UNITEDHEALTH GROUP INC
Form 10-Q/A
March 06, 2007
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q/A

Amendment No. 1

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2006

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

Minnetonka, Minnesota	**55343**
(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 ¨ No x

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 x	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 x

As of February 15, 2007, there were 1,354,320,209 shares of the registrant s Common Stock, $.01 par value per share, issued and outstanding.

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UNITEDHEALTH GROUP

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EXPLANATORY NOTE

In this Amendment No. 1 on Form 10-Q/A to its quarterly report on Form 10-Q for the quarter ended March 31, 2006, UnitedHealth Group Incorporated (UnitedHealth Group or the Company) is restating its Condensed Consolidated Balance Sheets as of March 31, 2006 and December 31, 2005 and the related Condensed Consolidated Statements of Operations and Cash Flows for the quarters ended March 31, 2006 and March 31, 2005 and is amending its Management s Discussion and Analysis of Financial Condition and Results of Operations for these periods. This Form 10-Q/A generally does not reflect events that have occurred after May 10, 2006, or modify or update the disclosures originally presented in the Form 10-Q, except to reflect the effects of the restatement, to reflect changes in the Company s evaluation of controls and procedures, to update the risks the Company faces as a result of its historic stock option practices, and to clarify certain disclosures.

Immediately after the filing of this Form 10-Q/A, the Company will file quarterly reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, and an annual report on Form 10-K for the year ended December 31, 2006 (the 2006 Form 10-K). The two Form 10-Qs will contain restated financial information for the periods ended June 30, 2005 and September 30, 2005. In the 2006 Form 10-K, the Company will restate its Consolidated Balance Sheet as of December 31, 2005, and the related Consolidated Statements of Operations, Changes in Shareholders Equity and Cash Flows for each of the fiscal years ended December 31, 2005 and December 31, 2004 and quarterly financial data for the quarter ended December 31, 2005. The 2006 Form 10-K will also reflect the restatement of Selected Financial Data in Item 6 for the fiscal years ended December 31, 2005, 2004, 2003 and 2002, and the amendment of Management s Discussion and Analysis of Financial Condition and Results of Operations presented in the Company s Form 10-K for the fiscal year ended December 31, 2005 as it related to the fiscal years ended December 31, 2005 and December 31, 2004.

Previously filed annual reports on Form 10-K and quarterly reports on Form 10-Q (other than for the quarter ended March 31, 2006, which has been amended by this Form 10-Q/A) have not been amended and should not be relied upon.

Background of the Restatement

In March 2006, media reports questioned whether a number of companies, including UnitedHealth Group, had engaged in backdating stock option grants. Shortly thereafter, the Company was notified that the Securities and Exchange Commission (the SEC) had commenced an inquiry into the Company s historic practices concerning stock option grants.

On April 4, 2006, the Company s Board of Directors (the Board) created an independent committee comprised of three independent directors to review the Company s option grant practices over the period from 1994 through 2005 (the Independent Review Period). The independent committee engaged the law firm of Wilmer Cutler Pickering Hale and Dorr LLP (WilmerHale) as counsel for its independent review, and WilmerHale retained independent accounting advisors. WilmerHale has advised that, in the course of its review, it examined physical and electronic documents comprising more than 26 million pages of material and conducted over 80 interviews.

WilmerHale s report of its findings (the WilmerHale Report) was furnished to the Board and publicly issued on October 15, 2006. The complete text of the WilmerHale Report is available on the Company s Web site, www.unitedhealthgroup.com, and is included as an exhibit to the Company s Current Report on Form 8-K filed with the SEC on October 16, 2006.

After substantially completing its analysis of the accounting adjustments necessary to reflect the findings of the WilmerHale Report, on November 8, 2006, the Company filed with the SEC a Current Report on Form 8-K reporting management s conclusion, which the Audit Committee of the Board had approved, that due solely to the Company s historic stock option practices the Company s financial statements for the fiscal years ended December 31, 1994 through 2005, the interim periods contained therein, the quarter ended March 31, 2006 and all earnings and press releases, including for the quarters ended June 30, 2006 and September 30, 2006, and similar communications issued by the Company for such periods, and the related reports of the Company s independent registered public accounting firm, should no longer be relied upon. The Form 8-K also reported that management had re-evaluated its assessment of the Company s internal controls over financial reporting and had concluded that, as of December 31, 2005, the Company had a material weakness solely relating to stock option plan administration and accounting for and disclosure of stock option grants.

The Form 8-K also disclosed that certain of the Company s current and former senior executives had agreed to increase the exercise price of all stock options granted to that executive with stated grant dates between 1994 and 2002 to eliminate any financial benefit resulting from what the WilmerHale Report concluded was the likely backdating of grants that they received.

After completing its internal review of the accounting treatment for all option grants, and following consultation on certain interpretive accounting issues with the Office of the Chief Accountant of the SEC, management has concluded, and the Audit Committee of the Board has approved the conclusion, that the Company used incorrect measurement dates and made other errors described below in accounting for stock option grants and, accordingly, that the Company s previously issued financial statements should be restated.

Summary of the Restatement Adjustments

As of January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123R), using the modified retrospective transition method. Under this method, all prior period financial statements are being restated to recognize compensation cost in the amounts historically disclosed in our consolidated financial statements under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). Prior to January 1, 2006, the Company accounted for share-based compensation granted under its stock option plans using the recognition and measurement provisions of Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under APB 25, a company was not required to recognize compensation expense for stock options issued to employees if the exercise price of the stock options was at least equal to the quoted market price of the company s common stock on the measurement date. APB 25 defined the measurement date as the first date on which both the number of shares that an individual employee was entitled to receive and the option or purchase price, if any, were known.

The restatement in this Form 10-Q/A principally reflects additional stock-based compensation expense and related tax effects as of December 31, 2005 and for the three-month period ended March 31, 2006 under both FAS 123R, the Company s current accounting method, and APB 25, the Company s historical accounting method, relating to the Company s historic stock option practices. The restatement also reflects certain other accounting adjustments, including adjustments unrelated to historic stock option practices, which are not material either individually or in the aggregate to the period ended March 31, 2006 or prior periods.

The principal components of the restatement are as follows:

Revised Measurement Dates. Based on all available evidence, the Company applied the methodologies described below to determine the appropriate measurement dates under both FAS 123 and APB 25 for grants in the following categories: (1) grants of approximately 80 million shares on a split-adjusted basis to Section 16 officers (Section 16 Grants); (2) grants of approximately 260 million shares on a split-adjusted basis to middle management and senior management employees (Broad-Based Grants); and (3) grants of approximately 50 million shares on a split-adjusted basis in connection with the hiring or promotion of employees (New Hire and Promotion Grants). As a result of this analysis, the Company has determined that, in most cases, the stated grant date was not the correct measurement date.

Section 16 Grants Section 16 Grants, generally made to eight to twelve officers, required approval by the Compensation and Human Resources Committee of the Board (the Compensation Committee).

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For the majority of Section 16 Grants, Compensation Committee approval was reflected in Written Actions. The WilmerHale Report concluded that the Written Actions were generally executed subsequent to the stated grant dates. (Under Minnesota corporate law, it is permissible to make a Written Action effective as of a date other than the date on which the last of the required signers affixes his or her signature, even if that effective date is before the last signature affixed.) Based on the available evidence, the Company has determined that the appropriate measurement date for each of these Section 16 Grants is the earlier of (a) the date on which a Form 4 (or other statement of changes in beneficial ownership) was filed with the SEC with respect to a particular officer s grant or (b) the date on which the written action with respect to that grant was likely executed by a majority of the members of the Compensation Committee.

As to certain other Section 16 Grants, Compensation Committee approval occurred at a meeting or there was general Compensation Committee approval of the Section 16 Grant together with a delegation to the Chairman of the Compensation Committee to determine the final amount of stock options, grant date and exercise price for each Section 16 officer receiving options. The Company has determined, based on all available evidence, that the appropriate measurement date for these Section 16 Grants is the earlier of (a) the date on which a Form 4 (or other statement of changes in beneficial ownership) was filed with the SEC with respect to a particular officer s grant or (b) the date on which a resolution with respect to that grant was adopted at a meeting of the Compensation Committee or a decision was made by the Chairman of the Compensation Committee, if so delegated.

For option grants with stated grant dates in October 1999 that were made in connection with the entry of employment agreements for our former chief executive officer and our current chief executive officer (both of whom had been employed by the Company prior to that date), the Company has determined that the appropriate measurement date is the date on which the employment agreements were executed on behalf of the Company. With respect to stock option grants with a stated grant date in October 1999 that represented the number of additional stock options necessary to equal the minimum annual stock option grant provided for pursuant to each such employment agreement, the Company has determined that the appropriate measurement date is the last day of 1999, the calendar year in which the Company was contractually obligated to make the grants.

Broad-Based Grants Between 1,500 and 4,000 middle and senior management employees periodically and customarily received options. As described in the WilmerHale Report, our former chief executive officer, acting pursuant to authority delegated to him by the Compensation Committee, chose the grant dates and overall amounts for Broad-Based Grants and ultimately reflected the Broad-Based Grants in CEO Certificates.

The Company followed separate allocation processes to determine the particular recipients and individual option amounts of grants to middle management employees and senior management employees. In the majority of Broad-Based Grants, the process of allocating stock option grants among individual employees in both middle management and senior management continued beyond the stated grant date. After the date on which substantially all granting activities were completed, there were an insignificant number of changes to option awards attributable to circumstances such as the effective cancellation of a grant because of an employee s termination, administrative error corrections, promotion or individual performance reassessment.

