With respect to each accounting or report required to be filed with a Governmental Entity by the Company, the Administrator shall provide a written certification to the Company in the same form that the Company is required to provide a certification to the Governmental Entity, if any. Notwithstanding the scheduled reporting obligations identified in this Article X, in the event that Administrator has actual knowledge of a material change in the financial operations or status of the Business (for example, the occurrence of a material write-off or a material change in the risk adjustment factor with respect to the Medicare Business), the Administrator shall promptly notify the Company and shall cooperate with the Company to provide additional information the Company may need to assess such material change. Further, for any other accounting or report, the Administrator shall provide a certification that such accounting or report has been prepared in good faith and consistent with the past practices of the Company and the Administrator, as applicable. In addition, the Administrator shall disclose the key assumptions (other than those already set forth in such accounting or report) used in preparing such accounting or report, and shall disclose if different controls were used in preparing such accounting or report than those maintained by Parent under the Sarbanes-Oxley Act of 2002. Without limiting the preceding, upon the Company's or Company's auditor's request, the Administrator shall provide, in a reasonably timely manner, to the Company:

(a) reports and summaries of transactions (and upon request of the Company, detailed supporting records) related to the Business as may be reasonably required for use in connection with the preparation of the Company's statutory and GAAP financial statements, Tax Returns and other required financial reports and to comply with the requirements of the Governmental Entities having jurisdiction over the Company. Upon the Company's reasonable request, the Administrator shall file such reports on behalf of the Company; provided, however, all such Tax Returns shall be prepared and filed by the Company, except as otherwise provided in Section 10.4; and

(b) upon the Company's or Company's auditor's request, the Administrator shall provide to the Company (i) an opinion of an actuary reasonably acceptable to the Company as to the adequacy of statutory reserves for the Insurance/HMO Contracts and the Renewal Contracts, prepared according to accepted actuarial standards of practice, and as otherwise required for regulatory reporting purposes and (ii) an analysis which supports such opinion; provided that if the Company requests more than two (2) such opinions in any 12-month period, United shall bear the costs of any such additional opinions.

(c) [Administrator will provide annual reports on its financial operations to Company and, upon request, any operational data requested by Company, the Commissioner of the New York State Department of Health, or the Superintendent of the New York State Department of Insurance.][12]

Section 10.3. Monthly Reports. Subject to Section 10.3(e) below, as soon as available and in no event later than fifteen (15) Business Days after the end of each calendar month, the Administrator shall prepare and submit to the Company a report in the form attached as Schedule 10.3 setting forth the following information:

(a) all (i) Premium paid, earned and unearned, and unpaid for such month, (ii) Claims reported, paid, denied and open, and any capitation payments made, during such month, Claims previously reported and still open and claims previously reported and closed, each on a product level basis (e.g., commercial, Medicare, Medicaid), and (iii) Commissions paid and earned during such month;

(b) the billed Premium by state with respect to the Insurance/HMO Contracts and the Renewal Contracts for such month (the "Monthly Premium-By-State Report"), accompanied by supporting records as the Company or its auditors shall reasonably request;

(c) a written statement of accounting in the form attached as Schedule 10.3(c) (each, an "Health Assessments Monthly Accounting") setting forth amounts assessed with respect to insolvency funds and guarantee assessments, CHIP assessments, NYHCRA surcharges and NY Insurance Department, Regulation 146 assessments, covered lives assessments and other health related assessments for high-risk pools, reinsurance pools and other similar pools against or payable by the Company on a reported and restated basis (collectively, the "Post-Effective Date Assessments");

(d) the amount of actuarial Claims reserves that the Company calculates on a monthly basis with respect to the Insurance/HMO Contracts, consistent with the Company's past practices in effect immediately prior the Effective Date (excluding various adjustments and calculations to be made on a quarterly basis in connection with preparing and submitting the Company's quarterly statutory financial statements), accompanied by such supporting records as shall be reasonably sufficient to indicate how reserves have been calculated. In addition, the Administrator shall indicate any material changes in the reserve methodology used by the Administrator in calculating statutory reserves for the Insurance/HMO Contracts and the Renewal Contracts;

[12] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

(e)(i) a reported income statement by line of business (e.g., commercial, Medicare and Medicaid), which would include Premiums, other/investment income, medical expenses, Premium Taxes, Commissions and SG&A to identify pre-tax and net income amounts; (ii) a restated partial income statement by line of business (e.g., commercial, Medicare and Medicaid), which would include Premiums, medical expenses, Premium Taxes and Commissions to identify gross margin amounts; and (iii) a restated income statement, which would include Premiums, other/investment income, medical expenses, Premium Taxes, Commissions and SG&A to identify pre-tax and net income amounts; provided, however, in the case of the foregoing clauses (ii) and (iii), the Administrator shall prepare and deliver to the Company a report no later than fifteen (15) Business Days after the last preceding calendar quarter; and

(f) an update to Schedule 1 reflecting all Administered Contracts in effect at the end of such month.

Section 10.4. Tax Reports.

(a) Within fifteen (15) Business Days after receipt by the Company of the Monthly Premium-By-State Report, the Administrator shall prepare and submit to the Company a written statement of accounting in a form and containing such information to be agreed upon by the Parties hereto (each, a "Monthly Premium Tax Accounting", and together with the Health Assessments Monthly Accountings, the "Monthly Accountings") setting forth the estimated Premium Taxes arising from all collected Premiums attributable to such month.

(b) The Administrator shall prepare all Premium Tax Returns of the Company. All such Premium Tax Returns shall be prepared in a manner consistent with past practice, to the extent such past practice complies with applicable Law. As soon as possible, but no later than ten (10) days prior to the due date (including extensions) for filing such Premium Tax Returns, the Administrator shall deliver the Premium Tax Returns to the Company for its review, comment, and approval. The Administrator shall (i) make all such changes as are reasonably requested by the Company at least five (5) days prior to the applicable due date, and (ii) file or cause to be filed all such Premium Tax Returns on or prior to the due date (including extensions) for filing such Premium Tax Returns. The Company shall timely pay all Taxes due as reflected on such Premium Tax Returns and Post-Effective Date Assessments.

Section 10.5. Customer Notifications. To the extent required by Law, the Administrator shall send to Contract Holders, Customers, Participating Providers and/or Brokers/Consultants written notice in a form prepared by the Administrator and reasonably approved by the Company to the effect that the Administrator has been appointed by the Company to provide the Administrative Services with respect to the Administered Contracts. The Administrator may include such notice in a regularly scheduled annual mailing to such Contract Holders, Customers, Participating Providers or Brokers/Consultants in lieu of a separate mailing.

Section 10.6. Change in Status. The Administrator shall notify the Company promptly (a) following public announcement of entry into any agreement that would result in (i) a majority of the capital stock of Administrator no longer being owned or controlled, directly or indirectly, by Parent (or its successor), or (ii) the sale or transfer of assets of the Administrator or any of its Affiliates that would render the Administrator unable to perform its obligations under this Administrative Services Agreement, and (b) following the adoption of any plan to liquidate, merge or dissolve the Administrator. Twenty (20) days prior to the closing of any sale, transfer or merger contemplated by the preceding sentence, at Parent's election, either (A) the successor or survivor of the transaction shall reaffirm its obligations under this Agreement in writing to the Company or (B) Parent shall certify to the Company that it will fulfill, or caused to be fulfilled, the obligations of the Administrator under this Agreement.

Section 10.7. Administrator Controls. The Administrator represents that during the term of this Administrative Services Agreement it will continue to maintain its accounting and oversight controls with respect to its operations consistent with the requirements under the Sarbanes-Oxley Act of 2002 and with past practice, to the extent consistent with applicable Law and taking into consideration the wind-down of the Business.

Section 10.8. Business Transition Services. Following the Effective Date, the Administrator will provide the business transition services to the Company as set forth in Schedule 10.8.

ARTICLE XI.

BOOKS AND RECORDS

Section 11.1. Compliance. The Administrator shall keep accurate and complete Books and Records and all other books and records relating to the Business in (a) compliance with applicable Law and the Company's record management practices and (b) a form that is reasonably accessible. Following Expiration Date, the Company shall keep accurate and complete Books and Records and all other books and records relating to the Business in (y) compliance with applicable Law and United's record management practices and (z) a form that is reasonably accessible.

