

UNITEDHEALTH GROUP INC
Form 10-Q
August 06, 2009
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2009

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)

41-1321939
(I.R.S. Employer)

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

incorporation or organization)

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 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 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 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

As of July 30, 2009, there were 1,162,420,963 shares of the registrant's Common Stock, \$.01 par value per share, issued and outstanding.

Table of Contents

UNITEDHEALTH GROUP

Table of Contents

| | Page |
|--|-------------|
| <u>Part I. Financial Information</u> | |
| <u>Item 1. Financial Statements</u> | 1 |
| <u>Condensed Consolidated Balance Sheets as of June 30, 2009 and December 31, 2008</u> | 1 |
| <u>Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2009 and 2008</u> | 2 |
| <u>Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2009 and 2008</u> | 3 |
| <u>Notes to the Condensed Consolidated Financial Statements</u> | 4 |
| <u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 30 |
| <u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u> | 43 |
| <u>Item 4. Controls and Procedures</u> | 44 |
| <u>Part II. Other Information</u> | |
| <u>Item 1. Legal Proceedings</u> | 45 |
| <u>Item 1A. Risk Factors</u> | 45 |
| <u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u> | 45 |
| <u>Item 4. Submission of Matters to a Vote of Security Holders</u> | 46 |
| <u>Item 6. Exhibits</u> | 47 |
| <u>Signatures</u> | 48 |

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****UnitedHealth Group****Condensed Consolidated Balance Sheets****(Unaudited)**

| (in millions, except per share data) | June 30, 2009 | December 31, 2008 |
|--|--------------------------|------------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 7,247 | \$ 7,426 |
| Short-term investments | 908 | 783 |
| Accounts receivable, net | 2,705 | 1,929 |
| Assets under management | 2,224 | 2,199 |
| Deferred income taxes | 321 | 424 |
| Other current receivables | 1,521 | 1,715 |
| Prepaid expenses and other current assets | 758 | 514 |
| Total current assets | 15,684 | 14,990 |
| Long-term investments | 13,163 | 13,366 |
| Property, equipment and capitalized software, net | 2,080 | 2,181 |
| Goodwill | 20,358 | 20,088 |
| Other intangible assets, net | 2,397 | 2,329 |
| Other assets | 2,208 | 2,861 |
| Total assets | \$ 55,890 | \$ 55,815 |
| Liabilities and shareholders equity | | |
| Current liabilities: | | |
| Medical costs payable | \$ 9,533 | \$ 8,664 |
| Accounts payable and accrued liabilities | 5,277 | 5,685 |
| Other policy liabilities | 2,854 | 2,823 |
| Commercial paper and current maturities of long-term debt | 1,012 | 1,456 |
| Unearned premiums | 976 | 1,133 |
| Total current liabilities | 19,652 | 19,761 |
| Long-term debt, less current maturities | 10,707 | 11,338 |
| Future policy benefits | 2,296 | 2,286 |
| Deferred income taxes and other liabilities | 1,690 | 1,650 |
| Total liabilities | 34,345 | 35,035 |
| Commitments and contingencies (Note 13) | | |
| Shareholders equity: | | |
| Preferred stock, \$0.001 par value 10 shares authorized; no shares issued or outstanding | | |
| Common stock, \$0.01 par value 3,000 shares authorized; 1,151 and 1,201 issued and outstanding | 11 | 12 |
| Additional paid-in capital | | 38 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | |
|--|-----------|-----------|
| Retained earnings | 21,440 | 20,782 |
| Accumulated other comprehensive income (loss): | | |
| Net unrealized gains (losses) on investments, net of tax effects | 113 | (30) |
| Foreign currency translation loss | (19) | (22) |
| Total shareholders' equity | 21,545 | 20,780 |
| Total liabilities and shareholders' equity | \$ 55,890 | \$ 55,815 |

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

UnitedHealth Group
Condensed Consolidated Statements of Operations
(Unaudited)

| (in millions, except per share data) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenues: | | | | |
| Premiums | \$ 19,746 | \$ 18,344 | \$ 39,857 | \$ 36,733 |
| Services | 1,307 | 1,297 | 2,603 | 2,570 |
| Products | 449 | 391 | 888 | 754 |
| Investment and other income | 153 | 240 | 311 | 519 |
| Total revenues | 21,655 | 20,272 | 43,659 | 40,576 |
| Operating costs: | | | | |
| Medical costs | 16,507 | 15,257 | 33,077 | 30,401 |
| Operating costs | 3,037 | 3,746 | 6,165 | 6,643 |
| Cost of products sold | 422 | 353 | 826 | 678 |
| Depreciation and amortization | 249 | 243 | 483 | 468 |
| Total operating costs | 20,215 | 19,599 | 40,551 | 38,190 |
| Earnings from operations | 1,440 | 673 | 3,108 | 2,386 |
| Interest expense | (139) | (164) | (270) | (318) |
| Earnings before income taxes | 1,301 | 509 | 2,838 | 2,068 |
| Provision for income taxes | (442) | (172) | (995) | (737) |
| Net earnings | \$ 859 | \$ 337 | \$ 1,843 | \$ 1,331 |
| Basic net earnings per common share | \$ 0.73 | \$ 0.28 | \$ 1.56 | \$ 1.08 |
| Diluted net earnings per common share | \$ 0.73 | \$ 0.27 | \$ 1.54 | \$ 1.05 |
| Basic weighted-average number of common shares outstanding | 1,170 | 1,216 | 1,184 | 1,229 |
| Dilutive effect of common stock equivalents | 10 | 29 | 11 | 33 |
| Diluted weighted-average number of common shares outstanding | 1,180 | 1,245 | 1,195 | 1,262 |
| Anti-dilutive shares excluded from the calculation of dilutive effect of common stock equivalents | 117 | 89 | 117 | 74 |

See Notes to the Condensed Consolidated Financial Statements

Table of Contents**UnitedHealth Group****Condensed Consolidated Statements of Cash Flows****(Unaudited)**

| (in millions) | Six Months Ended June 30, | |
|---|------------------------------|----------|
| | 2009 | 2008 |
| Operating activities | | |
| Net earnings | \$ 1,843 | \$ 1,331 |
| Noncash items: | | |
| Depreciation and amortization | 483 | 468 |
| Deferred income taxes | 114 | (11) |
| Share-based compensation | 180 | 147 |
| Other | 7 | (234) |
| Net change in other operating items, net of effects from acquisitions and changes in AARP balances: | | |
| Accounts receivable | (720) | (643) |
| Other assets | (407) | (532) |
| Medical costs payable | 770 | 152 |
| Accounts payable and other accrued liabilities | (276) | 540 |
| Other policy liabilities | (233) | (252) |
| Unearned premiums | (157) | (86) |
| Cash flows from operating activities | 1,604 | 880 |
| Investing activities | | |
| Cash paid for acquisitions, net of cash assumed | (400) | (3,897) |
| Cash received from disposition | | 185 |
| Purchases of property, equipment and capitalized software | (311) | (415) |
| Purchases of investments | (3,710) | (6,555) |
| Sales of investments | 2,635 | 3,746 |
| Maturities of investments | 1,296 | 1,866 |
| Cash flows used for investing activities | (490) | (5,070) |
| Financing activities | | |
| Repayments of commercial paper, net | (39) | (419) |
| Proceeds from issuance of long-term debt | | 2,981 |
| Payments for retirement of long-term debt | (900) | (500) |
| Proceeds from interest rate swap termination | 513 | |
| Common stock repurchases | (1,504) | (2,052) |
| Proceeds from common stock issuances | 183 | 94 |
| Share-based compensation excess tax benefit | 27 | 14 |
| Customer funds administered | 674 | 650 |
| Dividends paid | (36) | (37) |
| Checks outstanding | (189) | |
| Other | (22) | (133) |
| Cash flows (used for) from financing activities | (1,293) | 598 |
| Decrease in cash and cash equivalents | (179) | (3,592) |
| Cash and cash equivalents, beginning of period | 7,426 | 8,865 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | |
|--|----------|----------|
| Cash and cash equivalents, end of period | \$ 7,247 | \$ 5,273 |
|--|----------|----------|

See Notes to the Condensed Consolidated Financial Statements

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation, Use of Estimates and Significant Accounting Policies

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include the consolidated accounts of UnitedHealth Group Incorporated and its subsidiaries (referred to herein as the Company). The Company has eliminated intercompany balances and transactions. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. Generally Accepted Accounting Principles. In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in its annual audited Consolidated Financial Statements. However, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in the Company's Annual Report on Form 10-K, as amended, for the year ended December 31, 2008 as filed with the SEC (2008 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

Certain prior year amounts have been reclassified to conform to current year presentation. The Company has evaluated subsequent events through August 6, 2009, the date this Form 10-Q was filed with the SEC. No material subsequent events have occurred since June 30, 2009 that required recognition or disclosure in these financial statements.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts that are based on the Company's best estimates and judgments. These estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The Company's most significant estimates relate to medical costs, medical costs payable, revenues, goodwill, other intangible assets, investments and contingent liabilities. The Company adjusts 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.

Recently Adopted Accounting Standards

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position (FSP) FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1). FSP 107-1 requires additional disclosure of fair values for certain financial instruments in interim financial statements. The Company adopted FSP 107-1 on April 1, 2009. The adoption of FSP 107-1 expanded the Company's interim fair value disclosures for financial instruments within the scope of FASB Statement of Financial Accounting Standards (FAS) No. 107, Disclosures about Fair Value of Financial Instruments (FAS 107). See Note 3 of Notes to the Condensed Consolidated Financial Statements for the disclosures required by FSP 107-1.

In April 2009, the FASB issued FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2). FSP 115-2 provides additional guidance on recording impairment charges on investments in debt securities. FSP 115-2 requires companies to evaluate investments in debt securities for impairment considering a company's intent to sell the security or the likelihood that it will be required to sell the security before recovery of the entire amortized cost basis or maturity of the security. If a company either intends to sell or determines it will more likely than not be required to sell a debt security before recovery of the entire

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

amortized cost basis or maturity of the security, the entire impairment must be recognized in earnings. If a company does not intend to sell the security and determines it will not more likely than not be required to sell the security but does not expect to recover the entire amortized cost basis, the impairment must be bifurcated into the amount attributed to the credit loss, which must be recognized in earnings, and all other causes, which must be recognized in other comprehensive income. The Company adopted FSP 115-2 on April 1, 2009, and applied the provisions of the staff position to all debt securities existing at the adoption date and for all new debt securities on a prospective basis. As the Company did not have any previously realized impairments that were required to be reclassified to other comprehensive income upon adoption of FSP 115-2, the Company did not make a cumulative-effect adjustment to retained earnings. The adoption of FSP 115-2 did not have a material impact on the Condensed Consolidated Financial Statements. See Note 2 of Notes to the Condensed Consolidated Financial Statements for a discussion of the Company's impairment policy.

In February 2008, the FASB issued FSP FAS 157-2, *Effective Date of FASB Statement No. 157 (FSP 157-2)*. FSP 157-2 delayed the effective date of FAS No. 157, *Fair Value Measurements (FAS 157)* for all nonfinancial assets and liabilities for one year, except those that are measured at fair value in the financial statements on at least an annual basis. The Company adopted FAS 157 as of January 1, 2008, except for those provisions deferred under FSP 157-2, which were adopted as of January 1, 2009. In April 2009, the FASB issued FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4)*. FSP 157-4 establishes a two-step approach for determining whether a market is not active and, if so, whether a transaction is not orderly. The intent is to allow entities greater flexibility to use reasonable judgment when measuring the fair value of these financial assets rather than relying solely on observable prices in markets that are not active. The Company adopted FSP 157-4 on April 1, 2009, and applied its provisions prospectively. The adoption of FSP 157-4 did not have a material impact on the Condensed Consolidated Financial Statements. See Note 3 of Notes to the Condensed Consolidated Financial Statements for additional discussion of FAS 157 and related staff positions.

In December 2007, the FASB issued FAS No. 141 (Revised 2007), *Business Combinations (FAS 141R)*, which replaces FAS No. 141, *Business Combinations*. FAS 141R establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed, any noncontrolling interest in the acquiree and the goodwill acquired. The statement also establishes disclosure requirements that will enable users to evaluate the nature and financial effects of the business combination. In April 2009, the FASB issued FSP FAS 141(R)-1, *Accounting for Assets Acquired and Liabilities Assumed in a Business Combination That Arise from Contingencies (FSP 141(R)-1)*. FSP 141(R)-1 modifies the recognition provisions of FAS 141R for assets acquired and liabilities assumed in a business combination that arise from contingencies. The Company adopted FAS 141R and FSP 141(R)-1 on January 1, 2009, and applied the provisions prospectively to all new acquisitions closing on or after that date. The adoption of FAS 141R and the related FSP did not have a material impact on the Condensed Consolidated Financial Statements.

In December 2007, the FASB issued FAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements - An Amendment of ARB No. 51 (FAS 160)*. FAS 160 requires that accounting and reporting for minority interests be recharacterized as noncontrolling interests and classified as a component of equity. The Company adopted FAS 160 on January 1, 2009. The adoption of FAS 160 had no impact on the Condensed Consolidated Financial Statements.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****2. Cash, Cash Equivalents and Investments**

The amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments, by type, were as follows:

| (in millions) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|-------------------|------------------------------|-------------------------------|------------------|
| June 30, 2009 | | | | |
| Cash and cash equivalents | \$ 7,247 | \$ | \$ | \$ 7,247 |
| Debt securities available-for-sale: | | | | |
| U.S. government and direct agency obligations | 1,163 | 14 | (12) | 1,165 |
| State and municipal obligations | 6,445 | 174 | (45) | 6,574 |
| Corporate obligations | 2,956 | 88 | (38) | 3,006 |
| U.S. agency mortgage-backed securities | 1,984 | 61 | (2) | 2,043 |
| Non-U.S. agency mortgage-backed securities | 637 | 3 | (56) | 584 |
| Total debt securities available-for-sale | 13,185 | 340 | (153) | 13,372 |
| Equity securities available-for-sale | 507 | 7 | (16) | 498 |
| Debt securities held-to-maturity: | | | | |
| U.S. government and direct agency obligations | 158 | 5 | | 163 |
| State and municipal obligations | 19 | | | 19 |
| Corporate obligations | 24 | | | 24 |
| Total debt securities held-to-maturity | 201 | 5 | | 206 |
| Total cash, cash equivalents and investments | \$ 21,140 | \$ 352 | \$ (169) | \$ 21,323 |
| December 31, 2008 | | | | |
| Cash and cash equivalents | \$ 7,426 | \$ | \$ | \$ 7,426 |
| Debt securities available-for-sale: | | | | |
| U.S. government and direct agency obligations | 1,276 | 65 | (2) | 1,339 |
| State and municipal obligations | 6,440 | 134 | (90) | 6,484 |
| Corporate obligations | 2,802 | 33 | (132) | 2,703 |
| U.S. agency mortgage-backed securities | 2,245 | 62 | | 2,307 |
| Non-U.S. agency mortgage-backed securities | 744 | | (105) | 639 |
| Total debt securities available-for-sale | 13,507 | 294 | (329) | 13,472 |
| Equity securities available-for-sale | 489 | 8 | (20) | 477 |
| Debt securities held-to-maturity: | | | | |
| U.S. government and direct agency obligations | 157 | 10 | | 167 |
| State and municipal obligations | 19 | | | 19 |
| Corporate obligations | 24 | | | 24 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | | | |
|--|-----------|--------|----------|-----------|
| Total debt securities held-to-maturity | 200 | 10 | 210 | |
| Total cash, cash equivalents and investments | \$ 21,622 | \$ 312 | \$ (349) | \$ 21,585 |