Based on all available evidence, the Company has determined that the appropriate measurement date for Broad-Based Grants was the later of the following two dates: (a) the date on which the evidence identified by the Company indicated that a communication to or from our former chief executive officer refers to a particular grant, or the grant was presented to the Compensation Committee or (b) the date on which the allocation of the options to individual employees and grant process associated with the Broad-Based Grant was substantially complete. Where information is not available to evidence either (a) or (b) above, the Company has determined the appropriate measurement date to be the date on which the Company determined, based upon all available evidence, that the CEO Certificate for such grant was likely executed. Where option award amounts changed subsequent to the date the allocation process was substantially complete, the Company has determined that each award that was changed is a separate grant with its own measurement date and should not be considered indicative that the granting process was not complete.

New Hire and Promotion Grants During the Independent Review Period, the Company granted stock options to approximately 2,500 employees in connection with their hire or promotion (New Hire and Promotion Grants).
For New Hire and Promotion Grants made prior to 2002, the Company typically chose grant dates by determining the lowest closing price of the Company s common stock between the date of an event in the recruitment of the newly hired employee (e.g., date of first contact, date of an offer letter) or promotion of the employee and the end of the quarter in which the employee started work or was promoted. As a result of this practice, some employees received stock options with grant dates that were earlier than that employee s start date. In 2002, the Company changed to a practice of determining grant dates for new hires and promotions to be the date of the lowest closing price of the Company s common stock between the start date of employment or date of promotion and the end of the quarter in which the employee started work or was promoted. The Company used these stated grant dates as the measurement dates for accounting purposes.

The Company has concluded that the measurement dates used with respect to nearly all of the New Hire and Promotion Grants during the Independent Review Period were not correct because the Company s practice was to determine grant dates with the benefit of hindsight. The Company has determined that the appropriate measurement date for each New Hire and Promotion Grant was the date on which the Company set the terms of the award, or, where the Company could not identify such date based on all available evidence, the last date of the fiscal quarter in which a particular New Hire or Promotion Grant was made.

1999 Grant of Supplemental Options. In the fourth quarter of 1999, following a decline in its stock price, the Company granted supplemental stock options to acquire 2.2 million shares of Company common stock (17.6 million shares on a split-adjusted basis) to a broad group of employees, including our former chief executive officer and other Section 16 officers. The supplemental options were granted in connection with the suspension of the vesting and exercisability of an equal number of options with exercise prices above $46.50 ($5.8125 on a split-adjusted basis) that had previously been granted to those employees (the Suspended Options). The supplemental options had a stated grant date of October 13, 1999 and an exercise price equal to $40.125 ($5.0156 on a split-adjusted basis).

After taking into account all available evidence regarding the Suspended Options, the Company has concluded that, under APB 25, the grant of the supplemental options constituted an effective re-pricing subject to variable accounting for each option until exercise, forfeiture or expiration. Additionally, the Company has determined that, under FAS 123, the grant of the supplemental options was a modification that required an incremental fair value charge to be recognized over the related vesting period.

2000 Reactivation of Suspended Options. In 2000, the Company reactivated the vesting and exercisability of the Suspended Options. The Company has determined that, under APB 25 and FAS 123, the reactivation of the vesting and exercisability of the Suspended Options was a new stock option grant that should have had a new measurement date, and the Company has determined that the appropriate measurement date is the date grantees were again permitted to exercise their previously vested awards.

Cliff Vesting Options. Prior to April 2000, the Company granted to employees certain stock options that vested 100% on the sixth or ninth anniversary of the date of grant (the Cliff Vesting Options). Under the terms of the options, the Company could elect to accelerate the vesting of all or a portion of the Cliff Vesting Options at its discretion. The Company followed a policy of accelerating the vesting of a consistent percentage of the Cliff Vesting Options, unless the option holder was subject to disciplinary action or performing at a less than satisfactory level. This resulted in nearly all option holders having their Cliff Vesting Options accelerated so they actually vested as if they had a 20% or 25% per year time-based vesting schedule (i.e., a four-year or five-year vesting period).

Grant of Cliff Vesting Options. Under APB 25, an award should be accounted for as a performance award if its cliff vesting terms are not considered to be substantive. Based on numerous factors, including evaluation

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of employee turnover rates, the Company has determined that the nine-year vesting term was not substantive in grants after January 1995 to middle management employees. Accordingly, these options should have been subject to variable accounting until each of their vesting dates. With respect to substantially all other Cliff Vesting Options, the Company has concluded that the cliff vesting term is substantive.

Acceleration of Cliff Vesting Options. In accordance with the provisions of Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (An Interpretation of APB Opinion No. 25) (FIN 44), subsequent to July 1, 2000, the acceleration of the six- or nine-year cliff vesting term of a stock option constituted a modification. Accordingly, the Company should have measured the intrinsic value of the award at the date of the modification and recognized this amount as compensation cost on the termination of employment if, absent the acceleration, the award would have been forfeited pursuant to its original terms. Under FAS 123, the performance targets were taken into consideration when determining the expected term of the award and, therefore, the acceleration of vesting was not considered to be a modification of the terms.

Other Modifications of Option Terms. The Company has also determined that certain other actions were taken that resulted in the modification of option terms, as follows:

Options Modified Upon Terminations. On approximately 75 occasions from 1998 to 2005, the Company entered into amended employment or separation agreements with employees that resulted in the modification of vesting or cancellation terms of their stock option agreements. Under APB 25, the potential compensation expense of the modification should have been measured at the date of the modification and recognized if the employee ultimately received a benefit on the termination date. Under FAS 123, the modification should have been recognized at the date of the modification based upon the incremental fair value provided to the employee.

1999 Cancellation and Reissuance of Options. In the fourth quarter of 1999, the Company issued stock options to acquire an aggregate of 400,000 shares of Company common stock (3.2 million shares on a split-adjusted basis) to approximately 65 employees in exchange for the cancellation of an equal number of stock options that had previously been granted to those employees at various times earlier in 1999. The reissued stock options had a stated grant date of October 13, 1999 and an exercise price equal to $40.125 ($5.0156 on a split-adjusted basis), which was lower than the exercise price of the cancelled options. The Company has determined that, under APB 25, this constituted a re-pricing, resulting in variable accounting for each option until exercise, forfeiture or expiration. Additionally, the Company has concluded that, under FAS 123, this would also be viewed as a modification to the award and the incremental fair value in addition to the originally measured fair value should have been recognized over the remaining vesting period.

Related Tax Adjustments. The restatement in this Form 10-Q/A also reflects the estimated loss of certain tax deductions and additional interest expense related to the exercise of stock options granted to certain of the Company s executive officers that as a result of the revision of measurement dates no longer qualify as deductible performance-based compensation in accordance with Internal Revenue Code section 162(m).

Additional Information

Note 2 of the Notes to Condensed Consolidated Financial Statements in this Form 10-Q/A sets forth, for the periods ended March 31, 2006 and March 31, 2005, the impact under FAS 123R and APB 25 of recognizing additional stock-based compensation expense and related tax effects as a result of the Company s historic stock option practices.

The Company also conducted a sensitivity analysis to assess how the restatement adjustments described in this Form 10-Q/A would have changed under two alternative methodologies for determining measurement dates for stock option grants made during the Independent Review Period. See Management s Discussion and Analysis of Financial Condition and Results of Operations, presented in Item 2 of this Form 10-Q/A, for information

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regarding the incremental stock-based compensation cost that would result from using alternate measurement date determination methodologies. See Cautionary Statements in Item 2 for a discussion of certain risk factors related to the Company s historic stock option practices.

Item 4 of this Form 10-Q/A describes management s re-evaluation of the Company s disclosure controls and procedures as of March 31, 2006. In light of the findings of the WilmerHale Report and the restatement of the Company s financial statements, management concluded that the Company had a material weakness in internal control over financial reporting solely relating to stock option plan administration and accounting for and disclosure of stock option grants as of March 31, 2006 and that, solely for this reason, its disclosure controls and procedures were not effective as of that date. As Item 4 of this Form 10-Q/A further describes, the Company had fully remediated the material weakness as of December 31, 2006.

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PART I. FINANCIAL INFORMATION

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

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

(In millions, except share and per share data)

	March 31, 2006 (As Restated)	December 31, 2005 (As Restated)
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 7,844	$ 5,421
Short-Term Investments	522	590
Accounts Receivable, net	1,316	1,207
Assets Under Management	1,796	1,825
Deferred Income Taxes	684	650
Other Current Assets	1,462	854
Total Current Assets	13,624	10,547
Long-Term Investments	9,220	8,971
Property, Equipment and Capitalized Software, net	1,681	1,647
Goodwill	16,595	16,238
Other Intangible Assets, net	2,038	2,020
Other Assets	1,890	1,865
TOTAL ASSETS	$ 45,048	$ 41,288
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities		
Medical Costs Payable	$ 8,124	$ 7,262
Accounts Payable and Accrued Liabilities	3,260	3,285
Other Policy Liabilities	3,148	1,845
Commercial Paper and Current Maturities of Long-Term Debt	1,073	3,261
Unearned Premiums	2,524	1,000
Total Current Liabilities	18,129	16,653
Long-Term Debt, less current maturities	6,426	3,834
Future Policy Benefits for Life and Annuity Contracts	1,785	1,761
Deferred Income Taxes and Other Liabilities	1,186	1,225
Commitments and Contingencies (Note 14)		
Shareholders Equity		
Common Stock, $0.01 par value 3,000 shares authorized; 1,343 and 1,358 issued and outstanding	13	14
Additional Paid-In Capital	6,408	7,510

