UNITEDHEALTH GROUP INC
Form 10-Q
August 06, 2007
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2007

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ___________ to ___________

Commission file number: 1-10864

UnitedHealth Group Incorporated

(Exact name of registrant as specified in its charter)

Minnesota **(State or other jurisdiction of** **incorporation or organization)**	**41-1321939** **(I.R.S. Employer** **Identification No.)**
UnitedHealth Group Center **9900 Bren Road East** **Minnetonka, Minnesota** **(Address of principal executive offices)**	**55343** **(Zip Code)**

(952) 936-1300

(Registrant s telephone number, including area code)

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

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨

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

As of July 31, 2007, there were 1,324,878,728 shares of the registrant s Common Stock, $.01 par value per share, issued and outstanding.

Table of Contents

UNITEDHEALTH GROUP

Table of Contents

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. ***Financial Statements (unaudited)***

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except per share data)

	June 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 13,032	$ 10,320
Short-Term Investments	866	620
Accounts Receivable, net	1,536	1,323
Assets Under Management	2,006	1,970
Deferred Income Taxes	595	561
Other Current Assets	1,918	1,250
Total Current Assets	19,953	16,044
Long-Term Investments	10,557	9,642
Property, Equipment and Capitalized Software, net	1,953	1,894
Goodwill	16,912	16,822
Other Intangible Assets, net	1,814	1,904
Other Assets	1,965	2,014
TOTAL ASSETS	$ 53,154	$ 48,320
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Medical Costs Payable	$ 8,452	$ 8,076
Accounts Payable and Accrued Liabilities	4,290	3,713
Other Policy Liabilities	4,922	3,957
Commercial Paper and Current Maturities of Long-Term Debt	1,465	1,483
Unearned Premiums	2,834	1,268
Total Current Liabilities	21,963	18,497
Long-Term Debt, less current maturities	6,964	5,973
Future Policy Benefits for Life and Annuity Contracts	1,830	1,850
Deferred Income Taxes and Other Liabilities	1,332	1,190
Commitments and Contingencies (Note 13)		
Shareholders Equity		
Common Stock, $0.01 par value 3,000 shares authorized; 1,319 and 1,345 issued and outstanding	13	13
Additional Paid-In Capital	4,684	6,406
Retained Earnings	16,430	14,376

Accumulated Other Comprehensive Income:		
Net Unrealized (Losses) Gains on Investments, net of tax effects	(62)	15
Total Shareholders Equity	21,065	20,810
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 53,154	$ 48,320

See notes to condensed consolidated financial statements

3

Table of Contents

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
REVENUES				
Premiums	$ 17,369	$ 16,439	$ 34,833	$ 32,618
Services	1,136	1,065	2,252	2,103
Products	202	165	399	330
Investment and Other Income	293	194	563	393
Total Revenues	19,000	17,863	38,047	35,444
OPERATING COSTS				
Medical Costs	13,944	13,410	28,384	26,693
Operating Costs	2,605	2,475	5,269	5,006
Cost of Products Sold	181	143	351	280
Depreciation and Amortization	196	168	387	325
Total Operating Costs	16,926	16,196	34,391	32,304
EARNINGS FROM OPERATIONS	2,074	1,667	3,656	3,140
Interest Expense	(133)	(116)	(249)	(198)
EARNINGS BEFORE INCOME TAXES	1,941	1,551	3,407	2,942
Provision for Income Taxes	(713)	(570)	(1,252)	(1,070)
NET EARNINGS	$ 1,228	$ 981	$ 2,155	$ 1,872
BASIC NET EARNINGS PER COMMON SHARE	$ 0.93	$ 0.73	$ 1.61	$ 1.39
DILUTED NET EARNINGS PER COMMON SHARE	$ 0.89	$ 0.70	$ 1.55	$ 1.33
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,326	1,339	1,335	1,346
DILUTIVE EFFECT OF COMMON STOCK EQUIVALENTS	51	56	54	61
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,377	1,395	1,389	1,407