Included in the Company's investment portfolio were sub-prime mortgage-backed securities with fair values of \$16 million and \$25 million as of June 30, 2009 and December 31, 2008, respectively. Also included were Alt-A and home equity lines of credit with fair values of \$28 million and \$36 million as of June 30, 2009 and December 31, 2008, respectively.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The fair value of the Company's mortgage-backed securities by origination and credit rating as of June 30, 2009 were as follows:

| (in millions) | AAA | AA | A | BBB | Non- Investment Grade | Total Fair Value |
|---------------------------------------|-----------------|-------------|-------------|-------------|-----------------------------|---------------------|
| 2008 | \$ 2 | \$ | \$ | \$ | \$ | \$ 2 |
| 2007 | 81 | | | | 1 | 82 |
| 2006 | 128 | 1 | | | 18 | 147 |
| 2005 | 132 | 1 | 2 | 5 | 6 | 146 |
| Pre-2005 | 191 | | 1 | | 15 | 207 |
| U.S agency mortgage-backed securities | 2,043 | | | | | 2,043 |
| Total | \$ 2,577 | \$ 2 | \$ 3 | \$ 5 | \$ 40 | \$ 2,627 |

The amortized cost and fair value of debt securities available-for-sale as of June 30, 2009, by contractual maturity, were as follows:

| (in millions) | Amortized Cost | Fair Value |
|---|-------------------|------------------|
| Due in one year or less | \$ 1,013 | \$ 1,020 |
| Due after one year through five years | 4,422 | 4,557 |
| Due after five years through ten years | 2,811 | 2,847 |
| Due after ten years | 2,318 | 2,321 |
| U.S. agency mortgage-backed securities | 1,984 | 2,043 |
| Non-U.S. agency mortgage-backed securities | 637 | 584 |
| Total debt securities available-for-sale | \$ 13,185 | \$ 13,372 |

The amortized cost and fair value of debt securities held-to-maturity as of June 30, 2009, by contractual maturity, were as follows:

| (in millions) | Amortized Cost | Fair Value |
|---|-------------------|---------------|
| Due in one year or less | \$ 73 | \$ 74 |
| Due after one year through five years | 91 | 94 |
| Due after five years through ten years | 24 | 24 |
| Due after ten years | 13 | 14 |
| Total debt securities held-to-maturity | \$ 201 | \$ 206 |

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The fair value of investments with gross unrealized losses by investment type and length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2009 and December 31, 2008 were as follows (a):

| (in millions) | Less Than 12 Months | | 12 Months or Greater | | Total | |
|---|---------------------|-------------------------|----------------------|-------------------------|------------|-------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| June 30, 2009 | | | | | | |
| Debt securities available-for-sale: | | | | | | |
| U.S. government and direct agency obligations | \$ 372 | \$ (12) | \$ | \$ | \$ 372 | \$ (12) |
| State and municipal obligations | 1,017 | (21) | 352 | (24) | 1,369 | (45) |
| Corporate obligations | 283 | (9) | 372 | (29) | 655 | (38) |
| U.S. agency mortgage-backed securities | 296 | (2) | 2 | | 298 | (2) |
| Non-U.S. agency mortgage-backed securities | 111 | (7) | 336 | (49) | 447 | (56) |
| Total debt securities available-for-sale | \$ 2,079 | \$ (51) | \$ 1,062 | \$ (102) | \$ 3,141 | \$ (153) |
| Equity securities available-for-sale | \$ 173 | \$ (16) | \$ | \$ | \$ 173 | \$ (16) |
| December 31, 2008 | | | | | | |
| Debt securities available-for-sale: | | | | | | |
| U.S. government and direct agency obligations | \$ 72 | \$ (2) | \$ | \$ | \$ 72 | \$ (2) |
| State and municipal obligations | 1,414 | (65) | 113 | (25) | 1,527 | (90) |
| Corporate obligations | 1,543 | (97) | 179 | (35) | 1,722 | (132) |
| U.S. agency mortgage-backed securities | 17 | | 5 | | 22 | |
| Non-U.S. agency mortgage-backed securities | 529 | (83) | 88 | (22) | 617 | (105) |
| Total debt securities available-for-sale | \$ 3,575 | \$ (247) | \$ 385 | \$ (82) | \$ 3,960 | \$ (329) |
| Equity securities available-for-sale | \$ 195 | \$ (20) | \$ | \$ | \$ 195 | \$ (20) |

(a) Debt securities classified as held-to-maturity investments have been excluded from this analysis. These investments are predominantly held in U.S. government or agency obligations. Additionally, the fair values of these investments approximate their amortized cost.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The Company's mortgage-backed securities in an unrealized loss position by credit rating distribution were as follows:

| (in millions) | June 30, 2009 | | December 31, 2008 | |
|----------------------|---------------|-------------------------|-------------------|-------------------------|
| | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| AAA | \$ 726 | \$ (56) | \$ 624 | \$ (105) |
| AA | 4 | (1) | 1 | |
| A | | | | |
| BBB | | | 13 | |
| Non-investment grade | 15 | (1) | 1 | |
| Total | \$ 745 | \$ (58) | \$ 639 | \$ (105) |

The unrealized losses as of June 30, 2009 were generated from approximately 2,600 positions out of a total of approximately 12,000 positions. The unrealized losses on investments in U.S. government and direct agency obligations, state and municipal obligations and corporate obligations as of June 30, 2009 were primarily caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for securities where the fair value of the investment is less than its amortized cost. The contractual cash flows of the U.S. government and direct agency obligations are either guaranteed by the U.S. government or an agency of the U.S. government. The Company expects that the securities would not be settled at a price less than the amortized cost of the Company's investment. The Company evaluated the underlying credit quality of the issuers and the credit ratings of the state and municipal obligations and the corporate obligations, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). The unrealized losses on mortgage-backed securities as of June 30, 2009 were caused primarily by higher interest rates in the marketplace, reflecting the higher perceived risk assigned by fixed-income investors to commercial mortgage-backed securities (CMBS). These unrealized losses represented 2% of the total amortized cost of the Company's mortgage-backed security holdings as of June 30, 2009. The Company believes these losses to be temporary. The Company believes that it will collect all principal and interest due on all investments that have an amortized cost in excess of fair value. Approximately 97% of the Company's mortgage-backed securities in an unrealized loss position as of June 30, 2009 were rated AAA with no known deterioration or other factors leading to an other-than-temporary impairment. As of June 30, 2009, the Company did not have the intent to sell any of the securities in an unrealized loss position.

As of June 30, 2009, the Company's holdings of non-U.S. agency mortgage-backed securities included \$15 million of commercial mortgage loans in default. These investments were acquired in the first quarter of 2008 pursuant to an acquisition and were recorded at fair value and represented less than 1% of the Company's total mortgage-backed security holdings as of June 30, 2009.

A portion of the Company's investments in equity securities and venture capital funds consists of investments held in various public and nonpublic companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care and related technology stocks will likewise impact the value of the Company's equity portfolio. The equity securities and venture capital funds were evaluated for severity and duration of unrealized loss, overall market volatility and other market factors.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Net realized gains, before taxes, were from the following sources:

| (in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|--|--------------------------------|--------|------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Total OTTI | \$ (5) | \$ (1) | \$ (37) | \$ (6) |
| Portion of loss recognized in other comprehensive income | | n/a | | n/a |
| Net OTTI recognized in earnings | (5) | (1) | (37) | (6) |
| Gross realized losses from sales | (19) | (5) | (30) | (9) |
| Gross realized gains from sales | 27 | 56 | 73 | 118 |
| Net realized gains | \$ 3 | \$ 50 | \$ 6 | \$ 103 |

When evaluating a debt security for OTTI, the Company analyzes relevant factors including the length of time and extent to which fair value has been less than amortized cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and whether the Company has the intent to sell or if it is more likely than not it will be required to sell a security before there is sufficient time to recover the Company's amortized cost. When the Company intends to sell or it is more likely than not it will be required to sell a security before recovery of its entire amortized cost, it records the full difference between fair value and amortized cost in earnings. When the Company does not have intent to sell or it is not more likely than not it will be required to sell a security, and it does not expect to receive all amounts due contractually, it bifurcates the loss between a credit component, which is recorded in earnings, and all other causes, which are recorded in other comprehensive income. The credit component is defined as the difference between the amortized cost basis of the debt security and the net present value of its projected future cash flows. For the three and six months ended June 30, 2009, all of the recorded OTTI were a result of the Company's intent to sell certain impaired securities.

3. Fair Value

Fair values of available-for-sale debt and equity securities are based on quoted market prices, where available. The Company obtains one price for each security primarily from a third party pricing service (pricing service), which generally uses quoted or other observable inputs for the determination of fair value. The pricing service normally derives the security prices through recently reported trades for identical or similar securities, making adjustments through the reporting date based upon available observable market information. For securities not actively traded, the pricing service may use quoted market prices of comparable instruments or discounted cash flow analyses, incorporating inputs that are currently observable in the markets for similar securities. Inputs that are often used in the valuation methodologies include, but are not limited to, non-binding broker quotes, benchmark yields, credit spreads, default rates and prepayment speeds. As the Company is responsible for the determination of fair value, it performs quarterly analyses on the prices received from the pricing service to determine whether the prices are reasonable estimates of fair value. Specifically, the Company compares the prices received from the pricing service to prices reported by its custodian, its investment consultant, and third party investment advisors. Additionally, the Company compares changes in the reported market values and returns to relevant market indices to test the reasonableness of the reported prices. Based on the Company's internal price verification procedures and review of fair value methodology documentation provided by independent pricing services, the Company has not historically adjusted the prices obtained from the pricing service.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

In instances in which the inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset.

The fair value hierarchy is as follows:

Level 1 Quoted (unadjusted) prices for identical assets in active markets.

Level 2 Other observable inputs, either directly or indirectly, including:

Quoted prices for similar assets in active markets;

Quoted prices for identical or similar assets in non-active markets (e.g., few transactions, limited information, non-current prices, high variability over time, etc.);

Inputs other than quoted prices that are observable for the asset (e.g., interest rates, yield curves, volatilities, default rates, etc.); and

Inputs that are derived principally from or corroborated by other observable market data.

Level 3 Unobservable inputs that cannot be corroborated by observable market data.

The following table presents information about the Company's financial assets, excluding AARP, that are measured at fair value on a recurring basis, according to the valuation techniques the Company used to determine their fair values. See Note 10 of Notes to the Condensed Consolidated Financial Statements for further detail on AARP.

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair Value |
|---|--|--|-------------------------------------|---------------------|
| June 30, 2009 | | | | |
| Cash and cash equivalents | \$ 5,979 | \$ 1,268 | \$ | \$ 7,247 |
| Debt securities available-for-sale: | | | | |
| U.S. government and direct agency obligations | 746 | 419 | | 1,165 |
| State and municipal obligations | | 6,574 | | 6,574 |
| Corporate obligations | 11 | 2,950 | 45 | 3,006 |
| U.S. agency mortgage-backed securities | | 2,043 | | 2,043 |
| Non-U.S. agency mortgage-backed securities | | 569 | 15 | 584 |
| Total debt securities available-for-sale | 757 | 12,555 | 60 | 13,372 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | | | |
|--|----------|-----------|--------|-----------|
| Equity securities available-for-sale | 186 | 3 | 309 | 498 |
| Total cash, cash equivalents and investments at fair value | \$ 6,922 | \$ 13,826 | \$ 369 | \$ 21,117 |
| Percentage of total fair value | 33% | 65% | 2% | 100% |

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair Value |
|--|--|--|-------------------------------------|---------------------|
| December 31, 2008 | | | | |
| Cash and cash equivalents | \$ 6,564 | \$ 862 | \$ | \$ 7,426 |
| Debt securities available-for-sale: | | | | |
| U.S. government and direct agency obligations | 800 | 539 | | 1,339 |
| State and municipal obligations | | 6,484 | | 6,484 |
| Corporate obligations | 7 | 2,650 | 46 | 2,703 |
| U.S. agency mortgage-backed securities | | 2,307 | | 2,307 |
| Non-U.S. agency mortgage-backed securities | | 623 | 16 | 639 |
| Total debt securities available-for-sale | 807 | 12,603 | 62 | 13,472 |
| Equity securities available-for-sale | 170 | 3 | 304 | 477 |
| Total cash, cash equivalents and investments at fair value | 7,541 | 13,468 | 366 | 21,375 |
| Interest rate swaps | | 622 | | 622 |
| Total assets at fair value | \$ 7,541 | \$ 14,090 | \$ 366 | \$ 21,997 |
| Percentage of total fair value | 34% | 64% | 2% | 100% |

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Cash and Cash Equivalents. The carrying value of cash and cash equivalents approximates fair value as maturities are less than three months. Fair values of cash equivalent instruments that do not trade on a regular basis in active markets are classified as Level 2.

Debt Securities. The estimated fair values of debt securities held as available-for-sale are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. Fair values of debt securities that do not trade on a regular basis in active markets are classified as Level 2.

Equity Securities. Equity securities are held as available-for-sale investments. Fair value estimates for Level 1 and Level 2 publicly traded equity securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. The fair values of Level 3 investments in venture capital portfolios are estimated using market modeling approaches that rely heavily on management assumptions and qualitative observations. These investments totaled \$284 million as of June 30, 2009. The fair values of the Company's various venture capital investments are computed using limited quantitative and qualitative observations of activity for similar companies in the current market. The key inputs utilized in the Company's market modeling include, as applicable: transactions for comparable companies in similar industries and having similar revenue and growth characteristics; similar preferences in the capital structure; discounted cash flows; liquidation values and milestones established at initial funding and the assumption that the values of the Company's venture capital investments can be inferred from these inputs.

Interest Rate Swaps. Fair values of the Company's interest rate swaps were estimated using the terms of the swaps and publicly available market yield curves. Because the swaps were unique and were not actively traded, the fair values were classified as Level 2 estimates.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2009 is as follows:

| (in millions) | Three Months Ended June 30, 2009 | Six Months Ended June 30, 2009 |
|--|-------------------------------------|-----------------------------------|
| Balance at beginning of period | \$ 361 | \$ 366 |
| Purchases, net | 7 | 3 |
| Net unrealized gains in accumulated other comprehensive income | 6 | 5 |
| Net realized losses in investment and other income | (5) | (5) |
| Balance at end of period | \$ 369 | \$ 369 |

The Level 3 activity for the six months ended June 30, 2008 included net investment purchases of \$207 million, transfers into Level 3 of \$199 million and unrealized gains of \$10 million. Also included were realized losses of \$1 million which were included in Investment and Other Income in the Condensed Consolidated Statements of Operations.

There were no significant fair value adjustments recorded during the three and six months ended June 30, 2009 for non-financial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis. These assets and liabilities are subject to fair value adjustments only in certain circumstances, such as when the Company records impairments.

The table below includes interim disclosure of fair values for certain financial instruments for which it is practicable to estimate fair value. The carrying values and fair values of these financial instruments were as follows:

| (in millions) | June 30, 2009 | | December 31, 2008 | |
|--------------------------------------|-------------------|---------------|-------------------|---------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Assets | | | | |
| Debt securities available-for-sale | \$ 13,372 | \$ 13,372 | \$ 13,472 | \$ 13,472 |
| Equity securities available-for-sale | 498 | 498 | 477 | 477 |
| Debt securities held-to-maturity | 201 | 206 | 200 | 210 |
| AARP Program-related investments | 2,028 | 2,028 | 1,941 | 1,941 |
| Interest rate swaps | | | 622 | 622 |
| Liabilities | | | | |
| Senior unsecured notes | 11,659 | 10,783 | 12,693 | 10,941 |

In addition to the previously described methods and assumptions for debt and equity securities and interest rate swaps, the following are the methods and assumptions used to estimate the fair value of the other financial instruments:

AARP Program-related Investments. AARP Program-related investments consist of debt and equity securities available-for sale. See the preceding discussion regarding the methods and assumptions used to estimate the fair value of debt and equity securities.