Retained Earnings	11,149	10,258
Accumulated Other Comprehensive Income:		
Net Unrealized (Losses) Gains on Investments, net of tax effects	(48)	33
Total Shareholders Equity	17,522	17,815
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 45,048	$ 41,288

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 March 31, 2006 (As Restated)	Three Months Ended March 31, 2005 (As Restated)
REVENUES		
Premiums	$ 16,179	$ 10,127
Services	1,038	880
Products	165	26
Investment and Other Income	199	114
Total Revenues	17,581	11,147
OPERATING COSTS		
Medical Costs	13,283	8,114
Operating Costs	2,531	1,710
Cost of Products Sold	137	16
Depreciation and Amortization	157	109
Total Operating Costs	16,108	9,949
EARNINGS FROM OPERATIONS	1,473	1,198
Interest Expense	(82)	(49)
EARNINGS BEFORE INCOME TAXES	1,391	1,149
Provision for Income Taxes	(500)	(413)
NET EARNINGS	$ 891	$ 736
BASIC NET EARNINGS PER COMMON SHARE	$ 0.66	$ 0.58
DILUTED NET EARNINGS PER COMMON SHARE	$ 0.63	$ 0.55
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,353	1,278
DILUTIVE EFFECT OF COMMON STOCK EQUIVALENTS	66	66
DILUTED WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	1,419	1,344

See notes to condensed consolidated financial statements

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UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(In millions)

	Three Months Ended March 31, 2006 (As Restated)	2005 (As Restated)
OPERATING ACTIVITIES		
Net Earnings	$ 891	$ 736
Noncash Items:		
Depreciation and Amortization	157	109
Deferred Income Taxes and Other	(227)	(68)
Stock-Based Compensation	90	69
Net Change in Other Operating Items, net of effects from acquisitions and changes in AARP balances:		
Accounts Receivable and Other Current Assets	(606)	5
Medical Costs Payable	720	248
Accounts Payable and Other Accrued Liabilities	365	238
Unearned Premiums	1,500	(199)
Cash Flows From Operating Activities	2,890	1,138
INVESTING ACTIVITIES		
Cash Paid for Acquisitions, net of cash assumed and other effects	(555)	(19)
Purchases of Property, Equipment and Capitalized Software	(171)	(113)
Purchases of Investments	(930)	(1,857)
Maturities and Sales of Investments	580	1,590
Cash Flows Used For Investing Activities	(1,076)	(399)
FINANCING ACTIVITIES		
Repayments of Commercial Paper, net	(2,193)	(273)
Proceeds from Issuance of Long-Term Debt	3,000	500
Repayments of Convertible Subordinated Debentures	(91)	
Common Stock Repurchases	(1,754)	(1,100)
Proceeds from Common Stock Issuances under Stock-Based Compensation Plans	145	132
Stock-Based Compensation Excess Tax Benefits	143	68
Customer Funds Administered	1,412	19
Other	(53)	(3)
Cash Flows From (Used For) Financing Activities	609	(657)
INCREASE IN CASH AND CASH EQUIVALENTS	2,423	82
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	5,421	3,991
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 7,844	$ 4,073

See notes to condensed consolidated financial statements

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UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited) (As Restated)

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, except as discussed in Note 2, needed to present the financial results for these interim periods fairly. In accordance with the rules and regulations of the Securities and Exchange Commission, we have omitted certain footnote disclosures that would substantially duplicate the disclosures contained in our annual audited consolidated financial statements. Read together with the disclosures below, we believe the interim financial statements are presented fairly. However, these unaudited condensed consolidated financial statements should be read together with the consolidated financial statements and the notes included in our Annual Report on Form 10-K for the year ended December 31, 2006 to be filed with the Securities and Exchange Commission on the date hereof.

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.

Adoption of FAS 123R

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (FAS) No. 123 (revised 2004), Share-Based Payment (FAS 123R). FAS 123R supersedes APB Opinion No. 25, Accounting for Stock Issued to Employees (APB 25). Under APB 25, no compensation expense is recognized for employee stock option grants if the exercise price of a company s stock option grant is at or above the fair market value of the underlying stock on the date of grant. FAS 123R requires the determination of the fair value of share-based compensation at the grant date and recognition of the related expense over the period in which the share-based compensation vests. The Company adopted FAS 123R effective January 1, 2006 using the modified retrospective method. All prior periods have been restated to give effect to the fair-value-based method of accounting for awards granted in fiscal years beginning on or after January 1, 1995.

2. Restatement of Unaudited Condensed Consolidated Financial Statements

In March 2006, media reports questioned whether a number of companies, including UnitedHealth Group, had engaged in backdating stock option grants. Shortly thereafter, the Company was notified that the Securities and Exchange Commission (the SEC) had commenced an inquiry into the Company s practices concerning stock option grants.

On April 4, 2006, the Company s Board of Directors (the Board) created an independent committee comprised of three independent directors to review the Company s option grant practices over the period from 1994 through 2005 (the Independent Review Period). The independent committee engaged the law firm of Wilmer Cutler Pickering Hale and Dorr LLP (WilmerHale) as counsel for its independent review, and WilmerHale retained independent accounting advisors.

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UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

WilmerHale s report of its findings (the WilmerHale Report) was furnished to the Board and publicly issued on October 15, 2006. WilmerHale s findings include, among other things, that many of the stock option grants it reviewed were likely backdated, that a 1999 supplemental grant of stock options was not accounted for correctly in the Company s financial statements and that the Company s controls with respect to stock option grants were inadequate.

After substantially completing its analysis of the accounting adjustments necessary to reflect the findings of the WilmerHale Report, on November 8, 2006, the Company filed with the SEC a Current Report on Form 8-K reporting management s conclusion, which the Audit Committee of the Board had approved, that due solely to the Company s historic stock option practices the Company s financial statements for the fiscal years ended December 31, 1994 through 2005, the interim periods contained therein, the quarter ended March 31, 2006 and all earnings and press releases, including for the quarters ended June 30, 2006 and September 30, 2006, and similar communications issued by the Company for such periods, and the related reports of the Company s independent registered public accounting firm, should no longer be relied upon. The Form 8-K also reported that management had re-evaluated its assessment of the Company s internal controls over financial reporting and had concluded that, as of December 31, 2005, the Company had a material weakness solely relating to stock option plan administration and accounting for and disclosure of stock option grants.

After completing its internal review of the accounting treatment for all option grants, management has concluded, and the Audit Committee of the Board has approved the conclusion, that the Company used incorrect measurement dates and made other errors described below in accounting for stock option grants and, accordingly, that the Company s previously issued financial statements should be restated.

Summary of the Restatement Adjustments

As of January 1, 2006, the Company adopted FAS 123R, using the modified retrospective transition method. Under this method, all prior period financial statements are required to be restated to recognize compensation cost in the amounts historically disclosed in our consolidated financial statements under Statement of Financial Accounting Standards No. 123, Accounting for Stock-Based Compensation (FAS 123). Prior to January 1, 2006, the Company accounted for share-based compensation granted under its stock option plans using the recognition and measurement provisions of APB 25. Under APB 25, a company was not required to recognize compensation expense for stock options issued to employees if the exercise price of the stock options was at least equal to the quoted market price of the company s common stock on the measurement date. APB 25 defined the measurement date as the first date on which both the number of shares that an individual employee was entitled to receive and the option or purchase price, if any, were known.

The restatement principally reflects additional stock-based compensation expense and related tax effects as of December 31, 2005 and for the three-month period ended March 31, 2005 under both FAS 123R, the Company s current accounting method, and APB 25, the Company s historical accounting method, relating to the Company s historic stock option practices. The restatement also reflects certain other accounting adjustments, including adjustments unrelated to historic stock option practices, which are not material either individually or in the aggregate to the current or prior periods.

The principal components of the restatement are as follows:

Revised Measurement Dates. Based on the available evidence, the Company applied the methodologies described below to determine the appropriate measurement dates under both FAS 123 and APB 25 for grants in the following categories: (1) grants of approximately 80 million shares on a split-adjusted basis to Section 16 officers (Section 16 Grants); (2) grants of approximately 260 million shares on a split-adjusted basis to middle

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

management and senior management employees (Broad-Based Grants); and (3) grants of approximately 50 million shares on a split-adjusted basis in connection with the hiring or promotion of employees (New Hire and Promotion Grants). As a result of this analysis, the Company has determined that, in most cases, the stated grant date was not the correct measurement date.

Section 16 Grants Section 16 Grants, generally made to eight to twelve officers, required approval by the Compensation and Human Resources Committee of the Board (the Compensation Committee).

For the majority of Section 16 Grants, Compensation Committee approval was reflected in Written Actions. The WilmerHale Report concluded that the Written Actions were generally executed subsequent to the stated grant dates. (Under Minnesota corporate law, it is permissible to make a Written Action effective as of a date other than the date on which the last of the required signers affixes his or her signature, even if that effective date is before the last signature affixed.) Based on the available evidence, the Company has determined that the appropriate measurement date for each of these Section 16 Grants is the earlier of (a) the date on which a Form 4 (or other statement of changes in beneficial ownership) was filed with the SEC with respect to a particular officer s grant or (b) the date on which the written action with respect to that grant was likely executed by a majority of the members of the Compensation Committee.

As to certain other Section 16 Grants, Compensation Committee approval occurred at a meeting or there was general Compensation Committee approval of the Section 16 Grant together with a delegation to the Chairman of the Compensation Committee to determine the final amount of stock options, grant date and exercise price for each Section 16 officer receiving options. The Company has determined, based on available evidence, that the appropriate measurement date for these Section 16 Grants is the earlier of (a) the date on which a Form 4 (or other statement of changes in beneficial ownership) was filed with the SEC with respect to a particular officer s grant or (b) the date on which a resolution with respect to that grant was adopted at a meeting of the Compensation Committee or a decision was made by the Chairman of the Compensation Committee, if so delegated.

