UNITEDHEALTH GROUP INC
Form 10-Q
November 01, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

or

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

Commission file number: 1-10864

UnitedHealth Group Incorporated

(Exact name of registrant as specified in its charter)

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

(952) 936-1300

(Registrant s telephone number, including area code)

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

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

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

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

As of October 23, 2007, there were 1,292,161,732 shares of the registrant s Common Stock, $.01 par value per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

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

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except per share data)

	September 30, 2007	December 31, 2006
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 10,350	$ 10,320
Short-Term Investments	771	620
Accounts Receivable, net	1,318	1,323
Assets Under Management	2,100	1,970
Deferred Income Taxes	521	561
Other Current Assets	1,779	1,250
Total Current Assets	16,839	16,044
Long-Term Investments	10,946	9,642
Property, Equipment and Capitalized Software, net	1,999	1,894
Goodwill	16,909	16,822
Other Intangible Assets, net	1,777	1,904
Other Assets	1,971	2,014
TOTAL ASSETS	$ 50,441	$ 48,320
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Medical Costs Payable	$ 8,370	$ 8,076
Accounts Payable and Accrued Liabilities	4,087	3,713
Other Policy Liabilities	4,801	3,957
Commercial Paper and Current Maturities of Long-Term Debt	1,162	1,483
Unearned Premiums	1,209	1,268
Total Current Liabilities	19,629	18,497
Long-Term Debt, less current maturities	6,965	5,973
Future Policy Benefits for Life and Annuity Contracts	1,839	1,850
Deferred Income Taxes and Other Liabilities	1,343	1,190
Commitments and Contingencies (Note 13)		
Shareholders Equity		
Common Stock, $0.01 par value 3,000 shares authorized; 1,286 and 1,345 issued and outstanding	13	13
Additional Paid-In Capital	2,916	6,406
Retained Earnings	17,714	14,376
Accumulated Other Comprehensive Income:		

Net Unrealized Gains on Investments, net of tax effects	22	15
Total Shareholders Equity	20,665	20,810
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 50,441	$ 48,320

See notes to condensed consolidated financial statements

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UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

(In millions, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
REVENUES				
Premiums	$ 16,984	$ 16,483	$ 51,817	$ 49,101
Services	1,154	1,075	3,406	3,178
Products	239	186	638	516
Investment and Other Income	302	226	865	619
Total Revenues	18,679	17,970	56,726	53,414
OPERATING COSTS				
Medical Costs	13,500	13,369	41,884	40,062
Operating Costs	2,616	2,419	7,885	7,425
Cost of Products Sold	206	151	557	431
Depreciation and Amortization	202	168	589	493
Total Operating Costs	16,524	16,107	50,915	48,411
EARNINGS FROM OPERATIONS	2,155	1,863	5,811	5,003
Interest Expense	(142)	(129)	(391)	(327)
EARNINGS BEFORE INCOME TAXES	2,013	1,734	5,420	4,676
Provision for Income Taxes	(730)	(622)	(1,982)	(1,692)
NET EARNINGS	$ 1,283	$ 1,112	$ 3,438	$ 2,984
BASIC NET EARNINGS PER COMMON SHARE	$ 0.98	$ 0.83	$ 2.59	$ 2.22
DILUTED NET EARNINGS PER COMMON SHARE	$ 0.95	$ 0.80	$ 2.50	$ 2.13
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,304	1,341	1,325	1,344
DILUTIVE EFFECT OF COMMON STOCK EQUIVALENTS	44	56	50	60
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,348	1,397	1,375	1,404

See notes to condensed consolidated financial statements

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UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Nine Months Ended September 30,	
	2007	**2006**
OPERATING ACTIVITIES		
Net Earnings	$ 3,438	$ 2,984
Noncash Items:		
Depreciation and Amortization	589	493
Deferred Income Taxes and Other	(283)	(297)
Stock-Based Compensation	445	277
Net Change in Other Operating Items, net of effects from acquisitions and changes in AARP balances:		
Accounts Receivable and Other Current Assets	(388)	(444)
Medical Costs Payable	218	796
Accounts Payable and Other Accrued Liabilities	890	1,042
Unearned Premiums	(102)	75
Cash Flows From Operating Activities	4,807	4,926
INVESTING ACTIVITIES		
Cash Paid for Acquisitions, net of cash assumed and other effects	(205)	(718)
Purchases of Property, Equipment and Capitalized Software	(686)	(510)
Proceeds from Disposal of Property, Equipment and Capitalized Software		44
Purchases of Investments	(3,617)	(3,280)
Maturities and Sales of Investments	2,201	2,981
Cash Flows Used For Investing Activities	(2,307)	(1,483)
FINANCING ACTIVITIES		
Proceeds From (Repayments of) Commercial Paper, net	150	(2,364)
Proceeds From Issuance of Long-Term Debt	1,489	3,000
Repayments of Long-Term Debt	(950)	
Repayments of Convertible Subordinated Debentures	(5)	(91)
Common Stock Repurchases	(4,424)	(2,345)
Proceeds from Common Stock Issuances under Stock-Based Compensation Plans	529	351
Stock-Based Compensation Excess Tax Benefits	243	228
Customer Funds Administered	547	1,706
Dividends Paid	(40)	(41)
Other	(9)	(56)
Cash Flows (Used For) From Financing Activities	(2,470)	388
INCREASE IN CASH AND CASH EQUIVALENTS	30	3,831
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	10,320	5,421
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 10,350	$ 9,252

See notes to condensed consolidated financial statements

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. Basis of Presentation and Use of Estimates

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

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

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

2. Medicare Part D Pharmacy Benefits Contract

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

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

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

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

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

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

CMS Risk-Share If the ultimate per member per month benefit costs of any Medicare Part D regional plan varies more than 2.5% above or below the level estimated in the original bid submitted by the Company and approved by CMS, there is a risk-share settlement with CMS subsequent to the end of the plan year. The risk-share adjustment, if any, is recorded as an adjustment to premium revenues and other receivables or liabilities.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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 CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not reflected as premium revenues, but rather are accounted for as deposits, with the related liability recorded in Other Policy Liabilities in the Condensed Consolidated Balance Sheets. Related cash flows are presented as Customer Funds Administered within financing cash flows in the Condensed Consolidated Statements of Cash Flows. As of September 30, 2007, amounts on deposit for these subsidies for the 2007 and 2006 contract years were $741 million and $1.3 billion, respectively.

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

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

The risk-share receivable from CMS for the 2007 contract year through September 30, 2007 was approximately $210 million. This final risk-share amount is expected to be settled approximately six months after the contract year-end. The risk-share payable due to CMS as of September 30, 2007 for the 2006 contract year was approximately $530 million, subject to the reconciliation process with CMS, and which is expected to be settled by the end of 2007. The net risk-share payable to CMS of approximately $320 million is recorded in Other Policy Liabilities in the Condensed Consolidated Balance Sheets.

Total premium revenues from CMS related to the Medicare Part D program and all other Medicare-related programs were approximately 25% of our total consolidated revenues for the nine months ended September 30, 2007.

3. Acquisitions

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

	Employee Termination Benefit Costs	Other Integration Activities	Total
Accrued integration liabilities at December 31, 2006	$ 27	$ 28	$ 55
Accrual adjustments	(13)	(3)	(16)
Payments made against liabilities	(3)	(21)	(24)
Accrued integration liabilities at September 30, 2007	$ 11	$ 4	$ 15

For the nine months ended September 30, 2007, aggregate consideration paid, net of cash assumed and other effects, for smaller acquisitions was $205 million. These acquisitions were not material to our Condensed Consolidated Financial Statements.

4. Cash, Cash Equivalents and Investments

As of September 30, 2007 and December 31, 2006, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments were as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2007				
Cash and Cash Equivalents	$ 10,350	$	$	$ 10,350
Debt Securities Available for Sale	11,112	63	(48)	11,127
Equity Securities Available for Sale	362	21	(1)	382
Debt Securities Held to Maturity	208			208
Total Cash and Investments	$ 22,032	$ 84	$ (49)	$ 22,067
December 31, 2006				
Cash and Cash Equivalents	$ 10,320	$	$	$ 10,320
Debt Securities Available for Sale	9,710	57	(52)	9,715
Equity Securities Available for Sale	291	22	(1)	312
Debt Securities Held to Maturity	235			235
Total Cash and Investments	$ 20,556	$ 79	$ (53)	$ 20,582

During the three and nine months ended September 30, we recorded realized gains and losses on the sale of investments, as follows (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Gross Realized Gains	$ 15	$ 4	$ 47	$ 38
Gross Realized Losses	(3)	(13)	(11)	(27)
Net Realized Gains (Losses)	$ 12	$ (9)	$ 36	$ 11

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

5. Goodwill and Other Intangible Assets

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

	Health Care Services	Uniprise	OptumHealth	Ingenix	Consolidated Total
Balance at December 31, 2006	$ 13,996	$ 946	$ 1,054	$ 826	$ 16,822
Acquisitions and Subsequent Payments / Adjustments	(55)	1	(3)	144	87
Balance at September 30, 2007	$ 13,941	$ 947	$ 1,051	$ 970	$ 16,909

	Health Care Services	Uniprise	OptumHealth	Ingenix	Consolidated Total
Balance at December 31, 2005	$ 13,864	$ 917	$ 732	$ 725	$ 16,238
Acquisitions and Subsequent Payments / Adjustments	234	29	70	96	429
Balance at September 30, 2006	$ 14,098	$ 946	$ 802	$ 821	$ 16,667

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

		September 30, 2007			December 31, 2006		
	Weighted-Average Useful Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Contracts and Membership Lists	14 years	$ 1,879	$ (358)	$ 1,521	$ 1,871	$ (246)	$ 1,625
Patents, Trademarks and Technology	13 years	302	(112)	190	303	(89)	214
Other	12 years	103	(37)	66	103	(38)	65
Total	14 years	$ 2,284	$ (507)	$ 1,777	$ 2,277	$ (373)	$ 1,904

Amortization expense relating to intangible assets was approximately $48 million and $145 million for the three and nine months ended September 30, 2007, respectively, and approximately $46 million and $134 million for the three and nine months ended September 30, 2006, respectively. Estimated full year amortization expense relating to intangible assets for each of the next five years is as follows: $190 million in 2007, $183 million in 2008, $166 million in 2009, $157 million in 2010, and $152 million in 2011.

6. Medical Costs and Medical Costs Payable

Medical costs and medical costs payable include estimates of our obligations for medical care services that have been rendered on behalf of insured consumers but for which we have either not yet received or processed claims, and for liabilities for physician, hospital and other medical cost disputes. We develop estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical cost trends. We

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

estimate liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimates recorded in prior periods become more exact, we adjust the amount of the estimates, and include the changes in estimates in medical costs in the period in which the change is identified. For example, in every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods.

Medical costs for the three months ended September 30, 2007 included approximately $70 million of favorable medical cost development related to prior fiscal years and approximately $70 million of favorable medical cost development related to the first and second quarters of 2007. Medical costs for the three months ended September 30, 2006 included approximately $10 million in favorable medical cost development related to prior fiscal years and approximately $70 million of favorable medical cost development related to the first and second quarters of 2006. For the nine months ended September 30, 2007 and 2006, medical costs included approximately $350 million and $380 million, respectively, of favorable medical cost development related to prior fiscal years.

7. Commercial Paper and Debt

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

	September 30, 2007		December 31, 2006	
	Carrying Value (1)	Fair Value (2)	Carrying Value (1)	Fair Value (2)
Commercial Paper	$ 648	$ 648	$ 498	$ 498
3.0% Convertible Subordinated Debentures	13	13	34	34
$400 million par, 5.2% Senior Unsecured Notes due January 2007			400	400
$550 million par, 3.4% Senior Unsecured Notes due August 2007			540	543
$500 million par, 3.3% Senior Unsecured Notes due January 2008	498	498	489	489
$250 million par, 3.8% Senior Unsecured Notes due February 2009	248	246	243	243
Senior Unsecured Floating-Rate Notes due March 2009	650	648	650	649
$450 million par, 4.1% Senior Unsecured Notes due August 2009	447	442	438	438
Senior Unsecured Floating-Rate Notes due June 2010	500	497		
$750 million par, 5.3% Senior Unsecured Notes due March 2011	757	752	748	747
$450 million par, 4.9% Senior Unsecured Notes due April 2013	446	437	444	436
$250 million par, 4.8% Senior Unsecured Notes due February 2014	245	239	242	239
$500 million par, 5.0% Senior Unsecured Notes due August 2014	493	494	489	485
$500 million par, 4.9% Senior Unsecured Notes due March 2015	485	476	488	479
$750 million par, 5.4% Senior Unsecured Notes due March 2016	744	732	741	743
$95 million par, 5.4% Senior Unsecured Notes due November 2016	95	91	95	95
$500 million par, 6.0% Senior Unsecured Notes due June 2017	514	507		
$850 million par, 5.8% Senior Unsecured Notes due March 2036	844	787	844	839
$500 million par, 6.5% Senior Unsecured Notes due June 2037	495	506		
Interest Rate Swaps	5	5	73	73
Total Commercial Paper and Debt	8,127	8,018	7,456	7,430
Less Current Maturities	(1,162)	(1,162)	(1,483)	(1,475)
Long-Term Debt, less current maturities	$ 6,965	$ 6,856	$ 5,973	$ 5,955

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As of September 30, 2007, our outstanding commercial paper had interest rates ranging from 5.3% to 5.8%.

In June 2007, we issued $500 million of floating-rate notes due June 2010, $500 million of 6% fixed-rate notes due June 2017, and $500 million of 6.5% fixed-rate notes due June 2037. The floating-rate notes due June 2010 are benchmarked to the London Interbank Offered Rate (LIBOR) and had an interest rate of 5.4% at September 30, 2007. These notes were issued pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933 (1933 Act). We have agreed to consummate an exchange offer pursuant to an effective registration statement filed with the SEC to allow purchasers of the notes to exchange each series of the notes for a new issue of substantially identical debt securities registered under the 1933 Act. In addition, we have agreed to file, under certain circumstances, a shelf registration statement to cover resales of the notes.

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

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

On October 16, 2006, we executed a $7.5 billion 364-day revolving credit facility in order to ensure the Company s immediate and continued access to additional liquidity, if necessary. The credit facility is available for working capital purposes as well as to pay or repay any outstanding borrowings of the Company. Effective August 3, 2007, we elected to voluntarily reduce the amount of this facility to $1.5 billion. As of September 30, 2007, we had no amounts outstanding under this credit facility. This credit facility expired on October 15, 2007.

In March 2006, we refinanced outstanding commercial paper by issuing $650 million of floating-rate notes due March 2009, $750 million of 5.3% fixed-rate notes due March 2011, $750 million of 5.4% fixed-rate notes due March 2016 and $850 million of 5.8% fixed-rate notes due March 2036. The floating-rate notes due March 2009 are benchmarked to the LIBOR and had an interest rate of 5.7% at September 30, 2007.