Section 11.2. Right to Examine and Audit; Regulatory Examination of Records. Following the Effective Date, each Party shall afford, and will cause its Affiliates to afford, to the other Party and any of its Affiliates, counsel, regulators, accountants or designated representatives, during normal business hours, the right to examine and make copies of the Books and Records and all other books and records, including such systems and data back-up of such systems identified in Section 3.2, relating to the Business (excluding contract information relating to out of state providers) and with reasonable access to relevant personnel for such period as this Administrative Services Agreement is in effect or for as long thereafter as any rights or obligations of either Party survives or to the extent that such access may be required by the requesting party in connection with (a) the preparation of financial statements, (b) responding to regulatory inquiries or other regulatory purposes, (c) the preparation of Tax Returns or in connection with any audit, amended return, claim for refund or any proceeding with respect thereto, (d) the investigation, arbitration, litigation and final disposition of any claims that may have been or may be made against the Company (or its Affiliates) or the Administrator (or its Affiliates), as the case may be, in connection with the Business or which the Company (or its Affiliates) or the Administrator (or its Affiliates), as the case may be, may make with respect to the Business, or (e) compliance with the Service Standards and the Parties' respective obligations under this Administrative Services Agreement; provided that with respect to the foregoing clause (e), such access shall be limited to two (2) audits per year, unless additional audit is required by Law or unless United pays for the cost of such additional audit. To the extent any other books and records maintained by the Administrator include information unrelated to the Business, the Administrator may, within a reasonable time period, redact such information from such books and records prior to providing access to the Company or its Affiliates. Each Party and its Affiliates shall have the right to duplicate all Books and Records and other books and records relating exclusively to the Business. The Administrator shall permit authorized personnel of any applicable Governmental Entities to examine any records maintained by the Administrator relating to the provision of Administrative Services and to permit access to facilities used by the provision of the Administrative Services, in each case as required by applicable Law.

Section 11.3. Maintenance and Transfer. Each Party will not, and will cause its Affiliates to not, dispose of, alter or destroy any such Books and Records and other books and records relating to the Business except in accordance with such Party's record retention policies set forth on Schedule 11.3. During the term of this Administrative Services Agreement, the Administrator shall be responsible for the security, maintenance and storage of all Books and Records and other books and records relating to the Business and shall comply with the Parent's security policy in effect as of immediately prior to the Effective Date, as may be amended to comply with applicable Law from time to time. The Books and Records and other books and records relating to the Business are the property of the Company. Promptly upon termination of this Administrative Services Agreement, the Administrator shall return to the Company any such Books and Records and any other books and records relating to the Business in the Administrator's possession; provided, however, that the Administrator may retain copies of any such Books and Records.

ARTICLE XII.

COOPERATION

Section 12.1. Cooperation. Each Party hereto shall cooperate fully with the other in all reasonable respects in order to accomplish the objectives of this Administrative Services Agreement, including making available its respective officers and employees for interviews and meetings with Governmental Entities and furnishing any additional assistance, information and documents as may be reasonably requested by a Party from time to time. If, at any time after the Effective Date, any further action is necessary or desirable to effectuate the purposes of this Administrative Services Agreement, each Party, as the case may be, shall execute and deliver or cause to be executed and delivered such instruments and other documents as shall be mutually agreed upon, and shall take or cause to be taken all such further lawful and necessary action as mutually agreed upon including amending this Administrative Services Agreement, executing additional ancillary, delegation or other agreements, or taking such steps and measures as reasonably required, advisable or necessary pursuant to applicable Law or applicable accreditation or certification organizations.

Section 12.2. Joint Operating Representatives. The Administrator and the Company will each nominate two representatives to act as the primary contact persons with respect to the Administrative Services provided under this Administrative Services Agreement (the "JOR"). Each Party shall have the right to appoint, remove or replace its respective representative upon written notice to the other Party. The initial representatives of the Administrator and the Company shall be set forth on Schedule 12.2. The JOR shall meet at least once per quarter at a mutually acceptable time to (i) address matters related to the Administrative Services and (ii) discuss and attempt to resolve any disputes related to this Administrative Services Agreement arising between the Parties. All meetings shall be held in person, by teleconference or by any other means of remote communication agreed upon by the Company and the Administrator. If any dispute before the JOR is not resolved within fifteen (15) days after the date the JOR first meets to discuss the dispute in an attempt to resolve it (or such longer period as mutually agreed by the Parties in a writing signed by both Parties), then such dispute shall be submitted to the senior level designees of each of the Parties, who shall meet and make a good faith effort to resolve such dispute. If the dispute is not resolved within fifteen (15) days after such senior level designees first meet to discuss the dispute in an attempt to resolve it, then either Party may initiate litigation. Notwithstanding this Section 12.2, the JOR shall have no authority to amend this Administrative Services Agreement.

Section 12.3. Arbitration. Any dispute arising out of or relating to Section 7.5 shall be subject to final, binding arbitration in accordance with this Section 12.3. The dispute shall be submitted before the New York, New York offices of JAMS in accordance with the then existing JAMS Arbitration Rules, as modified by this Section 12.3; a decision shall be issued within fifteen (15) days after the close of the record; and judgment upon the dispute may be entered in any court having jurisdiction over the judgment. United and the Administrator shall select a mutually acceptable neutral arbitrator from the panel of arbitrators serving with any of JAMS's offices, but in the event the Parties cannot agree on an arbitrator, the administrator of JAMS shall appoint an arbitrator from such panel (the arbitrator so selected or appointed, the "Baseball Arbitrator"). Within fifteen (15) Business Days after selection of the Baseball Arbitrator, each of United and the Company shall submit to each other and the Baseball Arbitrator their respective proposals for the amount of monetary damages that would become due to the Company were the Company to bring a legal action against a third party and prosecute such legal action to conclusion, and the arbitration shall be limited to the sole question of determining which amount is to be accepted. The Baseball Arbitrator shall have no authority to compromise between the amounts. If the Baseball Arbitrator accepts United's proposal, United shall pay the Administrator such amount. The determination rendered by arbitration shall be final and binding upon the Parties, and judgment upon the award may be entered in any court having jurisdiction thereof. Each Party shall bear its own fees and expenses with respect to this dispute resolution process and any disputes related thereto and the Parties shall share equally the fees and expenses of JAMS and the Baseball Arbitrator. [The Parties acknowledge that the Commissioner of the New York State Department of Health shall be given notice of all issues going to arbitration and copies of all decisions, and that the Commissioner is not bound by such decisions.][13]

ARTICLE XIII.

CONFIDENTIALITY; PRIVACY REQUIREMENTS

Section 13.1. Use of Confidential Information. The Company and the Administrator acknowledge that each Party will have access to confidential and proprietary information concerning the other Party and its businesses, which information is not readily available to the public, and acknowledge that the Company and the Administrator have taken, and will continue to take, reasonable actions to ensure such information is not made available to the public. The Company and the Administrator further agree that neither they nor their Representatives will at any time (during the term hereof or thereafter) disclose to any Person (except the Company or the Administrator and their respective Affiliates, officers, directors, employees, agents, consultants and advisors (each a "Representative"), and in each case, who reasonably require such information in order to perform their duties in connection with the services provided hereunder), directly or indirectly, or make any use of, for any purpose other than those contemplated by the Stock Purchase Agreement, the Administrative Services Agreements or the Business Transition Agreement, any confidential information or trade secrets relating to the Business, the Administered Contracts or the business affairs of the Company or the Administrator.

[13] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 13.2. Disclosure. Subject to the terms and conditions set forth herein, including but not limited to Section 9.1(d), the Administrator or the Company may disclose confidential information in the following circumstances (or as otherwise provided by this Administrative Services Agreement):

(a) if the confidential information is or becomes generally publicly known and available, through no act or omission by such Party or on its behalf or by any of its Representatives;

(b) in response to a court order or formal discovery request after notice to the other Party is given and after providing such Party an opportunity to object to or intervene in such order or request, if permitted by Law; provided, however, that such disclosure shall be limited only to the extent that is required by such court order or formal disclosure request;

(c) if a proper request is made by any Governmental Entity, including pursuant to any market conduct, financial or other Governmental Entity examinations, after notice to the other Party is given and after providing such Party an opportunity to object to such request, if permitted by Law; provided, however, that such disclosure shall be limited only to the extent that is required by such Governmental Entity;

(d) at the proper request of the Company or at the request of a Customer, Contract Holder or its legal Representative as permitted by the Administered Contracts or applicable Law; provided, however, that such disclosure shall be limited only to the extent that is reasonably necessary to satisfy such a request and, with respect to a request by a Customer, Contract Holder or its legal representative relating to a material issue, Administrator shall first provide notice to the Company in order to provide Company an opportunity to object to such request, if permitted by Law;

(e) as disclosed in any discussions with auditors, actuaries or outside counsel; or

(f) as otherwise required by applicable Law.

Section 13.3. Privacy Requirements.

(a) In providing the Administrative Services, and in connection with maintaining, administering, handling and transferring the data of Contract Holders, Customers and other recipients of loss payments under the Administered Contracts, the Administrator shall, and shall cause its Affiliates and any permitted Subcontractors to, comply in all material respects with all applicable confidentiality and security obligations in connection with the collection, use, disclosure, maintenance and transmission of personal, private, health or financial information about individual insureds, enrolled beneficiaries or loss payment recipients (collectively "Nonpublic Personal Information"), that arise under (i) those Laws applicable to the Company that are currently in place or which may become effective during the term of this Administrative Services Agreement, including the Gramm-Leach-Bliley Act and the Standards for Privacy of Individually Identifiable Health Information and all other privacy or security regulations promulgated by the U.S. Department of Health and Human Services pursuant to the Health Insurance Portability and Accountability Act of 1996 ("HIPAA"), and (ii) the privacy policies of the Company attached as Exhibit 13.3(a) (the "Privacy Policies"), as such policies may be amended with the Administrator's prior written consent from time to time. The Administrator shall permit the Secretary of the U.S. Department of Health and Human Services and such other Governmental Entities to audit the Administrator's compliance herewith.