For option grants with stated grant dates in October 1999 that were made in connection with the entry of employment agreements for our former chief executive officer and our current chief executive officer (both of whom had been employed by the Company prior to that date), the Company has determined that the appropriate measurement date is the date on which the employment agreements were executed on behalf of the Company. With respect to stock option grants with a stated grant date in October 1999 that represented the number of additional stock options necessary to equal the minimum annual stock option grant provided for pursuant to each such employment agreement, the Company has determined that the appropriate measurement date is the last day of 1999, the calendar year in which the Company was contractually obligated to make the grants.

Broad-Based Grants Between 1,500 and 4,000 middle and senior management employees periodically and customarily received options. As described in the WilmerHale Report, our former chief executive officer, acting pursuant to authority delegated to him by the Compensation Committee, chose the grant dates and overall amounts for Broad-Based Grants and ultimately reflected the Broad-Based Grants in CEO certificates.

The Company followed separate allocation processes to determine the particular recipients and individual option amounts of grants to middle management employees and senior management employees. In the majority of Broad-Based Grants, the process of allocating stock option grants among individual employees to both middle management and senior management continued beyond the stated grant date. After the date on which substantially all granting activities were completed, there were an insignificant number of changes to option awards attributable to circumstances such as the effective cancellation of a grant because of an employee s termination, administrative error corrections, promotion or individual performance reassessment.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Based on all available evidence, the Company has determined that the appropriate measurement date for Broad-Based Grants was the later of the following two dates: (a) the date on which the evidence identified by the Company indicated that a communication to or from our former chief executive officer refers to a particular grant, or the grant was presented to the Compensation Committee or (b) the date on which the allocation of the options to individual employees and grant process associated with the Broad-Based Grant was substantially complete. Where information is not available to evidence either (a) or (b) above, the Company has determined the appropriate measurement date to be the date on which the Company determined, based upon all available evidence, that the CEO Certificate for such grant was likely executed. Where option award amounts changed subsequent to the date the allocation process was substantially complete, the Company has determined that each award that was changed is a separate grant with its own measurement date and should not be considered indicative that the granting process was not complete.

New Hire and Promotion Grants During the Independent Review Period, the Company granted stock options to approximately 2,500 employees in connection with their hire or promotion (New Hire and Promotion Grants).

For New Hire and Promotion Grants made prior to 2002, the Company typically chose grant dates by determining the lowest closing price of the Company s common stock between the date of an event in the recruitment of the newly hired employee (e.g., date of first contact, date of an offer letter) or promotion of the employee and the end of the quarter in which the employee started work or was promoted. As a result of this practice, some employees received stock options with grant dates that were earlier than that employee s start date. In 2002, the Company changed to a practice of determining grant dates for new hires and promotions to be the date of the lowest closing price of the Company s common stock between the start date of employment or date of promotion and the end of the quarter in which the employee started work or was promoted. The Company historically used these stated grant dates as the measurement dates for accounting purposes.

The Company has concluded that the measurement dates used with respect to nearly all of the New Hire and Promotion Grants during the Independent Review Period were not correct because the Company s practice was to determine grant dates with the benefit of hindsight. The Company has determined that the appropriate measurement date for each New Hire and Promotion Grant was the date on which the Company set the terms of the award, or, where the Company could not identify such date based on all available evidence, the last date of the fiscal quarter in which a particular New Hire or Promotion Grant was made.

1999 Grant of Supplemental Options. In the fourth quarter of 1999, following a decline in its stock price, the Company granted supplemental stock options to acquire 2.2 million shares of Company common stock (17.6 million shares on a split-adjusted basis) to a broad group of employees, including our former chief executive officer and other Section 16 officers. The supplemental options were granted in connection with the suspension of the vesting and exercisability of an equal number of options with exercise prices above $46.50 ($5.8125 on a split-adjusted basis) that had previously been granted to those employees (the Suspended Options). The supplemental options had a stated grant date of October 13, 1999 and an exercise price equal to $40.125 ($5.0156 on a split-adjusted basis).

After taking into account all available evidence regarding the Suspended Options, the Company has concluded that, under APB 25, the grant of the supplemental options constituted an effective re-pricing subject to variable accounting for each option until exercise, forfeiture or expiration. Additionally, the Company has determined that, under FAS 123, the grant of the supplemental options was a modification that required an incremental fair value charge to be recognized over the related vesting period.

2000 Reactivation of Suspended Options. In 2000, the Company reactivated the vesting and exercisability of the Suspended Options. The Company has determined that, under APB 25 and FAS 123, the reactivation of the

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

vesting and exercisability of the Suspended Options was a new stock option grant that should have had a new measurement date, and the Company has determined that the appropriate measurement date is the date grantees were again permitted to exercise their previously-vested awards.

Cliff Vesting Options. Prior to April 2000, the Company granted to employees certain stock options that vested 100% on the sixth or ninth anniversary of the date of grant (the Cliff Vesting Options). Under the terms of the options, the Company could elect to accelerate the vesting of all or a portion of the Cliff Vesting Options at its discretion. The Company followed a policy of accelerating the vesting of a consistent percentage of the Cliff Vesting Options, unless the option holder was subject to disciplinary action or performing at a less than satisfactory level. This resulted in nearly all option holders having their Cliff Vesting Options accelerated so they actually vested as if they had a 20% or 25% per year time-based vesting schedule (i.e., a four-year or five-year vesting period).

Grant of Cliff Vesting Options. Under APB 25, an award should be accounted for as a performance award if its cliff vesting terms are not considered to be substantive. Based on numerous factors, including evaluation of employee turnover rates, the Company has determined that the nine-year vesting term was not substantive in grants after January 1995 to middle management employees. Accordingly, these options should have been subject to variable accounting until each of their vesting dates. With respect to substantially all other Cliff Vesting Options, the Company has concluded that the cliff vesting term is substantive.

Acceleration of Cliff Vesting Options. In accordance with the provisions of Financial Accounting Standards Board Interpretation No. 44, Accounting for Certain Transactions Involving Stock Compensation (An Interpretation of APB Opinion No. 25) (FIN 44), subsequent to July 1, 2000, the acceleration of the six - or nine-year cliff vesting term of a stock option constituted a modification. Accordingly, the Company should have measured the intrinsic value of the award at the date of the modification and recognized this amount as compensation cost on the termination of employment if, absent the acceleration, the award would have been forfeited pursuant to its original terms. Under FAS 123, the performance targets were taken into consideration when determining the expected term of the award and therefore the acceleration of vesting was not considered to be a modification of the terms.

Other Modifications of Option Terms. The Company has also determined that certain other actions were taken that resulted in the modification of option terms, as follows:

Options Modified Upon Terminations. On approximately 75 occasions from 1998 to 2005, the Company entered into amended employment or separation agreements with employees that resulted in the modification of vesting or cancellation terms of their stock option agreements. Under APB 25, the potential compensation expense of the modification should have been measured at the date of the modification and recognized if the employee ultimately received a benefit on the termination date. Under FAS 123, the modification should have been recognized at the date of the modification based upon the incremental fair value provided to the employee.

1999 Cancellation and Reissuance of Options. In the fourth quarter of 1999, the Company issued stock options to acquire an aggregate of 400,000 shares of Company common stock (3.2 million shares on a split-adjusted basis) to approximately 65 employees in exchange for the cancellation of an equal number of stock options that had previously been granted to those employees at various times earlier in 1999. The reissued stock options had a stated grant date of October 13, 1999 and an exercise price equal to $40.125 ($5.0156 on a split-adjusted basis), which was lower than the exercise price of the cancelled options. The Company has determined that, under APB 25, this constituted a re-pricing, resulting in variable accounting for each option until exercise, forfeiture or expiration. Additionally, the Company has concluded that, under FAS 123, this would also be viewed as a modification to the award and the incremental fair value in addition to the originally measured fair value should have been recognized over the remaining vesting period.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Related Tax Adjustments. The restatement in this Form 10-Q/A also reflects the estimated loss of certain tax deductions and additional interest expense related to the exercise of stock options granted to certain of the Company s executive officers that as a result of the revision of measurement dates no longer qualify as deductible performance-based compensation in accordance with Internal Revenue Code section 162(m).

Restatement Adjustments

The following table sets forth, on a year-by-year and for 2005, quarter-by-quarter basis, the impact under FAS 123R and APB 25 of recognizing additional stock-based compensation expense and related tax effects as a result of historic stock option practices as well as immaterial adjustments unrelated to historic stock option practices that were identified through a review of the Company s accounting practices. The impact under FAS 123R of all errors is $13 million ($8 million net of tax) for the three months ended March 31, 2006, $43 million ($57 million net of tax) in 2005, $40 million ($44 million net of tax) in 2004, and an aggregate of $453 million ($313 million net of tax) for 2003 and all prior years. The impact under APB 25 of all errors is $304 million ($238 million net of tax) in 2005, $200 million ($158 million net of tax) in 2004, and an aggregate of $1,056 million ($738 million net of tax) for 2003 and all prior years.