To more closely align interest costs with floating interest rates received on our cash and cash equivalent balances, we have entered into interest rate swap agreements to convert the majority of our interest rate exposure from fixed rates to variable rates. These interest rate swap agreements qualify as fair value hedges. The interest rate swap agreements have aggregate notional amounts of $4.7 billion as of September 30, 2007, with variable rates that are benchmarked to the LIBOR, and are recorded on our Condensed Consolidated Balance Sheets. As of September 30, 2007, the aggregate liability, recorded at fair value, for all existing interest rate swaps was approximately $5 million. These fair value hedges are accounted for using the short-cut method under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), whereby the hedges are reported on our Condensed Consolidated Balance Sheets at fair value, and the carrying value of the long-term debt is adjusted for an offsetting amount representing changes in fair value attributable to the hedged risk. Since these amounts completely offset, we have reported both the swap liability and the debt liability within debt on our Condensed Consolidated Balance Sheets and there have been no net gains or losses recognized in our Condensed Consolidated Statements of Operations. At September 30, 2007, the rates used to accrue interest expense on these agreements ranged from 4.3% to 6.1%.

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Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders equity) below 50%. We believe we were in compliance with the requirements of all debt covenants as of September 30, 2007. On August 28, 2006, we received a purported notice of default from persons claiming to hold our 5.8% Senior Unsecured Notes due March 15, 2036 alleging a violation of the indenture governing those debt securities. This followed our announcement that we would delay filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. On October 25, 2006, we filed an action in the United States District Court for the District of Minnesota seeking a declaratory judgment that we are not in default under the terms of the indenture. On or about November 2, 2006, we received a purported notice of acceleration from the same holders that purports to declare an acceleration of our 5.8% Senior Unsecured Notes due March 15, 2036 as a result of our not timely filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. Our indenture requires us to provide to the trustee copies of the reports we are required to file with the SEC, such as our quarterly reports, within 15 days of filing such reports with the SEC. Should the Company ultimately be unsuccessful in this matter, we may be required to retire all or a portion of the $850 million of our 5.8% Senior Unsecured Notes due March 2036. We are vigorously prosecuting the declaratory judgment action.

PacifiCare had approximately $100 million par value of 3% convertible subordinated debentures (convertible notes) which were convertible into approximately 5.2 million shares of UnitedHealth Group s common stock and $102 million of cash as of December 31, 2005. In December 2005, we initiated a consent solicitation to all of the holders of outstanding convertible notes pursuant to which we offered to compensate all holders who elected to convert their notes in accordance with existing terms and consent to an amendment to a covenant in the indenture governing the convertible notes. The compensation consisted of the present value of interest through October 18, 2007, the earliest redemption date, plus a pro rata share of $1 million. On January 31, 2006, approximately $91 million of the convertible notes were tendered pursuant to the offer, for which we issued approximately 4.8 million shares of UnitedHealth Group common stock, valued at $282 million, and cash of $93 million and amended the indenture governing these notes. During the first nine months of 2007, approximately $5 million of convertible notes were tendered for conversion, for which we issued 282,857 shares of UnitedHealth Group common stock, valued at approximately $18 million, and cash of approximately $5 million. In September 2007, we notified the remaining holders of our intent to fully redeem all outstanding convertible notes on October 18, 2007, the earliest redemption date. As of October 16, 2007, all outstanding convertible notes were tendered pursuant to this redemption notice.

8. Stock Repurchase Program

Under our Board of Directors authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During the nine months ended September 30, 2007, we purchased 85.4 million shares which were settled for cash on or before September 30, 2007 at an average price of approximately $52 per share and an aggregate cost of approximately $4.4 billion. As of September 30, 2007, we had Board of Directors authorization to purchase up to an additional 50.6 million shares of our common stock. On October 30, 2007, our Board of Directors renewed and increased the Company s common stock repurchase program, under which up to 210 million shares of our common stock may now be repurchased.

9. Stock-Based Compensation and Other Employee Benefit Plans

We adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123R) as of January 1, 2006. FAS 123R requires companies to measure compensation expense for all share-based payments (including employee stock options, stock appreciation rights (SARs) and restricted stock) at fair value and recognize the expense over the related service period. We adopted FAS 123R using the modified retrospective transition method, under which all prior period financial statements were restated to recognize compensation cost as calculated under FAS 123.

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As of September 30, 2007, we had approximately 69.9 million shares available for future grants of stock-based awards under our stock-based compensation plan, including, but not limited to, incentive or non-qualified stock options, stock appreciation rights, and up to 26.1 million of awards in restricted stock and restricted stock units. Our existing stock-based awards consist mainly of non-qualified stock options and stock-settled SARs. Stock options and SARs generally vest ratably over four years and may be exercised up to 10 years from the date of grant. Stock option and SAR activity is summarized in the table below (shares in millions):

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	Shares	Weighted-Average Exercise Price	Shares	Weighted-Average Exercise Price
Outstanding at Beginning of Period	177.6	$ 33	180.2	$ 28
Granted	0.5	$ 49	22.0	$ 54
Exercised	(7.1)	$ 22	(25.4)	$ 19
Forfeited	(2.2)	$ 50	(8.0)	$ 33
Outstanding at End of Period	168.8	$ 34	168.8	$ 34
Exercisable or Projected to Vest in Future	161.3	$ 33	161.3	$ 33
Exercisable at End of Period	107.8	$ 24	107.8	$ 24

As of September 30, 2007 (shares in millions):

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted-Average Remaining Option Term (years)	Weighted-Average Exercise Price	Number Exercisable	Weighted-Average Exercise Price
$ 3.99 $18.05	45.0	2.3	$ 11	45.0	$ 11
$18.06 $39.85	42.8	5.1	$ 25	38.0	$ 24
$39.86 $48.58	47.3	7.3	$ 46	20.0	$ 46
$48.59 $63.65	33.7	8.8	$ 56	4.8	$ 57
$ 3.99 $63.65	168.8	5.7	$ 34	107.8	$ 24

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Risk Free Interest Rate	4.6% 5.0%	5.0% 5.2%	4.6% 5.2%	4.1% 5.2%
Expected Volatility	25.5%	26.9%	24.1%	26.0%
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	4.1	4.1	4.1	4.1

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The risk-free interest rate is based on U.S Treasury yields in effect at the time of grant. Expected volatilities are based on a blend of the implied volatilities from traded options on our common stock and the historical volatility of our common stock. We use historical data to estimate option and SAR exercises and employee terminations within the valuation model. The expected term 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 fair value of stock options and SARs granted in the three and nine months ended September 30, 2007 was $13 per share and $14 per share, respectively. The weighted-average fair value of stock options and SARs granted in each of the three and nine months ended September 30, 2006 was $14 per share. The aggregate fair value of stock options and SARs that vested during the three and nine months ended September 30, 2007 was $22 million and $188 million, respectively. The aggregate fair value of stock options and SARs that vested during the three and nine months ended September 30, 2006 was $56 million and $224 million, respectively. As of September 30, 2007, the aggregate intrinsic value of outstanding stock options and SARs was $2.8 billion, with a weighted-average remaining contractual term of 5.7 years. The aggregate intrinsic value of exercisable stock options and SARs at that same date was $2.6 billion, with a weighted-average remaining contractual term of 4.3 years. The total intrinsic value of options and SARs exercised during the three and nine months ended September 30, 2007 was $203 million and $862 million, respectively. The total intrinsic value of options and SARs exercised during the three and nine months ended September 30, 2006 was $130 million and $706 million, respectively.

Restricted stock awards generally vest ratably over two to five years. Compensation expense related to restricted stock awards is determined based upon the fair value of each award on the date of grant. Restricted stock award activity is summarized in the table below (shares in millions):

	Three Months Ended September 30, 2007		Nine Months Ended September 30, 2007	
	Shares	Weighted-Average Grant Date Fair Value	Shares	Weighted-Average Grant Date Fair Value
Outstanding at Beginning of Period	1.2	$ 60	1.3	$ 59
Granted		$	0.1	$ 52
Vested		$	(0.1)	$ 44
Forfeited		$	(0.1)	$ 35
Outstanding at End of Period	1.2	$ 60	1.2	$ 60

We recognize compensation cost for stock-based awards, including stock options, SARs, restricted stock and restricted stock units, 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. For the three and nine months ended September 30, 2007, we recognized compensation expense related to our stock-based compensation plans of $95 million ($60 million net of tax effects) and $445 million ($287 million net of tax effects), respectively. For the three and nine months ended September 30, 2006, we recognized compensation expense of $93 million ($60 million net of tax effects) and $277 million ($179 million net of tax effects), respectively. Stock-based compensation expense is recognized within Operating Costs in the Condensed Consolidated Statements of Operations. As of September 30, 2007, there was $711 million of total unrecognized compensation cost related to stock awards that is expected to be recognized over a weighted-average period of approximately 2.4 years.

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For the three and nine months ended September 30, 2007, the income tax benefit realized from stock-based awards was $72 million and $314 million, respectively. For the three and nine months ended September 30, 2006, the income tax benefit realized from stock-based awards was $50 million and $269 million, respectively.

Included in the stock-based compensation expense for the nine months ended September 30, 2007 is $176 million ($112 million net of tax benefit) of expenses recorded in the first quarter of 2007 related to application of deferred compensation rules under Section 409A of the Internal Revenue Code (Section 409A) to our historic stock option practices. As part of our review of the Company s historic stock option practices, we determined that certain stock options granted to nonexecutive officer employees were granted with an exercise price that was lower than the closing price of our common stock on the applicable accounting measurement date, subjecting these individuals to additional tax under Section 409A. The Company elected to pay these individuals for the additional tax costs relating to such stock options exercised in 2006 and early 2007. For any outstanding stock options subject to additional tax under Section 409A that were granted to nonexecutive officer employees, the Company increased the exercise price and committed to make cash payments to these optionholders for their vested options based on the difference between the original stock option exercise price and the revised increased stock option exercise price. The payments will be made on a quarterly basis upon vesting of the applicable awards, beginning in January 2008. Aggregate payments, assuming all applicable options vest, will be approximately $150 million. If the modified stock options are subsequently exercised, the Company will recover these cash payments from exercise proceeds at the revised increased stock option exercise prices.

The $176 million Section 409A charge includes $87 million of expense ($55 million net of tax benefit) for the payment of certain optionholders tax obligations for stock options exercised in 2006 and early 2007 and $89 million of expense ($57 million net of tax benefit) for the modification related to increasing the exercise price of unexercised stock options granted to nonexecutive officer employees and the related cash payments. These amounts have been recorded as corporate expenses and have not been allocated to individual business segments.

As previously disclosed, on December 29, 2006, the Company entered into agreements to increase the exercise price of outstanding stock options with individuals who were executive officers of the Company at the time of grant of an applicable stock option. No compensation was payable to any of those individuals as a result of the increase in the exercise price of their stock options.

As further discussed in Note 8, we maintain a common stock repurchase program. The objectives of our share repurchase program are to optimize our capital structure, cost of capital and return to shareholders, as well as to offset the dilutive impact of shares issued for stock-based award exercises.

Our Employee Stock Purchase Plan allows employees to purchase the Company s stock at a discounted price based on the lower of the price on the first day or the last day of the six-month purchase period. The compensation expense is included in the compensation expense amounts recognized and discussed above. We also offer a 401(k) plan for all employees of the Company.

We have provided Supplemental Executive Retirement Plan benefits (SERPs), which are non-qualified defined benefit plans, for our current Chief Executive Officer (CEO) and our former CEO as well as for certain nonexecutive officers under a plan that was assumed in an acquisition. No additional amounts are accruing to the SERPs of our current CEO and former CEO. The SERPs are non-contributory, unfunded and provide benefits based on years of service and compensation during employment. Pension expense is determined using various actuarial methods to estimate the total benefits ultimately payable to executives, and is allocated to service periods. The actuarial assumptions used to calculate pension costs are reviewed annually.

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In addition, the Company maintains non-qualified, unfunded deferred compensation plans, which allow certain members of senior management and executives to defer portions of their salary or bonus and receive certain Company contributions on such deferrals, subject to plan limitations. The deferrals are recorded within Long-Term Investments with an equal amount in Long-Term Other Liabilities in the Condensed Consolidated Balance Sheets. The total deferrals are distributable based upon termination of employment or in other periods, as elected under each plan.

10. AARP

We provide health insurance products and services to members of AARP. These products and services are provided to supplement benefits covered under traditional Medicare (AARP Medicare Supplement Insurance), hospital indemnity insurance, health insurance focused on persons between 50 to 64 years of age, and other products (Supplemental Health Insurance Program). Under the Supplemental Health Insurance Program, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings. Premium revenues from our portion of the AARP Supplemental Health Insurance Program were approximately $4.0 billion for the nine months ended September 30, 2007.

The underwriting gains or losses related to the AARP Medicare Supplement Insurance business are directly recorded as an increase or decrease to a rate stabilization fund (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, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract. To date, we have not been required to fund any underwriting deficits. The RSF balance is reported in Other Policy Liabilities in the accompanying Condensed Consolidated Balance Sheets and changes in the RSF are reported in Medical Costs in the Condensed Consolidated Statements of Operations. We believe the RSF balance at September 30, 2007 is sufficient to cover potential future underwriting and other risks and liabilities associated with the contract.

The following AARP program-related assets and liabilities are included in our Condensed Consolidated Balance Sheets (in millions):

	Balance as of September 30, 2007	December 31, 2006
Accounts Receivable	$ 461	$ 417
Assets Under Management	$ 2,062	$ 1,924
Medical Costs Payable	$ 1,080	$ 1,004
Other Policy Liabilities	$ 1,053	$ 1,008
Other Current Liabilities	$ 390	$ 329

The effects of changes in balance sheet amounts associated with the AARP Medicare Supplement Insurance program accrue to the overall benefit of the AARP policyholders through the RSF balance. Accordingly, we do not include the effect of such changes in our Condensed Consolidated Statements of Cash Flows.

Pursuant to our agreement, AARP assets under management are managed separately from our general investment portfolio and are used to pay costs associated with the AARP program. These assets are invested at our

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discretion, within investment guidelines approved by the Supplemental Health Insurance Program. We do not guarantee any rates of investment return on these investments and, upon transfer of this AARP agreement to another entity, we would transfer cash equal in amount to the fair value of these investments at the date of transfer to that entity. 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 our earnings. Assets under management are reported at their fair market value, and unrealized gains and losses are included directly in the RSF associated with the AARP program. As of September 30, 2007, the amortized cost, gross unrealized gains and losses, and fair value of cash, cash equivalents and investments associated with the AARP insurance program, included in Assets Under Management, were as follows (in millions):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
September 30, 2007				
Cash and Cash Equivalents	$ 420	$	$	$ 420
Debt Securities Available for Sale	1,648	10	(16)	1,642
Total Cash and Investments	$ 2,068	$ 10	$ (16)	$ 2,062
December 31, 2006				
Cash and Cash Equivalents	$ 532	$	$	$ 532
Debt Securities Available for Sale	1,404	4	(16)	1,392
Total Cash and Investments	$ 1,936	$ 4	$ (16)	$ 1,924

Under a separate trademark license agreement with AARP, we sell AARP-branded Medicare Prescription Drug benefit plans. We pay AARP a royalty for use of the trademark and member data and assume all operational and underwriting risks.