Senior Unsecured Notes. The fair values of the senior unsecured notes are estimated based on third-party quoted market prices for the same or similar issues.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The carrying amounts reported in the Condensed Consolidated Balance Sheets for cash and cash equivalents, accounts and other current receivables, unearned premiums, accounts payable and accrued liabilities approximate fair value because of their short-term nature. These assets and liabilities are not listed in the table above.

4. Medicare Part D Pharmacy Benefits Contract

The Condensed Consolidated Balance Sheets include the following amounts associated with the Medicare Part D program:

| (in millions) | June 30, 2009 | | December 31, 2008 | |
|---------------------------|-------------------|------------|-------------------|------------|
| | CMS Subsidies (a) | Risk-Share | CMS Subsidies (a) | Risk-Share |
| Other current receivables | \$ | \$ 183 | \$ 349 | \$ 19 |
| Other policy liabilities | 222 | | | |

(a) Includes the Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy

The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by the Centers for Medicare and Medicaid Services (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 in Other Policy Liabilities in the Condensed Consolidated Balance Sheets. If the amounts received for these subsidies are insufficient to cover the costs incurred for these contract elements as of any period end, the Company records a receivable in Other Current Receivables in the Condensed Consolidated Balance Sheets.

The uneven timing of Medicare Part D pharmacy benefit claims due to the product benefit design results in losses in the first half of the year that, if they continued at that pace for the rest of the year, would entitle the Company to risk-share adjustment payments from CMS. Accordingly, during the interim periods within the contract year, the Company records a net risk-share receivable from CMS in Other Current Receivables in the Condensed Consolidated Balance Sheets and a corresponding retrospective premium adjustment in Premium Revenues in the Condensed Consolidated Statements 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. Typically, those losses are expected to reverse in the second half of the year.

5. Goodwill

Changes in the carrying amount of goodwill, by reporting segment, were as follows:

| (in millions) | Health Care Services | | | Prescription Solutions | | Consolidated |
|--|----------------------|----------|----------|------------------------|----|--------------|
| | OptumHealth | Ingenix | | | | |
| Balance at December 31, 2008 | \$ 17,044 | \$ 1,152 | \$ 1,052 | \$ 840 | \$ | 20,088 |
| Acquisitions | | | 259 | | | 259 |
| Subsequent Payments and Adjustments, net (a) | 52 | (34) | (7) | | | 11 |
| Balance at June 30, 2009 | \$ 17,096 | \$ 1,118 | \$ 1,304 | \$ 840 | \$ | 20,358 |

- (a) Includes transfers of business and related goodwill between reporting segments.

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

On June 1, 2009, all of the outstanding shares of AIM Healthcare Services, Inc. (AIM) were acquired for approximately \$440 million in cash. AIM is a leading provider of payment accuracy solutions for health care payer and hospital clients in all 50 states. On a preliminary basis, the total consideration paid exceeded the estimated fair value of the net tangible assets acquired by \$425 million, of which \$166 million has been allocated to finite-lived intangible assets and \$259 million to goodwill. The allocation is pending completion of a valuation analysis. The acquired goodwill is deductible for income tax purposes. The results of operations and financial condition of AIM have been included in the Company's consolidated results and the results of the Ingenix reporting segment since the acquisition date. The pro forma effects of this acquisition on the Company's Condensed Consolidated Financial Statements were not material.

6. Medical Costs and Medical Costs Payable

Medical costs and medical costs payable include estimates of the Company's obligations for medical care services that have been rendered on behalf of insured consumers, but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. The Company develops 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. The Company estimates 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, the Company re-examines previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the medical costs payable estimates recorded in prior periods develop, the Company adjusts the amount of the estimates and includes the changes in estimates in medical costs in the period in which the change is identified.

For the three months ended June 30, 2009, there was no net medical cost development related to prior fiscal years and \$30 million of net favorable medical cost development related to the first quarter of 2009. For the three months ended June 30, 2008, there was no net medical cost development related to prior fiscal years or related to the first quarter of 2008. For the six months ended June 30, 2009 and 2008, medical costs included \$200 million of net favorable medical cost development related to prior fiscal years. None of the factors discussed above were individually material to the favorable medical cost development in the three and six months ended June 30, 2009 and 2008.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****7. Commercial Paper and Long-Term Debt**

Commercial paper and long-term debt consisted of the following:

| (in millions) | June 30, 2009 | | December 31, 2008 | |
|---|--------------------|----------------|--------------------|----------------|
| | Carrying Value (a) | Fair Value (b) | Carrying Value (c) | Fair Value (b) |
| Commercial paper | \$ 60 | \$ 60 | \$ 101 | \$ 101 |
| \$250 million par, 3.8% senior unsecured notes due February 2009 | | | 250 | 250 |
| \$650 million par, senior unsecured floating-rate notes due March 2009 | | | 650 | 644 |
| \$450 million par, 4.1% senior unsecured notes due August 2009 | 452 | 451 | 455 | 442 |
| \$500 million par, senior unsecured floating-rate notes due June 2010 | 500 | 495 | 500 | 450 |
| \$250 million par, 5.1% senior unsecured notes due November 2010 | 260 | 259 | 263 | 245 |
| \$250 million par, senior unsecured floating-rate notes due February 2011 | 250 | 248 | 250 | 219 |
| \$750 million par, 5.3% senior unsecured notes due March 2011 | 795 | 774 | 806 | 705 |
| \$450 million par, 5.5% senior unsecured notes due November 2012 | 486 | 466 | 493 | 410 |
| \$550 million par, 4.9% senior unsecured notes due February 2013 | 549 | 556 | 549 | 513 |
| \$450 million par, 4.9% senior unsecured notes due April 2013 | 467 | 452 | 473 | 419 |
| \$250 million par, 4.8% senior unsecured notes due February 2014 | 270 | 242 | 280 | 221 |
| \$500 million par, 5.0% senior unsecured notes due August 2014 | 544 | 486 | 567 | 460 |
| \$500 million par, 4.9% senior unsecured notes due March 2015 | 548 | 480 | 567 | 429 |
| \$750 million par, 5.4% senior unsecured notes due March 2016 | 854 | 705 | 883 | 661 |
| \$95 million par, 5.4% senior unsecured notes due November 2016 | 95 | 88 | 95 | 84 |
| \$500 million par, 6.0% senior unsecured notes due June 2017 | 592 | 482 | 620 | 450 |
| \$250 million par, 6.0% senior unsecured notes due November 2017 | 287 | 238 | 297 | 223 |
| \$1,100 million par, 6.0% senior unsecured notes due February 2018 | 1,099 | 1,056 | 1,098 | 1,015 |
| \$1,095 million par, zero coupon senior unsecured notes due November 2022 | 544 | 582 | 530 | 522 |
| \$850 million par, 5.8% senior unsecured notes due March 2036 | 844 | 688 | 844 | 648 |
| \$500 million par, 6.5% senior unsecured notes due June 2037 | 495 | 434 | 495 | 420 |
| \$650 million par, 6.6% senior unsecured notes due November 2037 | 645 | 583 | 645 | 548 |
| \$1,100 million par, 6.9% senior unsecured notes due February 2038 | 1,083 | 1,018 | 1,083 | 963 |
| Total commercial paper and long-term debt | 11,719 | 10,843 | 12,794 | 11,042 |
| Less commercial paper and current maturities of long-term debt | (1,012) | (1,006) | (1,456) | (1,437) |
| Long-term debt, less current maturities | \$ 10,707 | \$ 9,837 | \$ 11,338 | \$ 9,605 |

- (a) The carrying value of the debt has been adjusted by the unamortized gain on related interest rate swaps which terminated in January 2009.
- (b) Estimated based on third-party quoted market prices for the same or similar issues.
- (c) The carrying value of debt had been adjusted based upon the applicable interest rate swap fair values in accordance with the fair value hedge short-cut method of accounting.

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Commercial Paper and Credit Facilities

Commercial paper consists of senior unsecured debt sold on a discounted basis with maturities of up to 270 days. As of June 30, 2009, the Company had \$60 million of outstanding commercial paper with interest rates ranging from 0.9% to 1.0%.

In November 2008, the Company entered into a \$750 million 364-day revolving bank credit facility. The interest rate is variable based on term and amount and is calculated based on the London Interbank Offered Rate (LIBOR) plus a spread. At June 30, 2009, the interest rate on this facility, had it been drawn, would have ranged from 1.7% to 2.1%. As of June 30, 2009, the Company had no amounts outstanding under this credit facility and it was terminated on July 31, 2009.

In May 2007, the Company amended and restated its \$1.3 billion five-year revolving bank credit facility which included increasing the capacity. There is currently \$2.5 billion available under this credit facility which matures in May 2012. The interest rate is variable based on term and amount and is calculated based on LIBOR plus a spread. At June 30, 2009, the interest rate on this facility, had it been drawn, would have ranged from 0.5% to 1.4%. This credit facility supports the Company's commercial paper program and is available for general working capital purposes. As of June 30, 2009, the Company had no amounts outstanding under this credit facility.

Debt Covenants

The Company's debt arrangements and credit facilities contain various covenants, the most restrictive of which require the Company 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%. The Company was in compliance with the requirements of all debt covenants as of June 30, 2009.

Derivative Instruments and Hedging Activities

In January 2009, the Company terminated interest rate swap contracts with \$4.9 billion in notional value to lock-in the benefit of low market interest rates. The cumulative adjustment to the carrying value of the Company's debt of \$513 million, as of the date that the swap contracts were terminated, is being amortized as a reduction to interest expense over the remaining life of the related debt. As of June 30, 2009, the Company had no outstanding interest rate swap contracts. As of December 31, 2008, the fair values of the interest rate swaps were \$622 million with \$7 million classified in Other Current Assets and \$615 million classified in Other Assets.

8. Share Repurchase Program

Under its Board of Directors' authorization, the Company maintains a share repurchase program (Repurchase Program). The objectives of the Repurchase Program are to optimize the Company's capital structure and cost of capital thereby improving returns to shareholders, as well as to offset the dilutive impact of share-based awards. Repurchases may be made from time to time at prevailing prices in the open market. During the six months ended June 30, 2009, the Company repurchased 64.1 million shares at an average price of approximately \$23 per share and an aggregate cost of \$1.5 billion. As of June 30, 2009, the Company had Board of Directors' authorization to purchase up to an additional 38.8 million shares of its common stock.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****9. Share-Based Compensation and Other Employee Benefit Plans**

As of June 30, 2009, the Company had 45.9 million shares available for future grants of share-based awards under its share-based compensation plan, including, but not limited to, incentive or non-qualified stock options, stock-settled stock appreciation rights (SARs), and up to 15.2 million of awards in restricted stock and restricted stock units (collectively, restricted shares). The Company's outstanding share-based awards consist mainly of non-qualified stock options, SARs and restricted shares.

Stock Options and SARs

Stock options and SARs generally vest ratably over four to six years and may be exercised up to 10 years from the date of grant. Stock option and SAR activity for the six months ended June 30, 2009 is summarized in the table below:

| | Shares (in thousands) | Weighted- Average Exercise Price | Weighted-Average Remaining Contractual Life (in years) | Aggregate Intrinsic Value (in millions) |
|------------------------------------|--------------------------|--|---|---|
| Outstanding at beginning of period | 150,752 | \$ 36 | | |
| Granted | 14,549 | 30 | | |
| Exercised | (14,888) | 13 | | |
| Forfeited | (4,488) | 46 | | |
| Outstanding at end of period | 145,925 | \$ 37 | 5.5 | \$ 285 |
| Exercisable at end of period | 106,144 | \$ 36 | 4.4 | \$ 284 |

To determine compensation expense related to the Company's stock options and SARs, the fair value of each award is estimated on the date of grant using an option-pricing model. For purposes of estimating the fair value of the Company's employee stock option and SAR grants, the Company uses a binomial model. The principal assumptions the Company used in applying the option-pricing models were as follows:

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|-------------------------|--------------------------------|-----------|------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Risk free interest rate | 2.1%-2.2% | 1.8%-4.1% | 1.7%-2.2% | 1.8%-4.1% |
| Expected volatility | 46.3% | 28.9% | 41.3%-46.3% | 28.7% |
| Expected dividend yield | 0.1% | 0.1% | 0.1% | 0.1% |
| Forfeiture rate | 5.0% | 5.0% | 5.0% | 5.0% |
| Expected life in years | 4.4 | 4.3 | 4.4 - 5.1 | 4.3 |

Risk-free interest rates are based on U.S. Treasury yields in effect at the time of grant. Expected volatilities are based on the historical volatility of the Company's common stock and the implied volatility from exchange-traded options on the Company's common stock. Beginning in 2009, the Company changed the weighting of historical and implied volatilities used in the calculation of expected volatility to 90% and 10%, respectively. Prior to the change the Company had weighted historical and implied volatility at 50% each. Due to the significant economic turbulence and resulting instability of the exchange-traded options throughout 2008, the Company concluded that they were no longer as representative of the fair value of its common stock over the expected life of its options and SARs. The change had no impact on the Company's reported Net Earnings nor Earnings Per Share. The Company uses historical data to estimate option and SAR exercises and forfeitures

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

within the valuation model. The expected lives of options and SARs granted represents the period of time that the awards granted are expected to be outstanding based on historical exercise patterns.

The weighted-average grant date fair value of stock options and SARs granted during the three and six months ended June 30, 2009 was approximately \$10 per share. The weighted-average grant date fair value of stock options and SARs granted during the three and six months ended June 30, 2008 was approximately \$9 per share. The total intrinsic value of stock options and SARs exercised during the three and six months ended June 30, 2009 was \$8 million and \$215 million, respectively. The total intrinsic value of stock options and SARs exercised during the three and six months ended June 30, 2008 was \$17 million and \$78 million, respectively.

Restricted Shares

Restricted shares generally vest ratably over two to five years. Compensation expense related to restricted shares is determined based upon the fair value of each award on the date of grant. Restricted share activity for the six months ended June 30, 2009 is summarized in the table below:

| (shares in thousands) | Shares | Weighted-Average Grant Date Fair Value |
|----------------------------------|---------|--|
| Nonvested at beginning of period | 6,282 | \$ 36 |
| Granted | 6,364 | 29 |
| Vested | (1,601) | 28 |
| Forfeited | (364) | 35 |
| Nonvested at end of period | 10,681 | \$ 33 |

The weighted-average grant date fair value of restricted shares granted during the three and six months ended June 30, 2009 was approximately \$28 per share and \$29 per share, respectively. The weighted-average grant date fair value of restricted shares granted during the three and six months ended June 30, 2008 was approximately \$34 per share and \$35 per share, respectively. The total fair value of restricted shares vested during the three and six months ended June 30, 2009 was \$36 million and \$45 million, respectively. The total fair value of restricted shares vested during the three and six months ended June 30, 2008 was \$1 million and \$4 million, respectively.