Additionally, on January 1, 2006, our Uniprise business segment began reporting premiums and expenses on a gross basis for a large account where we have employed third-party reinsurance. Historically, revenues and expenses associated with this account were reported net of amounts ceded to an unaffiliated reinsurer. While the reinsurance contract has been in place for a number of years, recent accounting interpretations suggest this reinsurance arrangement be presented on a gross versus net basis. Prior period amounts have been restated to conform to the 2006 presentation. The restatement has no effect on our net earnings or shareholders equity as previously reported.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restatement Adjustments

	FAS 123R - Current Accounting Method												
	Decrease (Increase) to Earnings Before Income Taxes										Decrease (Increase) to Net Earnings		
Year	**Section 16 and Broad-Based Grants**	**New Hire and Promotion Grants**	**1999 Grant of Supplemental Options**	**Reactivation of Suspended Options**	**Cliff Vesting Options**	**Option Modifications**	**Other Stock-Based Compensation (1)**	**Total Stock-Based Compensation Errors**	**Other Errors (2)**	**Total**	**Total Stock-Based Compensation Errors**	**Other Errors (2)**	**Total**
(in millions)													
1995 (3)	$ 4	$	$	$	$	$	$ 2	$ 6	$ 4	$ 10	$ 4	$ 3	$ 7
1996	5						1	6	3	9	4	2	6
1997	10						3	13	4	17	8	3	11
1998	14	1				11	6	32	3	35	22	2	24
1999	18	1				2	1	22	4	26	14	3	17
2000	9	6	25	83		3	3	129	5	134	94	3	97
2001	22	10	22	25		1	1	81	6	87	53	5	58
2002	35	9		16		1	1	62	(1)	61	44	1	45
2003	30	10		13			1	54	20	74	41	7	48
Total Impact through 2003	147	37	47	137		18	19	405	48	453	284	29	313
2004	27	8		4		2		41	(1)	40	31	13	44
First Quarter 2005	10	2				1		13	(11)	2	10	(3)	7
Second Quarter 2005	10	2				1	1	14	(27)	(13)	12	(11)	1
Third Quarter 2005	11	2				2		15	(26)	(11)	13	(13)	
Fourth Quarter 2005	11	3						14	51	65	12	37	49
2005 Full Year	42	9				4	1	56	(13)	43	47	10	57
First Quarter 2006	9	2						11	2	13	6	2	8
Total Impact through First Quarter 2006	$ 225	$ 56	$ 47	$ 141	$	$ 24	$ 20	$ 513	$ 36	$ 549	$ 368	$ 54	$ 422

(1) Includes options converted to UnitedHealth Group options in conjunction with acquisitions that were not fully vested at the acquisition date, options granted to contractors and restricted stock grants for which expense was not recorded at the time of the initial grant.

(2) Includes immaterial adjustments unrelated to historic stock option practices that were identified through a review of Company accounting practices.

(3) The Company adopted FAS 123R effective January 1, 2006, using the modified retrospective method. All prior periods have been restated to give effect to the fair-value-based method of accounting for awards granted in fiscal years beginning on or after January 1, 1995.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Restatement Adjustments

	APB 25 - Historical Accounting Method												
	Decrease (Increase) to Earnings Before Income Taxes										Decrease (Increase) to Net Earnings		
Year *(in millions)*	**Section 16 and Broad-Based Grants**	**New Hire and Promotion Grants**	**1999 Grant of Supplemental Options**	**Reactivation of Suspended Options**	**Cliff Vesting Options (3)**	**Option Modifications**	**Other Stock-Based Compensation (1)**	**Total Stock Based Compensation Errors**	**Other Errors (2)**	**Total**	**Total Stock-Based Compensation Errors**	**Other Errors (2)**	**Total**
pre-1994	$ 19	$ 4	$	$	$	$	$	$ 23	$	$ 23	$ 16	$	$ 16
1994	2							2		2	1		1
1995	5				2		19	26	4	30	17	3	20
1996	8	1			1		18	28	3	31	20	2	22
1997	15	1			2		5	23	4	27	16	3	19
1998	20	2			2	23	10	57	3	60	40	2	42
1999	26	1			9	2	1	39	4	43	27	3	30
2000	63	10	81	40	35	14	6	249	5	254	177	3	180
2001	73	17	92	32	21	11	(1)	245	6	251	172	5	177
2002	52	12	43	13	17	6	1	144	(1)	143	100	1	101
2003	34	11	90	7	25	4	1	172	20	192	123	7	130
Total Impact through 2003	317	59	306	92	114	60	60	1,008	48	1,056	709	29	738
2004	22	10	151	1		16	1	201	(1)	200	145	13	158
First Quarter 2005	16	3	37		1	8	(1)	64	(11)	53	45	(3)	42
Second Quarter 2005	17	3	44		3	5		72	(27)	45	52	(11)	41
Third Quarter 2005	18	3	40			41	1	103	(26)	77	74	(13)	61
Fourth Quarter 2005	14	4	59		1	1	(1)	78	51	129	57	37	94
2005 Full Year	65	13	180		5	55	(1)	317	(13)	304	228	10	238
Total Impact through 2005	$ 404	$ 82	$ 637	$ 93	$ 119	$ 131	$ 60	$ 1,526	$ 34	$ 1,560	$ 1,082	$ 52	$ 1,134

(1) Includes options converted to UnitedHealth Group options in conjunction with acquisitions that were not fully vested at the acquisition date, options granted to contractors and restricted stock grants for which expense was not recorded at the time of the initial grant.

(2) Includes immaterial adjustments unrelated to historic stock option practices that were identified through a review of Company accounting practices.

(3) Includes $50 million of stock-based compensation expense associated with performance-based awards granted on certain dates in 1996, 1997 and 1998, which have been accounted for as variable awards.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the effect of the restatement adjustments on our pro forma net earnings and pro forma net earnings per share if we had recorded compensation costs based on the estimated grant date fair value accounting method as defined by FAS 123 for the three months ended March 31, 2005.

(in millions, except per share data)		**For the Three Months Ended March 31, 2005**
Net Earnings		
APB 25		
As Reported-APB 25	$	779
Restatement Adjustments-APB 25:		
Compensation Expense, net of tax effects		(45)
Other Adjustments, net of tax effects		3
As Restated-APB 25	$	737
FAS 123 Pro Forma		
As Restated-APB 25	$	737
Less: APB 25 Compensation Expense, net of tax effects		45
FAS 123 Historical Compensation Expense, net of tax effects		(36)
Restatement Adjustments		
FAS 123 Compensation Expense, net of tax effects		(10)
As Restated-FAS 123 Pro Forma	$	736
Basic Net Earnings Per Common Share		
As Reported-APB 25	$	0.61
As Restated-APB 25	$	0.58
As Restated-FAS 123 Pro Forma	$	0.58
Diluted Net Earnings Per Common Share		
As Reported-APB 25	$	0.58
As Restated-APB 25	$	0.55
As Restated-FAS 123 Pro Forma	$	0.55

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following tables present the effect of the restatement adjustments by financial statement line item for the Consolidated Statements of Operations, Balance Sheets, and Statements of Cash Flows. The tables have been presented on both a FAS 123R basis, which the Company adopted on January 1, 2006, and on an APB 25 basis, which was used for all periods prior to January 1, 2006.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2005					
	APB 25	Historical Accounting Method		FAS 123R	Current Accounting Method	
(in millions, except per share data)	As Reported	Adjustments (1)	As Restated	Adoption (2)	Adjustments (3)	As Restated
Revenues						
Premiums	$ 9,871	$ 256	$ 10,127	$	$	$ 10,127
Services	902	(22)	880			880
Products		26	26			26
Investment and Other Income	114		114			114
Total Revenues	10,887	260	11,147			11,147
Operating Costs						
Medical Costs	7,902	212	8,114			8,114
Operating Costs	1,620	85	1,705	(8)	13	1,710
Cost of Products Sold		16	16			16
Depreciation and Amortization	109		109			109
Total Operating Costs	9,631	313	9,944	(8)	13	9,949
Earnings From Operations	1,256	(53)	1,203	8	(13)	1,198
Interest Expense	(49)		(49)			(49)
Earnings Before Income Taxes	1,207	(53)	1,154	8	(13)	1,149
Provision for Income Taxes	(428)	11	(417)	1	3	(413)
Net Earnings	$ 779	$ (42)	$ 737	$ 9	$ (10)	$ 736
Basic Net Earnings per Common Share	$ 0.61	$ (0.03)	$ 0.58	$ 0.01	$ (0.01)	$ 0.58
Diluted Net Earnings per Common Share	$ 0.58	$ (0.03)	$ 0.55	$ 0.01	$ (0.01)	$ 0.55
Basic Weighted-Average Number of Common Shares Outstanding	1,278		1,278			1,278
Dilutive Effect of Common Stock Equivalents	62	(2)	60	2	4	66
Diluted Weighted-Average Number of Common Shares Outstanding	1,340	(2)	1,338	2	4	1,344

(1) Includes $64 million of stock-based compensation and $19 million of deferred tax benefit associated with the restatement of our historical APB 25 Condensed Consolidated Statement of Operations as well as an adjustment to premium revenue of $277 million, medical costs of $253 million and operating costs of $24 million to reflect a reinsurance contract on a gross basis. To conform to our current presentation, we have also reclassified certain service revenues and operating costs to product revenues and cost of products sold, respectively, primarily related to our pharmacy benefit management business acquired as part of the PacifiCare acquisition in December 2005.

(2) Reflects $56 million of stock-based compensation and $20 million of deferred tax benefit as recorded under the modified retrospective method of adoption of FAS 123R that would have been recognized based on our original pro forma disclosure under FAS 123 prior to the restatement, net of the restatement adjustments under APB 25.