On October 3, 2007, we entered into four agreements with AARP that amended our existing AARP arrangements and incorporated many of the terms of the April 13, 2007 AARP agreement. These agreements extended our arrangements with AARP on the Supplemental Health Insurance Program to December 31, 2017, extended our arrangement with AARP on the Medicare Part D business to December 31, 2014, and gave us an exclusive right to use the AARP brand on our Medicare Advantage offerings until December 31, 2014, subject to certain limited exclusions.

11. Comprehensive Income

The table below presents comprehensive income, defined as changes in the equity of our business excluding changes resulting from investments by and distributions to our shareholders, for the three and nine months ended September 30 (in millions):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2007	2006	2007	2006
Net Earnings	$ 1,283	$ 1,112	$ 3,438	$ 2,984
Change in Net Unrealized Gains/Losses on Investments, net of tax effects	84	110	7	(16)
Comprehensive Income	$ 1,367	$ 1,222	$ 3,445	$ 2,968

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12. Segment Financial Information

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

Health Care Services consists of the UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare offers a comprehensive array of consumer-oriented health benefit plans and services for the public sector, small and mid-sized employers and individuals nationwide. Ovations provides health and well-being services to individuals age 50 and older. AmeriChoice provides network-based health and well-being services to beneficiaries of state Medicaid, Children s Health Insurance Programs and other government-sponsored health care programs. The financial results of UnitedHealthcare, Ovations and AmeriChoice have been combined in the Health Care Services segment column in the tables presented below because these businesses have similar economic characteristics and have similar products and services, types of customers, distribution methods and operational processes, and operate in a similar regulatory environment, typically within the same legal entity.

Uniprise provides network-based health and well-being services, business-to-business transaction processing services, consumer connectivity and technology support services nationwide to large employers and health plans, and provides health-related consumer and financial transaction products and services.

OptumHealth reflects the rebranding of Specialized Care Services and its individual businesses during the third quarter of 2007. OptumHealth s customers include health plans, the public sector and employer groups. The rebranding allows OptumHealth to represent its broad capabilities to the external market and reinforce its ability to create relationships to improve overall health and well-being. OptumHealth optimizes health and well-being for people and organizations through personalized management solutions and specialized benefits.

Ingenix offers database and data management services, software products, publications, consulting services, outsourced services and pharmaceutical development and consulting services on a national and an international basis.

Transactions between business segments principally consist of customer service and transaction processing services that Uniprise provides to Health Care Services, certain product offerings sold to Uniprise and Health Care Services customers by OptumHealth, and sales of medical benefits cost, quality and utilization data and predictive modeling to Health Care Services and Uniprise by Ingenix. These transactions are recorded at management s estimate of fair value. All intersegment transactions are eliminated in consolidation. Assets and liabilities that are jointly used are assigned to each segment using estimates of pro-rata usage. Cash and investments are assigned such that each segment has minimum specified levels of regulatory capital or working capital for non-regulated businesses.

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The following tables present segment financial information for the three and nine months ended September 30, 2007 and 2006 (in millions):

Three Months Ended September 30, 2007	Health Care Services	Uniprise	OptumHealth	Ingenix	Corporate and Intersegment Eliminations	Consolidated
Revenues External Customers	$ 16,433	$ 1,119	$ 602	$ 223	$	$ 18,377
Revenues Intersegment		272	547	124	(943)	
Investment and Other Income	261	25	16			302
Total Revenues	$ 16,694	$ 1,416	$ 1,165	$ 347	$ (943)	$ 18,679
Earnings from Operations	$ 1,646	$ 217	$ 222	$ 70	$	$ 2,155

Three Months Ended September 30, 2006	Health Care Services	Uniprise	OptumHealth	Ingenix	Corporate and Intersegment Eliminations	Consolidated
Revenues External Customers	$ 15,929	$ 1,064	$ 578	$ 173	$	$ 17,744
Revenues Intersegment		287	408	74	(769)	
Investment and Other Income	195	19	12			226
Total Revenues	$ 16,124	$ 1,370	$ 998	$ 247	$ (769)	$ 17,970
Earnings from Operations	$ 1,378	$ 235	$ 198	$ 52	$	$ 1,863

Nine months ended September 30, 2007	Health Care Services	Uniprise	OptumHealth	Ingenix	Corporate and Intersegment Eliminations	Consolidated
Revenues External Customers	$ 50,089	$ 3,365	$ 1,804	$ 603	$	$ 55,861
Revenues Intersegment		829	1,591	293	(2,713)	
Investment and Other Income	750	69	46			865
Total Revenues	$ 50,839	$ 4,263	$ 3,441	$ 896	$ (2,713)	$ 56,726
Earnings from Operations	$ 4,562	$ 633	$ 640	$ 152	$ (176)	$ 5,811

Nine Months Ended September 30, 2006	Health Care Services	Uniprise	OptumHealth	Ingenix	Corporate and Intersegment Eliminations	Consolidated
Revenues External Customers	$ 47,439	$ 3,165	$ 1,726	$ 465	$	$ 52,795
Revenues Intersegment		842	1,210	206	(2,258)	
Investment and Other Income	539	46	34			619
Total Revenues	$ 47,978	$ 4,053	$ 2,970	$ 671	$ (2,258)	$ 53,414
Earnings from Operations	$ 3,662	$ 665	$ 564	$ 112	$	$ 5,003

In 2007, we began transitioning our operating structure. This structure will continue to evolve as we add new executive positions and realign enterprise-wide functions to strengthen our capabilities and performance. We have not currently realigned assets or changed the way our senior executives evaluate financial performance. Therefore, until we have completed the transition, we will continue to describe and report our results of operations using the four business segments described above.

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13. Commitments and Contingencies

Legal Matters Relating to Historic Stock Option Practices

Regulatory Inquiries

In March 2006, we received an informal inquiry from the SEC relating to our historic stock option practices.

On May 17, 2006, we received a document request from the Internal Revenue Service (IRS) seeking documents relating to our historic stock option grants and other compensation for the persons who from 2003 to May 2006 were the named executive officers in our annual proxy statements.

On May 17, 2006, we 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 our historic stock option practices.

On June 6, 2006, we received a Civil Investigative Demand from the Minnesota Attorney General requesting documents from January 1, 1997 to the date of the response concerning our executive compensation and historic stock option practices. After filing an action in Ramsey County Court, State of Minnesota, captioned *UnitedHealth Group Incorporated vs. State of Minnesota, by Lori Swanson, Attorney General*, we filed a Motion for Protective Order, which was denied by the trial court. The appeal of the Order denying the Protective Order is currently pending before the Minnesota Court of Appeals.

On December 19, 2006, we received from the SEC staff a formal order of investigation into the Company s historic stock option practices.

We have also received requests for documents from U.S. Congressional committees relating to our historic stock option practices and compensation of executives. At the conclusion of these regulatory inquiries, we 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 our current and former officers and directors in the United States District Court for the District of Minnesota. The action has been consolidated with six other actions and is captioned *In re UnitedHealth Group Incorporated Shareholder Derivative Litigation*. The consolidated amended complaint is brought on behalf of the Company by several pension funds and other shareholders and names certain of our current and former officers and directors as defendants, as well as the Company as a nominal defendant. The consolidated amended complaint generally alleges that defendants breached their fiduciary duties to the Company, were unjustly enriched, and violated the securities laws in connection with our historic stock option practices. The consolidated amended complaint seeks unspecified money damages, injunctive relief and rescission of certain options. On June 26, 2006, our Board of Directors created a Special Litigation 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. The Special Litigation Committee s investigation has been on-going throughout 2007. The Company has also produced documents to plaintiffs counsel in the consolidated federal derivative action.

A consolidated derivative action, reflecting a consolidation of two actions, is also pending in Hennepin County District Court, State of Minnesota. The consolidated complaint is captioned *In re UnitedHealth Group Incorporated Derivative Litigation*. The action was brought by two individual shareholders and names certain of our current and former officers and directors as defendants, as well as the Company as a nominal defendant. On

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February 6, 2007, the state court judge entered an order staying the action pending resolution of the Special Litigation Committee process. On June 25, 2007, the state court judge entered an order modifying the stay to allow plaintiffs counsel to access documents produced in the federal derivative action described above.

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 our 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 against the Company and certain of our current and former officers and directors. The consolidated amended complaint alleges that 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 our common stock. The consolidated amended complaint also asserts that during the class period, certain defendants sold shares of our 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 and Exchange Act of 1934 and Sections 11 and 15 of the Securities Act of 1933. The action seeks unspecified money damages and equitable relief. Defendants moved to dismiss the consolidated amended complaint on February 6, 2007. The motion to dismiss was denied in an order filed on June 4, 2007 and discovery is ongoing. On July 18, 2007, the lead plaintiff moved for partial summary judgment on the Company s liability on the Section 11 claim. The court denied the motion for partial summary judgment on October 2, 2007. We are vigorously defending against the action.

On June 6, 2006, a purported class action captioned *Zilhaver v. UnitedHealth Group Incorporated* was filed against the Company and certain of our current and former officers and directors in the United States District Court for the District of Minnesota. On May 1, 2007, plaintiffs amended the complaint. 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. Plaintiffs have filed a motion to certify a class consisting of certain participants in the Company s 401(k) plan. Defendants moved to dismiss the action on June 22, 2007. A hearing date has not yet been set for that motion. We are vigorously defending against the action.

On August 28, 2006, we received a purported notice of default from persons claiming to hold our 5.8% Senior Unsecured Notes due March 15, 2036 alleging a violation of the indenture governing those debt securities. This followed our announcement that we would delay filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. On October 25, 2006, we filed an action in the United States District Court for the District of Minnesota, captioned *UnitedHealth Group Incorporated v. Cede & Co. and the Bank of New York*, seeking a declaratory judgment that we are not in default under the terms of the indenture. On or about November 2, 2006, we received a purported notice of acceleration from the same holders that purports to declare an acceleration of our 5.8% Senior Unsecured Notes due March 15, 2036 as a result of our not timely filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. Our indenture requires us to provide to the trustee copies of the reports we are required to file with the SEC, such as our quarterly reports, within 15 days of filing such reports with the SEC. Should the Company ultimately be unsuccessful in this matter, we may be required to retire all or a portion of the $850 million of our 5.8% Senior Unsecured Notes due March 2036. The parties have completed discovery and filed cross-motions for summary judgment. The cross-motions are currently under advisement. We are vigorously prosecuting the declaratory judgment action.

In addition, we may be subject to additional litigation or other proceedings or actions arising out of the review of an independent committee comprised of three independent directors of the Company (the Independent Committee), the review of the Special Litigation Committee and the related restatement of our historical

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UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

financial statements. Litigation and any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. The adverse resolution of any specific lawsuit or any potential regulatory proceeding or action could have a material adverse effect on our business, financial condition and results of operations.

As previously disclosed in our 2006 Annual Report on Form 10-K, we believe that compensation expense related to prior exercises of certain stock options by certain of the Company s executive officers will no longer qualify as deductible performance-based compensation in accordance with Internal Revenue Code Section 162(m) as a result of the revision of measurement dates that occurred as part of our review of the Company s historic stock option matters. For the year ended December 31, 2006, we accrued additional tax liabilities relating to these lost tax deductions of $90 million with corresponding interest of $11 million. Although we may incur other liabilities relating to this tax matter, we do not expect them to be material.

In addition, other adjustments for non-operating cash charges may be required in connection with the resolution of stock option-related matters arising under litigation, and regulatory reviews by the SEC, IRS, U.S. Attorney, U.S. Congressional committees and Minnesota Attorney General, the amount and timing of which are uncertain but which could be material.

Other Legal Matters

Because of the nature of our businesses, we are routinely made party to a variety of legal actions related to the design and management of our service offerings. We record liabilities for our 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.

Beginning in 1999, a series of class action lawsuits were filed against UnitedHealthcare, PacifiCare, and virtually all major entities in the health benefits business. These lawsuits were consolidated in a multi-district litigation in the Southern District Court of Florida. The health care provider plaintiffs alleged statutory violations, including violations of the Racketeer Influenced Corrupt Organization Act (RICO) in connection with alleged undisclosed reimbursement policies. Other allegations included breach of state prompt payment laws and breach of contract claims for failure to timely reimburse providers for medical services rendered. The consolidated suits seek injunctive, compensatory and equitable relief as well as restitution, costs, fees and interest payments. The trial court granted the health care providers motion for class certification. The Eleventh Circuit Court of Appeals affirmed the class action status of certain of the RICO claims, but reversed as to the breach of contract, unjust enrichment and prompt payment claims. Most of the co-defendents have settled. On January 31, 2006, the trial court dismissed all claims against PacifiCare, and on June 19, 2006, the trial court dismissed all claims against UnitedHealthcare brought by the lead plaintiffs. On June 13, 2007, the Eleventh Circuit Court of Appeals affirmed those decisions. Included in the multidistrict litigation are tag-along lawsuits which contain claims against the Company similar to the claims dismissed in the lead case. The tag-along cases were stayed pending resolution of the lead case. It is anticipated that the trial court will now lift the stay and address the continuing viability of the tag-along claims. We are vigorously defending against any remaining claims.

On March 15, 2000, the American Medical Association (AMA) filed a lawsuit against the Company in state court in New York. We removed the case to the United States District Court for the Southern District of New York. The suit alleges causes of action 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 providers. The suit seeks declaratory, injunctive and compensatory relief as well as costs, fees and interest payments. On May 26, 2004, we filed a motion for

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

partial summary judgment seeking the dismissal of certain claims and parties. On July 16, 2004, plaintiffs filed a motion for leave to file an amended complaint, seeking to assert RICO violations. On December 29, 2006, the trial court granted plaintiffs motion to amend the complaint. On June 15, 2007, the trial court granted part of our motion for summary judgment. The Court ruled that AMA does not have standing to pursue ERISA claims on behalf of their physician members. The Court also ruled that the plaintiffs can only seek monetary damages under ERISA for those reimbursements that were actually appealed through the health plans appeal processes. The Court found that such appeals are not futile, as plaintiffs alleged. Finally, the Court found that the providers and plan participants have no standing to bring a claim where the provider waived its right to collect the balance from the subscriber. While these decisions narrow the case, they do not resolve the non-ERISA claims. On July 10, 2007, plaintiffs filed a fourth amended complaint restating the remaining claims. On September 24, 2007, we moved to dismiss the RICO and antitrust claims in the fourth amended complaint. We are vigorously defending against the remaining claims.