Share-Based Compensation Recognition

The Company recognizes compensation expense for share-based awards, including stock options, SARs and restricted shares, on a straight-line basis over the related service period (generally the vesting period) of the award, or to an employee's eligible retirement date under the award agreement, if earlier. Beginning in 2009, the Company's equity award program includes a retirement provision that treats all employees who are age 55 or older with at least ten years of recognized employment with the Company as retirement-eligible. For the three and six months ended June 30, 2009, the Company recognized compensation expense related to its share-based compensation plans of \$85 million (\$58 million net of tax effects) and \$180 million (\$121 million net of tax effects), respectively. For the three and six months ended June 30, 2008, the Company recognized compensation expense of \$75 million (\$50 million net of tax effects) and \$147 million (\$98 million net of tax effects), respectively. Share-based compensation expense is recognized in Operating Costs in the Company's Condensed Consolidated Statements of Operations. As of June 30, 2009, there was \$630 million of total unrecognized compensation cost related to share awards that is expected to be recognized over a weighted-average period of 1.5 years. For the three and six months ended June 30, 2009, the income tax benefit realized from share-based award exercises was \$16 million and \$69 million, respectively. For the three and six months ended June 30, 2008, the income tax benefit realized from share-based award exercises was \$5 million and \$27 million, respectively.

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

As further discussed in Note 8 of Notes to the Condensed Consolidated Financial Statements, the Company maintains a share repurchase program. The objectives of the share repurchase program are to optimize the Company's capital structure and cost of capital thereby improving returns to shareholders, as well as to offset the dilutive impact of shares issued for share-based award exercises.

Other Employee Benefit Plans

The total Supplemental Executive Retirement Plan (SERP) liability as of June 30, 2009 was \$20 million, which was recorded in Other Liabilities in the Condensed Consolidated Balance Sheets. The total SERP liability as of December 31, 2008 was \$159 million, of which \$51 million was recorded in Accounts Payable and Accrued Liabilities and \$108 million was recorded in Other Liabilities in the Condensed Consolidated Balance Sheets. In the first quarter of 2009, the SERP accrual of \$91 million relating to the Company's former CEO was released as a result of the resolution of the SEC settlement pertaining to the stock option matter. See Legal Matters Relating to Historical Stock Option Practices in Note 13 of Notes to the Condensed Consolidated Financial Statements for further discussion of stock option matters. In addition, \$48 million was paid during the first quarter of 2009 related to a change-in-control provision in a plan assumed from a previous acquisition.

10. AARP

The Company provides health insurance products and services to members of AARP under a Supplemental Health Insurance Program (the Program), and separate Medicare Advantage and Medicare Part D arrangements. The products and services under the Program include supplemental Medicare benefits (AARP Medicare Supplement Insurance), hospital indemnity insurance, including insurance for individuals between 50 to 64 years of age, and other related products.

Under the Program, the Company is compensated for transaction processing and other services, as well as for assuming underwriting risk. The Company is also engaged in product development activities to complement the insurance offerings. Premium revenues from the Company's portion of the Program were \$1.5 billion and \$3.0 billion for the three and six months ended June 30, 2009, respectively, and \$1.4 billion and \$2.8 billion for the three and six months ended June 30, 2008, respectively.

The Company's agreement with AARP on the Program provides for the maintenance of the Rate Stabilization Fund (RSF) that is held by the Company on behalf of policyholders. Underwriting gains or losses related to the AARP Medicare Supplement Insurance business are directly recorded as an increase or decrease to the RSF. The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to the overall benefit of the AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, losses would be borne by the Company. Deficits may be recovered by underwriting gains in future periods of the contract. To date, the Company has not been required to fund any underwriting deficits. The RSF balance is reported in Other Policy Liabilities in the Condensed Consolidated Balance Sheets and changes in the RSF are reported in Medical Costs in the Condensed Consolidated Statement of Operations. The Company believes the RSF balance as of June 30, 2009 is sufficient to cover potential future underwriting and other risks and liabilities associated with the contract.

The effects of changes in balance sheet amounts associated with the Program accrue to the overall benefit of the AARP policyholders through the RSF balance. Accordingly, the Company does not include the effect of such changes in its Condensed Consolidated Statements of Cash Flows.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

Under the Company's agreement with AARP, the Company separately manages the assets that support the Program. These assets are held at fair value in the Condensed Consolidated Balance Sheets as Assets Under Management. These assets are invested at the Company's discretion, within investment guidelines approved by the Program and are used to pay costs associated with the Program. The Company does not guarantee any rates of investment return on these investments and, upon any transfer of the Program to another entity, the Company would transfer cash in an amount equal to the fair value of these investments at the date of transfer. Interest earnings and realized investment gains and losses on these assets accrue to the overall benefit of the AARP policyholders through the RSF and, thus, are not included in the Company's earnings.

Upon adoption of FAS 159 on January 1, 2008, the Company elected to measure the entirety of the AARP Assets Under Management on a fair value basis.

The following AARP Program-related assets and liabilities were included in the Company's Condensed Consolidated Balance Sheets:

| (in millions) | June 30, 2009 | December 31, 2008 |
|--|------------------|----------------------|
| Accounts receivable | \$ 505 | \$ 482 |
| Assets under management | 2,224 | 2,199 |
| Other assets | | 7 |
| Medical costs payable | 1,258 | 1,160 |
| Accounts payable and accrued liabilities | 11 | 52 |
| Other policy liabilities | 998 | 1,047 |
| Future policy benefits | 448 | 429 |
| Other liabilities | 14 | |

The fair value of cash, cash equivalents and investments associated with the Program, included in Assets Under Management, and the fair value of Other Assets and Other Liabilities were classified in accordance with the fair value hierarchy as discussed in Note 3 of Notes to the Condensed Consolidated Financial Statements and were as follows:

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair Value |
|--|--|--|-------------------------------------|---------------------|
| June 30, 2009 | | | | |
| Cash and cash equivalents | \$ 187 | \$ 9 | \$ | \$ 196 |
| Debt securities: | | | | |
| U.S. government and direct agency obligations | 282 | 299 | | 581 |
| State and municipal obligations | | 9 | | 9 |
| Corporate obligations | | 921 | | 921 |
| U.S. agency mortgage-backed securities | | 366 | | 366 |
| Non-U.S. agency mortgage-backed securities | | 149 | | 149 |
| Total debt securities | 282 | 1,744 | | 2,026 |
| Equity securities available-for-sale | | 2 | | 2 |
| Total cash, cash equivalents and investments at fair value | \$ 469 | \$ 1,755 | \$ | \$ 2,224 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | | | | |
|---------------------------------|----|----|----|----|-------|
| Other liabilities | | | | 14 | 14 |
| Total liabilities at fair value | \$ | \$ | \$ | 14 | \$ 14 |

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

| (in millions) | Quoted Prices in Active Markets (Level 1) | Other Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total Fair Value |
|---|--|--|-------------------------------------|---------------------|
| December 31, 2008 | | | | |
| Cash and cash equivalents | \$ 240 | \$ 18 | \$ | \$ 258 |
| Debt securities: | | | | |
| U.S. government and direct agency obligations | 291 | 293 | | 584 |
| State and municipal obligations | | 6 | | 6 |
| Corporate obligations | | 786 | | 786 |
| U.S. agency mortgage-backed securities | | 421 | | 421 |
| Non-U.S. agency mortgage-backed securities | | 142 | | 142 |
| Total debt securities | 291 | 1,648 | | 1,939 |
| Equity securities available-for-sale | | 2 | | 2 |
| Total cash, cash equivalents and investments at fair value | 531 | 1,668 | | 2,199 |
| Other assets | | | 7 | 7 |
| Total assets at fair value | \$ 531 | \$ 1,668 | \$ 7 | \$ 2,206 |

11. Comprehensive Income

The table below presents comprehensive income, defined as changes in the equity of the Company's business excluding changes resulting from investments by and distributions to its shareholders.

| (in millions) | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|--------------------------------|---------------|------------------------------|-----------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net earnings | \$ 859 | \$ 337 | \$ 1,843 | \$ 1,331 |
| Unrealized holding gains (losses) on investment securities arising during the period, net of tax expense (benefit) of \$46, (\$72), \$84 and (\$38), respectively | 81 | (129) | 147 | (67) |
| Reclassification adjustment for net realized gains included in net earnings, net of tax expense of \$1, \$18, \$2 and \$37, respectively | (2) | (32) | (4) | (66) |
| Foreign currency translation loss | 9 | | 3 | |
| Comprehensive income | \$ 947 | \$ 176 | \$ 1,989 | \$ 1,198 |

There were no impairments recognized in other comprehensive income for the three and six months ended June 30, 2009.

12. Segment Financial Information

The Company has four reporting segments:

Health Care Services, which includes UnitedHealthcare, Ovation and AmeriChoice;

OptumHealth;

Ingenix; and

Prescription Solutions.

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The following is a description of the types of products and services from which each of the Company's business segments derives its revenues:

Health Care Services includes the combined results of operations of UnitedHealthcare, Ovations and AmeriChoice because they have similar economic characteristics, products and services, types of customers, distribution methods and operational processes and operate in a similar regulatory environment. These businesses also share significant common assets, including a contracted network of physicians, health care professionals, hospitals and other facilities, information technology infrastructure and other resources. UnitedHealthcare offers a comprehensive array of consumer-oriented health benefit plans and services for large national employers, public sector employers, mid-sized employers, small businesses and individuals nationwide. Ovations provides health and well-being services to individuals age 50 and older, addressing their unique needs for preventive and acute health care services as well as services dealing with chronic disease and other specialized issues for older individuals. AmeriChoice provides network-based health and well-being services to beneficiaries of State Medicaid and Children's Health Insurance Programs (SCHIP) and other government-sponsored health care programs.

OptumHealth provides behavioral benefit solutions, clinical care management, financial services and specialty benefit products such as dental and vision to help consumers navigate the health care system, finance their health care needs and achieve their health and well-being goals.

Ingenix offers database and data management services, software products, publications, consulting services, outsourced services and pharmaceutical consulting and research services in conjunction with the development of pharmaceutical products on a national and an international basis.

Prescription Solutions offers a comprehensive suite of integrated pharmacy benefit management services, including retail network pharmacy management, mail order pharmacy services, specialty pharmacy services, benefit design consultation, drug utilization review, formulary management programs, disease management and compliance and therapy management programs.

Transactions between reporting segments principally consist of sales of pharmacy benefit products and services to Health Care Services customers by Prescription Solutions, certain product offerings sold to Health Care Services customers by OptumHealth, and medical benefits cost, quality and utilization data and predictive modeling sold to Health Care Services by Ingenix. These transactions are recorded at management's estimate of fair value. Intersegment transactions are eliminated in consolidation.

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

The following table presents reporting segment financial information:

| (in millions) | Health Care Services | OptumHealth | Ingenix | Prescription Solutions | Corporate and Intersegment Eliminations | Consolidated |
|---|-------------------------|-------------|---------|---------------------------|---|--------------|
| Three Months Ended June 30, 2009 | | | | | | |
| Revenues external customers: | | | | | | |
| Premiums | \$ 19,167 | \$ 579 | \$ | \$ | \$ | \$ 19,746 |
| Services | 980 | 69 | 248 | 10 | | 1,307 |
| Products | | | 8 | 441 | | 449 |
| Total revenues external customers | 20,147 | 648 | 256 | 451 | | 21,502 |
| Total revenues intersegment | | 691 | 165 | 3,104 | (3,960) | |
| Investment and other income | 135 | 17 | | 1 | | 153 |
| Total revenues | \$ 20,282 | \$ 1,356 | \$ 421 | \$ 3,556 | \$ (3,960) | \$ 21,655 |
| Earnings from operations | \$ 1,073 | \$ 142 | \$ 59 | \$ 166 | \$ | \$ 1,440 |
| Three Months Ended June 30, 2008 | | | | | | |
| Revenues external customers: | | | | | | |
| Premiums | \$ 17,753 | \$ 591 | \$ | \$ | \$ | \$ 18,344 |
| Services | 979 | 71 | 236 | 11 | | 1,297 |
| Products | | | 8 | 383 | | 391 |
| Total revenues external customers | 18,732 | 662 | 244 | 394 | | 20,032 |
| Total revenues intersegment | | 635 | 137 | 2,776 | (3,548) | |
| Investment and other income | 213 | 24 | | 3 | | 240 |
| Total revenues | \$ 18,945 | \$ 1,321 | \$ 381 | \$ 3,173 | \$ (3,548) | \$ 20,272 |
| Earnings from operations | \$ 1,144 | \$ 169 | \$ 49 | \$ 94 | \$ (783) | \$ 673 |
| Six Months Ended June 30, 2009 | | | | | | |
| Revenues external customers: | | | | | | |
| Premiums | \$ 38,707 | \$ 1,150 | \$ | \$ | \$ | \$ 39,857 |
| Services | 1,973 | 139 | 469 | 22 | | 2,603 |
| Products | | | 21 | 867 | | 888 |
| Total revenues external customers | 40,680 | 1,289 | 490 | 889 | | 43,348 |
| Total revenues intersegment | | 1,365 | 316 | 6,203 | (7,884) | |
| Investment and other income | 274 | 34 | | 3 | | 311 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | | | | | | | | | | | |
|---------------------------------------|----|--------|----|-------|----|-----|----|-------|----|---------|----|--------|
| Total revenues | \$ | 40,954 | \$ | 2,688 | \$ | 806 | \$ | 7,095 | \$ | (7,884) | \$ | 43,659 |
| Earnings from operations | \$ | 2,394 | \$ | 300 | \$ | 108 | \$ | 306 | \$ | | \$ | 3,108 |
| Six Months Ended June 30, 2008 | | | | | | | | | | | | |
| Revenues external customers: | | | | | | | | | | | | |
| Premiums | \$ | 35,561 | \$ | 1,172 | \$ | | \$ | | \$ | | \$ | 36,733 |
| Services | | 1,937 | | 156 | | 456 | | 21 | | | | 2,570 |
| Products | | | | | | 22 | | 732 | | | | 754 |
| Total revenues external customers | | 37,498 | | 1,328 | | 478 | | 753 | | | | 40,057 |
| Total revenues intersegment | | | | 1,248 | | 265 | | 5,620 | | (7,133) | | |
| Investment and other income | | 464 | | 49 | | | | 6 | | | | 519 |
| Total revenues | \$ | 37,962 | \$ | 2,625 | \$ | 743 | \$ | 6,379 | \$ | (7,133) | \$ | 40,576 |
| Earnings from operations | \$ | 2,515 | \$ | 366 | \$ | 96 | \$ | 192 | \$ | (783) | \$ | 2,386 |

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

13. Commitments and Contingencies

Commitments

The Company has committed to make a \$91 million charitable contribution to the United Health Foundation. The United Health Foundation expands access to quality health care services for those in challenging circumstances, provides reliable information to support decisions leading to better health outcomes, and partners with others to improve the well-being of communities.

Legal Matters

Legal Matters Relating to Historical Stock Option Practices

Regulatory Inquiries. In March 2006, the Company received an informal inquiry from the SEC relating to its historical stock option practices. On December 19, 2006, the Company received from the SEC staff a formal order of investigation into the Company's historical stock option practices. On December 22, 2008, the Company announced it had reached an agreement to settle the SEC's investigation. Without admitting or denying the SEC's allegations, the Company agreed to a permanent injunction against any future violations of certain reporting, books and records and internal accounting control provisions of the federal securities laws. The U.S. District Court for the District of Minnesota has approved the settlement, entered final judgment and closed the case.

On May 17, 2006, the Company received a subpoena from the U.S. Attorney for the Southern District of New York requesting documents from 1999 to the date of the subpoena relating to its historical stock option practices. The Company has confirmed that the investigation is closed.