(3) Represents adjustments made to restate our Condensed Consolidated Statement of Operations subsequent to the adoption of FAS 123R under the modified retrospective method of adoption to correct the previously presented pro forma disclosures for the effects of the historic stock option practices and includes $13 million of additional stock-based compensation and $3 million of related deferred tax benefit.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

	For the Three Months Ended March 31, 2006		
		FAS 123R Current Accounting Method	
(in millions, except per share data)	As Reported	Adjustments (1)	As Restated
Revenues			
Premiums	$ 16,207	$ (28)	$ 16,179
Services	1,207	(169)	1,038
Products		165	165
Investment and Other Income	172	27	199
Total Revenues	17,586	(5)	17,581
Operating Costs			
Medical Costs	13,373	(90)	13,283
Operating Costs	2,570	(39)	2,531
Cost of Products Sold		137	137
Depreciation and Amortization	157		157
Total Operating Costs	16,100	8	16,108
Earnings From Operations	1,486	(13)	1,473
Interest Expense	(82)		(82)
Earnings Before Income Taxes	1,404	(13)	1,391
Provision for Income Taxes	(505)	5	(500)
Net Earnings	$ 899	$ (8)	$ 891
Basic Net Earnings per Common Share	$ 0.66	$	$ 0.66
Diluted Net Earnings per Common Share	$ 0.63	$	$ 0.63
Basic Weighted-Average Number of Common Shares Outstanding	1,353		1,353
Dilutive Effect of Common Stock Equivalents	68	(2)	66
Diluted Weighted-Average Number of Common Shares Outstanding	1,421	(2)	1,419

(1) Includes $11 million of stock-based compensation and $5 million of deferred tax benefit associated with the restatement of our Condensed Consolidated Statement of Operations under FAS 123R. To conform to our current presentation, we have also reclassified certain service revenues and operating costs to product revenues and cost of products sold, respectively, primarily related to our pharmacy benefit management business acquired as part of the PacifiCare acquisition in December 2005.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONSOLIDATED BALANCE SHEETS

(in millions, except per share data)	APB 25 As Reported	Historical Accounting Method Adjustments (1)	Historical Accounting Method As Restated	FAS 123R Adoption (2)	Current Accounting Method Adjustments (3)	Current Accounting Method As Restated
	As of December 31, 2005					
Assets						
Current Assets						
Cash and Cash Equivalents	$ 5,421	$	$ 5,421	$	$	$ 5,421
Short-Term Investments	590		590			590
Accounts Receivable, net	1,290	(83)	1,207			1,207
Assets Under Management	1,825		1,825			1,825
Deferred Income Taxes	645	5	650			650
Other Current Assets	869	(15)	854			854
Total Current Assets	10,640	(93)	10,547			10,547
Long-Term Investments	8,971		8,971			8,971
Property, Equipment, and Capitalized Software, net	1,647		1,647			1,647
Goodwill	16,206	32	16,238			16,238
Other Intangible Assets, net	2,020		2,020			2,020
Other Assets	1,890	(25)	1,865			1,865
Total Assets	$ 41,374	$ (86)	$ 41,288	$	$	$ 41,288
Liabilities and Shareholders Equity						
Current Liabilities						
Medical Costs Payable	$ 7,301	$ (39)	$ 7,262	$	$	$ 7,262
Accounts Payable and Accrued Liabilities	3,301	(16)	3,285	(95)	95	3,285
Other Policy Liabilities	1,824	21	1,845			1,845
Commercial Paper and Current Maturities of Long-Term Debt	3,261		3,261			3,261
Unearned Premiums	957	43	1,000			1,000
Total Current Liabilities	16,644	9	16,653	(95)	95	16,653
Long-Term Debt, less current maturities	3,850	(16)	3,834			3,834
Future Policy Benefits for Life and Annuity Contracts	1,761		1,761			1,761
Deferred Income Taxes and Other Liabilities	1,386	(134)	1,252	24	(51)	1,225
Commitments and Contingencies						
Shareholders Equity						
Common Stock	14		14			14
Additional Paid-In Capital	6,921	338	7,259	664	(413)	7,510
Retained Earnings	10,765	(283)	10,482	(593)	369	10,258
Accumulated Other Comprehensive Income:						
Net Unrealized Gains on Investments, net of tax effects	33		33			33
Total Shareholders Equity	17,733	55	17,788	71	(44)	17,815
Total Liabilities and Shareholders Equity	$ 41,374	$ (86)	$ 41,288	$	$	$ 41,288

(1) Includes adjustments to increase current income taxes payable by $95 million, decrease non-current deferred tax liabilities by $236 million, increase additional paid-in capital by $372 million and to decrease retained earnings by $231 million associated with the restatement of our historical APB 25

Consolidated Balance Sheet.

(2) Reflects adjustments to decrease non-current deferred tax liabilities by $212 million, increase additional paid-in capital by $1,036 million and decrease retained earnings by $824 million associated with the adoption of FAS 123R under the modified retrospective method as of December 31, 2005 that would have been recognized based on our original pro forma disclosure under FAS 123 prior to the restatement, net of the restatement adjustments under APB 25.

(3) Represents adjustments made to restate our Consolidated Balance Sheet subsequent to the adoption of FAS 123R under the modified retrospective method to correct the previously presented pro forma disclosures for the effects of the historic stock option practices and includes adjustments to increase current income taxes payable by $95 million, decrease non-current deferred tax liabilities by $51 million, decrease additional paid-in capital by $413 million and increase retained earnings by $369 million. Includes adjustments to our historic common stock repurchase accounting considering the increase in compensation recognized in relation to the timing of stock repurchase activity and the related impact to period end reclassifications within shareholders equity to restore additional paid-in capital.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED BALANCE SHEET

(in millions, except per share data)	As of March 31, 2006 As Reported	FAS 123R Current Accounting Method Adjustments (1)	As Restated
Assets			
Current Assets			
Cash and Cash Equivalents	$ 7,839	$ 5	$ 7,844
Short-Term Investments	522		522
Accounts Receivable, net	1,309	7	1,316
Assets Under Management	1,796		1,796
Deferred Income Taxes	689	(5)	684
Other Current Assets	1,468	(6)	1,462
Total Current Assets	13,623	1	13,624
Long-Term Investments	9,220		9,220
Property, Equipment, and Capitalized Software, net	1,681		1,681
Goodwill	16,580	15	16,595
Other Intangible Assets, net	2,038		2,038
Other Assets	1,932	(42)	1,890
Total Assets	$ 45,074	$ (26)	$ 45,048
Liabilities and Shareholders Equity			
Current Liabilities			
Medical Costs Payable	$ 8,181	$ (57)	$ 8,124
Accounts Payable and Accrued Liabilities	3,177	83	3,260
Other Policy Liabilities	3,119	29	3,148
Commercial Paper and Current Maturities of Long-Term Debt	1,073		1,073
Unearned Premiums	2,480	44	2,524
Total Current Liabilities	18,030	99	18,129
Long-Term Debt, less current maturities	6,450	(24)	6,426
Future Policy Benefits for Life and Annuity Contracts	1,785		1,785
Deferred Income Taxes and Other Liabilities	1,163	23	1,186
Commitments and Contingencies			
Shareholders Equity			
Common Stock	13		13
Additional Paid-In Capital	6,841	(433)	6,408
Retained Earnings	10,840	309	11,149
Accumulated Other Comprehensive Income:			
Net Unrealized Losses on Investments, net of tax effects	(48)		(48)
Total Shareholders Equity	17,646	(124)	17,522
Total Liabilities and Shareholders Equity	$ 45,074	$ (26)	$ 45,048

(1) Represents adjustments made to restate our Condensed Consolidated Balance Sheet subsequent to the adoption of FAS 123R under the modified retrospective method to correct the previously presented pro forma disclosures for the effects of the historic stock option practices and includes adjustments to increase current income taxes payable by $96 million, decrease non-current deferred tax liabilities by $46 million, decrease additional paid-in capital by $418 million and increase retained earnings by $368 million. Includes adjustments to our historic common stock repurchase accounting considering the increase in compensation recognized in relation to the timing of stock repurchase activity and the related impact to period end reclassifications within shareholders equity to restore additional paid-in capital.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	For the Three Months Ended March 31, 2005					
	APB 25	Historical Accounting Method		FAS 123R	Current Accounting Method	
(in millions)	As Reported	Adjustments (1)	As Restated	Adoption (2)	Adjustments (3)	As Restated
Operating Activities						
Net Earnings	$ 779	$ (42)	$ 737	$ 9	$ (10)	$ 736
Noncash Items:						
Depreciation and Amortization	109		109			109
Deferred Income Taxes and Other	16	(12)	4	(72)		(68)
Stock-Based Compensation		64	64	(8)	13	69
Net Change in Other Operating Items, net of effects from acquisitions, and changes in AARP balances:						
Accounts Receivable and Other Assets	12	(7)	5			5
Medical Costs Payable	264	(16)	248			248
Accounts Payable and Other Accrued Liabilities	239	(1)	238			238
Unearned Premiums	(213)	14	(199)			(199)
Cash Flows From Operating Activities	1,206		1,206	(71)	3	1,138
Investing Activities						
Cash Paid for Acquisitions, net of cash assumed and other effects	(19)		(19)			(19)
Purchases of Property, Equipment and Capitalized Software	(113)		(113)			(113)
Purchases of Investments	(1,857)		(1,857)			(1,857)
Maturities and Sales of Investments	1,590		1,590			1,590
Cash Flows Used For Investing Activities	(399)		(399)			(399)
Financing Activities						
Repayment of Commercial Paper, net	(273)		(273)			(273)
Proceeds from Issuance of Long-Term Debt	500		500			500
Common Stock Repurchases	(1,100)		(1,100)			(1,100)
Proceeds from Common Stock Issuances under Stock-Based Compensation Plans	132		132			132
Stock-Based Compensation Excess Tax Benefit				71	(3)	68
Customer Funds Administered	19		19			19
Other	(3)		(3)			(3)
Cash Flows From (Used For) Financing Activities	(725)		(725)	71	(3)	(657)
Increase in Cash and Cash Equivalents	82		82			82
Cash and Cash Equivalents, Beginning of Period	3,991		3,991			3,991
Cash and Cash Equivalents, End of Period	$ 4,073	$	$ 4,073	$	$	$ 4,073

(1) Includes adjustments to operating cash flows for stock-based compensation and related tax effects associated with the restatement of our historical APB 25 Condensed Consolidated Statement of Cash Flows, as well as operating cash flow adjustments due to immaterial adjustments, individually and in the aggregate, unrelated to historic stock option practices.