See notes to condensed consolidated financial statements

Table of Contents

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
OPERATING ACTIVITIES		
Net Earnings	$ 2,155	$ 1,872
Noncash Items:		
Depreciation and Amortization	387	325
Deferred Income Taxes and Other	(270)	(293)
Stock-Based Compensation	350	184
Net Change in Other Operating Items, net of effects from acquisitions and changes in AARP balances:		
Accounts Receivable and Other Current Assets	(757)	(805)
Medical Costs Payable	290	731
Accounts Payable and Other Accrued Liabilities	598	991
Unearned Premiums	1,538	1,607
Cash Flows From Operating Activities	4,291	4,612
INVESTING ACTIVITIES		
Cash Paid for Acquisitions, net of cash assumed and other effects	(143)	(647)
Purchases of Property, Equipment and Capitalized Software	(463)	(338)
Proceeds from Disposal of Property, Equipment and Capitalized Software		9
Purchases of Investments	(2,580)	(1,720)
Maturities and Sales of Investments	1,311	1,573
Cash Flows Used For Investing Activities	(1,875)	(1,123)
FINANCING ACTIVITIES		
Repayments of Commercial Paper, net	(112)	(2,326)
Proceeds From Issuance of Long-Term Debt	1,489	2,990
Repayments of Long-Term Debt	(400)	
Repayments of Convertible Subordinated Debentures	(2)	(91)
Common Stock Repurchases	(2,380)	(2,345)
Proceeds from Common Stock Issuances under Stock-Based Compensation Plans	364	246
Stock-Based Compensation Excess Tax Benefits	196	190
Customer Funds Administered	1,190	1,983
Dividends Paid	(40)	(41)
Other	(9)	(44)
Cash Flows From Financing Activities	296	562
INCREASE IN CASH AND CASH EQUIVALENTS	2,712	4,051
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,320	5,421
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 13,032	$ 9,472

See notes to condensed consolidated financial statements

5

Table of Contents

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Use of Estimates

Unless the context otherwise requires, the use of the terms the Company, we, us, and our in the following refers to UnitedHealth Group Incorporated and its subsidiaries.

The accompanying unaudited Condensed Consolidated Financial Statements reflect all adjustments, consisting solely of normal recurring adjustments needed to present the financial results for these interim periods fairly. In accordance with the rules and regulations of the Securities and Exchange Commission, we have omitted certain footnote disclosures that would substantially duplicate the disclosures contained in our annual audited Consolidated Financial Statements. Read together with the disclosures below, we believe the interim financial statements are presented fairly. However, these unaudited Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2006 as filed with the Securities and Exchange Commission.

These Condensed Consolidated Financial Statements include certain amounts that are based on our best estimates and judgments. These estimates require us to apply complex assumptions and judgments, often because we must make estimates about the effects of matters that are inherently uncertain and will likely change in subsequent periods. The most significant estimates relate to medical costs, medical costs payable, historic stock option measurement dates, revenues, intangible asset valuations, asset impairments and contingent liabilities. We adjust these estimates each period, as more current information becomes available. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted.

2. Medicare Part D Pharmacy Benefits Contract

Beginning January 1, 2006, the Company began serving as a plan sponsor offering Medicare Part D prescription drug insurance coverage under contracts with the Centers for Medicare & Medicaid Services (CMS). Under the Medicare Part D program, there are six separate elements of payment received by the Company during the plan year. These payment elements are as follows:

CMS Premium CMS pays a fixed monthly premium per member to the Company for the entire plan year.

Member Premium Additionally, certain members pay a fixed monthly premium to the Company for the entire plan year.

Low-Income Premium Subsidy For qualifying low-income members, CMS pays some or all of the member s monthly premiums to the Company on the member s behalf.

Catastrophic Reinsurance Subsidy CMS pays the Company a cost reimbursement estimate monthly to fund the CMS obligation to pay approximately 80% of the costs incurred by individual members in excess of the individual annual out-of-pocket maximum of $3,850. A settlement is made based on actual cost experience subsequent to the end of the plan year.

Low-Income Member Cost Sharing Subsidy For qualifying low-income members, CMS pays on the member s behalf, some or all of a member s cost sharing amounts, such as deductibles and coinsurance. The cost sharing subsidy is funded by CMS through monthly payments to the Company. The Company administers and pays the subsidized portion of the claims on behalf of CMS, and a settlement payment is made between CMS and the Company based on actual claims experience, subsequent to the end of the plan year.