(b) The Administrator shall enable individual subjects of personally identifiable information, upon request from such individuals, to review and correct information maintained by the Administrator about them.

(c) The Administrator shall promptly report to the Company any violation of this Section 13.3 of which the Administrator becomes aware. The Administrator shall not during the term of this Administrative Services Agreement modify the Privacy Policies under which information utilized by the Administrator in administering the Administered Contracts is gathered without the Company's prior written consent.

(d) The Administrator will for so long as it retains Nonpublic Personal Information, maintain adequate administrative, technical and physical safeguards in accordance with standards maintained by the Company immediately prior to the Effective Date (taking into account the winding up and running out of the Business as contemplated under the Business Transition Agreement): (1) to insure the integrity, security and confidentiality of Nonpublic Personal Information and Customer records and information, (2) to protect against any anticipated threats or hazards to the integrity, security or confidentiality of such records, and (3) to protect against unauthorized access to or use of such records or information.

(e) As the Administrator is a Business Associate of the Company (as defined by HIPAA and its implementing privacy regulations at 45 C.F.R. Parts 160 and 164, subparts A and E, and security regulations at 45 C.F.R. 160, 162 and 164, subpart C), simultaneously with the execution of this Administrative Services Agreement, the Administrator shall execute the business associate agreement attached as Exhibit 13.3(e).

ARTICLE XIV.

CONSIDERATION FOR ADMINISTRATIVE SERVICES

Section 14.1. Compensation; Payments. In consideration for the Administrative Services, the Company shall pay to the Administrator the Administrative Services Fee. On or before the tenth Business Day following each month during the term of this Administrative Services Agreement, the Administrator will deliver a written invoice to the Company including the amount of the Administrative Services Fee for such month. No later than ten (10) Business Days after receipt of such written invoice, the Company shall pay any undisputed amount to the Administrator by wire transfer of immediately available funds to an account designated by Administrator in writing. The Company and the Administrator shall work in good faith to settle any such disputed amounts promptly. All payments of the Administrative Services Fee made by the Company to the Administrator under this Administrative Services Agreement shall be reflected in the profit and loss payments provisions in the Stock Purchase Agreement.

Section 14.2. Customer/Contract Holder Hold-Harmless. The Administrator shall not look to Contract Holders or Customers (in their capacities as such) for payment of obligations of the Company to the Administrator under the terms of this Administrative Services Agreement, regardless of the insolvency of the Company or the inability of the Company to pay.

ARTICLE XV.

BANK ACCOUNT; USE OF COMPANY LETTERHEAD

Section 15.1. Creation of Accounts. When and on terms reasonably requested by the Administrator, the Company shall open, modify or close, and make available for use by the Administrator for the payment of amounts to be paid by the Administrator hereunder one or more bank accounts (each, a "Bank Account") of the Company and check stock of the Company. The Administrator will continue to direct Company customer payments to existing Company lockboxes and shall cause to be deposited to the Bank Account(s) all such amounts collected by the Administrator pursuant to its obligations under this Administrative Services Agreement, including Premiums. The Administrator shall also continue to generate check and electronic payments on existing Company disbursement Bank Accounts to pay Claims and Health Care Costs pursuant to this Administrative Services Agreement. The Administrator shall maintain such account(s) and pay all applicable bank fees and check stock costs; provided, that United shall bear the cost of any new or modified check stock resulting from the re-branding by United or Company of the check stock used by the Company prior to the Effective Date and in the event the Administrator or the Company incurs additional costs in order to perform its obligations hereunder using such new or modified check stock, United shall reimburse the Administrator for such additional costs. The Company shall adopt such resolutions and execute such documents as required to designate senior officers of the Administrator (by title) as signatories on such account(s) and authorize the Administrator to certify to such bank(s), from time to time, the names of such officers. The Company shall also make available to the Administrator, at the sole expense of the Administrator, such letterhead, printed forms and other documents of the Company as may be reasonably required by the Administrator in performing services hereunder; provided that, in the event the Company adopts letterhead, printed forms or other documents different than the letterhead, printed forms or other documents used by the Company prior to the Effective Date, and the Administrator or the Company incurs additional costs in order to perform its obligations hereunder using such new or modified materials, United shall reimburse the Administrator for such additional costs.

Section 15.2. Use of Accounts; Responsibility for Maintaining Sufficient Funds. The Administrator shall inform the Company of the cash balances needed in such designated Bank Accounts one day in advance in order to fund any commercially reasonable amounts for the purpose of fulfilling its obligations to pay Health Care Costs and the same day in order to fund any commercially reasonable amounts for the purpose of fulfilling its obligations to pay Claims, in each case, pursuant to and during the term of this Administrative Services Agreement; provided, however, that the Administrator shall not have the right to withdraw from, or to request that the Company fund, the Bank Accounts for any amounts owed by it or its Affiliates to the Company or its Affiliates, including any indemnification payments, or for any Administrative Services Fees. If at any time there are insufficient amounts in the Bank Account to fund any checks drawn and unpaid on such Bank Accounts and subject to Parent's obligation to make the statutory minimum payments pursuant to Section 1.4(g) of the Stock Purchase Agreement, the Company or United shall deposit the required funds into the Bank Account for the purpose of paying Claims or Health Care Costs. When and on terms reasonably requested by the Company, Administrator will work with the Company, United and Company banks to transition Bank Account signers, Bank Account bank analysis grouping, documentation and data transmission and reporting systems, and electronic funds transfer capabilities into and out of the accounts from the Administrator to the Company and United Upon termination of this Administrative Services Agreement, the Administrator shall promptly return to the Company all such unused check stock, letterhead, printed forms and other generic documents held by it in connection with this Administrative Services Agreement as provided under this Article XV and any amounts remaining in the Bank Accounts shall be transferred to such accounts as directed by the Company.

ARTICLE XVI.

DURATION; TERMINATION

Section 16.1. Duration. This Administrative Services Agreement shall commence as of the Effective Date and shall continue in effect until the termination date of the final Administered Contract (the "Expiration Date"), on which date it shall automatically terminate, unless this Administrative Services Agreement is earlier terminated under Section 16.2 hereof. [In no event shall the term of this Administrative Services Agreement extend for more than five (5) years from the Effective Date unless a renewal term is authorized by the Commissioner of the New York State Department of Health in accordance with 10 NYCRR § 98-1.11(m). Any application for renewal shall be submitted to the New York State Department of Health at least ninety (90) days prior to the expiration of the existing contract.][14] Upon the Expiration Date, unless this Administrative Services Agreement is earlier terminated under Section 16.2 hereof, the Parties agree to enter into a Claims Servicing Agreement attached as Schedule 16.1, under which the Administrator will manage the running out of any remaining Claims.

[14] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 16.2. Termination.

(a) [Any termination or non-renewal of this Administrative Services Agreement shall require the prior written approval of the Commissioner of the New York State Department of Health following ninety (90) days prior written notice. Termination may be upon less than ninety (90) days notice provided it is demonstrated to the satisfaction of the Commissioner prior to termination that circumstances exist which justify more immediate termination. Any reference in this Article XVI to time frames shorter than ninety (90) days shall not be applicable unless the requirements of this Section 16.2(a) have been met.][15]

(b) This Administrative Services Agreement is subject to immediate termination at the option of the Company, upon written notice to the Administrator, upon the occurrence of any of the following events:

(i) A voluntary or involuntary proceeding is commenced in any jurisdiction by or against the Administrator for the purpose of conserving, rehabilitating or liquidating the Administrator;

(ii) There is a material breach by the Administrator of this Administrative Services Agreement that is not cured by the Administrator within forty-five (45) days after receipt of written notice from the Company of such breach (except in the case of inability to perform under Section 3.8); provided, however, that if Administrator commences and diligently pursues the cure of such breach and such breach cannot reasonably be cured within such forty-five (45) day period, then such cure period shall be extended for an additional thirty (30) day period; provided, further, that if a CAP has been implemented with respect to such matter in accordance with the procedures set forth in Sections 3.1(c) and 3.1(d), then the time frame provided for under such CAP shall apply instead of such applicable cure period stated in this Section 16.2(a)(ii). For the avoidance of doubt, a termination of any or all of the Intercompany Agreements (as defined in the Stock Purchase Agreement), as amended, shall not constitute a material breach under this Administrative Services Agreement.; or

(iii) The Administrator is unable to perform all or a material part of the Administrative Services required under this Administrative Services Agreement and is unable to obtain an alternative means of providing the Administrative Services (except in the case of inability to perform under Section 3.8).