Government Regulation

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

We have been and are 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, SEC, IRS, the Office of Personnel Management, the Office of Civil Rights, U.S. Congressional committees, the U.S. Department of Justice and U.S. Attorneys. Reviews and investigations of this sort can lead to government actions, which can result in the assessment of damages, civil or criminal fines or penalties, or other sanctions, including loss of licensure or exclusion from participation in government programs.

In conjunction with the PacifiCare acquisition we committed to make $50 million in charitable contributions to the benefit of California health care consumers, which has been accrued on our Condensed Consolidated Balance Sheets. We have committed to specific projects totaling approximately $12 million of the $50 million charitable commitment at this time. Additionally, we agreed to invest $200 million in California s health care infrastructure to further health care services to the underserved populations of the California marketplace. The timing and amount of individual contributions and investments are at our discretion subject to the advice and oversight of the local regulatory authorities; however, our goal is to have the investment commitment fully funded by the end of 2010. The investment commitment remains in place for 20 years after funding.

14. Recent Accounting Standards

Recently Adopted Accounting Standards

In June 2006, the Financial Accounting Standards Board (FASB) issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109. FIN 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold that a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, disclosure and transition. We have adopted FIN 48 as of January 1, 2007.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The cumulative effect of adopting FIN 48 for the first quarter of 2007 resulted in an increase to our liability for unrecognized tax benefits of $88 million, which was accounted for as a reduction of $62 million in retained earnings and an increase of $26 million in goodwill. The total amount of unrecognized tax benefits as of the date of adoption was $341 million.

The total amount of unrecognized tax benefits as of the date of adoption that, if recognized, would have affected the effective tax rate for the first quarter of 2007 was $128 million. We classify interest and penalties associated with uncertain income tax positions as income taxes within our Consolidated Financial Statements. The total amount of accrued interest as of the date of adoption was $34 million, and was not included in the total unrecognized tax benefits amount discussed above. No amount was accrued for penalties.

We currently file income tax returns in the U.S. federal jurisdiction, various states, and foreign jurisdictions. With the exception of a few states, we are no longer subject to income tax examinations prior to 2001 in major tax jurisdictions.

We believe it is reasonably possible that our liability for unrecognized tax benefits will decrease in the next twelve months by approximately $50 million as a result of audit settlements and the expiration of statutes of limitations in certain major jurisdictions.

Recently Issued Accounting Standards

In February 2007, the FASB issued FAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (FAS 159). FAS 159 permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option would be required to recognize changes in fair value in earnings. Entities electing the fair value option are required to distinguish on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. FAS 159 is effective for our fiscal year 2008. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of initial adoption. We are currently evaluating the impact, if any, of FAS 159 on our Condensed Consolidated Financial Statements.

In September 2006, the FASB issued FAS No. 157, Fair Value Measurements (FAS 157), which establishes a framework for reporting fair value and expands disclosures about fair value measurements. FAS 157 is effective for our 2008 fiscal year. We are currently evaluating the impact of this standard on our Condensed Consolidated Financial Statements.

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Item 2. ***Management s Discussion and Analysis of Financial Condition and Results of Operations***

The following discussion should be read together with the accompanying unaudited Condensed Consolidated Financial Statements and notes. In addition, the following discussion should be considered in light of a number of factors that affect the Company, the industry in which we operate, and business generally. These factors are described in the Cautionary Statements section of this Quarterly Report.

Summary highlights of our third quarter 2007 results include:

Diluted net earnings per common share of $0.95, an increase of 19% from $0.80 per share reported in the third quarter of 2006.

Consolidated revenues of $18.7 billion increased $709 million, or 4%, over the third quarter of 2006.

Earnings from operations of $2.2 billion, up $292 million, or 16%, over the comparable prior year period.

Cash flows from operations of $516 million, up $202 million over the third quarter of 2006, bringing 2007 year-to-date operating cash flows to $4.8 billion.

The consolidated medical care ratio of 79.5% decreased from 81.1% in the third quarter of 2006.

The operating margin of 11.5% for the third quarter of 2007 increased from 10.4% in the third quarter of 2006.

	Three Months Ended September 30,		Percent	Nine Months Ended September 30, (1)		Percent
(In millions, except per share data)	**2007**	**2006**	**Change**	**2007**	**2006**	**Change**
Revenues	$ 18,679	$ 17,970	4%	$ 56,726	$ 53,414	6%
Earnings from Operations	$ 2,155	$ 1,863	16%	$ 5,811	$ 5,003	16%
Net Earnings	$ 1,283	$ 1,112	15%	$ 3,438	$ 2,984	15%
Diluted Net Earnings Per Common Share	$ 0.95	$ 0.80	19%	$ 2.50	$ 2.13	17%
Medical Care Ratio	79.5%	81.1%		80.8%	81.6%	
Operating Cost Ratio	14.0%	13.5%		13.9%	13.9%	
Return on Equity (annualized)	24.6%	23.7%		21.9%	21.8%	
Operating Margin	11.5%	10.4%		10.2%	9.4%	

(1) Results for the nine months ended September 30, 2007 include $176 million ($112 million net of tax benefit) of expenses recorded in the first quarter of 2007 related to application of Section 409A of the Internal Revenue Code (Section 409A) involving the Company s payment of certain employees tax obligations under Section 409A for options exercised in 2006 and early 2007 as well as the modification expense for increasing the exercise price of unexercised stock options granted to nonexecutive officer employees. These matters are discussed more fully in the Operating Costs section of Management s Discussion and Analysis of Financial Condition and Results of Operations.

Recent Developments

During the third quarter, Specialized Care Services and its individual businesses were rebranded as OptumHealth. OptumHealth s customers include health plans, the public sector and employer groups. The rebranding allows OptumHealth to represent its broad capabilities to the external market and reinforce its ability to create relationships to improve overall health and well-being.

On October 3, 2007, we entered into four agreements with AARP that amended our existing AARP arrangements and incorporated many of the terms of the April 13, 2007 AARP agreement. These agreements extended our arrangements with AARP on the Supplemental Health Insurance Program to December 31, 2017, extended our arrangement with AARP on the Medicare Part D business to December 31, 2014, and gave us an exclusive right to use the AARP brand on our Medicare Advantage offerings until December 31, 2014, subject to certain limited exclusions.

On October 30, 2007, our Board of Directors renewed and increased the Company s common stock repurchase program, under which up to 210 million shares of our common stock may now be repurchased.

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Results of Operations

Consolidated Financial Results

Revenues

Revenues consist of premium revenues from risk-based products; service revenues, which primarily include fees for management, administrative and consulting services; product revenues; and investment and other income.

Premium revenues are primarily 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 services and related administrative costs. Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services; transaction processing; customer, consumer and care provider services; and access to contracted networks of physicians, hospitals and other health care professionals. Through our Prescription Solutions pharmacy benefit management (PBM) business, revenues are derived from both products sold and administrative services. Product revenues are recognized upon sale or shipment because the price is fixed and the member cannot return the drugs or receive a refund. Service revenues are recognized when prescription claims are adjudicated. Product revenues also include sales of Ingenix syndicated content products, which are recognized as revenue upon shipment.

Consolidated revenues for the three and nine months ended September 30, 2007 of $18.7 billion and $56.7 billion, respectively, increased by $709 million, or 4%, and $3.3 billion, or 6%, over the comparable 2006 periods driven primarily by rate increases on premium-based and fee-based services, growth in the total number of individuals served during the respective periods in our Medicare Part D program and at AmeriChoice, and new business growth at Ingenix. The following is a discussion of consolidated revenue trends for each of our revenue components.

Premium Revenues

Consolidated premium revenues for the three and nine months ended September 30, 2007 of $17.0 billion and $51.8 billion, respectively, increased by $501 million, or 3%, and $2.7 billion, or 6%, over the comparable 2006 periods.

UnitedHealthcare premium revenues for the three and nine months ended September 30, 2007 of $8.5 billion and $25.5 billion, respectively, increased by $140 million, or 2%, and $433 million, or 2%, over the comparable 2006 periods. These increases were primarily driven by average net premium rate increases of 7% to 8% on UnitedHealthcare s renewing commercial risk-based products and by premiums from businesses acquired since the beginning of 2006, partially offset by a decrease in the number of individuals served by UnitedHealthcare s commercial risk-based products. Ovations premium revenues for the three and nine months ended September 30, 2007 of $6.3 billion and $19.9 billion, respectively, increased by $102 million, or 2%, and $1.6 billion, or 9%, over the comparable 2006 periods. The increase for the three months ended September 30, 2007 was primarily due to rate increases on the Medicare Advantage and Medicare supplement products, partially offset by the seasonal revenue timing caused by the Medicare Part D product benefit design. The increase for the nine months ended September 30, 2007 was driven primarily by rate increases on the Medicare Advantage and Medicare supplement products, resolution of certain matters pertaining to Medicare population risk status and eligibility and continued growth in our Medicare Part D program. AmeriChoice premium revenues for the three and nine months ended September 30, 2007 of $1.1 billion and $3.2 billion, respectively, increased by $200 million, or 22%, and $508 million, or 19%, over the comparable 2006 periods due primarily to an increase in the number of individuals served by Medicaid products as well as rate increases. OptumHealth premium revenues for the three and nine months ended September 30, 2007 of $892 million and $2.6 billion, respectively, increased by $95 million, or 12%, and $262 million, or 11%, over the comparable 2006 periods. These increases were primarily due to strong growth in the number of individuals served by several OptumHealth businesses under premium-based arrangements as well as rate increases.

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Service Revenues

Service revenues for the three and nine months ended September 30, 2007 totaled $1.2 billion and $3.4 billion, respectively, an increase of $79 million, or 7%, and $228 million, or 7%, over the comparable 2006 periods. This was driven primarily by increases in Ingenix service revenues due to new business growth in the health information and contract research businesses and from businesses acquired since the beginning of 2006. In addition, UnitedHealthcare and Uniprise service revenues increased due to an increase in the number of individuals served under fee-based arrangements since the third quarter of 2006 of approximately 2%, as well as annual increases in rates.

Product Revenues

Product revenues for the three and nine months ended September 30, 2007 totaled $239 million and $638 million, respectively, an increase of $53 million, or 28%, and $122 million, or 24%, over the comparable periods of 2006. This was primarily due to increased pharmacy sales at our PBM business.

Investment and Other Income

Investment and other income for the three and nine months ended September 30, 2007 totaled $302 million and $865 million, respectively, representing an increase of $76 million, or 34%, and $246 million, or 40%, from the comparable periods in 2006. Interest income increased for the three and nine months ended September 30, 2007 by $55 million and $221 million, respectively, from the comparable periods in 2006, driven by increased levels of cash and fixed-income investments as well as higher yields on the investments. Net capital gains on sales of investments were $12 million in the third quarter of 2007 compared with net capital losses of $9 million in the third quarter of 2006. For the nine months ended September 30, 2007 and 2006, net capital gains from sales of investments were $36 million and $11 million, respectively.

Medical Costs

The combination of pricing, benefit designs, consumer health care utilization and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues). The consolidated medical care ratio for the three and nine months ended September 30, 2007 of 79.5% and 80.8%, respectively, decreased from 81.1% and 81.6% in the comparable 2006 periods. These medical care ratios decreased primarily as a result of a decrease in the medical care ratio relating to Ovations. This was partially offset by an increase in UnitedHealthcare s commercial medical care ratio, which was partially the result of a shift from favorable medical cost development during 2006 to unfavorable medical cost development during 2007.

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. Medical costs for the three months ended September 30, 2007 included approximately $70 million of favorable medical cost development related to prior fiscal years and approximately $70 million of favorable medical cost development related to the first and second quarters of 2007. Medical costs for the three months ended September 30, 2006 included approximately $10 million in favorable medical cost development related to prior fiscal years and approximately $70 million of favorable medical cost development related to the first and second quarters of 2006. For the nine months ended September 30, 2007 and 2006, medical costs included approximately $350 million and $380 million, respectively, of favorable medical cost development related to prior fiscal years.

Medical costs for the three months ended September 30, 2007 of $13.5 billion increased $131 million, or 1%, over the comparable 2006 period due primarily to an annual medical cost trend of 7% to 8% on commercial risk-based business due to medical cost inflation and increased utilization, partially offset by a decrease in the number of individuals served by UnitedHealthcare s commercial risk-based products. Medical costs for the nine months

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ended September 30, 2007 of $41.9 billion increased $1.8 billion, or 5%, over the comparable 2006 period due primarily to the 7% to 8% annual medical cost trend on commercial risk-based business discussed above and growth in Ovations Medicare programs, partially offset by a decrease in the number of individuals served by UnitedHealthcare s commercial risk-based products.

Operating Costs

The operating cost ratio (operating costs as a percentage of total revenues) for the three months ended September 30, 2007 was 14.0%, up from 13.5% in the comparable 2006 period, driven by the effect of business mix change as fee-based businesses such as Ingenix increase in size and impact, and increased investment in technology, service and product enhancements. The operating cost ratio for the nine months ended September 30, 2007 of 13.9%, was the same as in the comparable 2006 period. This was primarily driven by productivity gains from technology deployment and other cost management initiatives, offset by the effect of the business mix changes and increased investments discussed above, and expenses in the first quarter of 2007 associated with application of deferred compensation rules under Section 409A to our historic stock option practices, as described below.

Operating costs for the three and nine months ended September 30, 2007 totaled $2.6 billion and $7.9 billion, respectively, an increase of $197 million, or 8%, and $460 million, or 6%, over the comparable 2006 periods. These increases were primarily due to general operating cost inflation, and were also impacted by the items discussed above.

Included in the operating costs for the nine months ended September 30, 2007, is $176 million ($112 million net of tax benefit) of expenses recorded in the first quarter of 2007 related to application of deferred compensation rules under Section 409A to our historic stock option practices. As part of our review of the Company s historic stock option practices, we determined that certain stock options granted to nonexecutive officer employees were granted with an exercise price that was lower than the closing price of our common stock on the applicable accounting measurement date, subjecting these individuals to additional tax under Section 409A. The Company elected to pay these individuals for the additional tax costs relating to such stock options exercised in 2006 and early 2007. For any outstanding stock options subject to additional tax under Section 409A that were granted to nonexecutive officer employees, the Company increased the exercise price and committed to make cash payments to these optionholders for their vested options based on the difference between the original stock option price and the revised increased stock option price. The payments will be made on a quarterly basis upon vesting of the applicable awards, beginning in January 2008. Aggregate payments, assuming all applicable options vest, will be approximately $150 million. If the modified stock options are subsequently exercised, the Company will recover these cash payments from exercise proceeds at the revised increased stock option exercise prices.

The $176 million charge includes $87 million of expense ($55 million net of tax benefit) for the payment of certain optionholders tax obligations for stock options exercised in 2006 and early 2007 and $89 million of expense ($57 million net of tax benefit) for the modification related to increasing the exercise price of unexercised stock options granted to nonexecutive officer employees and the related cash payments. These amounts have been recorded as corporate expenses and have not been allocated to individual business segments.