CMS Risk-Share If the ultimate per member per month benefit costs of any Medicare Part D regional plan varies more than 2.5% above or below the level estimated in the original bid submitted by the Company and

6

Table of Contents

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

approved by CMS, there is a risk-share settlement with CMS subsequent to the end of the plan year. The risk-share adjustment, if any, is recorded as an adjustment to premium revenues and other receivables or liabilities.

The CMS Premium, the Member Premium, and the Low-Income Premium Subsidy represent payments for the Company s insurance risk coverage under the Medicare Part D program and therefore are recorded as premium revenues in the Condensed Consolidated Statements of Operations. Premium revenues are recognized ratably over the period in which eligible individuals are entitled to receive prescription drug benefits. We record premium payments received in advance of the applicable service period as unearned premiums.

The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidies represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not reflected as premium revenues, but rather are accounted for as deposits, with the related liability recorded in Other Policy Liabilities in the Condensed Consolidated Balance Sheets. Related cash flows are presented as Customer Funds Administered within financing cash flows in the Condensed Consolidated Statements of Cash Flows. As of June 30, 2007, amounts on deposit for these subsidies for the 2007 and 2006 contract years were $1.4 billion and $1.3 billion, respectively.

Pharmacy benefit costs and administrative costs under the contract are expensed as incurred and are recognized in Medical Costs and Operating Costs, respectively, in the Condensed Consolidated Statements of Operations.

As a result of the Medicare Part D product benefit design, the Company incurs a disproportionate amount of pharmacy benefit costs early in the contract year. While the Company is responsible for approximately 67% of a Medicare Part D beneficiary s drug costs up to $2,400, the beneficiary is responsible for 100% of their drug costs from $2,400 up to $5,451 (at the Company s discounted purchase price). Consequently, the Company incurs a disproportionate amount of benefit costs in the first half of the contract year as compared with the last half of the contract year, when comparatively more members will be incurring claims above the $2,400 initial coverage limit. The uneven timing of Medicare Part D pharmacy benefit claims results in losses in the first half of year that entitle the Company to risk-share adjustment payments from CMS. Accordingly, during the interim periods within the contract year we record a net risk-share receivable from CMS in Other Current Assets in the Condensed Consolidated Balance Sheets and a corresponding retrospective premium adjustment in Premium Revenues in the Condensed Consolidated Statement of Operations. This represents the estimated amount payable by CMS to the Company under the risk share contract provisions if the program were terminated based on estimated costs incurred through that interim period. Those losses are typically expected to reverse in the second half of the year.

The risk-share receivable to be received from CMS for the 2007 contract year through June 30, 2007 was approximately $550 million. This final risk-share amount is expected to be settled approximately six months after the contract year-end. The risk-share payable due to CMS as of June 30, 2007 for the 2006 contract year was approximately $450 million, which is expected to be settled in the second half of 2007. The net risk-share receivable from CMS of approximately $100 million is recorded in Other Current Assets in the Condensed Consolidated Balance Sheets.

Total premium revenues from CMS related to the Medicare Part D program and all other Medicare-related programs were approximately 26% of total consolidated revenues for the six months ended June 30, 2007.

3. Acquisitions

On March 12, 2007, we announced that we had signed a definitive merger agreement under which the Company will acquire all of the outstanding shares of Sierra Health Services, Inc., a diversified health care services

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

company based in Las Vegas, Nevada, for approximately $2.6 billion in cash, representing a price of $43.50 per share of Sierra common stock. The transaction has been approved by the Boards of Directors of both companies and Sierra s shareholders and it is expected to close prior to the end of 2007, subject to state and federal regulatory approvals and other customary conditions. This acquisition is intended to strengthen our position in the rapidly growing southwest region and broaden our senior health capabilities.

On December 1, 2006, our Health Care Services business segment acquired the Student Insurance Division (Student Resources) of The MEGA Life and Health Insurance Company through an asset purchase agreement. Student Resources primarily serves college and university students. This acquisition strengthened our position in this market and provided expanded distribution opportunities for our other UnitedHealth Group businesses. Under the terms of the asset purchase agreement, we issued a 10-year, $95 million promissory note bearing a 5.4% fixed interest rate and paid approximately $1 million in cash. The results of operations and financial condition of Student Resources have been included in our Consolidated Financial Statements since the acquisition date. The pro forma effects of the Student Resources acquisition on our Consolidated Financial Statements were not material.