[15] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

(c) This Administrative Services Agreement is subject to immediate termination at the option of the Administrator, upon:

(i) (A) a material breach by the Company of this Administrative Services Agreement that is not cured by the Company within forty-five (45) days after receipt of written notice from the Administrator of such breach; or (B) with respect to a material breach by the Company of any obligation to make payment of any undisputed amount of the Administrative Services Fee to the Administrator hereunder, within ten (10) Business Days after receipt of written notice from the Administrator of such breach (except, with respect to clause (A) only, in the case of inability to perform under Section 3.8). For the avoidance of doubt, a termination of any or all of the Intercompany Agreements (as defined in the Stock Purchase Agreement), as amended, shall not constitute a material breach under this Administrative Services Agreement.; or

(ii) the termination for breach (of any party) of the other Administrative Services Agreements.

(d) This Administrative Services Agreement shall terminate immediately as required by any Governmental Entity or applicable Law.

(e) This Administrative Services Agreement may be terminated at any time upon the mutual written consent of the Parties, which writing shall state the effective date of termination.

(f) In the event that this Administrative Services Agreement is terminated under any of the provisions of Section 16.2(a) hereof, the Company shall either directly or through an Affiliate or an alternative third-party administrator perform the obligations required by this Administrative Services Agreement. Any general and administrative expenses necessary to transition the performance of Administrative Services to the Company, an Affiliate or a third party administrator (e.g., loading claims data on a new system) (but not performance of Administrative Services after such termination and corresponding transition) ("Transition G&A") shall be borne equally by the Administrator and the Company; provided, however, that in no event shall the Transition G&A to be borne by the Administrator exceed $18 million in the aggregate. The Administrator shall provide the Company reasonable access during normal business hours to its claims system and appropriate personnel of the Administrator as reasonably necessary to transition the Administrative Services to the Company, its Affiliates or a third party, unless as of or after the date of this Administrative Services Agreement, such termination of such claims system has been or is de-commissioned or is otherwise no longer used. Except as provided in this Section 16.2(e), from and after such termination, the Administrator's sole remaining obligation hereunder shall be to make payment of the Termination Date Loss Reserve in accordance with Section 1.4(e)(ii) of the Stock Purchase Agreement and those obligations which survive pursuant to Section 18.14.

Section 16.3. [The Parties acknowledge that this Administrative Services Agreement shall terminate and be deemed cancelled, without financial penalty to the governing authority of Company or to Company itself, not more than sixty (60) days after notification to the governing authority of Company and Administrator by the New York State Department of Health of a determination that Company is not providing adequate care or otherwise assuring the health, safety and welfare of its enrollees.][16]

Section 16.4. Effect of Termination. Notwithstanding the termination of this Administrative Services Agreement, the Administrator agrees to cooperate with the Company in any Governmental Entity examinations or inquiries relating to the Business or Legal Proceedings.

ARTICLE XVII.

INDEMNIFICATION

The Parties acknowledge and agree that the indemnification provisions of Article VII of the Stock Purchase Agreement shall apply to this Agreement.

ARTICLE XVIII.

GENERAL PROVISIONS

Section 18.1. Amendment and Modification. This Administrative Services Agreement may be amended, modified or supplemented, only by a written agreement signed by each of the Parties. No course of dealing between or among any of the Parties hereto shall be deemed effective to modify or amend any part of this Administrative Services Agreement or any rights or obligations of any Party under or by reason of this Administrative Services Agreement. [Any amendments or revisions to this Administrative Services Agreement shall be effective only with the prior written consent of the Commissioner of the New York State Department of Health.][17]

Section 18.2. Waiver of Compliance; Consents. Any failure of the Company, on the one hand, or Parent or the Administrator, on the other hand, to comply with any obligation, covenant, agreement or condition herein may be waived by Parent or the Administrator, or the Company, respectively, only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure. Whenever this Administrative Services Agreement requires or permits consent by or on behalf of any Party, such consent shall be given in writing in a manner consistent with the requirements for a waiver of compliance as set forth in this Section 18.2.

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[16] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

[17] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

Section 18.3. Notices. All notices and other communications hereunder shall be in writing and shall be deemed to have been duly given when delivered in person, by email, telecopier (with a confirmed receipt thereof) or registered or certified mail (postage prepaid, return receipt requested), and on the next Business Day when sent by overnight courier service, to the Parties at the following addresses (or at such other address for a Party as shall be specified by like notice):

(a) if to the Company, to:

UnitedHealthcare, Inc.
5901 Lincoln Drive
Edina, MN 55426-1611
Facsimile: (952) 992-5250
Attention: Chief Financial Officer & General Counsel

and

Oxford Health Plans, LLC
One Penn Plaza
New York, NY 10019
Facsimile: (203) 459-7171
Attention: Northeast Region Chief Executive Officer

and:

UnitedHealth Group Incorporated
9900 Bren Road East
Minnetonka, MN 55343
Facsimile: (952) 936-0044
Attention: General Counsel
and
Facsimile: (952) 936-3007
Attention: Vice President,
Corporate Development

with a copy to:

Dorsey & Whitney LLP
Suite 1500
50 South Sixth Street
Minneapolis, MN 55402
Facsimile: (612) 340-2868
Attention: Neal N. Peterson, Esq.

(b) if to the Administrator, to:
Health Net, Inc.
21650 Oxnard Street
Woodland Hills, CA 91367
Facsimile: (818) 676-7503
Attention: Linda V. Tiano, Senior Vice President, General Counsel and Secretary

with a copy to:

Latham & Watkins LLP
355 South Grand Avenue
Los Angeles, CA 90071-1560
Facsimile: (213) 891-8763
Attention: James Beaubien, Esq.
Julian Kleindorfer, Esq.

Section 18.4. Assignment. This Administrative Services Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and permitted assigns, but neither this Administrative Services Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any Party without the prior written consent of the other Parties; provided, however that the Company shall have the right, without the consent of Parent or the Administrator, to assign all of its rights, duties and obligations under this Administrative Services Agreement (a) to any Subsidiary of the Company or (b) in connection with the sale of all or substantially all of the capital stock or assets of the Company. For the avoidance of doubt, no such assignment shall relieve Parent or UHG of their respective obligations under Section 2.4.

Section 18.5. Governing Law; Consent to Jurisdiction; Waiver of Jury Trial. This Administrative Services Agreement shall be governed by and construed in accordance with the internal laws of the state of ***[law of domicile]*** applicable to agreements made and to be performed entirely within such state, without regard to the choice of law principles thereof. Each of the Parties hereby irrevocably and unconditionally consents to submit to the sole and exclusive jurisdiction of the courts of the State of [_____] sitting in [_____], and of the United States District Court for the District of [_____] (the "Chosen Courts") for any litigation arising out of or relating to this Administrative Services Agreement, or the negotiation, validity or performance of this Administrative Services Agreement, or the transactions contemplated hereby (and agrees not to commence any litigation relating thereto except in such courts), waives any objection to the laying of venue of any such litigation in the Chosen Courts and agrees not to plead or claim in any Chosen Court that such litigation brought therein has been brought in any inconvenient forum. The Parties hereby waive the right to any jury trial in any action, proceeding or counterclaim brought by one Party against another Party.

Section 18.6. Counterparts. This Administrative Services Agreement may be executed and delivered (including by facsimile transmission or by electronic mail with a pdf scanned attachment) in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

Section 18.7. Interpretation. The article and section headings contained in this Administrative Services Agreement are solely for the purpose of reference, are not part of the agreement of the parties and shall not in any way affect the meaning or interpretation of this Administrative Services Agreement. The Parties are sophisticated, represented by counsel and jointly have participated in the negotiation and drafting of this Administrative Services Agreement and there shall be no presumption or burden of proof favoring or disfavoring any party by virtue of the authorship of any provision of this Administrative Services Agreement.

Section 18.8. Specific Performance. The Parties agree that irreparable damage would occur in the event any of the provisions of this Administrative Services Agreement were not to be performed in accordance with the terms hereof and that the Parties shall be entitled to an injunction to prevent breaches of this Administrative Services Agreement and to enforce specifically the terms and provisions hereof in the Chosen Courts, this being in addition to any other remedy to which they are entitled at Law in equity.

Section 18.9. Entire Agreement; Further Assistance. [This Administrative Services Agreement, the Stock Purchase Agreement (including the schedules, exhibits, documents or instruments referred to therein) and the other Transaction Documents embody the entire agreement and understanding of the Parties in respect of the subject matter hereof and thereof and supersede all prior agreements and understandings, both written and oral, among the parties, or between any of them, with respect to the subject matter hereof and thereof. The Parties agree that, on and after the Effective Date, they shall execute any documents, instruments or conveyances of any kind which may be reasonably necessary to carry out any of the provisions hereof.][18]

Section 18.10. No Third Party Beneficiaries. This Administrative Services Agreement is not intended to, and does not, create any rights or benefits of any party other than the Parties other than third party rights provided for under Article XVII.