As previously disclosed, on December 29, 2006, the Company entered into agreements to increase the exercise price of outstanding stock options with individuals who were executive officers of the Company at the time of grant of an applicable stock option. No compensation was payable to any of those individuals as a result of the increase in the exercise price of their stock options.

Cost of Products Sold

Cost of products sold for the three and nine months ended September 30, 2007 totaled $206 million and $557 million, respectively, an increase of $55 million, or 36%, and $126 million, or 29%, over the comparable periods of 2006. This was primarily due to costs associated with increased pharmacy sales at our PBM business.

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Depreciation and Amortization

Depreciation and amortization for the three and nine months ended September 30, 2007 of $202 million and $589 million, respectively, increased from $168 million and $493 million for the comparable 2006 periods. The increases were primarily related to higher levels of computer equipment and capitalized software as a result of technology enhancements, business growth and businesses acquired since the beginning of 2006, as well as separately identifiable intangible assets acquired in business acquisitions since the beginning of 2006.

Income Taxes

Our effective income tax rate for the three months ended September 30, 2007 was 36.3% compared to 35.9% for the comparable 2006 period. Our effective income tax rate for the nine months ended September 30, 2007 was 36.6% compared to 36.2%, for the comparable 2006 period. These rates reflect changes in business and income mix in states with differing income tax rates, as well as a decrease in the benefit related to tax-exempt interest.

Business Segments

The following summarizes the operating results of our business segments for the three and nine months ended September 30, 2007 (in millions):

Revenues

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
	2007	2006	Change	2007	2006	Change
Health Care Services	$ 16,694	$ 16,124	4%	$ 50,839	$ 47,978	6%
Uniprise	1,416	1,370	3%	4,263	4,053	5%
OptumHealth	1,165	998	17%	3,441	2,970	16%
Ingenix	347	247	40%	896	671	34%
Eliminations	(943)	(769)	nm	(2,713)	(2,258)	nm
Consolidated Revenues	$ 18,679	$ 17,970	4%	$ 56,726	$ 53,414	6%

nm = not meaningful

Earnings from Operations

	Three Months Ended September 30,		Percent	Nine Months Ended September 30,		Percent
	2007	2006	Change	2007	2006	Change
Health Care Services	$ 1,646	$ 1,378	19%	$ 4,562	$ 3,662	25%
Uniprise	217	235	(8)%	633	665	(5)%
OptumHealth	222	198	12%	640	564	13%
Ingenix	70	52	35%	152	112	36%
Corporate			nm	(176)		nm

Consolidated Earnings from Operations	$ 2,155	$ 1,863	16%	$ 5,811	$ 5,003	16%

nm = not meaningful

Health Care Services

The Health Care Services segment, comprised of the UnitedHealthcare, Ovations and AmeriChoice businesses, had revenues for the three and nine months ended September 30, 2007 of $16.7 billion and $50.8 billion, respectively, representing increases of $570 million, or 4%, and $2.9 billion, or 6%, over the comparable 2006 periods.

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UnitedHealthcare revenues for the three and nine months ended September 30, 2007 increased over the comparable 2006 periods by $169 million, or 2%, and $511 million, or 2%, to $9.0 billion and $26.8 billion, respectively. These increases were driven mainly by average net premium rate increases of 7% to 8% on UnitedHealthcare s renewing commercial risk-based products, an increase in the number of individuals served by UnitedHealthcare s fee-based products and business acquired since the beginning of 2006, partially offset by a decrease in the number of individuals served by UnitedHealthcare s commercial risk-based products. Ovations revenues for the three and nine months ended September 30, 2007 increased over the comparable 2006 periods by $196 million, or 3%, and $1.8 billion, or 10%, to $6.6 billion and $20.8 billion, respectively. The increase for the three months ended September 30, 2007 was primarily due to rate increases on the Medicare Advantage and Medicare supplement products, partially offset by the seasonal revenue timing caused by the Medicare Part D product benefit design. The increase for the nine months ended September 30, 2007 was driven primarily by rate increases on the Medicare Advantage and Medicare supplement products, resolution of certain matters pertaining to Medicare population risk status and eligibility and continued growth in our Medicare Part D program. The remaining increase in Health Care Services revenues was attributable to an increase of $205 million, or 22%, and $523 million, or 19%, for the three and nine months ended September 30, 2007, respectively, over the comparable 2006 periods for AmeriChoice, which was due primarily to an increase in the number of individuals served by Medicaid plans as well as rate increases.

The Health Care Services segment had earnings from operations of $1.6 billion and $4.6 billion for the three and nine months ended September 30, 2007, respectively, representing increases of $268 million, or 19%, and $900 million, or 25%, over the comparable periods of 2006. These increases were principally driven by a decrease in the medical care ratio for Ovations due primarily to favorable medical cost trends and an increase in the number of individuals served by Medicare Part D, partially offset by a decrease in individuals served by UnitedHealthcare s commercial risk-based products and an increase in the related medical care ratio. UnitedHealthcare s commercial medical care ratio increased to 81.6% in the third quarter of 2007 from 79.4% in the third quarter of 2006, and to 81.6% for the nine months ended September 30, 2007 from 79.6% over the comparable period of 2006. These increases were mainly due to the Company s internal pricing decisions in a competitive commercial risk-based pricing environment as well as a shift from favorable medical cost development for UnitedHealthcare during 2006 versus unfavorable medical cost development during 2007, partially driven by costs from higher benefit utilization in December 2006 relating primarily to our high-deductible risk-based products. Health Care Services operating margin for the three and nine months ended September 30, 2007 was 9.9% and 9.0%, respectively, representing an increase of 140 basis points over each of the comparable periods of 2006, which reflected productivity gains from technology deployment and disciplined operating cost management as well as the factors discussed above.

The following table summarizes individuals served by Health Care Services, by major market segment and funding arrangement, as of September 30 (in thousands) (1):

	2007	2006
Commercial		
Risk-based	9,625	9,850
Fee-based	4,880	4,670
Total Commercial	14,505	14,520
Medicare Advantage	1,340	1,415
Medicare Part D Stand-alone	4,690	4,490
Medicaid	1,650	1,405
Total Health Care Services	22,185	21,830

(1) Excludes individuals served by Ovations Medicare supplement products provided to AARP members as well as Medicare institutional and Medicaid long-term care members.

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The number of individuals served by UnitedHealthcare s commercial business as of September 30, 2007 decreased 15,000 from the third quarter of 2006. This included an increase of 210,000 in the number of individuals served with commercial fee-based products, driven by new customer relationships and customers converting from risk-based products to fee-based products, which was more than offset by a decrease of approximately 225,000 in the number of individuals served with commercial risk-based products due primarily to a competitive pricing environment and the conversion of individuals to fee-based products.

The number of individuals served by Ovations Medicare Advantage products decreased by 75,000 from the third quarter of 2006 due primarily to a decline in participation in private-fee-for-service offerings. The number of individuals served by Medicare Part D on a stand-alone basis increased by 200,000 from the third quarter of 2006 to the third quarter of 2007 due to new customer relationships gained in the program. AmeriChoice s Medicaid enrollment increased by 245,000 due to new customer gains, including 175,000 individuals served under the TennCare program in Tennessee.

Uniprise

Uniprise revenues for the three and nine months ended September 30, 2007 of $1.4 billion and $4.3 billion, respectively, represent an increase of $46 million, or 3%, and $210 million, or 5%, over the comparable periods of 2006. The increases in revenue were driven primarily by growth of 1% in the number of individuals served by Uniprise at September 30, 2007 over the comparable period in 2006 and annual rate increases related to both risk-based and fee-based arrangements. Uniprise served 11.1 million and 11.0 million individuals as of September 30, 2007 and 2006, respectively, with the year-over-year growth reflecting new customer relationships partially offset by employment attrition at continuing customers.

Uniprise earnings from operations for the three and nine months ended September 30, 2007 of $217 million and $633 million, respectively, decreased $18 million, or 8%, and $32 million, or 5%, over the comparable periods of 2006. Operating margin decreased to 15.3% and 14.8% for the three and nine months ended September 30, 2007, respectively, from 17.2% and 16.4% in the comparable periods of 2006. These decreases were driven primarily by an increase in operating costs aimed at advancing service levels and supporting strategic growth initiatives on an enterprise-wide basis as well as higher non-capitalizable technology development costs.

OptumHealth

OptumHealth had revenues for the three and nine months ended September 30, 2007 of $1.2 billion and $3.4 billion, respectively, an increase of $167 million, or 17%, and $471 million, or 16%, over the comparable periods of 2006. These increases were principally driven by strong growth in the number of individuals served as well as rate increases.

Earnings from operations for the three and nine months ended September 30, 2007 of $222 million and $640 million, respectively, increased $24 million, or 12%, and $76 million, or 13%, over the comparable periods of 2006 primarily due to strong growth in the number of individuals served and operational and productivity improvements within OptumHealth s businesses. OptumHealth s operating margin of 19.1% and 18.6% for the three and nine months ended September 30, 2007, respectively, decreased from 19.8% and 19.0% in the comparable periods of 2006. The decrease in operating margin reflected a continued business mix shift toward higher revenue, lower margin products.

Ingenix

Ingenix revenues for the three and nine months ended September 30, 2007 of $347 million and $896 million, respectively, increased by $100 million, or 40%, and $225 million, or 34%, over the comparable periods of 2006 due primarily to new business growth in the health information and contract research businesses as well as revenue from businesses acquired since the beginning of 2006. Ingenix typically generates higher revenues in the second half of the year due to seasonally strong demand for higher margin health information products.

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Earnings from operations for the three and nine months ended September 30, 2007 of $70 million and $152 million, respectively, were up $18 million, or 35%, and $40 million, or 36%, over the comparable periods of 2006 due primarily to new growth in the health information and contract research businesses, earnings from businesses acquired since the beginning of 2006 and effective operating cost management.

The operating margin for the three months ended September 30, 2007 of 20.2% decreased from 21.1% in the comparable 2006 period due primarily to newly acquired businesses with lower margins as well as additional investments in technology in the third quarter of 2007. The operating margin for the nine months ended September 30, 2007 of 17.0% increased from 16.7% in the comparable 2006 period due primarily to effective operating cost management, partially offset by newly acquired businesses with lower margins as well as additional investments in technology.

Financial Condition and Liquidity

Liquidity and Capital Resources

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

Our regulated subsidiaries generate significant cash flows from 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 exceed our short-term obligations in longer term, investment-grade, marketable debt securities to improve our overall investment return. Factors we consider in making these investment decisions include our Board of Directors approved investment policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Our long-term investments are also available for sale to meet short-term liquidity and other needs. Cash in excess of the capital needs of our regulated entities are 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 the issuance of commercial paper, long-term debt and the availability of committed credit facilities, further strengthen our operating and financial flexibility. We generally use these cash flows to reinvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock, depending on market conditions.

Cash flows generated from operating activities, our primary source of liquidity, 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 insured 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 diversity of our risk-based business and our disciplined underwriting and pricing processes, which seek to match premium rate increases with future health care costs. In 2006, a hypothetical unexpected 1% increase in commercial insured medical costs would have reduced net earnings by approximately $170 million.

The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, debt ratings, debt covenants and other contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

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Cash and Investments

We maintained a strong financial condition and liquidity position, with cash and investments of $22.1 billion at September 30, 2007. Total cash and investments increased by $1.5 billion since December 31, 2006, primarily due to strong operating cash flows, funds received from Centers for Medicare and Medicaid Services (CMS) under the Medicare Part D program in advance of required benefit payments and the issuance of debt, partially offset by share repurchases, repayments of debt and capital expenditures.

As further described under Regulatory Capital and 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. At September 30, 2007, approximately $1.5 billion of our $22.1 billion of cash and investments was held by non-regulated subsidiaries and was available for general corporate use, including acquisitions and share repurchases.

Cash flows from operating activities were $4.8 billion for the nine months ended September 30, 2007, representing a decrease over the comparable 2006 period of $119 million, or 2%, due to a reduction in working capital cash flows of $851 million partially offset by increases of $454 million in net income and $278 million in noncash items. The decrease in working capital cash flows was driven by lower medical cost payable growth in 2007 primarily related to Ovations Medicare programs as the 2006 operating cash flows benefited from the initial establishment of the medical costs payable balance related to the Medicare Part D program.

As a result of our announcement in November 2006 that our previously issued financial statements should no longer be relied upon, we were unable to issue shares registered under the Securities Act of 1933 (1933 Act), under our employee stock plans and we temporarily suspended any exercise of stock options until we became current in our Securities and Exchange Commission (SEC) filings in March 2007. To address the impact to holders of options that would expire or terminate during the suspension period, the Company offered cash settlement of the affected awards. This resulted in additional stock compensation expense for the fourth quarter of 2006 of $31 million. This amount was paid in full during the first quarter of 2007.

Financing and Investing Activities

In addition to our strong cash flows generated by operating activities, we use commercial paper and debt to maintain adequate operating and financial flexibility. As of September 30, 2007 and December 31, 2006, we had commercial paper and debt outstanding of approximately $8.1 billion and $7.5 billion, respectively. Our debt-to-total-capital ratio was 28.4% and 26.4% as of September 30, 2007 and December 31, 2006, respectively. On October 31, 2007, the Company announced that it may increase the debt component of its capital structure to the 40 percent range. As a result of this announcement, S&P downgraded our senior debt rating one notch from A to A- and our commercial paper rating one notch from A1 to A2 and Moody s affirmed our senior debt rating at A3 and our commercial paper rating at P-2 but changed their outlook on t ratings to negative. Our debt ratings from Fitch remained unchanged at this time, but could be impacted in the future depending upon actual debt levels. We believe the prudent use of debt optimizes our cost of capital and return on shareholders equity, while maintaining appropriate liquidity.

As of September 30, 2007, our outstanding commercial paper had interest rates ranging from 5.3% to 5.8%.

In June 2007, we issued $500 million of floating-rate notes due June 2010, $500 million of 6% fixed-rate notes due June 2017, and $500 million of 6.5% fixed-rate notes due June 2037. The floating-rate notes due June 2010 are benchmarked to the London Interbank Offered Rate (LIBOR) and had an interest rate of 5.4% at September 30, 2007. These notes were issued pursuant to an exemption from registration under Section 4(2) of the 1933 Act. We have agreed to consummate an exchange offer pursuant to an effective registration statement filed with the SEC to allow purchasers of the notes to exchange each series of the notes for a new issue of substantially identical debt securities registered under the 1933 Act. In addition, we have agreed to file, under certain circumstances, a shelf registration statement to cover resales of the notes.

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

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

On October 16, 2006, we executed a $7.5 billion 364-day revolving credit facility in order to ensure the Company s immediate and continued access to additional liquidity, if necessary. The credit facility is available for working capital purposes as well as to pay or repay any outstanding borrowings of the Company. Effective August 3, 2007, we elected to voluntarily reduce the amount of this facility to $1.5 billion. As of September 30, 2007, we had no amounts outstanding under this credit facility. This credit facility expired on October 15, 2007.