On February 24, 2006, the Company acquired John Deere Health Care, Inc. (JDHC). The operations of JDHC reside primarily within our Health Care Services and Uniprise segments. We paid approximately $515 million in cash, including transaction costs, in exchange for all of the outstanding equity of JDHC. The purchase price and costs associated with the acquisition exceeded the estimated fair value of the net tangible assets acquired by approximately $376 million. Based on management s consideration of fair value, which included the completion of a valuation analysis, we have allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of $53 million and goodwill of $323 million. The finite-lived intangible assets consist primarily of member lists and physician and hospital networks, with estimated fair values of $51 million and $2 million, respectively, and an estimated weighted-average useful life of approximately 11 years. The acquired goodwill is deductible for income tax purposes. The results of operations and financial condition of JDHC have been included in our Consolidated Financial Statements since the acquisition date. The pro forma effects of the JDHC acquisition on our Consolidated Financial Statements were not material. Acquired net tangible assets and liabilities are categorized as follows: cash and cash equivalents of $46 million; investments of $197 million; accounts receivable and other current assets of $60 million; property, equipment, capitalized software and other assets of $29 million; medical payables of $131 million and other liabilities of $62 million. JDHC has been renamed UnitedHealthcare Services Company of the River Valley, Inc.

We record liabilities related to integration activities in connection with business combinations when integration plans are finalized and approved by management within one year of the acquisition date in accordance with the requirements of the Emerging Issues Task Force (EITF) Issue No. 95-3, Recognition of Liabilities in Connection with a Purchase Business Combination. Liabilities recorded relate to activities that have no future economic benefit to the Company and represent contractual obligations. These liabilities result in an increase to goodwill acquired. At each reporting date, we evaluate our liabilities associated with integration activities and make adjustments as appropriate. Integration activities relate primarily to severance costs for certain workforce reductions largely in the Health Care Services segment, costs of terminated or vacated leased facilities and other contract termination costs.

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the changes in employee termination benefit costs and other integration costs related to the December 20, 2005 acquisition of PacifiCare Health Systems, Inc. (PacifiCare) for the six-month period ended June 30, 2007 (in millions):

	Employee Termination Benefit Costs	Other Integration Activities	Total
Accrued integration liabilities at December 31, 2006	$ 27	$ 28	$ 55
Accrual adjustments	(13)	(3)	(16)
Payments made against liabilities	(3)	(12)	(15)
Accrued integration liabilities at June 30, 2007	$ 11	$ 13	$ 24

As of June 30, 2007, aggregate consideration paid, net of cash assumed, for smaller acquisitions was $143 million. These acquisitions were not material to our Condensed Consolidated Financial Statements.

4. Cash, Cash Equivalents and Investments

As of June 30, 2007, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Cash and Cash Equivalents	$ 13,032	$	$	$ 13,032
Debt Securities Available for Sale	10,949	19	(140)	10,828
Equity Securities Available for Sale	343	25		368
Debt Securities Held to Maturity	227			227
Total Cash and Investments	$ 24,551	$ 44	$ (140)	$ 24,455

During the three and six month periods ended June 30, we recorded realized gains and losses on the sale of investments, as follows (in millions):

	Three Months Ended June 30, 2007	Three Months Ended June 30, 2006	Six Months Ended June 30, 2007	Six Months Ended June 30, 2006
Gross Realized Gains	$ 30	$ 5	$ 32	$ 34
Gross Realized Losses	(5)	(11)	(8)	(14)

Net Realized Gains (Losses)	$ 25	$ (6)	$ 24	$ 20

5. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill, by segment, for the six months ended June 30, 2007 and 2006, were as follows (in millions):

	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Consolidated Total
Balance at December 31, 2006	$ 13,996	$ 946	$ 1,054	$ 826	$ 16,822
Acquisitions and Subsequent Payments / Adjustments	(29)	1	3	115	90
Balance at June 30, 2007	$ 13,967	$ 947	$ 1,057	$ 941	$ 16,912