On June 6, 2006, the Company received a Civil Investigative Demand from the Minnesota Attorney General requesting documents from January 1, 1997 to the date of the response concerning the Company's executive compensation and historical stock option practices. The Company filed an action in Ramsey County Court, State of Minnesota, captioned *UnitedHealth Group Incorporated vs. State of Minnesota, by Lori Swanson, Attorney General*, seeking a protective order, which was denied. The Company appealed the denial of the protective order to the Minnesota Court of Appeals. On December 4, 2007, the Minnesota Court of Appeals acknowledged limitations on the Minnesota Attorney General's authority to issue a Civil Investigative Demand, but affirmed the denial of a protective order. On February 27, 2008, the Minnesota Supreme Court declined to review the matter, and the Company has since produced relevant and responsive materials.

The Company also received requests for documents from U.S. Congressional committees relating to its historical stock option practices and compensation of executives.

At the conclusion of any unresolved regulatory inquiries, the Company could be subject to regulatory or criminal fines or penalties as well as other sanctions or other contingent liabilities, which could be material.

Litigation Matters. On March 29, 2006, the first of several shareholder derivative actions was filed against certain of the Company's current and former officers and directors in the United States District Court for the District of Minnesota. The action was consolidated with six other actions and captioned *In re UnitedHealth Group Incorporated Shareholder Derivative Litigation*. The consolidated amended complaint was brought on behalf of the Company by several pension funds and other shareholders and names certain of the Company's current and former officers and directors as defendants, as well as the Company as a nominal defendant. The consolidated amended complaint generally alleged that the defendants breached their fiduciary duties to the Company, were unjustly enriched, and violated the securities laws in connection with the Company's historical stock option practices. On June 26, 2006, the Company's Board of Directors created a Special Litigation

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Committee under Minnesota Statute 302A.241, consisting of two former Minnesota Supreme Court Justices, with the power to investigate the claims raised in the derivative actions and shareholder demands, and determine whether the Company's rights and remedies should be pursued.

A consolidated derivative action, captioned *In re UnitedHealth Group Incorporated Derivative Litigation*, was also filed in Hennepin County District Court, State of Minnesota. The action was brought by two individual shareholders and named certain of the Company's current and former officers and directors as defendants, as well as the Company as a nominal defendant.

On December 6, 2007, the Special Litigation Committee concluded its review of claims relating to the Company's historical stock option practices and published a report. The Special Litigation Committee reached settlement agreements on behalf of the Company with its former Chairman and Chief Executive Officer William W. McGuire, M.D., former General Counsel David J. Lubben, and former director William G. Spears. In addition, the Special Litigation Committee concluded that all claims against all named defendants in the derivative actions, including current and former Company officers and directors, should be dismissed. Each settlement agreement is conditioned upon final approval by the federal court and the state court after notice is provided to shareholders and dismissal of claims in the derivative actions. On December 19, 2008, the federal and state courts issued a joint order granting preliminary approval of the proposed settlements. Following notice to shareholders, the federal court granted the motion for final approval of the proposed settlements on July 1, 2009, and entered final judgment dismissing the federal case with prejudice on July 2, 2009. The state court granted the motion for final approval of the proposed settlements and dismissed the state case with prejudice on May 14, 2009, and entered final judgment on July 17, 2009. The federal and state courts also awarded plaintiffs' counsel fees and expenses of \$30 million and \$6 million, respectively, payable by the Company. On July 24, 2009, a shareholder filed a notice of appeal with the U.S. Court of Appeals for the Eighth Circuit indicating his intent to challenge the federal plaintiffs' counsel's fee request and award.

On May 5, 2006, the first of seven putative class actions alleging a violation of the federal securities laws was brought by an individual shareholder against certain of the Company's current and former officers and directors in the United States District Court for the District of Minnesota. On December 8, 2006, a consolidated amended complaint was filed consolidating the actions into a single action. The action is captioned *In re UnitedHealth Group Incorporated PSLRA Litigation*. The action was brought by lead plaintiff California Public Employees Retirement System (CalPERS) against the Company and certain of its current and former officers and directors. The consolidated amended complaint alleges that the defendants, in connection with the same alleged course of conduct identified in the shareholder derivative actions described above, made misrepresentations and omissions during the period between January 20, 2005 and May 17, 2006, in press releases and public filings that artificially inflated the price of the Company's common stock. The consolidated amended complaint also asserts that, during the class period, certain defendants sold shares of the Company's common stock while in possession of material, non-public information concerning the matters set forth in the complaint. The consolidated amended complaint alleges claims under Sections 10(b), 14(a), 20(a) and 20A of the Securities Exchange Act of 1934 and Sections 11 and 15 of the 1933 Act. On March 18, 2008, the court granted plaintiffs' motion for class certification. On July 2, 2008, the Company announced that it had reached an agreement in principle with the lead plaintiff CalPERS and plaintiff class representative Alaska Plumbing and Pipefitting Industry Pension Trust, on behalf of themselves and members of the class, to settle the lawsuit. The proposed settlement will fully resolve all claims against the Company, all current officers and directors of the Company named in the lawsuit, and certain former officers and directors of the Company named in the lawsuit. No parties admit any wrongdoing as part of the proposed settlement. Under the terms of the proposed settlement, the Company has paid \$895 million into a settlement fund for the benefit of class members. In addition to the payment to the settlement fund, the Company will also supplement the substantial changes it has already implemented in its corporate governance policies with

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

additional changes and enhancements. The proposed settlement, which was approved by the boards of directors of CalPERS and the Company, is subject to final court approval. Pursuant to the terms of the proposed settlement, on November 24, 2008, lead counsel for the plaintiffs filed with the court a stipulation of settlement entered into by all parties to the litigation. On December 18, 2008, the court granted preliminary approval of the stipulation of settlement. Notice has been provided to class members, and a final settlement approval hearing took place on March 16, 2009. The parties are awaiting the court's order on the motion for final approval.

On June 6, 2006, a purported class action captioned *Zilhaver v. UnitedHealth Group Incorporated* was filed against the Company and certain of its current and former officers and directors in the United States District Court for the District of Minnesota. This action alleges that the fiduciaries to the Company-sponsored 401(k) plan violated the Employee Retirement Income Security Act (ERISA) by allowing the plan to continue to hold Company stock. The plaintiffs filed a motion to certify a class consisting of certain participants in the Company's 401(k) plan. The defendants moved to dismiss the action on June 22, 2007. The court denied the defendants' motion to dismiss and for partial summary judgment on June 30, 2008. On July 2, 2008, the Company announced it had reached an agreement in principle to resolve this lawsuit. Under the terms of the proposed settlement, the Company paid \$17 million into a settlement fund for the benefit of class members, most of which was covered by the Company's insurance carriers. The proposed settlement will fully resolve all claims against the Company and all of the individual defendants in the action. No parties admit any wrongdoing as part of the proposed settlement. The proposed settlement is subject to final court approval. On January 8, 2009, the court granted preliminary approval of the proposed settlement. A final approval hearing took place on May 8, 2009, and the parties are awaiting the court's order on the motion for final approval.

In addition, the Company may be subject to additional litigation or other proceedings or actions arising out of the Company's historical stock option practices and the related restatement of its historical Consolidated Financial Statements. Litigation and any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of the Company's business. The adverse resolution of any specific lawsuit or any potential regulatory proceeding or action could have a material adverse effect on the Company's business, financial condition and results of operations.

Other Legal Matters

Because of the nature of its businesses, the Company is frequently made party to a variety of legal actions related to the design and management of its service offerings. The Company records liabilities for its estimates of probable costs resulting from these matters. These matters include, but are not limited to, claims relating to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices.

MDL Litigation. Beginning in 1999, a series of class action lawsuits were filed against the Company by health care providers alleging various claims relating to the Company's reimbursement practices, including alleged violations of the Racketeer Influenced Corrupt Organization Act (RICO) and state prompt payment laws and breach of contract claims. Many of these lawsuits were consolidated in a multi-district litigation in the United States District Court for the Southern District of Florida (MDL). In the lead MDL lawsuit, the court certified a class of health care providers for certain of the RICO claims. In 2006, the trial court dismissed all of the claims against the Company in the lead MDL lawsuit, and the Eleventh Circuit Court of Appeals later affirmed that dismissal, leaving eleven related lawsuits that had been stayed during the litigation of the lead MDL lawsuit. In August 2008, the trial court, applying its rulings in the lead MDL lawsuit, dismissed seven of the 11 related lawsuits, and all but one claim in an eighth lawsuit. The plaintiffs have appealed these dismissals to the Eleventh Circuit. The trial court ordered the final claim in the eighth lawsuit to arbitration. In December 2008, at

Table of Contents**UNITEDHEALTH GROUP****NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**

the plaintiffs' request, the trial court dismissed without prejudice one of the three remaining lawsuits. The court also denied the plaintiffs' request to remand the remaining two lawsuits to state court and a federal magistrate judge recommended dismissal of those suits. On April 16, 2009, the plaintiffs in these last two suits filed amended class action complaints alleging breach of contract. In addition, the Company is party to a number of arbitrations in various jurisdictions involving similar claims. The Company is vigorously defending against the remaining claims in these cases.

AMA Litigation. On March 15, 2000, a group of plaintiffs including the American Medical Association (AMA) filed a lawsuit against the Company in state court in New York, which was removed to federal court. The complaint and subsequent amended complaints asserted antitrust claims and claims based on ERISA, as well as breach of contract and the implied covenant of good faith and fair dealing, deceptive acts and practices, and trade libel in connection with the calculation of reasonable and customary reimbursement rates for non-network health care providers by the Company's affiliates. On January 14, 2009, after almost nine years of litigation and many rulings from the court on various motions, the parties announced an agreement to settle the lawsuit, along with a similar case filed in 2008 in federal court in New Jersey. Under the terms of the proposed settlement, the Company and its affiliated entities will be released from claims relating to their out-of-network reimbursement policies from March 15, 1994 through the date of final court approval of the settlement. The Company will pay a total of \$350 million to fund the settlement for health plan members and out-of-network providers in connection with out-of-network procedures performed since March 15, 1994. The agreement contains no admission of wrongdoing. The proposed settlement is subject to preliminary and final court approval. In addition, the Company has the right to terminate the settlement in the event that a certain number of class members elect to opt-out of the settlement. The parties have filed a motion for preliminary approval of the proposed settlement which remains under consideration by the court. Other lawsuits in various jurisdictions relating to the calculation of reasonable and customary reimbursement rates for non-network health care providers remain pending against a number of health insurers, including the Company.

NYAG Investigation. On February 13, 2008, the Office of the Attorney General of the State of New York (NYAG) announced that it was conducting an industry-wide investigation into out-of-network provider reimbursement practices of health insurers, including the Company, and served the Company with a notice of intent to initiate litigation. On January 13, 2009, the Company announced it had reached an agreement with the NYAG regarding the investigation. Under the terms of the agreement, the Company will pay \$50 million to fund a not-for-profit entity to develop and own a new, independent database product to replace the Prevailing Health Charges System (PHCS) and Medical Data Research (MDR) database products owned by Ingenix, Inc. Both products are used by a number of health plans and employers as tools that help determine the amount to reimburse members who receive physician services outside their managed care networks. When the new database product is ready, the Company will cease using the PHCS and MDR databases and will use the new database for a period of at least five years in connection with out-of-network reimbursement in those benefit plans that employ a reasonable and customary standard for out-of-network reimbursements. Following the announcement of the NYAG settlement, the U.S. Senate Commerce Committee initiated an investigation of out-of-network reimbursement practices of health insurers, requesting information from the Company and other health insurers relating to, among other things, out-of-network benefit determinations for federal employees. The committee convened a hearing in March 2009, after which certain committee members requested additional information. The Company has responded to these requests. A number of state regulators have also issued subpoenas and requests to the Company and other health insurers relating to the NYAG settlement and the PHCS and MDR databases.

Shareholder Derivative Litigation. On January 16, 2009, a shareholder derivative action was filed against certain of the Company's current and former directors and officers and PacifiCare Health Systems in the Orange County,

Table of Contents

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

California, Superior Court. The complaint generally alleges that the defendants breached their fiduciary duties to the Company and were unjustly enriched by failing to prevent and remedy certain alleged claims processing and payment regulatory violations, including violations allegedly associated with the integration of PacifiCare. On June 25, 2009, the court dismissed the case without prejudice on personal jurisdiction and venue grounds.

California Claims Processing Matter. As previously disclosed, in 2007, the California Department of Insurance examined the Company's PacifiCare health insurance plan in California. The examination findings related to claims processing accuracy and timeliness; accurate and timely interest payments; timely implementation of provider contracts; timely, accurate provider dispute resolution; and other related matters. On January 25, 2008, the California Department of Insurance (CDI) issued an Order to Show Cause to PacifiCare Life and Health Insurance Company, a subsidiary of the Company, alleging violations of certain insurance statutes and regulations in connection with claims processing and implementation of provider contracts, and other related activity. On June 3, 2009, the Company filed a Notice of Defense to the Order to Show Cause denying all material allegations and asserting certain defenses. The matter is now the subject of an administrative proceeding before an administrative law judge and the parties are engaged in discovery. On June 9, 2009, the Company filed a separate civil action against the CDI in the Los Angeles Superior Court challenging the interpretation and application of certain insurance regulations implicated by the Order to Show Cause.

Government Regulation

The Company's business is regulated at federal, state, local and international levels. The laws and rules governing the Company's business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. State legislatures and Congress continue to focus on health care issues as the subject of proposed legislation. Existing or future laws and rules could force us to change how the Company does business, restrict revenue and enrollment growth, increase the Company's health care and administrative costs and capital requirements, and increase the Company's liability in federal and state courts for coverage determinations, contract interpretation and other actions. Further, the Company must obtain and maintain regulatory approvals to market and sell many of its products.

The Company has been and is currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments, state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, U.S. Congressional committees, the U.S. Department of Justice, U.S. Attorneys, the SEC, the IRS, the U.S. Department of Labor and other governmental authorities.

For example, in 2008, CMS conducted an inquiry of the Ovations Medicare Advantage and Prescription Drug Plan broker oversight program. In March 2009, CMS alleged certain deficiencies in that program and conducted a follow-up review in July 2009. The Company is working diligently to address CMS' concerns.

Other examples of audits include a review by the U.S. Department of Labor of the Company's administration of applicable customer employee benefit plans with respect to ERISA compliance and audits of the Company's Medicare health plans to validate the coding practices of and supporting documentation maintained by its care providers and an audit of Medicare Part D Plan bids by the U.S. Department of Health and Human Services.

Such government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs and could have a material adverse effect on the Company's financial results. The coding audits may result in retrospective or prospective adjustments to payments made to health plans pursuant to CMS Medicare contracts.

Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion should be read together with the accompanying Condensed Consolidated Financial Statements and Notes. References to the terms we, our or us used throughout this Management's Discussion and Analysis of Financial Condition and Results of Operations refer to UnitedHealth Group Incorporated and its subsidiaries.

EXECUTIVE OVERVIEW

General

We are a diversified health and well-being company, serving more than 70 million Americans. Our focus is on enhancing the performance of the health system and improving the overall health and well-being of the people we serve and their communities. We work with health care professionals and other key partners to expand access to high quality health care. We help people get the care they need at an affordable cost, support the physician/patient relationship, and empower people with the information, guidance and tools they need to make personal health choices and decisions.