Section 18.11. Severability. Wherever possible, each provision of this Administrative Services Agreement shall be interpreted in such manner as to be effective and valid under applicable Law, but in case any one or more of the provisions contained herein shall, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality or unenforceability shall not affect any other provision of this Administrative Services Agreement, and this Administrative Services Agreement shall be construed as if such invalid, illegal or unenforceable provision or provisions had never been contained herein unless the deletion of such provision or provisions would result in such a material change as to cause completion of the transactions contemplated hereby to be unreasonable.

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[18] The Administrative Services Agreement of Health Net of New York replaces the bracketed text with: "This Administrative Services Agreement, as approved by the New York State Department of Health, shall be the sole agreement between Administrator and Company for the purpose of the Management Functions herein and payment to Administrator for Management Functions and supersedes all prior agreements and understandings, both written and oral, between the Parties with respect to the subject matter hereof."

Section 18.12. Construction. Unless the context of this Administrative Services Agreement otherwise requires: (i) words of any gender include each other gender; (ii) words using the singular or plural number also include the plural or singular number, respectively; (iii) the terms "hereof," "herein," "hereby" and derivative or similar words refer to this entire Administrative Services Agreement; (iv) the terms "Article" or "Section" refer to the specified Article or Section of this Administrative Services Agreement; (v) the term "or" has, except where otherwise indicated, the inclusive meaning represented by the phrase "and/or"; (vi) the term "including" means "including without limitation"; (vii) the term "foreign" is used with respect to the United States; and (viii) unless the context otherwise requires, an accounting term not otherwise defined in this Administrative Services Agreement has the meaning assigned thereto in accordance with GAAP or statutory accounting principles, consistently applied in accordance with the historical practices of the Company and the Administrator, as the case may be, insofar as such practices are in accordance with GAAP or statutory accounting principles, as the case may be. Whenever this Administrative Services Agreement refers to a number of days, such number shall refer to calendar days unless Business Days are specified.

Section 18.13. Right to Offset. Any debts or credits between Administrator and the Company arising under this Administrative Services Agreement are deemed mutual debts or credits, as the case may be, and may be netted or set off, as the case may be, against amounts owed under the Stock Purchase Agreement, the Transaction Documents or any other agreements or instruments contemplated thereby, and, if so netted or set off, only the balance shall be allowed or paid hereunder.

Section 18.14. Survival. Articles XI, XIII, XVII and XVIII, Sections 3.2, 7.2(c), 14.2 and 16.3 and those certain obligations specifically identified in Exhibit 2.5 and Exhibit 2.6 shall survive the termination of this Administrative Services Agreement.

Section 18.15. [Regulatory Approval. This Administrative Services Agreement must be submitted to the New York State Department of Health for its prior approval at least ninety (90) days prior to its proposed effective date. This Administrative Services Agreement shall be effective only with the prior written consent of the Commissioner of the New York State Department of Health. Any changes to this Administrative Services Agreement required by the Commissioner will be made by the Parties immediately upon receipt of written notice from the Commissioner.][19]

[The rest of this page is intentionally left blank. The signature page follows.]

[19] This provision is found only in the Administrative Services Agreement of Health Net of New York, Inc.

IN WITNESS WHEREOF, the Parties have caused this Administrative Services Agreement to be executed by their respective duly authorized officers, as of the Effective Date.

PARENT:

HEALTH NET, INC.

By: _____
Name:
Title:

ADMINISTRATOR:

HEALTH NET OF THE NORTHEAST, INC.

By: _____
Name:
Title:

UHG:

UNITEDHEALTH GROUP INCORPORATED

By: _____
Name:
Title:

COMPANY:

_____

By: _____
Name:
Title:

UNITED:

UNITED HEALTHCARE SERVICES, INC.

By: _____
Name:
Title:

[ADDENDUM 1

CLAUSES PURSUANT TO N.J. REV. STAT. 17B:27B-6

Notwithstanding any other provision of this agreement, contract or amendment (hereinafter, the "Agreement"), the parties agree to comply with the requirements set forth in N.J. Rev. Stat. 17B:27B-6. In addition to the provisions of the Agreement that address the matters required by this Section, the following provisions also apply and are made part of the Agreement.

A. Provision of Enrollment and Eligibility Information. From and after the Effective Date, the Company shall be responsible for furnishing the Administrator with all necessary member enrollment and eligibility information to perform its obligations under this Agreement.

B. Notification by Benefits Payer of Modifications in Benefit Payer's Benefits Plan. From and after the Effective Date, the Company will promptly provide the Administrator with a copy of any modification to the Administered Contracts. To the extent modifications result in a degradation of the Administrator's ability to comply with the Service Standards, the parties will cooperate to develop adjustments to the Service Standards with respect to such Administered Contracts, taking into account such modifications.

C. Respective Liability of the Administrator and Benefits Payer for Payment of Ineligible Claims. For the avoidance of doubt, the Administrator shall be ultimately liable for the payment of ineligible claims either pursuant to Section 1.4 of the Stock Purchase Agreement or as otherwise agreed to by the parties.

D. Liability for Overdue Claims Payments. For the avoidance of doubt, the Administrator shall ultimately be liable for the payment of overdue claims either pursuant to Section 1.4 of the Stock Purchase Agreement or as otherwise agreed to by the parties.

E. Procurement of Reinsurance or Stop-Loss Insurance. The Administrator shall be responsible for the procurement and maintenance of reinsurance or stop-loss insurance coverage, as appropriate.

F. Maintenance of Appropriate Insurance Coverage by Administrator. The Administrator shall maintain insurance coverage appropriate for a third party administrator, including, but not be limited to, general liability insurance, valuable papers insurance and errors and omissions coverage. For the avoidance of doubt, nothing in this Section F shall relieve United from its obligation to make available to the Company appropriate types and levels of insurance coverage in accordance with Section 8.6 of the Agreement.][20]

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[20] This Addendum 1 is found only in the Administrative Services Agreement of Health Net of New Jersey, Inc.

Administrative Services Agreement

SCHEDULE 2.1

ADDITIONAL ADMINISTRATIVE SERVICES[1]

Category	Description/Activities
Transition Management	Transition Management, Joint Operating Representatives
Medical Management	Prior Authorization, Concurrent Review, Case Management, Credentialing, Claims Edits, Accreditation/Quality, Utilization Management system support
Provider Network Management	Provider Network Management, Provider Communications, Out-of-network coordination
Health Plan & Government Programs	General Program Oversight and Regulatory Compliance, Broker Support, Data Reconciliation, Medicare and Medicaid Sales consistent with the terms and conditions of the Stock Purchase Agreement
Regional Health Plan Programs	Commercial Sales consistent with the terms and conditions of the Stock Purchase Agreement, Account Management, Administration, Regulatory Affairs, Process Improvement
Financial Planning & Analysis	Financial Planning, Reporting and Analysis
Actuary & Underwriting	Actuarial & Underwriting Services
Corporate Finance	Divisional Finance and Accounting, Accounts Payable, Payroll, Internal Audit, Fraud & Abuse, Facilities, Procurement, Corporate Actuarial
Regulatory & External Relations	State Regulatory and Government affairs
Organization Effectiveness	Staffing, Benefits, Compensation, Associate Service Center
Legal Services & Settlements	Legal Services & Settlements
Customer Care Operations	Call Center Operations, Membership Accounting & Eligibility, Web Portal, Customer Distribution & Mail Services, Claims, System Configuration, Appeals & Grievances, Medicare Enrollment consistent with the terms and conditions of the Stock Purchase Agreement
Information Technology (IT)	IT support staff, Project Management, Infrastructure and Application Support - IBM / Cognizant contract services
Premium Taxes	Preparation and Filing of Premium Tax Returns.
Administering Post-Effective Date Assessments	Includes fees paid for DOI 332, Health & Welfare, Individual Health Coverage, NAIC filing fees, NJ Written Premium Assessment
Broker Commissions	Administer and process payment of Broker Commissions for Administered Contracts consistent with the terms and conditions of the Stock Purchase Agreement
Depreciation	Depreciation
Other Items, Corporate Admin	Insurance and Other Administrative items

[1] The Administrative Services Agreement entered into by and among Health Net, Inc., Health Net of the Northeast, Inc., Health Net of New Jersey, Inc., United Healthcare Services, Inc. and, solely with respect to Section 2.4(b) thereof, UnitedHealth Group Incorporated, lists the following additional administrative service: Developing Enrollment and Eligibility Information (Category and Description/Activities).

Administrative Services Agreement

SCHEDULE 10.8

BUSINESS TRANSITION SCHEDULE

Capitalized terms used in this Schedule but not defined herein, unless otherwise indicated, have the respective meanings assigned to them in the Administrative Services Agreement, if defined therein, or, if not defined therein, the Stock Purchase Agreement.