(2) Reflects adjustments to operating cash flows for stock-based compensation and deferred tax assets and to financing cash flows for excess tax benefits as recorded under the modified retrospective method of adoption of FAS 123R that would have been recognized based on our original pro forma disclosure under FAS 123 prior to the restatement, net of the restatement adjustments under APB 25.

(3) Represents adjustments made to restate our Condensed Consolidated Statement of Cash Flows subsequent to the adoption of FAS 123R under the modified retrospective method to correct the previously presented pro forma disclosures for the effects of the historic stock option practices and includes adjustments to operating cash flows for additional stock-based compensation and deferred tax assets and to financing cash flows for excess tax benefits.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in millions)	For the Three Months Ended March 31, 2006 FAS 123R Current Accounting Method As Reported	Adjustments (1)	As Restated
Operating Activities			
Net Earnings	$ 899	$ (8)	$ 891
Noncash Items:			
Depreciation and Amortization	157		157
Deferred Income Taxes and Other	(234)	7	(227)
Stock-Based Compensation	81	9	90
Net Change in Other Operating Items, net of effects from acquisitions, and changes in AARP balances:			
Accounts Receivable and Other Assets	(623)	17	(606)
Medical Costs Payable	738	(18)	720
Accounts Payable and Other Accrued Liabilities	400	(35)	365
Unearned Premiums	1,470	30	1,500
Cash Flows From Operating Activities	2,888	2	2,890
Investing Activities			
Cash Paid for Acquisitions, net of cash assumed and other effects	(555)		(555)
Purchases of Property, Equipment and Capitalized Software	(171)		(171)
Purchases of Investments	(930)		(930)
Maturities and Sales of Investments	580		580
Cash Flows Used For Investing Activities	(1,076)		(1,076)
Financing Activities			
Repayment of Commercial Paper, net	(2,193)		(2,193)
Proceeds from Issuance of Long-Term Debt	3,000		3,000
Repayments of Convertible Subordinated Debentures	(91)		(91)
Common Stock Repurchases	(1,754)		(1,754)
Proceeds from Common Stock Issuances under Stock-Based Compensation Plans	145		145
Stock-Based Compensation Excess Tax Benefit	146	(3)	143
Customer Funds Administered	1,406	6	1,412
Other	(53)		(53)
Cash Flows From Financing Activities	606	3	609
Increase in Cash and Cash Equivalents	2,418	5	2,423
Cash and Cash Equivalents, Beginning of Period	5,421		5,421
Cash and Cash Equivalents, End of Period	$ 7,839	$ 5	$ 7,844

(1)

Represents adjustments made to restate our Condensed Consolidated Statement of Cash Flows subsequent to the adoption of FAS 123R under the modified retrospective method of adoption to correct the previously presented pro forma disclosures for the effects of the historic stock option practices and includes adjustments to operating cash flows for additional stock-based compensation and deferred tax assets and to financing cash flows for excess tax benefits.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. 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 $3,600. 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.

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

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

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. For example, the Company is responsible for approximately

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

67% of a Medicare Part D beneficiary s drug costs up to $2,250, while the beneficiary is responsible for 100% of their drug costs from $2,250 up to $5,100 (at the Company s discounted purchase price). Consequently, the Company incurs a disproportionate amount of benefit costs in the first half of the contract year as compared with the last half of the contract year, when comparatively more members will be incurring claims above the $2,250 initial coverage limit. The uneven timing of Medicare Part D pharmacy benefit claims results in losses in the first half of year that entitle the Company to risk-share adjustment payments from CMS. Accordingly, during the interim periods within the contract year we record a net risk-share receivable from CMS in other current assets in the Condensed Consolidated Balance Sheets and a corresponding retrospective premium adjustment in premium revenues in the Condensed Consolidated Statement of Operations. This represents the estimated amount payable by CMS to the Company under the risk share contract provisions if the program were terminated based on estimated costs incurred through that interim period. Those losses reverse in the second half of the year and final risk share amounts due to or from CMS, if any, are settled approximately six months after the contract year-end. The projected net risk-share receivable to be received from CMS as of March 31, 2006 was $325 million.

During the first quarter, the Company recognized approximately $1.6 billion, or approximately 30%, of estimated full year Medicare Part D revenues, and $1.5 billion, or approximately 34%, of anticipated full year pharmacy benefit costs associated with active members as of March 31, 2006. The medical care ratio for the Medicare Part D product was 97% during the quarter ended March 31, 2006.

As a result of these contracts and the December 2005 acquisition of PacifiCare Health Systems, Inc., premium revenues from CMS, which have historically been approximately 10% of total revenues, increased to approximately 25% in the first quarter of 2006.

4. Acquisitions

On February 24, 2006, the Company acquired John Deere Health Care, Inc. (JDHC). JDHC serves employers primarily in Iowa, central and western Illinois, eastern Tennessee and southwestern Virginia. This acquisition strengthened our resources and capabilities in these areas. 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 preliminary estimated fair value of the net tangible assets acquired by approximately $370 million. Pending completion of a valuation analysis, we have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of $60 million and goodwill of $310 million. The finite-lived intangible assets consist primarily of member lists, with an estimated weighted-average useful life of 15 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. Our preliminary estimate of the acquired net tangible assets of $145 million, which is subject to further refinement, consisted mainly of cash, cash equivalents, investments, accounts receivable, property and equipment and other assets partially offset by medical payables and other current liabilities. JDHC has been renamed UnitedHealthcare Services Company of the River Valley, Inc.

On December 20, 2005, the Company acquired PacifiCare Health Systems, Inc. (PacifiCare). PacifiCare provides health care and benefit services to individuals and employers, principally in markets in the western United States. This merger significantly strengthened our resources by enhancing our capabilities on the Pacific Coast and in other western states and broadening the scope of our product offerings for a host of specialized services. The operations of PacifiCare reside primarily within our Health Care Services and Specialized Care Services segments. Under the terms of the agreement, PacifiCare shareholders received 1.1 shares of UnitedHealth Group common stock and $21.50 in cash for each share of PacifiCare common stock they owned. Total consideration

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

issued for the transaction was approximately $8.8 billion, composed of approximately 99.2 million shares of UnitedHealth Group common stock (valued at approximately $5.3 billion based upon the average of UnitedHealth Group s share closing price for two days before, the day of and two days after the acquisition announcement date of July 6, 2005), approximately $2.1 billion in cash, $960 million cash paid to retire PacifiCare s existing debt and UnitedHealth Group vested common stock options with an estimated fair value of approximately $420 million issued in exchange for PacifiCare s outstanding vested common stock options. The purchase price and costs associated with the acquisition exceeded the preliminary estimated fair value of the net tangible assets acquired by approximately $7.1 billion. Pending completion of a valuation analysis, we have preliminarily allocated the excess purchase price over the fair value of the net tangible assets acquired to finite-lived intangible assets of $1.0 billion and associated deferred tax liabilities of $392 million, and goodwill of approximately $6.5 billion. The finite-lived intangible assets consist primarily of member lists, health care physician and hospital networks and trademarks, with an estimated weighted-average useful life of 13 years. The acquired goodwill is not deductible for income tax purposes. Our preliminary estimate of acquired net tangible assets and liabilities are categorized as follows: cash and cash equivalents of $810 million; investments of $2.4 billion; accounts receivable and other current assets of $799 million; property, equipment and capitalized software and other assets of $311 million; medical costs payable of $1.4 billion and other liabilities of $1.2 billion.

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 finalized prior to March 31, 2006 relate to severance costs for certain workforce reductions primarily in the Health Care Services segment, costs of terminated or vacated leased facilities and other contract termination costs. The following table illustrates the changes in employee termination benefit costs and other integration costs related to the PacifiCare acquisition for the three-month period ended March 31, 2006 (in millions):

	Employee Termination Benefit Costs	Other Integration Activities	Total
Accrued integration liabilities at December 31, 2005	$ 15	$ 30	$ 45
Additional integration costs accrued and estimate adjustments	29	(2)	27
Payments made against liability	(8)		(8)
Accrued integration liabilities at March 31, 2006	$ 36	$ 28	$ 64

The results of operations and financial condition of PacifiCare have been included in our consolidated financial statements since the acquisition date and for the entire three-month period ended March 31, 2006. The unaudited pro forma financial information presented below assumes that the acquisition occurred as of the beginning of the three-month period ended March 31, 2005. The pro forma adjustments include the pro forma effect of UnitedHealth Group shares issued in the acquisition, the amortization of finite-lived intangible assets arising from the purchase price allocation, interest expense related to financing the cash portion of the purchase price and the associated income tax effects of the pro forma adjustments. Because the unaudited pro forma financial information has been prepared based on estimates of fair values, the actual amounts recorded as of the completion of the PacifiCare purchase price allocation may differ from the information presented below. The following unaudited pro forma results have been prepared for comparative purposes only and do not purport to be

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

indicative of the results of operations that would have occurred had the PacifiCare acquisition been consummated at the beginning of the period presented.