In March 2006, we refinanced outstanding commercial paper by issuing $650 million of floating-rate notes due March 2009, $750 million of 5.3% fixed-rate notes due March 2011, $750 million of 5.4% fixed-rate notes due March 2016 and $850 million of 5.8% fixed-rate notes due March 2036. The floating-rate notes due March 2009 are benchmarked to the LIBOR and had an interest rate of 5.7% at September 30, 2007.

To more closely align interest costs with floating interest rates received on our cash and cash equivalent balances, we have entered into interest rate swap agreements to convert the majority of our interest rate exposure from fixed rates to variable rates. These interest rate swap agreements qualify as fair value hedges. The interest rate swap agreements have aggregate notional amounts of $4.7 billion as of September 30, 2007, with variable rates that are benchmarked to the LIBOR, and are recorded on our Condensed Consolidated Balance Sheets. As of September 30, 2007, the aggregate liability, recorded at fair value, for all existing interest rate swaps was approximately $5 million. These fair value hedges are accounted for using the short-cut method under Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Hedging Activities (FAS 133), whereby the hedges are reported on our Condensed Consolidated Balance Sheets at fair value, and the carrying value of the long-term debt is adjusted for an offsetting amount representing changes in fair value attributable to the hedged risk. Since these amounts completely offset, we have reported both the swap liability and the debt liability within debt on our Condensed Consolidated Balance Sheets and there have been no net gains or losses recognized in our Condensed Consolidated Statements of Operations. At September 30, 2007, the rates used to accrue interest expense on these agreements ranged from 4.3% to 6.1%.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders equity) below 50%. We believe we were in compliance with the requirements of all debt covenants as of September 30, 2007. On August 28, 2006, we received a purported notice of default from persons claiming to hold our 5.8% Senior Unsecured Notes due March 15, 2036 alleging a violation of the indenture governing those debt securities. This followed our announcement that we would delay filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. See Note 13 to our unaudited Condensed Consolidated Financial Statements Legal Matters Relating to Historic Stock Option Practices contained in Part I, Item 1 of this report for additional information.

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

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the offer, for which we issued 4.8 million shares of UnitedHealth Group common stock, valued at $282 million, and cash of $93 million and amended the indenture governing these notes. During the first nine months of 2007, approximately $5 million of convertible notes were tendered for conversion, for which we issued 282,857 shares of UnitedHealth Group common stock, valued at approximately $18 million, and cash of approximately $5 million. In September 2007, we notified the remaining holders of our intent to fully redeem all outstanding convertible notes on October 18, 2007, the earliest redemption date. As of October 16, 2007, all convertible notes were tendered pursuant to this redemption notice.

Our senior debt is rated A- with a stable outlook by Standard & Poor s (S&P), A with a stable outlook by Fitch, and A3 with a negative outlook by Moody s. Our commercial paper is rated A2 with a stable outlook by S&P, F-1 with a stable outlook by Fitch, and P-2 with a negative outlook by Moody s. A significant downgrade in our debt or commercial paper ratings could adversely affect our borrowing capacity and costs.

Under our Board of Directors authorization, we maintain a common stock repurchase program. Repurchases may be made from time to time at prevailing prices, subject to certain restrictions on volume, pricing and timing. During the nine months ended September 30, 2007, we purchased 85.4 million shares which were settled for cash on or before September 30, 2007 at an average price of approximately $52 per share and an aggregate cost of approximately $4.4 billion. As of September 30, 2007, we had Board of Directors authorization to purchase up to an additional 50.6 million shares of our common stock. On October 30, 2007, our Board of Directors renewed and increased the Company s common stock repurchase program, under which up to 210 million shares of our common stock may now be repurchased. Our common stock repurchase program is discretionary as we are under no obligation to repurchase shares.

Contractual Obligations, Off-Balance Sheet Arrangements And Commitments

An updated summary of future obligations under our various contractual obligations, off-balance sheet arrangements and commitments as of December 31, 2006 was disclosed in our 2006 Annual Report on Form 10-K filed with the SEC. During the nine months ended September 30, 2007, there were no significant changes to the amounts of these obligations other than those items disclosed under the Financial Condition and Liquidity section. However, we continually evaluate opportunities to expand our operations. This includes internal development of new products, programs and technology applications, and may include acquisitions.

In conjunction with the PacifiCare acquisition, we committed to make $50 million in charitable contributions to the benefit of California health care consumers, which has been accrued on our Condensed Consolidated Balance Sheets. We have committed to specific projects totaling approximately $12 million of the $50 million charitable commitment at this time. Additionally, we agreed to invest $200 million in California s health care infrastructure to further health care services to the underserved populations of the California marketplace. The timing and amount of individual contributions and investments are at our discretion subject to the advice and oversight of the local regulatory authorities; however, our goal is to have the investment commitment fully funded by the end of 2010. The investment commitment remains in place for 20 years after funding.

As previously disclosed in our 2006 Annual Report on Form 10-K, we believe that compensation expense related to historic exercises of certain stock options by certain of the Company s executive officers will no longer qualify as deductible performance-based compensation in accordance with Internal Revenue Code Section 162(m) as a result of the revision of measurement dates that occurred as part of the review of the Company s historic stock option matters. For the year ended December 31, 2006, we accrued additional tax liabilities relating to these lost tax deductions of $90 million with corresponding interest of $11 million. Although we may incur other liabilities relating to this tax matter, we do not expect them to be material.

Medicare Part D Pharmacy Benefits Contract

Beginning January 1, 2006, the Company began serving as a plan sponsor offering Medicare Part D prescription drug insurance coverage under a contract with the CMS. The Company contracts with CMS on an annual basis.

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Under Medicare Part D, members have access to a standard drug benefit that features a monthly premium, typically with an initial annual deductible, coinsurance of 25% for the member and 75% for the Company up to an initial coverage limit of $2,400 of annual drug costs, no insurance coverage between $2,400 and $5,451 (except the member gets the benefit of the Company s significant drug discounts), and catastrophic coverage for annual drug costs in excess of $5,451 covered approximately 80% by CMS, 15% by the Company and 5% by the member up to an annual out-of-pocket maximum of $3,850.

The Company s contract with CMS includes risk-sharing provisions, wherein CMS retains approximately 75% to 80% of the losses or profits outside a pre-defined risk corridor. The risk-sharing provisions take effect if actual pharmacy benefit costs are more than 2.5% above or below expected cost levels as submitted by the Company in its initial contract application. Contracts are generally non-cancelable by enrollees; however, they may change plans every year between November 15 and December 31 to take effect January 1 of the following year.

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

The risk-share receivable from CMS for the 2007 contract year through September 30, 2007 was approximately $210 million. This final risk-share amount is expected to be settled approximately six months after the contract year-end. The risk-share payable due to CMS as of September 30, 2007 for the 2006 contract year was approximately $530 million, subject to the reconciliation process with CMS, and which is expected to be settled by the end of 2007. The net risk-share payable from CMS of approximately $320 million is recorded in Other Policy Liabilities in the Condensed Consolidated Balance Sheets.

AARP

We provide health insurance products and services to members of AARP. These products and services are provided to supplement benefits covered under traditional Medicare (AARP Medicare Supplement Insurance), hospital indemnity insurance, health insurance focused on persons between 50 to 64 years of age, and other products (Supplemental Health Insurance Program). Under the Supplemental Health Insurance Program, we are compensated for transaction processing and other services as well as for assuming underwriting risk. We are also engaged in product development activities to complement the insurance offerings. Premium revenues from our portion of the AARP Supplemental Health Insurance Program were approximately $4.0 billion for the nine months ended September 30, 2007.

The underwriting gains or losses related to the AARP Medicare Supplement Insurance business are directly recorded as an increase or decrease to a rate stabilization fund (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, we would have to fund the deficit. Any deficit we fund could be recovered by underwriting gains in future periods of the contract.

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To date, we have not been required to fund any underwriting deficits. As further described in Note 10 to the Condensed Consolidated Financial Statements, the RSF balance is reported in Other Policy Liabilities in the accompanying Condensed Consolidated Balance Sheets. We believe the RSF balance at September 30, 2007 is sufficient to cover potential future underwriting and other risks and liabilities associated with the contract.

Under a separate trademark license agreement with AARP, we sell AARP-branded Medicare Prescription Drug benefit plans. We pay AARP a royalty for the use of the trademark and member data and assume all operational and underwriting risks.

On October 3, 2007, we amended our existing agreements with AARP. See Recent Developments for details.

Regulatory Capital And Dividend Restrictions

We conduct a significant portion of our operations through subsidiaries that are subject to standards established by the National Association of Insurance Commissioners (NAIC). 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.

In 2007, based on 2006 statutory net income and statutory capital and surplus levels, the maximum amount of dividends which could be paid without prior regulatory approval is approximately $2.5 billion. For the year ended December 31, 2006, the Company s regulated subsidiaries paid over $2.5 billion in dividends to their parent companies, including approximately $300 million of special dividends approved by state insurance regulators. Our regulated subsidiaries have paid us dividends of approximately $2.2 billion through September 30, 2007.

The inability of the Company s regulated subsidiaries to pay dividends to their parent companies would impact the scale to which we could reinvest in our business through capital expenditures, business acquisitions and the repurchase of shares of our common stock. In addition, the inability to pay regulated dividends could impact our ability to repay our debt; however, our cash flows from operating activities generated from our non-regulated businesses greatly mitigate this risk. At September 30, 2007, approximately $1.5 billion of our $22.1 billion of cash and investments was held by non-regulated subsidiaries and was available for general corporate use, including acquisitions and share repurchase.

Critical Accounting Policies And Estimates

Critical accounting policies are those policies that require management to make challenging, subjective or complex judgments, often because they must estimate the effects of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. The following provides a summary of our accounting policies and estimation procedures surrounding medical costs. For a detailed description of all our critical accounting policies, see the Results of Operations section of the Consolidated Financial Statements included in the 2006 Annual Report on Form 10-K.

Medical Costs

Each reporting period, we estimate our 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. We develop estimates for medical care services incurred but

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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, seasonal variances in medical care consumption, provider contract rate changes, medical care utilization and other medical cost trends, membership volume and demographics, benefit plan changes, and business mix changes related to products, customers and geography. Depending on the health care provider and type of service, the typical billing lag for services can be up to 90 days from the date of service. Substantially all claims related to medical care services are known and settled within nine to twelve months from the date of service. We estimate liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies.

Each period, we re-examine previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As more complete claim information becomes available, we adjust the amount of the estimates, and include the changes in estimates in medical costs in the period in which the change is identified. In every reporting period, our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods. If the revised estimate of prior period medical costs is less than the previous estimate, we will decrease reported medical costs in the current period (favorable development). If the revised estimate of prior period medical costs is more than the previous estimate, we will increase reported medical costs in the current period (unfavorable development). Historically, the net impact of estimate developments has represented less than 1% of annual medical costs, less than 5% of annual earnings from operations and less than 4% of medical costs payable.

In developing our medical costs payable estimates, we apply different estimation methods depending on the month for which incurred claims are being estimated. For example, we actuarially calculate completion factors using an analysis of claim adjudication patterns over the most recent 36-month period. A completion factor is an actuarial estimate, based upon historical experience, of the percentage of incurred claims during a given period that have been adjudicated by the Company as of the date of estimation. For months prior to the most recent three months, we apply the completion factors to actual claims adjudicated-to-date in order to estimate the expected amount of ultimate incurred claims for those months. We do not believe that completion factors are a reliable basis for estimating claims incurred for the most recent three months as there is typically insufficient claim data available for those months to calculate credible completion factors. Accordingly, for the most recent three months, we estimate claim costs incurred primarily by applying observed medical cost trend factors to the average per member per month (PMPM) medical costs incurred in prior months for which more complete claim data is available, supplemented by a review of near-term completion factors. Medical cost trend factors are developed through a comprehensive analysis of claims incurred in prior months for which more complete claim data is available and by reviewing a broad set of health care utilization indicators including, but not limited to, pharmacy utilization trends, inpatient hospital census data and incidence data from the National Centers for Disease Control, as well as through a review of near-term completion factors. This approach is consistently applied from period to period.

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Completion factors are the most significant factors we use in developing our medical costs payable estimates for older periods, generally periods prior to the most recent three months. The following table illustrates the sensitivity of these factors and the estimated potential impact on our medical costs payable estimates for those periods as of September 30, 2007:

Completion Factors

Increase (Decrease) in Factors	Increase (Decrease) in Medical Costs Payable (1) (in millions)
(0.75)%	$ 134
(0.50)%	$ 90
(0.25)%	$ 45
0.25%	$ (45)
0.50%	$ (90)
0.75%	$ (134)

Medical cost PMPM trend factors are the most significant factors we use in estimating our medical costs payable for the most recent three months. The following table illustrates the sensitivity of these factors and the estimated potential impact on our medical costs payable estimates for the most recent three months as of September 30, 2007:

Medical Cost PMPM Trend

Increase (Decrease) in Factors	Increase (Decrease) in Medical Costs Payable (2) (in millions)
3%	$ 260
2%	$ 173
1%	$ 87
(1)%	$ (87)
(2)%	$ (173)
(3)%	$ (260)

(1) Reflects estimated potential changes in medical costs and medical costs payable caused by changes in completion factors used in developing medical cost payable estimates for older periods, generally periods prior to the most recent three months.

(2) Reflects estimated potential changes in medical costs and medical costs payable caused by changes in medical costs PMPM trend data used in developing medical cost payable estimates for the most recent three months.

The analyses above include those outcomes that are considered reasonably likely based on the Company s historical experience in estimating its liabilities incurred but not reported benefit claims.

In order to evaluate the impact of changes in medical cost estimates for any particular discrete period, one should consider both the amount of development recorded in the current period pertaining to prior periods and the amount of development recorded in subsequent periods pertaining to the current period. The accompanying table provides a summary of the net impact of favorable development on medical costs and earnings from operations (in millions):

	Favorable Development	Net Impact on Medical Costs (a)	Medical Costs		Earnings from Operations	
			As Reported	As Adjusted (b)	As Reported	As Adjusted (b)
2004	$ 210	$ (190)	$ 27,858	$ 27,668	$ 3,858	$ 4,048
2005	$ 400	$ (30)	$ 33,669	$ 33,639	$ 5,080	$ 5,110
2006	$ 430	$ 80(c)	$ 53,308	$ 53,388(c)	$ 6,984	$ 6,904(c)

(a) The amount of favorable development recorded in the current year pertaining to the prior year less the amount of favorable development recorded in the subsequent year pertaining to the current year.

(b) Represents reported amounts adjusted to reflect the net impact of medical cost development.