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Consolidated Total
Balance at December 31, 2005	$ 13,864	$ 917	$ 732	$ 725	$ 16,238
Acquisitions and Subsequent Payments / Adjustments	201	50	68	62	381
Balance at June 30, 2006	$ 14,065	$ 967	$ 800	$ 787	$ 16,619

The weighted-average useful life, gross carrying value, accumulated amortization and net carrying value of other intangible assets as of June 30, 2007 and December 31, 2006 were as follows (in millions):

		June 30, 2007			December 31, 2006		
	Weighted-Average Useful Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Contracts and Membership Lists	14 years	$ 1,879	$ (319)	$ 1,560	$ 1,871	$ (246)	$ 1,625
Patents, Trademarks and Technology	13 years	297	(108)	189	303	(89)	214
Other	12 years	108	(43)	65	103	(38)	65
Total	14 years	$ 2,284	$ (470)	$ 1,814	$ 2,277	$ (373)	$ 1,904

Amortization expense relating to intangible assets was approximately $45 million and $97 million for the three and six months ended June 30, 2007, respectively, and approximately $44 million and $88 million for the three and six months ended June 30, 2006, respectively. Estimated amortization expense relating to intangible assets for the years ending December 31 is as follows: $187 million in 2007, $181 million in 2008, $163 million in 2009, $156 million in 2010, and $151 million in 2011.

6. Medical Costs and Medical Costs Payable

Medical costs and medical costs payable include estimates of our obligations for medical care services that have been rendered on behalf of insured consumers but for which we have either not yet received or processed claims, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical cost trends. We estimate liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we adjust the amount of the estimates, and include the changes in estimates in medical costs in the period in which the change is identified. For example, in every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

Medical costs for the three months ended June 30, 2007 included approximately $100 million of favorable medical cost development related to prior fiscal years and approximately $10 million of favorable medical cost development related to the first quarter of 2007. Medical costs for the three months ended June 30, 2006 included approximately $150 million in favorable medical cost development, all of which related to prior fiscal years. For the six months ended June 30, 2007 and 2006, medical costs included approximately $280 million and

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$370 million, respectively, of favorable medical cost development. Favorable medical cost development in all periods includes updated estimates for extension of benefit obligations based upon analysis of historical claim submissions. The decreases in favorable medical cost development year-over-year were primarily the result of UnitedHealthcare experiencing favorable development during the six months ended June 30, 2006 and unfavorable development during the six months ended June 30, 2007. This unfavorable development was partially driven by costs from higher benefit utilization in December 2006 relating primarily to our high-deductible risk-based products.

7. Commercial Paper and Debt

Commercial paper and debt consisted of the following (in millions):

	June 30, 2007		December 31, 2006	
	Carrying Value (1)	Fair Value (2)	Carrying Value (1)	Fair Value (2)
Commercial Paper	$ 387	$ 387	$ 498	$ 498
3.0% Convertible Subordinated Debentures	28	28	34	34
$400 million par, 5.2% Senior Unsecured Notes due January 2007			400	400
$550 million par, 3.4% Senior Unsecured Notes due August 2007	545	549	540	543
$500 million par, 3.3% Senior Unsecured Notes due January 2008	492	494	489	489
$250 million par, 3.8% Senior Unsecured Notes due February 2009	243	244	243	243
Senior Unsecured Floating-Rate Notes due March 2009	650	650	650	649
$450 million par, 4.1% Senior Unsecured Notes due August 2009	437	438	438	438
Senior Unsecured Floating-Rate Notes due June 2010	500	500		
$750 million par, 5.3% Senior Unsecured Notes due March 2011	739	742	748	747
$450 million par, 4.9% Senior Unsecured Notes due April 2013	439	431	444	436
$250 million par, 4.8% Senior Unsecured Notes due February 2014	236	236	242	239
$500 million par, 5.0% Senior Unsecured Notes due August 2014	476	477	489	485
$500 million par, 4.9% Senior Unsecured Notes due March 2015	474	469	488	479
$750 million par, 5.4% Senior Unsecured Notes due March 2016	717	722	741	743
$95 million par, 5.4% Senior Unsecured Notes due November 2016	95	90	95	95
$500 million par, 6.0% Senior Unsecured Notes due June 2017	496	494		
$850 million par, 5.8% Senior Unsecured Notes due March 2036	844	780	844	839
$500 million par, 6.5% Senior Unsecured Notes due June 2037	494	494		
Interest Rate Swaps	137	137	73	73
Total Commercial Paper and Debt	8,429	8,362	7,456	7,430
Less Current Maturities	(1,465)	(1,472)	(1,483)	(1,475)
Long-Term Debt, less current maturities	$ 6,964	$ 6,890	$ 5,973	$ 5,955