Through our diversified family of businesses, we leverage core competencies in advanced technology-based transactional capabilities; health care data, knowledge and information; and health care resource organization and care facilitation to make health care work better. These core competencies are focused in two market areas, health benefits and health services. Health benefits are offered in the individual and employer markets and the public and senior markets through our UnitedHealthcare, Ovations and AmeriChoice businesses. Health services are provided to the participants in the health system itself, ranging from employers and health plans to physicians and life sciences companies through our OptumHealth, Ingenix and Prescription Solutions businesses. In aggregate, these businesses have more than two dozen distinct business units that address specific end markets. Each of these business units focuses on the key goals in health and well-being: access, affordability, quality and simplicity as they apply to their specific market.

Revenues

Our revenues are primarily comprised of premiums derived from risk-based health insurance arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding our customers' health care benefits and related administrative costs. We also generate revenues from services performed for customers that self-insure the medical costs of their employees and employees dependants. For both risk-based and fee-based health care benefit arrangements, we provide coordination and facilitation of medical services; transaction processing; health care professional services; and access to contracted networks of physicians, hospitals and other health care professionals. Service revenues are also generated from Ingenix health intelligence and contract research businesses. Product revenues are mainly comprised of products sold by our Prescription Solutions pharmacy benefit management business and also include sales of Ingenix publishing and software products. Investment income is derived primarily from interest earned on our investments in fixed income and debt securities. Gains or losses are included in revenues when the securities are sold, or other-than-temporarily impaired.

Operating Costs

Medical Costs. Our operating results depend in large part on our ability to effectively estimate, price for and manage our medical costs through underwriting criteria, product design, negotiation of favorable provider contracts and medical management programs. Controlling medical costs requires a comprehensive and integrated approach to organize and advance the full range of interrelationships among patients/consumers, health professionals, hospitals, pharmaceutical/technology manufacturers and other key stakeholders.

Table of Contents

Medical costs 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 nor processed claims, and for liabilities for physician, hospital and other medical cost disputes. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

Our medical care ratio, calculated as medical costs as a percentage of premium revenues, reflects the combination of pricing, benefit designs, consumer health care utilization and comprehensive care facilitation efforts. We seek to sustain a stable medical care ratio for an equivalent mix of business, however, changes in business mix, such as expanding participation in comparatively higher medical care ratio government-sponsored public sector programs, will change the dynamics of our results.

Operating Costs. Operating costs are primarily comprised of costs related to employee compensation and benefits, agent and broker commissions, premium taxes and assessments, professional fees, advertising and occupancy costs.

Cash Flows

Cash flows generated from operating activities are principally from net earnings, prior to depreciation and amortization and other non-cash expenses. Our regulated subsidiaries generate significant cash flows from operations. Cash in excess of the capital needs of our regulated entities is paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations. Our non-regulated businesses also generate significant cash flows from operations for general corporate use. We reinvest cash flows in our businesses by making capital expenditures, expanding our services through business acquisitions and repurchasing shares of our common stock, depending on market conditions.

Business Trends

Our businesses participate in the U.S. health economy, which comprises approximately 16% of gross domestic product and which has grown consistently for many years. Management expects overall spending on health care in the U.S. to continue to rise in the future, based on inflation, demographic trends in the U.S. population and national interest in health and well-being. The rate of market growth may be impacted by a variety of factors, including macro-economic conditions and proposed health care reforms, which could also impact our results of operations.

Adverse Economic Conditions. The current U.S. recessionary economic environment has impacted demand for certain of our products and services. For example, decreases in employment have reduced the number of workers and dependants offered health care benefits by our employer customers, putting pressure on top line growth for our UnitedHealthcare and OptumHealth businesses. This workplace attrition contributed nearly 50% of the 5% decrease in UnitedHealthcare's commercial membership in the first half of 2009, and this trend is expected to continue at a generally elevated level until employment stabilizes. In contrast, our AmeriChoice business has seen increased participation in its state Medicaid offerings as employment rates fall. If the recessionary economic environment continues for a prolonged period, federal and state governments may decrease funding for various health care government programs in which we participate and/or impose new or higher levels of taxes or assessments. Our revenues are also impacted by U.S. monetary and fiscal policy. Currently, the U.S. Federal Reserve has decreased the target federal funds rate to a range of zero to 25 basis points. As of June 30, 2009, our \$21.3 billion portfolio of cash and investments is generally composed of high quality securities and cash, and has a relatively short aggregate duration. Changes in federal monetary policy have reduced the level of investment income received from this portfolio on a year-over-year basis.

In total, management believes that economic recessions will slow our revenue growth rate and could impact our operating profitability. Management also believes that government funding pressure, coupled with recessionary

Table of Contents

economic conditions, will impact the financial positions of hospitals, physicians and other care providers and could therefore increase medical cost trends experienced by our businesses. For additional discussions regarding how a prolonged economic downturn could affect our business, see Item 1A. Risk Factors in Part I of our 2008 10-K, as amended, for the year ended December 31, 2008 as filed with the U.S. Securities and Exchange Commission (SEC) (2008 10-K).

American Recovery and Reinvestment Act. Our businesses may benefit from elements of the federal economic stimulus package that was enacted in response to the current recession. These elements include expansion of funding to state programs, which could mitigate funding pressure for AmeriChoice Medicaid offerings at the state level, and funding for health care information technology, which could expand market opportunities for Ingenix.

Proposed Health Care Reforms and Reimbursement Changes. There is regular dialogue about health care reforms at both state and national levels, due to the size of and national interest in the health economy. Examples of health care reform proposals include policy changes that would change the dynamics of the health care industry, including having the federal or one or more state governments assume a larger role in the health care system such as competing with private health insurers, imposing new taxes on health insurers, or restructuring of the Medicare or Medicaid programs. Any health care reforms enacted may be phased in over a number of years, but, if enacted, could increase our costs, expose us to expanded liability and require us to revise the ways in which we conduct business or put us at risk for loss of business. In addition, our operating results, financial position and cash flows could be materially adversely affected by such changes even if we correctly predict their occurrence.

The new administration and various congressional leaders have expressed their interest in reducing payments to private plans offering Medicare Advantage over the intermediate term. Further, Centers for Medicare and Medicaid Services (CMS) has announced a reduction in Medicare Advantage reimbursements of approximately 5% for 2010. Management believes that there are a number of annual adjustments we can make to our operations which may serve to partially offset any impact from these rate reductions. For example, we can adjust members' benefits and/or premiums, decide on a county-by-county basis which geographies to participate in and seek to intensify our medical and operating cost management. There can be no assurance that we will be able to successfully execute on these or other strategies to address changes in the Medicare Advantage program. The reduction of payments to private plans may also cause declines in the number of seniors participating in Medicare Advantage and the industry-wide revenues and earnings derived from these plans. Our operating results, financial position and cash flows could be materially adversely affected by such declines. If industry-wide Medicare Advantage membership declines, there is likely to be increased demand for Medicare Supplemental insurance and Part D prescription drug coverage, and in both categories Ovation is a market leader.

We operate a diversified set of health care focused businesses; this business model has been intentionally designed to address a multitude of market sectors. Therefore, we could see simultaneous increases and decreases in demand for our various products and services, depending on the scope, shape and timing of health care reforms. It is difficult to predict the outcome of reform discussions with precision over the mid- to long-term time horizon. For additional discussions regarding our risks related to health care reforms and Medicare Advantage reimbursement changes, see Item 1A. Risk Factors in Part I of our 2008 10-K.

Table of Contents**RESULTS SUMMARY**

| (in millions, except percentages and per share data) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|--|-----------------------------|---------------|---|-------------|---------------------------|-----------------|---|------------|
| | 2009 | 2008 | Increase (Decrease) 2009 vs. 2008 | | 2009 | 2008 | Increase (Decrease) 2009 vs. 2008 | |
| Revenues: | | | | | | | | |
| Premiums | \$ 19,746 | \$ 18,344 | \$ 1,402 | 8% | \$ 39,857 | \$ 36,733 | \$ 3,124 | 9% |
| Services | 1,307 | 1,297 | 10 | 1 | 2,603 | 2,570 | 33 | 1 |
| Products | 449 | 391 | 58 | 15 | 888 | 754 | 134 | 18 |
| Investment and other income | 153 | 240 | (87) | (36) | 311 | 519 | (208) | (40) |
| Total revenues | 21,655 | 20,272 | 1,383 | 7 | 43,659 | 40,576 | 3,083 | 8 |
| Operating costs: | | | | | | | | |
| Medical costs | 16,507 | 15,257 | 1,250 | 8 | 33,077 | 30,401 | 2,676 | 9 |
| Medical care ratio | 83.6% | 83.2% | | 0.4 | 83.0% | 82.8% | | 0.2 |
| Operating costs | 3,037 | 3,746 | (709) | (19) | 6,165 | 6,643 | (478) | (7) |
| Operating cost ratio | 14.0% | 18.5% | | (4.5) | 14.1% | 16.4% | | (2.3) |
| Cost of products sold | 422 | 353 | 69 | 20 | 826 | 678 | 148 | 22 |
| Depreciation and amortization | 249 | 243 | 6 | 2 | 483 | 468 | 15 | 3 |
| Total operating costs | 20,215 | 19,599 | 616 | 3 | 40,551 | 38,190 | 2,361 | 6 |
| Earnings from operations | 1,440 | 673 | 767 | 114 | 3,108 | 2,386 | 722 | 30 |
| Operating margin | 6.6% | 3.3% | | 3.3 | 7.1% | 5.9% | | 1.2 |
| Interest expense | (139) | (164) | (25) | (15) | (270) | (318) | (48) | (15) |
| Earnings before income taxes | 1,301 | 509 | 792 | 156 | 2,838 | 2,068 | 770 | 37 |
| Provision for income taxes | (442) | (172) | 270 | 157 | (995) | (737) | 258 | 35 |
| Tax rate | 34.0% | 33.8% | | 0.2 | 35.1% | 35.6% | | (0.5) |
| Net earnings | \$ 859 | \$ 337 | \$ 522 | 155% | \$ 1,843 | \$ 1,331 | \$ 512 | 38% |
| Diluted net earnings per common share | \$ 0.73 | \$ 0.27 | \$ 0.46 | 170% | \$ 1.54 | \$ 1.05 | \$ 0.49 | 47% |
| Return on equity | 16.0% | 6.9% | | 9.1% | 17.4% | 13.5% | | 3.9% |
| Total people served | 71 | 73 | (2) | (3)% | | | | |

RESULTS OF OPERATIONS**Consolidated Financial Results****Revenues**

Consolidated revenues for the three and six months ended June 30, 2009 increased over the comparable 2008 periods primarily due to the increase in premium revenues in the Health Care Services reporting segment.

Premium Revenues. The increases in premium revenues for both the three and six months ended June 30, 2009 over the comparable 2008 periods were primarily due to strong organic growth in risk-based offerings in our public and senior markets businesses and premium rate increases in response to growth in underlying medical costs. The effect of 2008 Health Care Services acquisitions also contributed to the increase in premium revenues in the six month period.

Product Revenues. Product revenues for the three and six months ended June 30, 2009 increased over the comparable 2008 periods due to increased prescription volume at our Prescription Solutions reporting segment.

Table of Contents

Investment and Other Income. The decreases in investment and other income for both the three and six months ended June 30, 2009 over the comparable 2008 periods were primarily due to capital market conditions causing lower investment yields and a decrease in realized gains.

Medical Costs

Medical costs for the three and six months ended June 30, 2009 increased primarily due to growth in public and senior markets risk-based businesses, medical cost inflation and increased utilization of medical services.

For each period, our operating results include the effects of revisions in medical cost estimates related to all prior periods. Changes in medical cost estimates related to prior periods, resulting from more complete claim information identified in the current period, are included in total medical costs reported for the current period. For the three months ended June 30, 2009, there was no net favorable medical cost development related to prior fiscal years and \$30 million of net favorable medical cost development related to the first quarter of 2009. For the three months ended June 30, 2008, there was no net medical cost development related to prior fiscal years or related to the first quarter of 2008. For the six months ended June 30, 2009 and 2008, medical costs included \$200 million of net favorable medical cost development related to prior fiscal years.

Operating Costs

Operating costs decreased in 2009 for both the three and six month periods primarily due to the effect of certain expenses incurred in the second quarter of 2008 as discussed below and productivity improvements to our underlying cost structure, partially offset by increased costs due to retroactive and current state insurance premium assessments and the impact of 2008 acquisitions.

Operating costs for the three and six months ended June 30, 2008 included pre-tax Operating Costs of \$922 million for settlement of two class action lawsuits related to our historical stock option practices and related legal costs, and \$46 million for employee severance related to operating cost reduction initiatives and other items, partially offset by a \$185 million reduction in operating costs for proceeds from the sale of certain assets and membership in the individual Medicare Advantage business in Nevada in May 2008.

Cost of Products Sold

Cost of products sold for the three and six months ended June 30, 2009 increased over the comparable 2008 periods due to increased prescription volume at our Prescription Solutions reporting segment.

Interest Expense

Interest expense for the three and six months ended June 30, 2009 decreased over the comparable 2008 periods primarily due to reduced levels in our debt outstanding and lower market interest rates on our floating-rate debt.

Reporting Segments

We have four reporting segments:

Health Care Services, which includes UnitedHealthcare, Ovations and AmeriChoice;

OptumHealth;

Ingenix; and

Prescription Solutions.

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

See Note 12 of Notes to the Condensed Consolidated Financial Statements for a description of the types and services from which each of these reporting segments derives its revenues.

Table of Contents

Transactions between reporting segments principally consist of sales of pharmacy benefit products and services to Health Care Services customers by Prescription Solutions, certain product offerings sold to Health Care Services customers by OptumHealth, and consulting and other services sold to Health Care Services by Ingenix. These transactions are recorded at management's estimate of fair value. Intersegment transactions are eliminated in consolidation.