(c) For the nine months ended September 30, 2007, the Company recorded net favorable development of $350 million pertaining to 2006. The amount of prior period development in 2007 pertaining to 2006 will likely change as our December 31, 2006 medical costs payable estimate continues to develop throughout 2007.

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Our estimate of medical costs payable represents management s best estimate of the Company s liability for unpaid medical costs as of September 30, 2007, developed using consistently applied actuarial methods. Management believes the amount of medical costs payable is reasonable and adequate to cover the Company s liability for unpaid claims as of September 30, 2007; however, actual claim payments may differ from established estimates. Assuming a hypothetical 1% difference between our September 30, 2007 estimates of medical costs payable and actual medical costs payable, third quarter 2007 earnings from operations would increase or decrease by $73 million and diluted net earnings per common share would increase or decrease by $0.03 per share.

Inflation

The current national health care cost inflation rate significantly exceeds the general inflation rate. We use various strategies to lessen the effects of health care cost inflation. These include setting commercial premiums based on anticipated health care costs, coordinating care with physicians and other health care providers and rate discounts from physicians and other health care providers. Through contracts with physicians and other health care providers, we emphasize preventive health care, appropriate use of health care services consistent with clinical performance standards, education and closing gaps in care.

We believe our strategies to mitigate the impact of health care cost inflation on our operating results have been and will continue to be successful. However, other factors including competitive pressures, new health care and pharmaceutical product introductions, demands from physicians and other health care providers and consumers, major epidemics, and applicable regulations may affect our ability to control the impact of health care cost inflation. Because of the narrow operating margins of our risk-based products, changes in medical cost trends that were not anticipated in establishing premium rates can create significant changes in our financial results.

Concentrations of Credit Risk

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group 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.

In October 2005, we sold a life insurance and annuity business to OneAmerica Financial Partners, Inc. (OneAmerica) through an indemnity reinsurance arrangement. Under the arrangement, OneAmerica assumes the risks associated with the future policy benefits for the life and annuity contracts. We remain liable for claims if OneAmerica fails to meet its obligations to policy holders. Because we remain primarily liable to the policy holders, the liabilities and obligations associated with the reinsured contracts remain on our Consolidated Balance Sheet with a corresponding reinsurance receivable from OneAmerica of $2.0 billion, of which $1.8 billion is classified in other noncurrent assets as of September 30, 2007. 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. As of September 30, 2007, there were no other significant concentrations of credit risk.

Cautionary Statements

The statements, estimates, projections, guidance or outlook contained in this Quarterly Report on Form 10-Q include forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995

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(PSLRA). When used in this Quarterly Report on Form 10-Q and in future filings by us with the SEC, in our news releases, presentations to securities analysts or investors, and in oral statements made by or with the approval of one of our executive officers, the words or phrases believes, anticipates, expects, plans, seeks, intends, will likely result, estimates, projects or similar expressions are intended to id forward-looking statements. These statements are intended to take advantage of the safe harbor provisions of the PSLRA. These forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the results discussed in the forward-looking statements.

The following discussion contains certain cautionary statements regarding our business that investors and others should consider. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update forward-looking statements in future filings or communications regarding our business or operating results, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed below may have affected past, as well as current, forward-looking statements about future results. Any or all forward-looking statements in this Form 10-Q and in any other public filings or statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors discussed below will be important in determining future results. 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.

Cautionary Statements Relating to Our Historic Stock Option Practices

Matters relating to or arising out of our historic stock option practices, including regulatory inquiries, litigation matters, and potential additional cash and noncash charges could have a material adverse effect on the Company.

In early 2006, our Board of Directors initiated an independent review of the Company s stock option practices from 1994 to 2005. The independent review was conducted by the Independent Committee with the assistance of independent counsel and independent accounting advisors. On October 15, 2006, we announced that the Independent Committee had completed their review of the Company s stock option practices and reported the findings to the non-management directors of the Company. As a result of our historic stock option practices, we restated our previously filed financial statements, we are subject to various regulatory inquiries, and litigation matters, and we may be subject to further cash and noncash charges, any or all of which could have a material adverse effect on us.

Regulatory Inquiries

As previously disclosed, the SEC and the U.S. Attorney for the Southern District of New York are conducting investigations into the Company s historic stock option practices and the Company has received requests for documents from the Internal Revenue Service (IRS), the Minnesota Attorney General and various Congressional committees in connection with these issues and the Company s executive compensation practices. We have not resolved these matters. We cannot provide assurance that the Company will not be subject to adverse publicity, regulatory or criminal fines, penalties, or other sanctions or contingent liabilities or adverse customer reactions in connection with these matters. See Note 13 to our unaudited Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report for a more detailed description of these inquiries and document requests.

Litigation Matters

We and certain of our current and former directors and officers are defendants in a consolidated federal securities class action, an Employee Retirement Income Security Act (ERISA) class action, and state and federal shareholder derivative actions relating to our historic stock option practices. We also have received shareholder demands relating to those practices. Our Board of Directors has designated an independent Special Litigation

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Committee, consisting of two former Minnesota Supreme Court Justices, to investigate and decide whether to pursue the claims raised in the derivative actions and shareholder demands.

In addition, following our announcement that we would delay filing our Quarterly Report on Form 10-Q for the quarter ended June 30, 2006, we received a purported notice of default from persons claiming to hold our 5.8% Senior Unsecured Notes due March 15, 2036 alleging a violation of the indenture governing those debt securities. Subsequently, we filed an action in the U.S. District Court for the District of Minnesota, seeking a declaratory judgment that the Company was not in default. The Company subsequently received a purported notice of acceleration from the same holders purporting to declare an acceleration of the Company s 5.80% Senior Unsecured Notes due March 15, 2036, of which an aggregate of $850 million principal amount is outstanding.

In connection with the departure of William W. McGuire, M.D., our former Chairman and Chief Executive Officer, the U.S. District Court for the District of Minnesota issued an Order on November 29, 2006 preliminarily enjoining Dr. McGuire from exercising any Company stock options and preliminarily enjoining the Company and Dr. McGuire from taking any action with respect to Dr. McGuire s employment agreement and related agreements, including making any payments to Dr. McGuire under those agreements and prohibiting the commencement of any arbitration pursuant to the employment agreement until at least 30 days after the Special Litigation Committee s decision. The Order would have expired on July 30, 2007. On July 30, 2007, the court issued a new Order extending the effectiveness of the original Order to October 15, 2007. The court also clarified that the Order does not prohibit the Company from making payments of up to $3 million to Dr. McGuire under the Company s Executive Savings Plan, and the Order permits an arbitration pursuant to Dr. McGuire s employment agreement, but only as to any dispute regarding Dr. McGuire s Executive Savings Plan (no other arbitration pursuant to the employment agreement may be commenced while the Order is in effect until after the Special Litigation Committee has reached a decision). On October 11, 2007, the court issued another Order extending the effectiveness of the original Order, as extended and clarified by the Order dated July 30, 2007, to the earlier of five calendar days following the Special Litigation Committee s decision or November 30, 2007.

We cannot provide assurance that the ultimate outcome of these actions will not have a material adverse effect on our business, financial condition or results of operations. See Note 13 to our unaudited Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report for a more detailed description of these proceedings and shareholder demands.

In addition, we may be subject to additional litigation or other proceedings or actions arising out of the Independent Committee s review, the Special Litigation Committee s review and the related restatement of our historical financial statements. Litigation and any potential regulatory proceeding or action may be time consuming, expensive and distracting from the conduct of our business. The adverse resolution of any specific lawsuit or any potential regulatory proceeding or action could have a material adverse effect on our business, financial condition and results of operations.

Potential Additional Cash and Noncash Charges

While we believe we have made appropriate judgments in our restated financial statements in determining the financial and tax impacts of our historic stock option practices, we cannot provide assurance that the SEC or the IRS will agree with the manner in which we have accounted for and reported, or not reported, the financial and tax impacts. If the SEC or the IRS disagrees with our financial or tax adjustments and such disagreement results in material changes to our historical financial statements, we may have to further restate our prior financial statements, amend prior filings with the SEC, or take other actions not currently contemplated.

In addition, other adjustments for non-operating cash charges may be required in connection with the resolution of stock option-related matters arising under litigation and the above-referenced regulatory reviews, the amount and timing of which are uncertain but which could be material.

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Cautionary Statements Relating to Our Business

We must effectively manage our health care costs.

Under our risk-based product arrangements, we assume the risk of both medical and administrative costs for our customers in return for monthly premiums. Premium revenues from risk-based products comprise approximately 90% of our total consolidated revenues. We generally use approximately 80% to 85% of our premium revenues to pay the costs of health care services delivered to these customers. The profitability of our risk-based products depends in large part on our ability to predict, price for, and effectively manage health care costs. Total health care costs are affected by the number of individual services rendered and the cost of each service. Our premium revenue on commercial policies is typically fixed for a 12-month period and is generally priced one to four months before the contract commences. Our revenue on Medicare policies is based on bids submitted in June the year before the contract year. We base the premiums we charge and our Medicare bids on our estimate of future health care costs over the fixed contract period; however, medical cost inflation, regulations and other factors may cause actual costs to exceed what was estimated and reflected in premiums or bids. These factors may include increased use of services, increased cost of individual services, catastrophes, epidemics, the introduction of new or costly treatments and technology, new mandated benefits or other regulatory changes, insured population characteristics and seasonal changes in the level of health care use. As a measure of the impact of medical cost on our financial results, relatively small differences between predicted and actual medical costs or utilization rates as a percentage of revenues can result in significant changes in our financial results. For example, if medical costs increased by 1% without a proportional change in related revenues for UnitedHealthcare s commercial insured products, our annual net earnings for 2006 would have been reduced by approximately $170 million. In addition, the financial results we report for any particular period include estimates of costs that have been incurred for which claims are still outstanding. If these estimates prove too low, they will have a negative impact on our future results.

We face competition in many of our markets and customers have flexibility in moving between competitors.

Our businesses compete throughout the United States and face competition in all of the geographic markets in which they operate. For our Uniprise and Health Care Services segments, competitors include Aetna Inc., Cigna Corporation, Coventry Health Care, Inc., Humana Inc., Kaiser Permanente and WellPoint, Inc., numerous for-profit organizations and not-for-profit organizations operating under licenses from the Blue Cross and Blue Shield Association and enterprises that serve more limited geographic areas. Our OptumHealth and Ingenix segments also compete with a number of businesses. The addition of new competitors can occur relatively easily, and customers enjoy significant flexibility in moving between competitors. In particular markets, competitors may have capabilities or resources that give them a competitive advantage. Greater market share, established reputation, superior supplier or provider arrangements, existing business relationships, and other factors all can provide a competitive advantage to our businesses or to their competitors. In addition, significant merger and acquisition activity has occurred in the industries in which we operate, both as to our competitors and suppliers in these industries. Consolidation may make it more difficult for us to retain or increase customers, to improve the terms on which we do business with our suppliers, or to maintain or advance profitability.

We are subject to funding and other risks with respect to revenue received from participation in Medicare and Medicaid programs.

We participate as a payer in Medicare Advantage, Medicare Part D, and various Medicaid programs and receive revenues from the Medicare and Medicaid programs to provide benefits under these programs. Our participation in these programs is through bids that are submitted periodically. Revenues for these programs are dependent upon periodic funding from the federal government or applicable state governments and allocation of the funding through various payment mechanisms. Funding for these programs is dependent upon many factors outside of our control including general economic conditions at the federal or applicable state level and general political issues and priorities. A reduction or less than expected increase in government funding for these programs or change in allocation methodologies may adversely affect our revenues and financial results. Our ability to retain

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and acquire Medicare enrollees is impacted by bids and plan designs submitted by us and our competitors. Under the Medicare Part D program, to qualify for automatic enrollment of low income members, our bids must result in an enrollee premium below a threshold, which is set by the government after our bids are submitted. If the enrollee premium is not below the government threshold, we risk loss of the members who were auto-assigned to us and will not have additional members auto-assigned to us. Our bids are based upon certain assumptions regarding enrollment, utilization, medical costs, and other factors. In the event any of these assumptions are materially incorrect or our competitors bids and positioning are different than anticipated, either as a result of unforeseen changes to the Medicare program or otherwise, our financial results could be materially affected.

Our business is subject to routine government scrutiny, and we must respond quickly and appropriately to frequent changes in government regulations.

Our business is regulated at the federal, state, local and international levels. The laws and rules governing our business and interpretations of those laws and rules are subject to frequent change. The broad latitude that is given to the agencies administering those regulations, as well as future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability in federal and state courts for coverage determinations, contract interpretation and other actions. We must obtain and maintain regulatory approvals to market many of our products, to increase prices for certain regulated products and to complete certain acquisitions and dispositions, including integration of acquisitions. Delays in obtaining approvals or our failure to obtain or maintain these approvals could reduce our revenue or increase our costs.

We participate in federal, state and local government health care coverage programs. These programs generally are subject to frequent change, including changes that may reduce the number of persons enrolled or eligible, reduce the amount of reimbursement or payment levels, or increase our administrative or health care costs under such programs. Such changes have adversely affected our financial results and willingness to participate in such programs in the past, and may do so in the future.

State legislatures and Congress continue to focus on health care issues. Legislative and regulatory proposals at state and federal levels may affect certain aspects of our business, including contracting with physicians, hospitals and other health care professionals; physician reimbursement methods and payment rates; coverage determinations; mandated benefits and minimum medical expenditures; claim payments and processing; drug utilization and patient safety efforts; use and maintenance of individually identifiable health information; medical malpractice litigation; and government-sponsored programs. We cannot predict if any of these initiatives will ultimately become law, or, if enacted, what their terms or the regulations promulgated pursuant to such laws will be, but their enactment could increase our costs, expose us to expanded liability, require us to revise the ways in which we conduct business or put us at risk for loss of business.

We are 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 and state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the U.S. Department of Justice and U.S. Attorneys. Reviews and investigations of this sort can lead to government actions, which can result in the assessment of damages, civil or criminal fines or penalties, or other sanctions, including restrictions or changes in the way we conduct business, loss of licensure or exclusion from participation in government programs. In addition, public perception or publicity surrounding routine governmental investigations may adversely affect our stock price, damage our reputation in various markets or make it more difficult for us to sell products and services.

Relationships with physicians, hospitals and other health care providers are important to our business.

We contract with physicians, hospitals, pharmaceutical benefit service providers, pharmaceutical manufacturers, and other health care providers for competitive prices. Our results of operations and prospects are substantially

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dependent on our continued ability to maintain these competitive prices. In any particular market, these physicians and health care professionals could refuse to contract, demand higher payments, or take other actions that could result in higher health care costs, less desirable products for customers or difficulty meeting regulatory or accreditation requirements. In some markets, certain health care providers, particularly hospitals, physician/hospital organizations or multi-specialty physician groups, may have significant market positions or near monopolies that could result in diminished bargaining power on our part.