As used in this Schedule, the following terms shall have the meanings set forth herein:

"Accumulator Report" shall have the meaning ascribed to it in Section 1.4(a)(ii).

"Applicable State" shall mean Connecticut.

"ASO Contracts" means any administrative services only contract entered into by a Person for the administration of health care benefits or services for which an employer group remains financially responsible on a self-insured basis. For purposes of this definition, a contract is not an ASO Contract because it is experience rated, retrospectively rated, or a minimum premium or similar arrangement so long as an insurance or HMO license is required under applicable Law to issue the contract.

"Broker/Consultant Materials" shall have the meaning ascribed to it in Section 2.2.

"Communication Plan" shall have the meaning ascribed to it in Section 2.1.

"Employer Groups" shall mean any or all Employer Groups sitused in the Applicable State which contract to provide health benefits on behalf of their eligible employees, members or beneficiaries who are enrolled pursuant to Health Plan Contracts, consistent with the Company's past practices, as of or following the Effective Date.

"Enrollment Report" shall have the meaning ascribed to it in Section 1.4(a)(i).

"Fully Insured Contract" shall mean a contract for the provision of services for a broad spectrum of medical health benefits to an individual or group under which the risk of loss is borne by the insurer (including contracts pursuant to which the insured bears a portion of the risk through deductibles, co-payments and other Member cost-sharing features).

"Health Plan Contracts" shall mean (a) the commercial group health care benefit insurance contracts to which the Company is a party and (i) which involve the arrangement, delivery, provision or payment of health care benefits to Members, (ii) which were entered into pursuant to a license maintained by the Company, and (iii) in which the risk of loss is borne by the Company (including contracts pursuant to which the insured bears a portion of the risk of loss through deductibles, co-payments and other Member cost-sharing features); and (b) commercial group health care benefit contracts between the Company, as a third party administrator, and an Employer Group in which the economic risk of medical claims is borne by the health and welfare benefit plan or trust sponsored or established by the Employer Group. Notwithstanding the foregoing, Health Plan Contracts shall not include Medicare Plan Contracts or the Medicaid Plan Contract.

"HN Life" means Health Net Life Insurance Company, a California corporation.

"Legacy United Entities" means the following Affiliates of United, Oxford Health Insurance, Inc., Oxford Health Plans (CT), Inc., UnitedHealthcare Insurance Company, Oxford Health Plans (NJ), Inc., AmeriChoice of New Jersey, Inc., Oxford Health Plans (NY, Inc., UnitedHealthcare Insurance Company of New York and United HealthCare Services, Inc. (each, a "Legacy United Entity"), which are licensed to offer, collectively, health insurance products in the Applicable State.

"Legacy United Entities' Plans" shall mean the commercial group (large and small) health benefit products offered, sold or maintained by a Legacy United Entity and, if applicable, approved from time to time by the applicable Governmental Entities for use in the Applicable State. Legacy United Entities' Plans include both self-funded benefit plans administered by a Legacy United Entity, and medical benefit products sold by a Legacy United Entity and products under which a Legacy United Entity bears insurance risk or insures with respect to the cost of covered services.

"Member Materials" shall have the meaning ascribed to it in Section 2.2

"Members" shall mean covered individuals and dependents who are properly enrolled pursuant to Health Plan Contracts as of or following the Effective Date.

"Membership" shall mean the commercial group (large and small) membership enrolled by the Company pursuant to Health Plan Contracts issued to Employer Groups situsedin the Applicable State. The Membership shall include all Members under a Health Plan Contract that was sold by the Company to an Employer Group situsedin an Applicable State, whether or not each individual Member under such Health Plan Contract is resident in an Applicable State, based on the Company's ordinary course records.

"Termination Notice" shall have the meaning ascribed to it in Section 2.2.

"Transferred Member" shall mean a Member who Renews in a Legacy United Entities' Plan after the termination or expiration of such Member's enrollment under a Health Plan Contract during the period commencing on the Effective Date and ending on the last day of the Transition Period.

"Transition Period" shall have the meaning ascribed to it in Section 1.1(a).

"Transition Report" shall have the meaning ascribed to it in Section 1.4(b).

"Transition Schedule" shall have the meaning ascribed to it in Section 1.1(a).

ARTICLE I.

TRANSITION OF MEMBERSHIP

Section 1.1. Transition of Members. Subject to and upon the terms and conditions of this Agreement, the Parties agree to the following:

(a) Announcement. As soon as practicable after the Effective Date, and subject to applicable Laws (including any required regulatory notice or approval), the Administrator shall, on behalf of the Company, announce the plans of the Company to exit the Business and terminate its operations with respect to the Business, in the Applicable State, and shall commence the process of assisting in the transition of Employer Groups and Members to the Legacy United Entities; provided, however, that such announcement and process shall be conducted in accordance with the Communication Plan and Schedule 1.1(a) (the "Transition Schedule"). The Transition Schedule created by the Parties shall take into account various factors related to the timing and coordination of the announcement and transition process, including coordination of the timing of the Company's exiting the Business in the Applicable State with the exit of HN Life, and timing considerations regarding Health Plan Contracts that have plans with features administered by both the Company and HN Life. The Administrator shall use commercially reasonable efforts to facilitate the issuance by Legacy United Entities of Legacy United Entities' Plans in replacement of the in-force policies and other products that constitute the Business until the termination of each policy or other product that constitutes the Business (the "Transition Period").

(b) Enrollment. United shall commence the process of offering, selling and enrolling Employer Groups and Members who request enrollment in a Legacy United Entities' Plan in the Applicable State in accordance with the Communication Plan and Transition Schedule as soon as practicable after the Effective Date. During the Transition Period, United and its Affiliates shall not offer or sell Fully Insured Contracts to Members or Employer Groups or enroll Members or Employer Groups in Fully Insured Contracts or ASO Contracts other than through a Legacy United Entity and Legacy United Entities' Plan. For the avoidance of doubt, the preceding sentence shall not apply to United's or United's Affiliates' offer or sale to Members or Employer Groups of, or enrollment of Members or Employer Groups in, vision, dental, pharmacy, behavioral health or any other products other than the provision of coverage or services under Fully Insured Contracts and ASO Contracts.

Section 1.2. Transition Efforts.

(a) From and after the Effective Date, the Administrator shall, on behalf of the Company, exclusively endorse the Legacy United Entities as the recommended replacement carrier or administrative services provider (as applicable), subject to applicable Laws and in accordance with the Communication Plan and the Transition Schedule, and shall facilitate the transition of the Employer Groups and Members to the Legacy United Entities. The Administrator shall cooperate with United and Employer Groups in order to assist them in effectuating the transition of Employer Groups and Members from the Company to Legacy United Entity Plans. If a Legacy United Entity and Employer Group (and if required, Broker/Consultant) agree that such Employer Group will enter into a Legacy United Entities' Plan prior to the scheduled expiration date of the Health Plan Contract then in effect, then upon receipt of written notice from United relating thereto, the Legacy United Entity shall provide to the Employer Group a mutual cancellation agreement to cancel coverage under the Health Plan Contract as of the effective date of coverage under the Legacy United Entities' Plan. The Administrator, on behalf of the Company, shall execute such mutual cancellation agreement promptly upon United's request. United will use its commercially reasonable efforts to rewrite any such cancelled Health Plan Contracts, subject to Legacy United Entities' Plans underwriting guidelines and other requirements, as determined in such Legacy United Entity's discretion and as such underwriting guidelines and other requirements are applied by such Legacy United Entity in a manner consistent with such Legacy United Entity's application of underwriting guidelines and requirements to business other than the Business.

(b) After the Effective Date, at the first opportunity to enroll eligible Employer Groups (if not already enrolled with a Legacy United Entity Plan in accordance with Section 1.2(a)) and Members (e.g., upon applicable policy anniversary or other renewal date of Health Plan Contracts after the Effective Date), United shall offer each eligible Employer Group and Member one or more of Legacy United Entities' Plans; provided, however, that United in its discretion may elect not to offer enrollment to Employer Groups or Members if such Employer Groups or Members do not satisfy the underwriting guidelines and rating methodology of United in the applicable market, as such underwriting guidelines and rating methodology are applied by United in a manner consistent with United's application of underwriting guidelines and rating methodology to business other than the Business. Furthermore, United in its discretion may elect not to enroll in a Legacy United Entity Plan any Employer Group or Member (i) who fails to satisfy any eligibility requirements of the applicable Legacy United Entity Plan, as such eligibility requirements are applied by United in a manner consistent with United's application of eligibility requirements to business other than the Business; (ii) for whom premiums or fees are not current in any Health Plan Contracts; or (iii) who has terminated, has been terminated by the Company, or submitted a notice of termination of, or intent to terminate, such membership pursuant to such Health Plan Contracts. In addition to the activities set forth in Sections 2.2 and 2.3, the Administrator, on behalf of the Company, shall use commercially reasonable efforts to (x) cause qualified employees to attend and participate in meetings lead by United, in the manner and to the extent such attendance and participation is requested by United with reasonable advance notice, with Employer Groups that are large groups or Brokers/Consultants, and (y) cooperate with United's efforts to transition Employer Groups and Members to Legacy United Entities' Plans and to gain the commitment of Brokers/Consultants to do business with the Legacy United Entities in the Applicable State.