The following summarizes the operating results of our reporting segments for the three and six months ended June 30, 2009 and 2008:

| (in millions, except percentages) | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---------------------------------------|-----------------------------|-----------|---|------|---------------------------|-----------|---|------|
| | 2009 | 2008 | Increase (Decrease) 2009 vs. 2008 | | 2009 | 2008 | Increase (Decrease) 2009 vs. 2008 | |
| Revenues | | | | | | | | |
| Health Care Services | \$ 20,282 | \$ 18,945 | \$ 1,337 | 7% | \$ 40,954 | \$ 37,962 | \$ 2,992 | 8% |
| OptumHealth | 1,356 | 1,321 | 35 | 3 | 2,688 | 2,625 | 63 | 2 |
| Ingenix | 421 | 381 | 40 | 10 | 806 | 743 | 63 | 8 |
| Prescription Solutions | 3,556 | 3,173 | 383 | 12 | 7,095 | 6,379 | 716 | 11 |
| Eliminations | (3,960) | (3,548) | (412) | nm | (7,884) | (7,133) | (751) | nm |
| Consolidated revenues | \$ 21,655 | \$ 20,272 | \$ 1,383 | 7% | \$ 43,659 | \$ 40,576 | \$ 3,083 | 8% |
| Earnings from operations | | | | | | | | |
| Health Care Services | \$ 1,073 | \$ 1,144 | \$ (71) | (6)% | \$ 2,394 | \$ 2,515 | \$ (121) | (5)% |
| OptumHealth | 142 | 169 | (27) | (16) | 300 | 366 | (66) | (18) |
| Ingenix | 59 | 49 | 10 | 20 | 108 | 96 | 12 | 13 |
| Prescription Solutions | 166 | 94 | 72 | 77 | 306 | 192 | 114 | 59 |
| Corporate | | (783) | 783 | nm | | (783) | 783 | nm |
| Consolidated earnings from operations | \$ 1,440 | \$ 673 | \$ 767 | 114% | \$ 3,108 | \$ 2,386 | \$ 722 | 30% |
| Operating margin | | | | | | | | |
| Health Care Services | 5.3% | 6.0% | (0.7)% | | 5.8% | 6.6% | (0.8)% | |
| OptumHealth | 10.5 | 12.8 | (2.3) | | 11.2 | 13.9 | (2.7) | |
| Ingenix | 14.0 | 12.9 | 1.1 | | 13.4 | 12.9 | 0.5 | |
| Prescription Solutions | 4.7 | 3.0 | 1.7 | | 4.3 | 3.0 | 1.3 | |
| Consolidated operating margin | 6.6% | 3.3% | 3.3% | | 7.1% | 5.9% | 1.2% | |

nm = not meaningful

The following summarizes the number of individuals served, by major market segment and funding arrangement, as of June 30, 2009 and 2008:

| (in thousands, except percentages) | 2009 | 2008 | Increase (Decrease) 2009 vs. 2008 | |
|------------------------------------|--------|--------|---|------|
| Commercial risk-based | 9,655 | 10,490 | (835) | (8)% |
| Commercial fee-based | 15,375 | 16,000 | (625) | (4) |
| Total commercial | 25,030 | 26,490 | (1,460) | (6) |
| Medicare Advantage | 1,740 | 1,455 | 285 | 20 |

Edgar Filing: UNITEDHEALTH GROUP INC - Form 10-Q

| | | | | |
|---|--------------|--------------|------------|-----------|
| Medicaid | 2,750 | 2,255 | 495 | 22 |
| Standardized Medicare supplement | 2,625 | 2,475 | 150 | 6 |
| Total Public and Senior | 7,115 | 6,185 | 930 | 15 |
| Total Health Care Services medical benefits | 32,145 | 32,675 | (530) | (2)% |

Table of Contents***Health Care Services***

The revenue growth in Health Care Services for the three and six months ended June 30, 2009 was primarily due to premium rate increases and growth in the number of individuals served by our public and senior markets businesses, partially offset by a decline in individuals served through commercial products and a decrease in investment and other income. UnitedHealthcare revenues of \$10.3 billion and \$20.6 billion for the three and six months ended June 30, 2009, respectively, were essentially flat compared to the comparable 2008 periods as the reduction in consumers served was offset by premium rate increases. Ovation revenues of \$8.0 billion and \$16.4 billion for the three and six months ended June 30, 2009, respectively, increased over the comparable 2008 periods by \$928 million, or 13%, and \$1.9 billion, or 13%. The increases were primarily due to an increase in individuals served through Medicare Part D, Medicare Advantage and standardized Medicare Supplement offerings, as well as premium rate increases. AmeriChoice generated revenues of \$2.0 billion and \$4.0 billion for the three and six months ended June 30, 2009, respectively, an increase of \$632 million, or 45%, and \$1.3 billion, or 51%, over the comparable 2008 periods, primarily due to the impact of a 2008 acquisition, an increase in the number of individuals served by Medicaid plans and premium rate increases.

The decreases in Health Care Services earnings from operations for the three and six months ended June 30, 2009 over the comparable 2008 periods were primarily due to the three and six month year-over-year decreases in investment and other income for this reporting segment of \$78 million and \$190 million, respectively. The UnitedHealthcare medical care ratio increased to 84.2% from 83.8% for the three months ended June 30, 2009 and 2008, respectively, largely due to elevated medical costs related to the H1N1 influenza virus. The UnitedHealthcare medical care ratio for the six months ended June 30, 2009 and 2008 decreased to 82.8% from 83.2%, respectively, primarily due to the net favorable change in prior period reserve development as well as the impact of Leap Year in 2008. Health Care Services' operating margins for the three and six months ended June 30, 2009 decreased from the comparable 2008 operating margins due to decreases in investment income and the growth in comparatively lower margin public and senior markets businesses.

OptumHealth

Increased revenues in OptumHealth for the three and six months ended June 30, 2009 were driven by new business development in large scale care and behavioral health programs for state clients and increased sales of benefits and services to existing clients, offset by a decline in individuals served through commercial products. As of June 30, 2009, OptumHealth provided services to approximately 58 million consumers.

Earnings from operations and operating margins for the three and six months ended June 30, 2009 decreased due to the decrease in membership described above, the cost of an increase in the usage of dental services, a reduction of investment and other income and a higher mix of lower margin public sector business.

Ingenix

Improvements in Ingenix revenues and earnings from operations for the three and six months ended June 30, 2009 were primarily due to the impact of new internal service offerings and the effect of 2008 acquisitions. The increases in operating margins for the three and six months ended June 30, 2009 were primarily due to operating leverage from revenue growth coupled with effective cost management.

Prescription Solutions

The increased Prescription Solutions revenues for the three and six months ended June 30, 2009 were primarily due to growth in customers served through Medicare Part D prescription drug plans by our Ovation business. Intersegment revenues eliminated in consolidation were \$3.1 billion and \$6.2 billion for the three and six months ended June 30, 2009, respectively. The comparable eliminations for the three and six months ended June 30, 2008 were \$2.8 billion and \$5.6 billion, respectively.

Table of Contents

Prescription Solutions earnings from operations for the three and six months ended June 30, 2009 increased primarily due to prescription volume growth, improved drug purchasing, gains in mail service drug fulfillment and a continuing favorable mix shift to generic pharmaceuticals.

LIQUIDITY, FINANCIAL CONDITION AND CAPITAL RESOURCES

Liquidity and Financial Condition

We manage our liquidity and financial position in the context of our overall business strategy. We continually forecast and manage our cash, investments and capital structure to meet the short- and long-term obligations of our business while maintaining liquidity and financial flexibility.

Our regulated subsidiaries generate significant cash flows from operations. A majority of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest cash of regulated subsidiaries that exceeds our expected short-term obligations in longer term, investment-grade, marketable debt securities to improve our overall investment return. These investments are made pursuant to our Board of Directors' approved investment policy, which focuses on preservation of capital, diversification and portfolio duration. It also generally governs return objectives, regulatory limitations, tax implications and risk tolerances. Cash in excess of the capital needs of our regulated entities is paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate significant cash flows from operations for general corporate use. Cash flows generated by these entities, combined with dividends from our regulated entities and financing through the issuance of commercial paper and long-term debt, as well as the availability of our committed credit facility, further strengthen our operating and financial flexibility. We generally use these cash flows to reinvest in our businesses by making capital expenditures, expanding our services through business acquisitions, repaying debt and/or repurchasing shares of our common stock, depending on market conditions.

Cash flows generated from operating activities are principally from net earnings, prior to depreciation and amortization and other non-cash expenses. As a result, any future decline in our profitability may have a negative impact on our liquidity. The level of profitability of our risk-based business depends in large part on our ability to accurately predict and price for health care and operating cost increases. This risk is partially mitigated by the diversity of our other businesses, the geographic and customer diversity of our risk-based business and our disciplined underwriting and pricing processes, which seek to match premium rate increases with future expected health care costs.

Table of Contents

A summary of our major sources and uses of cash is reflected in the table below:

| (in millions) | Six Months Ended June 30, | |
|---|---------------------------|-------------------|
| | 2009 | 2008 |
| Sources of cash: | | |
| Cash provided by operating activities | \$ 1,604 | \$ 880 |
| Sales of investments | 2,635 | 3,746 |
| Maturities of investments | 1,296 | 1,866 |
| Issuance of long-term debt | | 2,981 |
| Interest rate swap termination | 513 | |
| Other | 884 | 943 |
| Total sources of cash | 6,932 | 10,416 |
| Uses of cash: | | |
| Purchases of investments | (3,710) | (6,555) |
| Cash paid for acquisitions, net of cash assumed | (400) | (3,897) |
| Retirement of long-term debt | (900) | (500) |
| Common stock repurchases | (1,504) | (2,052) |
| Other | (597) | (1,004) |
| Total uses of cash | (7,111) | (14,008) |
| Net decrease in cash | \$ (179) | \$ (3,592) |

Cash flows from operating activities increased \$724 million, or 82%, year-over-year for the six months ended June 30, 2009, primarily due to the increase in net earnings and the increase in medical payables driven by membership growth in risk-based products in the public and senior markets businesses. Additionally, less taxes were paid in 2009 due to tax law changes which took effect in 2008. The first six months of 2008 included 2007 taxes due under the prior tax law, while the 2009 payment did not include prior year amounts.

Cash flows used for investing activities decreased \$4.6 billion, or 90%, year-over-year for the six months ended June 30, 2009 primarily due to acquisitions completed in the first six months of 2008 and decreases in the usage of cash in 2009 for purchases of investments which more than offset the 2009 decreases in sales and maturities of investments.

Cash flows used for financing activities were \$1.3 billion compared to cash flows from financing activities of \$598 million for the six months ended June 30, 2009 and 2008, respectively. The change in cash flows was primarily due to the issuance of long-term debt in 2008 which was partially offset by decreases in common stock repurchases in 2009 and the 2009 proceeds from our terminated interest rate swap contracts.

As of June 30, 2009, our cash, cash equivalent and available-for-sale investment balances of \$21.1 billion included \$7.2 billion of cash and cash equivalents, \$13.4 billion of debt securities and \$498 million of equity securities and venture capital funds. Given the significant portion of our portfolio held in cash equivalents, we do not anticipate fluctuations in the aggregate fair value of our financial assets to have a material impact on our liquidity. The use of different market assumptions or valuation methodologies, primarily used in valuing our Level 3 equity securities, may have an effect on the estimated fair value amounts of our investments. Due to the subjective nature of these assumptions, the estimates may not be indicative of the actual exit price if the investment was sold at the measurement date. Other sources of liquidity, primarily from operating cash flows, reduce the need to sell investments in adverse markets. See Note 3 of Notes to the Condensed Consolidated Financial Statements for further detail of our fair value measurements.

Our investment portfolio has a relatively short average duration and a weighted average credit rating of AA as of June 30, 2009. Included in the debt securities balance were \$3.2 billion of state and municipal obligations that

Table of Contents

are guaranteed by third parties. The securities are guaranteed by a number of different guarantors, and we do not have any significant exposure to any single guarantor (neither indirect through the guarantees, nor direct through investment in the guarantor). Further, due to the high underlying credit rating of the issuers, the weighted average credit rating of these securities both with and without the guarantee is AA as of June 30, 2009 for the securities for which such information is available.

Commercial Paper. Commercial paper consists of senior unsecured debt sold on a discounted basis with maturities of up to 270 days. As of June 30, 2009, we had \$60 million of outstanding commercial paper with interest rates ranging from 0.9% to 1.0%. This range in rates reflects decreases in the market rates for Tier-2 credit-rated commercial paper.

Share Repurchases. Under our Board of Directors' authorization, we maintain a common share repurchase program. Repurchases may be made from time to time at prevailing prices in the open market. For the six months ended June 30, 2009, we repurchased 64.1 million shares at an average price of approximately \$23 per share and an aggregate cost of \$1.5 billion. As of June 30, 2009, we had Board of Directors' authorization to purchase up to an additional 38.8 million shares of our common stock.

Capital Resources

As of June 30, 2009 and December 31, 2008, we had commercial paper and long-term debt outstanding of \$11.7 billion and \$12.8 billion, respectively.

The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, credit ratings, debt covenants and other contractual restrictions, regulatory requirements and economic and market conditions. For example, a significant downgrade in our credit ratings or conditions in the capital markets may increase the cost of borrowing for us or limit our access to capital. We have therefore adopted strategies and actions toward maintaining financial flexibility to mitigate the impact of such factors on our ability to raise capital.

Cash, Cash Equivalents and Investments. We maintained a highly liquid position, with cash, cash equivalents and investments of \$21.3 billion as of June 30, 2009. As further described under Dividend Restrictions, many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. As of June 30, 2009, \$665 million of our \$21.3 billion of cash and investments was held by non-regulated subsidiaries and was available for general corporate use.

Shelf Registration. In February 2008, we filed a universal S-3 shelf registration statement with the SEC registering an unlimited amount of debt securities.

Credit Ratings. Our credit ratings at June 30, 2009 were as follows:

| | Moody's | | Standard & Poor's | | Fitch | |
|-----------------------|---------|---------|-------------------|----------|---------|----------|
| | Ratings | Outlook | Ratings | Outlook | Ratings | Outlook |
| Senior unsecured debt | Baa1 | Stable | A- | Negative | A- | Negative |
| Commercial paper | P-2 | n/a | A-2 | n/a | F1 | n/a |

Debt Covenants. Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 50%. Our 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, was 35.2% and 38.1% as of June 30, 2009 and December 31, 2008, respectively. We were in compliance with the requirements of all debt covenants as of June 30, 2009.

Table of Contents

Bank Credit Facilities. In November 2008, we entered into a \$750 million 364-day revolving bank credit facility. The interest rate is variable based on term and amount and is calculated based on the London Interbank Offered Rate (LIBOR) plus a spread. At June 30, 2009, the interest rate on this facility, had it been drawn, would have ranged from 1.7% to 2.1%. As of June 30, 2009, we had no amounts outstanding under this credit facility and based upon current and expected liquidity and cash flows, we terminated this revolving credit facility in advance of maturity on July 31, 2009.

In May 2007, we amended and restated our \$1.3 billion five-year revolving bank credit facility which included increasing the capacity. There is currently \$2.5 billion available under this credit facility which matures in May 2012. The interest rate is variable based on term and amount and is calculated based on LIBOR plus a spread. At June 30, 2009, the interest rate on this facility, had it been drawn, would have ranged from 0.5% to 1.4%. This credit facility supports our commercial paper program and is available for general working capital purposes. As of June 30, 2009, we had no amounts outstanding under this credit facility.

Dividend Restrictions. We conduct a significant portion of our operations through subsidiaries that are subject to regulations and standards established by their respective states of domicile. Most of these regulations and standards conform to those established by the National Association of Insurance Commissioners. These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity's level of statutory net income and statutory capital and surplus.

An inability of our regulated subsidiaries to pay dividends to their parent companies could impact our level of reinvestment in our business through capital expenditures, business acquisitions and the repurchase of shares of our common stock. In addition, an inability to pay regulated dividends could impact our ability to repay our debt; however, our cash flows from operations of our unregulated businesses, as well as liquidity at the parent level in the form of cash and cash equivalent balances and commercial paper or bank funding, mitigate this risk. See Item 1A. Risk Factors in Part I of our 2008 10-K, for a discussion of our risks related to dividend restrictions on our regulated subsidiaries.

In 2009, based on the 2008 statutory net income and statutory capital and surplus levels, the maximum amount of dividends which could be paid without prior regulatory approval is \$3.1 billion, of which our regulated subsidiaries have paid their parent companies dividends of \$1.4 billion through June 30, 2009. In 2008, the maximum amount of dividends which could be paid without prior regulatory approval was \$3.0 billion. For the year ended December 31, 2008, our regulated subsidiaries paid their parent companies dividends of \$4.2 billion, including \$1.2 billion of extraordinary dividends approved by state insurance regulators.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

A summary of future obligations under our various contractual obligations and commitments as of December 31, 2008 was disclosed in our 2008 10-K. During the six months ended June 30, 2009, there were no material changes outside the ordinary course of business. However, we continually evaluate opportunities to expand our operations, including internal development of new products, programs and technology applications and acquisitions.

OFF-BALANCE SHEET ARRANGEMENTS

We do not participate or knowingly seek to participate in transactions that generate relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities (SPEs), which would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes. As of June 30, 2009, we did not have ownership interests in or structure off-balance sheet arrangements with SPEs.