(1) The carrying value of debt has been adjusted based upon the applicable interest rate swap fair values in accordance with the fair value hedge short-cut method of accounting described below.
(2) Estimated based on third-party quoted market prices for the same or similar issues.

As of June 30, 2007, our outstanding commercial paper had interest rates ranging from 5.3% to 5.4%.

In June 2007, we issued $500 million of floating-rate notes due June 2010, $500 million of 6% fixed-rate notes due June 2017, and $500 million of 6.5% fixed-rate notes due June 2037. The floating-rate notes due June 2010 are benchmarked to the London Interbank Offered Rate (LIBOR) and had an interest rate of 5.5% at June 30, 2007. These notes were issued under exemption from registration under Rule 144A and Regulation S of the

Table of Contents

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities Act of 1933. We have agreed to consummate an exchange offer pursuant to an effective registration statement filed with the SEC to allow purchasers of the notes to exchange each series of the notes for a new issue of substantially identical debt securities registered under the Securities Act of 1933. In addition, we have agreed to file, under certain circumstances, a shelf registration statement to cover resales of the notes. If we fail to complete the exchange offer by November 26, 2008, or if the Company is obligated to file a shelf registration statement to register the notes for resale and such shelf registration statement has not been declared effective by the SEC by June 16, 2008, the annual interest rate on the notes will increase by 0.25% per annum during each 90-day period following November 26, 2008 or June 16, 2008, as applicable, but not to exceed 0.5% per annum.

In May 2007, we amended and restated our $1.3 billion five-year revolving credit facility supporting our commercial paper program. We increased the credit facility to $2.6 billion and extended the maturity date to May 2012. As of June 30, 2007, we had no amounts outstanding under our $2.6 billion credit facility.

On December 1, 2006, our Health Care Services business segment acquired the Student Insurance Division (Student Resources) of The MEGA Life and Health Insurance Company through an asset purchase agreement. Under the terms of the asset purchase agreement, we issued a 10-year, 5.4% promissory note for approximately $95 million and paid approximately $1 million in cash in exchange for the net assets of Student Resources.

On October 16, 2006, we executed a $7.5 billion 364-day revolving credit facility in order to ensure the Company s immediate and continued access to additional liquidity, if necessary. The credit facility is available for working capital purposes as well as to pay or repay any outstanding borrowings of the Company. As of June 30, 2007, we had no amounts outstanding under our $7.5 billion credit facility. Effective August 3, 2007, we elected to voluntarily reduce the amount of this facility to $1.5 billion.

In March 2006, we refinanced outstanding commercial paper by issuing $650 million of floating-rate notes due March 2009, $750 million of 5.3% fixed-rate notes due March 2011, $750 million of 5.4% fixed-rate notes due March 2016 and $850 million of 5.8% fixed-rate notes due March 2036. The floating-rate notes due March 2009 are benchmarked to the London Interbank Offered Rate (LIBOR) and had an interest rate of 5.4% at June 30, 2007.