(c) In accordance with the Transition Schedule, the Parties shall use commercially reasonable efforts to transfer each Employer Group's health care benefits provided by the Company and HN Life as a whole (e.g., with respect to a Employer Group that has health care benefit insurance products administered by the Company and health care benefit insurance products administered by HN Life, the Parties shall use commercially reasonable efforts to attempt to transition all such products to products (or comparable products) that are offered by one or more Legacy United Entities), to the extent that comparable products are offered by Legacy United Entities and subject to the choice of the Employer Group and the applicable Legacy United Entity's underwriting guidelines, rating methodologies, eligibility requirements and other requirements, as such guidelines, methodologies and requirements are applied by United in a manner consistent with United's application thereof to business other than the Business.

(d) In connection with the transition of Membership pursuant to Section 1.1, and upon the terms and subject to the conditions set forth in this Agreement, the Administrator, on behalf of the Company, shall use commercially reasonable efforts to (i) cause qualified employees of the Administrator or its Affiliates, to the extent such employees have not been hired by Buyer in accordance with the terms of the Stock Purchase Agreement, to attend and participate in meetings lead by United, in the manner and to the extent such attendance and participation is requested by United with reasonable advance notice, with hospitals, hospital systems, other major health care providers and other significant vendors with contractual relationships with the Company, in the Applicable State, as listed in Schedule 1.2(d) and (ii) cooperate with United's efforts to gain the commitment of such persons to do business with the Legacy United Entities in the Applicable State.

Section 1.3. Compensation. No cash consideration will be paid to Parent and its Affiliates, on the one hand, or United and its Affiliates, on the other hand, for the facilitation of the transition of the Business and Membership from the Company to Legacy United Entities. The sole consideration for such transition of the Business and Membership shall be the performance of the respective Parties' obligations hereunder.

Section 1.4. Reporting.

(a) Enrollment Reports. The Administrator shall prepare and deliver to United on the Effective Date and on or before the tenth Business Day of each calendar quarter after the Effective Date until the end of the Transition Period enrollment reports (each, an "Enrollment Report") which list, as of the last day of the calendar month preceding each such Enrollment Report, the name, address, telephone number and renewal date of each Employer Group, the name, address and telephone number of each Employer Group plan administrator and Broker/Consultant, the names of Members, including any Employer Groups or Members added to the Membership as a result of retroactive adjustments, any off-cycle termination since the previous month's report, and such other information as specified in Schedule 1.4(a)(i) (which may include, for the avoidance of doubt, Nonpublic Personal Information) and (ii) on the Effective Date and on a weekly basis thereafter (with the exact day of delivery to be agreed upon by the Parties), reports (each, an "Accumulator Report") which list, as of the end of the week preceding each such Accumulator Report, accumulator data, as prepared in accordance with the Company's past practices as of the Effective Date, for each Employer Group and Member, including such other information as specified in Schedule 1.4(a)(ii). Each Accumulator Report shall be provided in a consistent electronic format. Any updates to a previously delivered Enrollment Report resulting from retroactive adjustments to Membership shall be reflected on the next applicable Enrollment Report following the availability of such data. For the avoidance of doubt, the Administrator's obligation to deliver Enrollment Reports to United shall be in addition to the Administrator's obligation to deliver the Initial Membership Statement, the Effective Date Membership Statement and updates thereto pursuant to the terms of the Stock Purchase Agreement.

(b) United's Transition Reports. Within ten (10) Business Days following each calendar month that ends during the Transition Period, United shall (i) prepare a report setting forth the number of Members who became Transferred Members during the preceding quarter (each a "Transition Report") and (ii) deliver such Transition Report to the Administrator. For the avoidance of doubt, United's obligation to deliver Transition Reports to the Administrator shall be in addition to its obligation to deliver Membership Renewal Statements pursuant to the terms of the Stock Purchase Agreement.

(c) Verification. Each Party shall afford to the other Party and its representatives reasonable access during normal business hours, and upon reasonable notice by the requesting Party, to such information reasonably necessary to verify and audit the accuracy of the Enrollment Reports and the Transition Reports.

ARTICLE II.

COMMUNICATIONS

Section 2.1. Communication Plan. The Parties shall comply with the communication plan (the "Communication Plan") attached hereto as Exhibit A. The intent of the Communication Plan is for the Administrator to assist United in its efforts to gain the commitment of Employer Groups, Members and Brokers/Consultants to the transition of the Membership to Legacy United Entities. The Communication Plan shall require that all communication templates be approved by the Administrator and United prior to use. It shall identify specific information to be disseminated to Employer Groups, Members and Brokers/Consultants, or any subsets thereof, and it shall include when, to whom and by whom such information is to be disseminated. The Communication Plan shall also include (a) a schedule of mailing dates of letters of termination and introduction, which mailing dates shall comply with policy language and requirements of applicable Law, and (b) information that may be provided to Employer Groups, Members and Brokers/Consultants regarding whom to contact and how to contact such persons about operational issues arising in the implementation of this Agreement.

Section 2.2. Notice of Transition. Consistent with Section 1.1(a), in accordance with the Communication Plan and Transition Schedule, the Administrator shall deliver to every Employer Group and Member a notice (the "Termination Notice") that their Health Plan Contract will be terminated or non-renewed as soon as permitted by applicable Law. To the extent required by applicable Law or deemed necessary or advisable by the Administrator, the Administrator shall cause the Termination Notice to be reviewed by and found acceptable to the applicable Governmental Entities prior to mailing. The Administrator shall include in the mailing containing such Termination Notices a separate notice prepared by United which shall inform the Employer Groups and Members of, among other things, the availability of Legacy United Entities' Plans and include a description of options with respect to Health Plan Contracts and Legacy United Entities' Plans (the "Member Materials"). The Administrator shall deliver to each Broker/Consultant, on behalf of United, a notice prepared by United which shall inform the Brokers/Consultants of the proposed transition and contain sufficient information to enable the Brokers/Consultants to respond to questions from Employer Groups and Members and effectively assist in the transition of Employer Groups and Members to Legacy United Entities' Plans (the "Broker/Consultant Materials"). To the extent required by applicable Law or deemed necessary or advisable by United, United shall cause the Member Materials and the Broker/Consultant Materials to be reviewed by and found acceptable to the applicable Governmental Entities prior to mailing. The Termination Notice, Member Materials and Broker/Consultant Materials shall be substantially in the form set forth on Exhibit B. United shall supply the Administrator with sufficient copies of the Member Materials and Broker/Consultant Materials for the mailings contemplated by this Agreement, and shall bear sole responsibility for, and all costs and expenses associated with, the timely printing of such materials. The Administrator shall produce sufficient copies of the Termination Notice for the mailings contemplated by this Agreement, and the Company shall bear sole responsibility for, and all costs and expenses associated with, the timely printing of such materials. United hereby covenants that any Member Materials and Broker/Consultant Materials to be included in the mailings contemplated by this Agreement shall comply with applicable Law. The Administrator hereby covenants that any Termination Notices to be included by the Administrator in the mailings contemplated under this Agreement shall comply with applicable Law.

Section 2.3. Mailings. The Administrator, on behalf of the Company, shall mail promptly, and in no event later than the dates set forth in the Communication Plan, the Termination Notice and Member Materials to every Employer Group and Member (provided that, with respect to Members who reside at the same address, the Administrator may mail one set of such materials to the shared address), and the Broker/Consultant Materials to each Broker/Consultant, with the Company and United each responsible for its pro rata share (based on the amount of materials provided by such Party in the relevant mailing) of the costs and expenses (other than printing costs and expenses) associated with such initial mailings; provided, however, that (a) United shall have no responsibility for any costs or expenses for any such initial mailings that do not include Member Materials or Broker/Consultant Materials, and (b) United shall solely bear responsibility for the costs and expenses associated with any subsequent or repeat mailings made by United or at United's written request of Member Materials and Broker/Consultant Materials or other materials United desires to send to Employer Groups, Members or Broker/Consultants. The Administrator, at the Company's sole cost and expense, shall be responsible for all non-renewal and cancellation notifications and other requirements under applicable Law with respect to the Health Plan Contracts, Employer Groups and the Membership, including those notifications and other requirements required in the event that the Legacy United Entities choose not to enroll any Employer Group or Member upon expiration of the applicable Health Plan Contract. United and the Administrator agree to cooperate with each other with respect to the timing and content of such non-renewal and, if requested, cancellation notifications to the Membership in order to facilitate the Administrator's fulfillment of its legal obligations with respect to the Membership.