In addition, we have capitation arrangements with some physicians, hospitals and other health care providers. Under the typical arrangement, the provider receives a fixed percentage of premium to cover all the medical costs provided to the capitated member. Under some capitated arrangements, the provider may also receive additional compensation from risk sharing and other incentive arrangements. Capitation arrangements limit our exposure to the risk of increasing medical costs, but expose us to risk related to the adequacy of the financial and medical care resources of the provider. To the extent that a capitated provider organization faces financial difficulties or otherwise is unable to perform its obligations under the capitation arrangement, we may be held responsible for unpaid health care claims that should have been the responsibility of the capitated provider and for which we have already paid the provider under the capitation arrangement.

Our relationship with AARP is important.

Under our agreements with AARP, we provide AARP-branded Medicare Supplement insurance, hospital indemnity insurance and other products to AARP members and Medicare Part D prescription drug plans to AARP members and non-members. One of our renewed agreements with AARP expands the relationship to include AARP-branded Medicare Advantage plans for AARP members and non-members. Our renewed agreements with AARP contain commitments regarding corporate governance, corporate social responsibility, diversity and measures intended to improve and simplify the health care experience for consumers. The AARP agreements may be terminated early under certain circumstances, including, depending on the agreement, a material breach by either party, insolvency of either party, a material adverse change in the financial condition of the Company, material changes in the Medicare programs, material harm to AARP caused by the Company, and by mutual agreement. The success of our AARP arrangements depends, in part, on our ability to service AARP and its members, develop additional products and services, price the products and services competitively, meet our corporate governance, corporate social responsibility, and diversity commitments, and respond effectively to federal and state regulatory changes. The loss of our AARP relationship could have an adverse effect on our revenues.

The nature of our business exposes us to litigation risks.

Periodically, we become a party to the types of legal actions that can affect any business, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims, shareholder suits, and intellectual property-related litigation. In addition, because of the nature of our business, we are routinely made party to a variety of legal actions related to the design and management of our service offerings. These matters include, among others, claims related to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. We are also party to certain class action lawsuits brought by provider groups. See Note 13 to our unaudited Condensed Consolidated Financial Statements contained in Part I, Item 1 of this report for a more detailed description of our pending litigation matters.

The Company is largely self-insured with regard to litigation risks; however, we maintain excess liability insurance with outside insurance carriers to minimize risks associated with catastrophic claims. Although we believe that we are adequately insured for claims in excess of our self-insurance, certain types of damages, such as punitive damages in some circumstances, are not covered by insurance. We record liabilities for our estimates of the probable costs resulting from self-insured matters. Although we believe the liabilities established for these risks are adequate, it is possible that the level of actual losses may exceed the liabilities recorded.

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Our businesses providing PBM services face regulatory and other risks associated with the pharmacy benefits management industry that may differ from the risks of providing managed care and health insurance products.

In connection with the PacifiCare merger, we acquired a PBM business, Prescription Solutions. We also provide PBM services through UnitedHealth Pharmaceutical Solutions. Prescription Solutions and UnitedHealth Pharmaceutical Solutions are subject to federal and state anti-kickback and other laws that govern their relationships with pharmaceutical manufacturers, customers and consumers. In addition, federal and state legislatures regularly consider new regulations for the industry that could adversely affect current industry practices, including the receipt or required disclosure of rebates from pharmaceutical companies. In the event a court were to determine that our PBM business acts as a fiduciary under ERISA, we could be subject to claims for alleged breaches of fiduciary obligations in implementation of formularies, preferred drug listings and drug management programs, contracting network practices, specialty drug distribution and other transactions. Our PBM also conducts business as a mail order pharmacy, which subjects it to extensive federal, state and local laws and regulations. The failure to adhere to these laws and regulations could expose our PBM subsidiary to civil and criminal penalties. We also face potential claims in connection with purported errors by our mail order pharmacy, including in connection with the risks inherent in the packaging and distribution of pharmaceuticals and other health care products.

Our businesses depend on effective information systems and the integrity of the data in our information systems.

Our ability to adequately price our products and services, to provide effective and efficient service to our customers, and to accurately report our financial results depends on the integrity of the data in our information systems. As a result of technology initiatives, changes in our system platforms and integration of new business acquisitions, we have been taking steps to consolidate the number of systems we operate and have upgraded and expanded our information systems capabilities. If the information we rely upon to run our businesses were found to be inaccurate or unreliable or if we fail to maintain our information systems and data integrity effectively, we could lose existing customers, have difficulty attracting new customers, have problems in determining medical cost estimates and establishing appropriate pricing, have disputes with customers, physicians and other health care providers, have regulatory problems, have increases in operating expenses or suffer other adverse consequences. In addition, failure to consolidate our systems successfully could result in higher than expected costs and diversion of management s time and energy, which could materially impact our business, financial condition and operating results.

The value of our intangible assets may become impaired.

Due largely to our recent acquisitions, goodwill and other intangible assets represent a substantial portion of our assets. Goodwill and other intangible assets were approximately $18.7 billion as of September 30, 2007, representing approximately 37% of our total assets. If we make additional acquisitions, it is likely that we will record additional intangible assets on our books. We periodically evaluate our goodwill and other intangible assets to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to earnings may be necessary. Any future evaluations requiring an asset impairment of our goodwill and other intangible assets could materially affect our results of operations and shareholders equity in the period in which the impairment occurs. A material decrease in shareholders equity could, in turn, negatively impact our debt ratings or potentially impact our compliance with existing debt covenants.

Our knowledge and information-related businesses depend on our ability to maintain proprietary rights to our databases and related products.

We rely on our agreements with customers, confidentiality agreements with employees, and our trademarks, trade secrets, copyrights and patents to protect our proprietary rights. These legal protections and precautions may not prevent misappropriation of our proprietary information. In addition, substantial litigation regarding

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intellectual property rights exists in the software industry, and we expect software products to be increasingly subject to third-party infringement claims as the number of products and competitors in this industry segment grows. Such litigation and misappropriation of our proprietary information could hinder our ability to market and sell products and services.

We must comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality.

The use of individually identifiable data by our businesses is regulated at the international, federal and state levels. These laws and rules are subject to change by legislation or administrative interpretation. Various state laws address the use and disclosure of individually identifiable health data to the extent they are more restrictive than those contained in the privacy and security provisions in the federal Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act of 1996 (HIPAA). HIPAA also requires that we impose privacy and security requirements on our business associates (as this term is defined in the HIPAA regulations). Even though we provide for appropriate protections through our contracts with our business associates, we still have limited control over their actions and practices. Compliance with any privacy proposals, requirements, and new regulations may result in cost increases due to necessary systems changes, the development of new administrative processes, and the effects of potential noncompliance by our business associates. They also may impose further restrictions on our use of patient identifiable data that is housed in one or more of our administrative databases.

Item 3. ***Quantitative And Qualitative Disclosures About Market Risk***

Market risk represents the risk of changes in the fair value of a financial instrument caused by changes in interest rates or equity prices. The Company s primary market risk is exposure to changes in interest rates that could impact the fair value of our investments and long-term debt.

Approximately $11.3 billion of our investments at September 30, 2007 were debt securities. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed-income investment portfolio at September 30, 2007, the fair value of our fixed-income investments would decrease or increase by approximately $387 million. We manage our investment portfolio to limit our exposure to any one issuer or industry and largely limit our investments to U.S. Government and Agency securities, state and municipal securities, and corporate debt obligations that are investment grade.

To mitigate the financial impact of changes in interest rates, we have entered into interest rate swap agreements to more closely match the interest rates of our long-term debt with those of our cash equivalents and short-term investments. Including the impact of our interest rate swap agreements, approximately $6.4 billion of our commercial paper and debt had variable rates of interest and $1.7 billion had fixed rates as of September 30, 2007. A hypothetical 1% increase or decrease in interest rates would change the fair value of our debt by approximately $180 million.

At September 30, 2007, we had $382 million of equity investments, 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 portfolio.

Item 4. ***Controls and Procedures***

Evaluation of Disclosure Controls and Procedures

The Company maintains disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) that are designed to provide reasonable assurance that information required to be disclosed by the Company in reports that it files or submits under the Exchange Act is (i) recorded,

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processed, summarized and reported within the time periods specified in SEC rules and forms and (ii) accumulated and communicated to the Company s management, including its 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 the Company s Chief Executive Officer and Chief Financial Officer, the effectiveness of the design and operation of the Company s disclosure controls and procedures as of September 30, 2007. Based upon that evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at the reasonable assurance level as of September 30, 2007.

Changes in Internal Control Over Financial Reporting

There have been no changes in the Company s internal control over financial reporting that occurred during the Company s quarter ended September 30, 2007 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. ***Legal Proceedings***

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

Item 1A. ***Risk Factors***

A description of our risk factors is included in Part I, Item 2 Management s Discussion and Analysis of Financial Condition and Results of Operations Cautionary Statements and is incorporated by reference herein. The description updates and replaces the risk factors previously disclosed in our Quarterly Report on Form 10-Q for the quarter ended June 30, 2007. Set forth below is a summary of the material changes to the risk factors that we previously disclosed:

We have updated the risk factors relating to our historic stock option practices, our estimates of health care costs, our relationship with AARP, funding and other risks with respect to revenue received from our participation in Medicare and Medicaid programs, and risks relating to our PBM business; and

To the extent applicable, we have updated the numbers in the risk factors to reflect financial results as of September 30, 2007.

Item 2. ***Unregistered Sales of Equity Securities and Use of Proceeds***

Issuer Purchases of Equity Securities (1)

Third Quarter 2007

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
July 31, 2007	9,000,000 (2)	$ 51.02	9,000,000	82,800,000
August 31, 2007	22,756,261 (3)	$ 48.71	22,750,000	60,050,000
September 30, 2007	9,508,268 (4)	$ 49.78	9,500,000	50,550,000
TOTAL	41,264,529	$ 49.46	41,250,000	

(1) In November 1997, the Company s Board of Directors adopted a share repurchase program, which the Board evaluates periodically and renews as necessary. On May 2, 2006, the Board renewed the share repurchase program and authorized the Company to repurchase up to 140 million shares of our common stock at prevailing market prices. On October 30, 2007, our Board of Directors renewed and increased the Company s common stock repurchase program, under which up to 210 million shares of our common stock may now be repurchased. There is no established expiration date for the program.

(2) Represents the total number of shares of our common stock repurchased during the period.

(3) Represents 22,750,000 shares of our common stock repurchased during the period and 6,261 shares of our common stock withheld by the Company, as permitted by the applicable equity award certificate, to satisfy tax withholding obligations upon vesting of shares of restricted stock.

(4) Represents 9,500,000 shares of our common stock repurchased during the period, of which 8,750,000 of these shares were settled for cash on or before September 30, 2007; and 8,268 shares of our common stock withheld by the Company, as permitted by the applicable equity award certificate, to satisfy tax withholding obligations upon vesting of shares of restricted stock.

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Item 5. ***Other Information***

Board of Director Matters

On October 30, 2007, the Board of Directors of the Company appointed Michele J. Hooper to serve as a director of the Company and a member of the Company s Nominating and Corporate Governance Committee.

Ms. Hooper, age 56, is Managing Partner of The Directors Council, a private company that works with corporate boards to increase their independence, effectiveness and diversity, a firm she co-founded in 2003. From 1999 until 2000, Ms. Hooper was President and Chief Executive Officer of Voyager Expanded Learning, a developer and provider of learning programs and teacher training for public schools. Prior to that, she was President and Chief Executive Officer of Stadtlander Drug Company, Inc., a provider of disease-specific pharmaceutical care, from 1998 until Stadtlander was acquired in 1999. She is also a director of AstraZeneca PLC, PPG Industries, Inc. and Warner Music Group Corp.

Ms. Hooper has not been directly or indirectly involved in any transaction, proposed transaction, or any series of similar transactions with the Company required to be disclosed pursuant to Item 404(a) of Regulation S-K.

In addition, Mr. Ryan, who recently joined the Citigroup Inc. Board of Directors, Mr. Kean and Dr. Mundinger, current members of the Board of Directors, will not stand for re-election at the Company s 2008 annual meeting. The Company continues to actively recruit additional members to serve on the Board of Directors and expects that it will introduce new directors for election at such meeting.

The Board of Directors of the Company also appointed Dannette L. Smith to the separate, dedicated position of Secretary to the Board of Directors. The sole responsibility of the Secretary is to support the activities of the Board of Directors and its committees, including ensuring that the Board of Directors activities and recordkeeping are consistent with corporate best practices.

Non-compete and Transition Agreements

On November 1, 2007, the Company entered into Non-compete and Transition Agreements (the Non-compete Agreements) with each of Richard H. Anderson and Lois E. Quam, former executive officers of the Company.

Under their respective Non-compete Agreements, Mr. Anderson and Ms. Quam agree, for 36 and 24 months, respectively, from their respective dates of termination with the Company (1) not to compete directly or indirectly with the Company, subject to certain exceptions, including involvement with the private equity investment industry, (2) not to recruit or solicit any Company employee or consultant, and (3) not to directly or indirectly solicit any person or entity who was a Company provider or customer within 12 months of their termination date and with whom such executive had contact to further the Company s business or for whom such executive performed services or supervised the provision of services during his or her employment. In addition, each executive also agrees to release the Company, its subsidiaries, its directors, officers, shareholders, agents and other representatives from all claims such executive may have, known or unknown, against them, except that the release neither waives certain rights the executives have under the Company s retirement plan and welfare benefits plans, nor waives the executives right to file an administrative charge with or participate in an administrative proceeding conducted by any governmental agency concerning their employment.

In consideration of each executive s commitments under their respective Non-compete Agreements, including the non-competition and non-solicitation obligations, the Company agrees to pay Mr. Anderson and Ms. Quam a lump sum of $2,030,000 and $1,762,000, respectively.

Amendments to Executive Savings Plan

On October 30, 2007, the Company amended its Executive Savings Plan to increase from 10% to 50% the maximum deferral opportunity under the plan s 401(k) restoration option and to make certain administrative changes to comply with Section 409A of the Internal Revenue Code.

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Item 6. ***Exhibits****

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

Exhibit Number	Description
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 From 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, 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	Registration Rights Agreement, dated as of June 21, 2007, among UnitedHealth Group Incorporated, Banc of America Securities LLC, Citigroup Global Markets Inc. and Morgan Stanley & Co. Incorporated (incorporated by reference to Exhibit 4.4 to the Company s Quarterly Report on Form 10-Q for the quarter ended June 30, 2007)
12.1	Ratio of Earnings to Fixed Charges
31	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

* 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.

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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 **Stephen J. Hemsley**	President and Chief Executive Officer (principal executive officer)	Dated: November 1, 2007
/s/ GEORGE L. MIKAN III **George L. Mikan III**	Executive Vice President and Chief Financial Officer (principal financial officer)	Dated: November 1, 2007
/s/ ERIC S. RANGEN **Eric S. Rangen**	Senior Vice President and Chief Accounting Officer (principal accounting officer)	Dated: November 1, 2007

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EXHIBITS*

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