Table of Contents

CRITICAL ACCOUNTING ESTIMATES

We prepared our Condensed Consolidated Financial Statements in conformity with U.S. Generally Accepted Accounting Principles. In preparing these Condensed Consolidated Financial Statements, we are required to make judgments, assumptions and estimates, which we believe are reasonable and prudent based on the available facts and circumstances. These judgments, assumptions and estimates affect certain of our revenues and expenses and their related balance sheet accounts and disclosure of our contingent liabilities. We base our assumptions and estimates primarily on historical experience and trends and factor in known and projected trends. On an on-going basis, we re-evaluate our selection of assumptions and the method of calculating our estimates. Actual results, however, may materially differ from our calculated estimates and this difference would be reported in our current operations.

For a detailed description of our critical accounting estimates, see Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in Part II of our 2008 10-K. As of June 30, 2009, our critical accounting policies have not changed from those described in our 2008 10-K except as disclosed in Note 2 of Notes to the Condensed Consolidated Financial Statements relating to recently adopted accounting standards. For a detailed discussion of our significant accounting policies, see Note 2 of Notes to the Consolidated Financial Statements in our 2008 10-K.

CONCENTRATIONS OF CREDIT RISK

Investments in financial instruments such as marketable securities and accounts receivable may subject us to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our Board of Directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government and Agency securities, state and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute our customer base. As of June 30, 2009, we had an aggregate \$2 billion reinsurance receivable resulting from the sale of our Golden Rule Financial Corporation life and annuity business in 2005. We regularly evaluate the financial condition of the reinsurer and only record the reinsurance receivable to the extent that the amounts are deemed probable of recovery. Currently, the reinsurer is rated by A.M. Best as A. As of June 30, 2009, there were no other significant concentrations of credit risk.

FORWARD-LOOKING STATEMENTS

The statements, estimates, projections, guidance or outlook contained in this report include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). These statements are intended to take advantage of the safe harbor provisions of the PSLRA. Generally the words believe, expect, intend, estimate, anticipate, plan, project, should and similar expressions, identify forward-looking statements, which generally are not historical in nature. These statements may contain information about financial prospects, economic conditions, trends and uncertainties and involve risks and uncertainties. We caution that actual results could differ materially from those that management expects, depending on the outcome of certain factors.

Some factors that could cause results to differ materially from the forward-looking statements include: our ability to effectively estimate, price for and manage our health care costs; our ability to respond quickly and appropriately to health care reforms; failure to comply with federal and state regulations affecting the managed care industry; the potential impact of the adverse conditions in the global economy and extreme disruption of financial markets on our revenues, sources of liquidity, investment portfolio, and our results of operations; regulatory and other risks associated with the pharmacy benefits management industry; competitive pressures, which could affect our ability to maintain or increase our market share, including as a result of new entrants into our market, and consolidation of health care companies and suppliers; uncertainties regarding changes in Medicare, including coordination of information systems and accuracy of certain assumptions; potential

Table of Contents

reductions in revenue received from Medicare and Medicaid programs, including as a result of reduced payments to private plans offering Medicare Advantage; our ability to execute contracts on competitive terms with physicians, hospitals and other service professionals; our ability to attract, retain and provide support to a network of independent third party brokers, consultants and agents; failure to comply with restrictions on patient privacy and information security; events that may negatively affect our contracts with AARP; increases in costs and other liabilities associated with increased litigation; the potential consequences of various governmental reviews and litigation matters related to our historical stock option practices and the potential consequences of each of these matters on our business, credit ratings and debt; events that may adversely affect the value of our investment portfolio; possible impairment of the value of our intangible assets if future results do not adequately support goodwill and intangible assets recorded for businesses that we acquire; increases in health care costs resulting from large-scale medical emergencies; failure to maintain effective and efficient information systems, which could result in the loss of existing customers, difficulties in attracting new customers, difficulties in determining medical costs estimates and appropriate pricing, customer and physician and health care professional disputes, regulatory violations, increases in operating costs, or other adverse consequences; misappropriation of our proprietary technology; our ability to obtain sufficient funds from our regulated subsidiaries to fund our obligations; failure to complete or receive anticipated benefits of acquisitions; and potential downgrades in our debt ratings.

This list of important factors is not intended to be exhaustive. We discuss certain of these matters more fully, as well as certain risk factors that may affect our business operations, financial condition and results of operations, in Part II, Item 1A, of this report and in our other periodic and current filings with the SEC, including our 2008 10-K. Any or all forward-looking 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. By their nature, forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed in this report or any of our prior communications. You should not place undue reliance on forward-looking statements, which speak only as of the date they are made. We do not undertake to update or revise any forward-looking statements.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

Our primary market risks are exposures to (a) changes in interest rates that impact our investment income and interest expense and the fair value of certain of our fixed-rate financial investments and debt and (b) changes in equity prices that impact the value of our equity investments.

As of June 30, 2009, \$7.2 billion of our financial investments were classified as cash and cash equivalents on which interest rates received vary with market interest rates, which may materially impact our investment income. Also, \$810 million of our debt as of June 30, 2009 was at interest rates that vary with market rates.

The fair value of certain of our fixed-rate financial investments and debt also varies with market interest rates. As of June 30, 2009, \$13.6 billion of our investments were fixed-rate debt securities and \$10.9 billion of our debt was fixed-rate term debt. An increase in market interest rates decreases the market value of fixed-rate investments and fixed-rate debt. Conversely, a decrease in market interest rates increases the market value of fixed-rate investments and fixed-rate debt.

We manage exposure to market interest rates by diversifying investments across different fixed income market sectors and debt across maturities and interest rate indices, as well as endeavoring to match our floating rate assets and liabilities over time, either directly or through the use of interest rate swap contracts. As part of our risk management strategy, we may enter into interest rate swap agreements with financial institutions to manage the impact of market interest rates on interest expense. The differential between the fixed rates received and the variable rates paid is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Condensed Consolidated Statements of Operations. In January 2009, we terminated interest rate swap contracts with \$4.9 billion in notional value to lock-in the benefit of low market interest rates. Additional information on our derivative financial instruments is included in Note 7 of Notes to the Condensed Consolidated Financial Statements.

The following table summarizes the impact of a hypothetical change in market interest rates by 1% or 2% as of June 30, 2009 on our investment income and interest expense per annum and the fair value of our financial investments and debt (in millions):

| Increase (Decrease) in Market Interest Rate | Investment Income Per Annum (a) | Interest Expense Per Annum (a) | Fair Value of Financial Investments | Fair Value of Debt |
|---|--|-----------------------------------|---|-----------------------|
| 2% | \$ 145 | \$ 16 | \$ (1,063) | \$ (1,091) |
| 1% | 72 | 8 | (541) | (580) |
| (1)% | (22) | (8) | 541 | 668 |
| (2)% | nm | (10) | 1,079 | 1,447 |

nm = not meaningful

(a) Given the low absolute level of short-term market rates on our floating rate assets and liabilities as of June 30, 2009, the assumed hypothetical change in interest rates has been floored at zero and does not reflect the full 1% point reduction in interest income or 2% point reduction for interest expense.

As of June 30, 2009, we had \$498 million of equity securities and venture capital funds, a portion of which were held in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity investments.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES
EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

We maintain disclosure controls and procedures as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (Exchange Act) that are designed to provide reasonable assurance that information required to be disclosed by us in reports that we file or submit under the Exchange Act is (i) recorded, processed, summarized and reported within the time periods specified in SEC rules and forms; and (ii) accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure.

In connection with the filing of this Form 10-Q, management evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of our disclosure controls and procedures as of June 30, 2009. Based upon that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective at the reasonable assurance level as of June 30, 2009.

CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

There have been no changes in our internal control over financial reporting during the quarter ended June 30, 2009 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Table of Contents**PART II. OTHER INFORMATION****ITEM 1. LEGAL PROCEEDINGS**

A description of our legal proceedings is included in Note 13 of Notes to the Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report and is incorporated by reference herein.

ITEM 1A. RISK FACTORS

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A. Risk Factors of our Annual Report on Form 10-K, as amended, for the year ended December 31, 2008 as filed with the SEC (2008 10-K), which could materially affect our business, financial condition or future results. The risks described in our 2008 10-K are not the only risks facing us. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect our business, financial condition and/or operating results.

There have been no material changes to the risk factors disclosed in our 2008 10-K.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**Issuer Purchases of Equity Securities (a)****Second Quarter 2009**

| For the Month Ended | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares That May Yet Be Purchased Under The Plans or Programs |
|----------------------------|---|-------------------------------------|---|---|
| April 30, 2009 | 2,571,710 | \$ 22.94 | 2,571,710 | 67,946,731 |
| May 31, 2009 | 13,727,480 (b) | \$ 26.24 | 13,724,781 | 54,221,950 |
| June 30, 2009 | 15,443,888 (c) | \$ 25.73 | 15,397,305 | 38,824,645 |
| Total | 31,743,078 | \$ 25.73 | 31,693,796 | |

- (a) In November 1997, our Board of Directors adopted a share repurchase program, which the Board evaluates periodically. In October 2007, the Board renewed and increased our share repurchase program and authorized us to repurchase up to 210 million shares of our common stock at prevailing market prices. There is no established expiration date for the program.
- (b) Represents 13,724,781 shares of our common stock repurchased during the period, and 2,699 shares of our common stock withheld by us, as permitted by the applicable equity award certificates, to satisfy tax withholding obligations upon vesting of shares of restricted stock.
- (c) Represents 15,397,305 shares of our common stock repurchased during the period, and 46,583 shares of our common stock withheld by us, as permitted by the applicable equity award certificates, to satisfy tax withholding obligations upon vesting of shares of restricted stock.

Table of Contents**ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The 2009 Annual Meeting of Shareholders (the Annual Meeting) of the Company was held on June 2, 2009. The shareholders of record of our common stock at the close of business on April 3, 2009 were entitled to vote at the Annual Meeting. At the close of business on April 3, 2009, there were 1,181,338,477 shares of our common stock outstanding. At the Annual Meeting, holders of 1,046,032,576 shares of our common stock were represented in person or by proxy. Our shareholders voted on the following matters at the Annual Meeting:

1. **Election of Directors.** The nine directors elected at the Annual Meeting were:

| Director Nominee | For | Against | Abstain |
|-------------------------|---------------|-------------|-----------|
| William C. Ballard, Jr. | 949,227,709 | 95,518,667 | 1,286,200 |
| Richard T. Burke | 982,938,049 | 61,874,032 | 1,220,495 |
| Robert J. Darretta | 1,033,604,590 | 10,974,595 | 1,453,391 |
| Stephen J. Hemsley | 1,004,034,941 | 40,771,690 | 1,225,945 |
| Michele J. Hooper | 1,003,508,277 | 41,082,107 | 1,442,192 |
| Douglas W. Leatherdale | 953,524,943 | 91,160,545 | 1,347,088 |
| Glenn M. Renwick | 1,018,601,779 | 25,947,419 | 1,483,378 |
| Kenneth I. Shine, M.D. | 1,031,701,140 | 12,968,671 | 1,362,765 |
| Gail R. Wilensky, Ph.D. | 939,787,473 | 104,928,554 | 1,316,549 |

2. **Ratification of the Appointment of Deloitte & Touche, LLP.** The appointment of Deloitte & Touche LLP as the independent registered public accounting firm for the Company for the fiscal year ending December 31, 2009 was ratified as follows:

| For | Against | Abstain |
|-------------|------------|-----------|
| 994,119,164 | 50,329,505 | 1,583,907 |

3. **Shareholder Proposal.** The shareholder proposal was not approved as follows:

| Description | For | Against | Abstain | Broker Non-Votes |
|---|-------------|-------------|------------|------------------|
| Proposal concerning advisory vote on executive compensation | 371,633,351 | 541,671,219 | 51,301,571 | 81,426,435 |

Table of Contents

ITEM 6. EXHIBITS*

The following exhibits are filed in response to Item 601 of Regulation S-K.

- 3.1 Third Restated Articles of Incorporation of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 29, 2007)
- 3.2 Third Amended and Restated Bylaws of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated May 29, 2007)
- 4.1 Senior Indenture, dated as of November 15, 1998, between United HealthCare Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3/A, SEC File Number 333-66013, filed on January 11, 1999)
- 4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between the UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
- 4.3 Instrument of Resignation, Appointment and Acceptance of Trustee, dated January 8, 2007, pursuant to the Senior Indenture, dated November 15, 1988, amended November 6, 2000, among UnitedHealth Group Incorporated, The Bank of New York and Wilmington Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
- 4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)
- 10.1 Summary of Non-Management Director Compensation, effective as of July 1, 2009
- 12.1 Ratio of Earnings to Fixed Charges
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from UnitedHealth Group Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, filed on August 6, 2009, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

* Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long term debt are not filed. The Company will furnish copies thereof to the SEC upon request.

Table of Contents

SIGNATURES

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

UNITEDHEALTH GROUP INCORPORATED

| | | |
|----------------------------|---------------------------------------|-----------------------|
| /s/ STEPHEN J. HEMSLEY | President and Chief Executive Officer | Dated: August 6, 2009 |
| Stephen J. Hemsley | (principal executive officer) | |
| /s/ GEORGE L. MIKAN III | Executive Vice President and | Dated: August 6, 2009 |
| George L. Mikan III | Chief Financial Officer | |
| | (principal financial officer) | |
| /s/ ERIC S. RANGEN | Senior Vice President and | Dated: August 6, 2009 |
| Eric S. Rangen | Chief Accounting Officer | |
| | (principal accounting officer) | |

Table of Contents

EXHIBIT INDEX*

- 3.1 Third Restated Articles of Incorporation of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.1 to the Company's Current Report on Form 8-K dated May 29, 2007)
- 3.2 Third Amended and Restated Bylaws of UnitedHealth Group Incorporated (incorporated by reference to Exhibit 3.2 to the Company's Current Report on Form 8-K dated May 29, 2007)
- 4.1 Senior Indenture, dated as of November 15, 1998, between United HealthCare Corporation and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3/A, SEC File Number 333-66013, filed on January 11, 1999)
- 4.2 Amendment, dated as of November 6, 2000, to Senior Indenture, dated as of November 15, 1998, between the UnitedHealth Group Incorporated and The Bank of New York (incorporated by reference to Exhibit 4.1 to the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2001)
- 4.3 Instrument of Resignation, Appointment and Acceptance of Trustee, dated January 8, 2007, pursuant to the Senior Indenture, dated November 15, 1988, amended November 6, 2000, among UnitedHealth Group Incorporated, The Bank of New York and Wilmington Trust Company (incorporated by reference to Exhibit 4.3 to the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
- 4.4 Indenture, dated as of February 4, 2008, between UnitedHealth Group Incorporated and U.S. Bank National Association (incorporated by reference to Exhibit 4.1 to the Company's Registration Statement on Form S-3, SEC File Number 333-149031, filed on February 4, 2008)
- 10.1 Summary of Non-Management Director Compensation, effective as of July 1, 2009
- 12.1 Ratio of Earnings to Fixed Charges
- 31.1 Certifications pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certifications pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 101 The following materials from UnitedHealth Group Incorporated's Quarterly Report on Form 10-Q for the quarter ended June 30, 2009, filed on August 6, 2009, formatted in XBRL (eXtensible Business Reporting Language): (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Operations, (iii) Condensed Consolidated Statements of Cash Flows, and (iv) Notes to the Condensed Consolidated Financial Statements, tagged as blocks of text.

* Pursuant to Item 601(b)(4)(iii) of Regulation S-K, copies of instruments defining the rights of certain holders of long term debt are not filed. The Company will furnish copies thereof to the SEC upon request.