ARTICLE III.

ADDITIONAL COVENANTS

Section 3.1. Rates. United shall have sole authority for: (i) developing the rates for Legacy United Entities' Plans; (ii) if and to the extent required by applicable Law, obtaining approval from the appropriate Governmental Entities for the rates and other terms of the Legacy United Entities' Plans and of any activities of United related to the transition of Employer Groups and Members or otherwise in connection with the transactions contemplated hereby; (iii) utilizing such rates to calculate premiums according to established underwriting guidelines, as such guidelines are applied by United in a manner consistent with United's application thereof to business other than the Business, for Legacy United Entities' Plans in compliance with applicable Law; (iv) subject to the provisions of Sections 1.2(b), 2.1, 2.2, and 2.3 hereof, soliciting, marketing to, and otherwise contacting Brokers, Consultants and Employer Groups with regard to Legacy United Entities' Plans; and (v) negotiating the terms of all Legacy United Entities' Plans.

Section 3.2. Brokers/Consultants. The Administrator, on behalf of the Company, shall provide United the name and contact information for, and introductions to, Brokers/Consultants, and shall use commercially reasonable efforts to introduce United to such Broker/Consultants. United shall, in United's discretion, consider (i) appointing such Brokers/Consultants to the extent that they are not currently appointed by the Legacy United Entities to serve as Brokers/Consultants on behalf of one or more Legacy United Entities' Plans and (ii) entering into contracts with such Brokers/Consultants.

Section 3.3. Additional Undertakings by the Administrator with Respect to the Business. The Administrator shall or shall cause its Affiliates to:

(a) Prepare and deliver to United, in accordance with the timeframes set forth in the Transition Schedule, underwriting reports which list, as of the effective date of each such report, (i) Member census data (including zip code, age or date of birth, gender and plan type (e.g., employee-only, employee and spouse, employee-spouse-dependent)), (ii) agreed upon financial data (including premiums, claims data and large claims reporting (by group)) and (iii) risk scores, if any. A form of agreed upon underwriting report is attached hereto as Schedule 3.3(a).

(b) Conduct and administer the Business in the ordinary course of business throughout the Transition Period consistent with past practice, taking into account the winding up and running out of the Business as contemplated under this Agreement. Without limiting the generality of the foregoing sentence, the Administrator shall, taking into account the winding up and running out of the Business as contemplated under this Agreement, and as reasonably practicable taking into consideration the modifications to the Administrator's and the Company's business pursuant to the Stock Purchase Agreement and this Administrative Services Agreement, use commercially reasonable effort to preserve its relationships with Governmental Entities, Brokers/Consultants, employees and Employer Groups and Members. For the avoidance of doubt, the obligations of the Administrator to use its commercially reasonable efforts in accordance with the preceding sentence shall not require it to (A) provide any compensation (or incur any other material cost or expense) with respect to an employee in excess of any such employee's normal compensation in effect from time to time or (B) make any non-monetary change to its employment practices. Except as provided in this Agreement, the Administrator, on behalf of the Company, shall not terminate existing contracts with self-funded Employer Groups, if any, following the Effective Date without the prior consent of United, which shall not be unreasonably withheld, delayed or conditioned.

Exhibit 21

Subsidiaries of Health Net, Inc. as of January 31, 2010

Health Net, Inc. (DE)(95-4288333)
(All Subsidiaries wholly owned unless otherwise indicated)

- Health Net of California, Inc. (CA) (95-4402957)
  - Health Net Life Insurance Company (CA) (73-0654885)
  - Health Net Life Reinsurance Company (Cayman Islands) (98-0409907)
  - Health Net Community Solutions, Inc. (CA) (54-2174068)
  - Health Net of California Real Estate Holdings, Inc. (CA) (54-2174069)

- Health Net of the Northeast, Inc. (DE) (06-1116976)
  - Health Net Insurance Services, Inc. (CT) (06-1254380)

- Health Net Foundation, Inc. (DE) (41-2241862)*

- QualMed, Inc. (DE) (84-1175468)
  - QualMed Plans for Health of Colorado, Inc. (CO) (84-0975985)
  - Health Net Health Plan of Oregon, Inc. (OR) (93-1004034)

- HSI Advantage Health Holdings, Inc. (DE) (23-2867299)
  - QualMed Plans for Health of Western Pennsylvania, Inc. (PA) (23-2867300)
  - Pennsylvania Health Care Plan, Inc. (PA) (25-1516632)

- Health Net of Pennsylvania, LLC (PA)

- FH Surgery Limited, Inc. (CA) (68-0390434)

- FH Surgery Centers, Inc. (CA) (68-0390435)
  - Greater Sacramento Surgery Center Limited Partnership (CA) (68-0343818)**

- Foundation Health Facilities, Inc. (CA) (68-0390438)

- FH Assurance Company (Cayman Islands)(98-0150604)

- Health Net Federal Services, LLC (DE) (68-0214809)
  - Health Net Federal Services of Hawaii, Inc. (HI) (99-0240224)
  - Health Net Preferred Providers, LLC (DE) (61-1388903)
  - Network Providers, LLC (DE) (88-0357895)

- Health Net Pharmaceutical Services (CA) (68-0295375)

- Health Net of Arizona Administrative Services, Inc. (AZ) (86-0660443)
- Health Net of Arizona, Inc. (AZ) (36-3097810)
- Managed Health Network, Inc. (DE) (95-4117722)
  - Managed Health Network (CA) (95-3817988)
  - MHN Services (CA) (95-4146179)
    - MHN Services IPA, Inc. (NY) (13-4027559)
    - MHN Government Services, Inc. (DE) (42-0680916)
      - MHN Global Services, Inc. (DE) (51-0589404)
  - Catalina Behavioral Health Services, Inc. (AZ) (51-0490598)
- Health Net Services, Inc. (DE) (94-3037822)
- Health Net Managing Partners, LLC (DE) (26-1406369)***
  - Health Net Funding, Inc. (DE) (26-1395366)
    - Health Net Investments, LLC (DE)
    - Health Net Financing, L.P. (DE) (26-1395236)****
- National Pharmacy Services, Inc. (DE) (84-1301249)
  - Integrated Pharmacy Systems, Inc. (PA) (23-2789453)*****
- QualMed Plans for Health of Pennsylvania, Inc. (PA) (23-2456130)
- Health Net One Payment Services, Inc. (DE) (54-2153100)

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* Health Net Foundation, Inc. is a nonprofit, nonstock corporation exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code.

** FH Surgery Centers, Inc. owns general and limited partnership units, representing approximately 66% of the total equity of Greater Sacramento Surgery Center Limited Partnership (which specific percentage fluctuates from time to time).

*** Health Net Managing Partners, LLC - 75% common interest is owned by Health Net, Inc. and 25% common interest is held by Health Net One Payment Services, Inc.

**** Health Net Financing, L.P. - 100% general partnership interest is held by Health Net Funding, Inc., 100% of the Class A limited partnership interest is held by Lodgemore Holdings Inc., and 100% of the Class B limited partnership interest is held by Health Net Investments, LLC.

***** National Pharmacy Services, Inc. owns approximately 90% of the outstanding common stock.

Exhibit 23

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in this Registration Statement Nos. 333-134014, 333-132008, 333-124900, 333-118646, 333-118647, 333-99337, 333-68387, 333-48969, 333-35193, 333-24621, 33-90976, and 33-74780 on Form S-8 of our report dated February 26, 2010, relating to the financial statements and financial statement schedules of Health Net Inc., and the effectiveness of Health Net, Inc.'s internal control over financial reporting appearing in the Annual Report on Form 10-K of Health Net, Inc. for the year ended December 31, 2009.

/s/ Deloitte & Touche LLP
Los Angeles, California
February 26, 2010

Exhibit 31.1

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Jay M. Gellert, certify that:

1. I have reviewed this annual report on Form 10-K of Health Net, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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.

Date: February 24, 2010

/s/ JAY M. GELLERT

Jay M. Gellert
President and Chief Executive Officer

Exhibit 31.2

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Joseph C. Capezza, certify that:

1. I have reviewed this annual report on Form 10-K of Health Net, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of 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.

Date: February 24, 2010

/s/ JOSEPH C. CAPEZZA

Joseph C. Capezza
Chief Financial Officer

Exhibit 32

Certification of CEO and CFO Pursuant to
18 U.S.C. Section 1350,
as Adopted Pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002

In connection with the Annual Report of Health Net, Inc. (the "Company") on Form 10-K for the year ending December 31, 2009 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), Jay M. Gellert, as Chief Executive Officer of the Company, and Joseph C. Capezza, as Chief Financial Officer of the Company, each hereby certifies, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to the best of their respective knowledge:

(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 result of operations of the Company.

/s/ Jay M. Gellert

Jay M. Gellert
Chief Executive Officer

February 24, 2010

/s/ Joseph C. Capezza

Joseph C. Capezza
Chief Financial Officer

February 24, 2010