To more closely align interest costs with floating interest rates received on our cash and cash equivalent balances, we have entered into interest rate swap agreements to convert the majority of our interest rate exposure from fixed rates to variable rates. These interest rate swap agreements qualify as fair value hedges. The interest rate swap agreements have aggregate notional amounts of $5.2 billion as of June 30, 2007, with variable rates that are benchmarked to the LIBOR, and are recorded on our Condensed Consolidated Balance Sheets. As of June 30, 2007, the aggregate liability, recorded at fair value, for all existing interest rate swaps was approximately $137 million. These fair value hedges are accounted for using the short-cut method under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), whereby the hedges are reported on our Condensed Consolidated Balance Sheets at fair value, and the carrying value of the long-term debt is adjusted for an offsetting amount representing changes in fair value attributable to the hedged risk. Since these amounts completely offset, we have reported both the swap liability and the debt liability within debt on our Condensed Consolidated Balance Sheets and there have been no net gains or losses recognized in our Condensed Consolidated Statements of Operations. At June 30, 2007, the rates used to accrue interest expense on these agreements ranged from 5.0% to 5.7%.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders equity) below 50%. We believe we were in compliance with the requirements of all debt covenants as of June 30, 2007. On August 28, 2006, we received a purported notice of default from persons claiming to hold certain of our debt securities alleging a violation of our indenture governing our debt securities. This followed our announcement that we would delay filing our quarterly report on Form 10-Q

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

for the quarter ended June 30, 2006. On October 25, 2006, we filed an action in the United States District Court for the District of Minnesota seeking a declaratory judgment that we are not in default under the terms of the indenture. On or about November 2, 2006, we received a purported notice of acceleration from the holders who previously sent the notice of default that purports to declare an acceleration of our 5.8% Senior Unsecured Notes due March 15, 2036 as a result of our not timely filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. Our indenture requires us to provide to the trustee copies of the reports we are required to file with the SEC, such as our quarterly reports, within 15 days of filing such reports with the SEC. Should the Company ultimately be unsuccessful in this matter, we may be required to retire all or a portion of the $850 million of Senior Unsecured Notes due March 2036. We intend to prosecute the declaratory judgment action vigorously.

PacifiCare had approximately $100 million par value of 3% convertible subordinated debentures (convertible notes) which were convertible into approximately 5.2 million shares of UnitedHealth Group s common stock and $102 million of cash as of December 31, 2005. In December 2005, we initiated a consent solicitation to all of the holders of outstanding convertible notes pursuant to which we offered to compensate all holders who elected to convert their notes in accordance with existing terms and consent to an amendment to a covenant in the indenture governing the convertible notes. The compensation consisted of the present value of interest through October 18, 2007, the earliest redemption date, plus a pro rata share of $1 million. On January 31, 2006, approximately $91 million of the convertible notes were tendered pursuant to the offer, for which we issued approximately 4.8 million shares of UnitedHealth Group common stock, valued at $282 million, and cash of $93 million. In 2007, approximately $2 million of convertible notes were tendered for conversion, for which we issued 77,261 shares of UnitedHealth Group common stock, valued at approximately $5 million, and cash of approximately $2 million.

8. Stock Repurchase Program

Under our Board of Directors authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During the six months ended June 30, 2007, we purchased 44.1 million shares which were settled for cash on or before June 30, 2007 at an average price of approximately $54 per share and an aggregate cost of approximately $2.4 billion. As of June 30, 2007, we had Board of Directors authorization to purchase up to an additional 91.8 million shares of our common stock.

9. Stock-Based Compensation and Other Employee Benefit Plans

We adopted FAS 123R as of January 1, 2006. FAS 123R requires companies to measure compensation expense for all share-based payments (including employee stock options, stock appreciation rights and restricted stock) at fair value and recognize the expense over the related service period. We adopted FAS 123R using the modified retrospective transition method, under which all prior period financial statements were restated to recognize compensation cost as calculated under FAS 123.

Table of Contents

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of June 30, 2007, we had approximately 67.3 million shares available for future grants of stock-based awards under our stock-based compensation plan, including, but not limited to, incentive or non-qualified stock options, stock appreciation rights, and up to 26.1 million of awards in restricted stock and restricted stock units. Our existing stock-based awards consist mainly of non-qualified stock options and stock-settled stock appreciation rights (SARs). Stock options and SARs generally vest ratably over four years and may be exercised up to 10 years from the date of grant. Stock option and SAR activity is summarized in the table below (shares in millions):

	Three Months Ended June 30, 2007		Six Months Ended June 30, 2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at Beginning of Period	172.1	$ 30	180.2	$ 28
Granted	20.8	$ 54	21.5	$ 54
Exercised	(11.2)	$ 20	(18.3	