Pro forma unaudited (in millions, except per share data)	For the Three Months Ended March 31, 2005	
Revenues	$	14,583
Net Earnings	$	807
Earnings Per Share:		
Basic	$	0.58
Diluted	$	0.56

On September 19, 2005, our Health Care Services business segment acquired Neighborhood Health Partnership (NHP). NHP serves local employers primarily in South Florida. This acquisition strengthened our market position in this region and provided expanded distribution opportunities for our other UnitedHealth Group businesses. We paid approximately $185 million in cash in exchange for all of the outstanding equity of NHP. The results of operations and financial condition of NHP have been included in our consolidated financial statements since the acquisition date. The pro forma effects of the NHP acquisition on our consolidated financial statements were not material.

5. Cash, Cash Equivalents and Investments

As of March 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
Cash and Cash Equivalents	$ 7,844	$	$	$ 7,844
Debt Securities Available for Sale	9,327	37	(130)	9,234
Equity Securities Available for Sale	223	19	(1)	241
Debt Securities Held to Maturity	267			267
Total Cash and Investments	$ 17,661	$ 56	$ (131)	$ 17,586

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In accordance with FASB Staff Position FAS 115-1/124-1, The Meaning of Other-Than-Temporary Impairment and Its Application to Certain Investments, the following table shows the gross unrealized losses and fair value of investments with unrealized losses that, in our judgment, are not other-than-temporarily impaired. These investments are aggregated by investment type and length of time that individual securities have been in a continuous unrealized loss position (in millions) (1):

	As of March 31, 2006					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. Government and Agency obligations	$ 1,838	$ (34)	$ 209	$ (6)	$ 2,047	$ (40)
State and municipal obligations	2,916	(35)	399	(10)	3,315	(45)
Corporate obligations	1,911	(39)	203	(6)	2,114	(45)
Total Debt Securities Available for Sale	$ 6,665	$ (108)	$ 811	$ (22)	$ 7,476	$ (130)
Total Equity Securities	$ 19	$ (1)	$	$	$ 19	$ (1)

(1) Debt securities classified as held-to-maturity investments have been excluded from this analysis. These investments are predominantly held in U.S. Government or Agency obligations and the contractual terms do not permit the issuer to settle the securities at a price less than the amortized cost of the investment. Additionally, the fair values of these investments approximate their amortized cost.

The unrealized losses on investments in U.S. Government and Agency obligations, state and municipal obligations and corporate obligations at March 31, 2006 were mainly caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. We evaluate impairment at each reporting period for each of the securities where the fair value of the investment is less than its cost. The contractual cash flows of the U.S. Government and Agency obligations are either guaranteed by the U.S. Government or an agency of the U.S. Government. It is expected that the securities would not be settled at a price less than the cost of our investment. We evaluated the credit ratings of the state and municipal obligations and the corporate obligations, noting neither a significant deterioration since purchase nor other factors leading to other-than-temporary impairment.

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

We analyze relevant factors individually and in combination including the length of time and extent to which market value has been less than cost, the financial condition and near-term prospects of the issuer as well as specific events or circumstances that may influence the operations of the issuer, and our intent and ability to hold the investment for a sufficient time to recover our cost. We revise impairment judgments when new information becomes known or when we do not anticipate holding the investment until recovery. If any of our investments experience a decline in fair value that is determined to be other-than-temporary, based on analysis of relevant factors, we record a realized loss in our Consolidated Statements of Operations. We do not consider the unrealized losses on each of the investments described above to be other-than-temporarily impaired at March 31, 2006.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During the three-month periods ended March 31, we recorded realized gains and losses on the sale of investments, as follows (in millions):

	Three Months Ended March, 31, 2006	2005
Gross Realized Gains	$ 29	$ 10
Gross Realized Losses	(3)	(8)
Net Realized Gains	$ 26	$ 2

We did not recognize any impairment charges for the three months ended March 31, 2006 and 2005, respectively.

6. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill, by segment, for the three months ended March 31, 2006 and 2005, were as follows:

(in millions)	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Consolidated Total
Balance at December 31, 2005	$ 13,864	$ 917	$ 732	$ 725	$ 16,238
Acquisitions and Subsequent Payments / Adjustments	217	50	48	42	357
Balance at March 31, 2006	$ 14,081	$ 967	$ 780	$ 767	$ 16,595

(in millions)	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Consolidated Total
Balance at December 31, 2004	$ 7,505	$ 903	$ 406	$ 665	$ 9,479
Acquisitions and Subsequent Payments / Adjustments	6	1	1	12	20
Balance at March 31, 2005	$ 7,511	$ 904	$ 407	$ 677	$ 9,499

The weighted-average useful life, gross carrying value, accumulated amortization and net carrying value of other intangible assets as of March 31, 2006 and December 31, 2005 were as follows ($ in millions):

		March 31, 2006			December 31, 2005		
	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	15 years	$ 1,889	$ (141)	$ 1,748	$ 1,830	$ (106)	$ 1,724
Patents, Trademarks and Technology	10 years	224	(67)	157	221	(62)	159
Other	16 years	161	(28)	133	161	(24)	137
Total	15 years	$ 2,274	$ (236)	$ 2,038	$ 2,212	$ (192)	$ 2,020

Amortization expense relating to intangible assets was approximately $44 million and $23 million for the three months ended March 31, 2006 and 2005, respectively. Estimated amortization expense relating to intangible assets for the years ending December 31 are as follows: $179 million in 2006, $172 million in 2007, $168 million in 2008, $160 million in 2009, and $152 million in 2010.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

7. Medical Costs and Medical Costs Payable

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

Our medical costs payable estimates as of December 31, 2005 developed favorably by approximately $220 million in the first quarter of 2006. Our medical costs payable estimates as of December 31, 2004 developed favorably by approximately $190 million in the first quarter of 2005. Management believes the amount of medical costs payable is reasonable and adequate to cover the Company s liability for unpaid claims as of March 31, 2006.

8. Commercial Paper and Debt

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

	March 31, 2006		December 31, 2005	
	Carrying Value (1)	Fair Value (2)	Carrying Value (1)	Fair Value (2)
Commercial Paper	$ 638	$ 638	$ 2,829	$ 2,829
3.0% Convertible Subordinated Debentures	35	35	432	432
5.2% Senior Unsecured Notes due January 2007	400	400	401	402
3.4% Senior Unsecured Notes due August 2007	535	536	535	537
3.3% Senior Unsecured Notes due January 2008	485	482	486	485
3.8% Senior Unsecured Notes due February 2009	241	240	243	242
Senior Unsecured Floating-Rate Notes due March 2009	650	650		
4.1% Senior Unsecured Notes due August 2009	434	433	439	438
5.3% Senior Unsecured Notes due March 2011	742	744		
4.9% Senior Unsecured Notes due April 2013	440	433	445	448
4.8% Senior Unsecured Notes due February 2014	238	237	245	245
5.0% Senior Unsecured Notes due August 2014	480	480	495	498
4.9% Senior Unsecured Notes due March 2015	471	473	493	490
5.4% Senior Unsecured Notes due March 2016	728	733		
5.8% Senior Unsecured Notes due March 2036	844	808		
Interest Rate Swaps	138	138	52	52
Total Commercial Paper and Debt	7,499	7,460	7,095	7,098
Less Current Maturities	(1,073)	(1,073)	(3,261)	(3,261)
Long-Term Debt, less current maturities	$ 6,426	$ 6,387	$ 3,834	$ 3,837

(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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As of March 31, 2006, our outstanding commercial paper had interest rates ranging from 4.7% to 4.8%.

In March 2006, we refinanced outstanding commercial paper by issuing $650 million of floating-rate notes due March 2009, $750 million of 5.3% fixed-rate notes due March 2011, $750 million of 5.4% fixed-rate notes due March 2016 and $850 million of 5.8% fixed-rate notes due March 2036. The floating-rate notes due March 2009 are benchmarked to the London Interbank Offered Rate (LIBOR) and had an interest rate of 4.9% at March 31, 2006.

In December 2005, we amended and restated our $1.0 billion five-year revolving credit facility supporting our commercial paper program. We increased the credit facility to $1.3 billion and extended the maturity date to December 2010. We have entered into amendments to our $1.3 billion credit facility to provide us with additional time to deliver to the lenders our quarterly reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006 and our annual report on Form 10-K for the year ended December 31, 2006, to obtain our lenders agreement and acknowledgement that the delivery of a notice of default or notice of acceleration under any indenture or credit agreement that is being contested by the Company in good faith does not cause a default or event of default under the credit agreement, and to obtain a waiver of any potential default that may arise as a result of our determination that our historical financial information should not be relied upon and as a result of our restatement of our historical financial statements. As of March 31, 2006, we had no amounts outstanding under our $1.3 billion credit facility.

In November and December 2005, we issued $2.6 billion of commercial paper primarily to finance the cash portion of the purchase price of the PacifiCare acquisition described in Note 4 and to retire a portion of the PacifiCare debt upon closing of the acquisition, as well as to refinance current maturities of long-term debt.

In March 2005, we issued $500 million of 4.9% fixed-rate notes due March 2015. We used the proceeds from this borrowing for general corporate purposes including repayment of commercial paper, capital expenditures, working capital and share repurchases.

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 have aggregate notional amounts of $4.9 billion as of March 31, 2006 with variable rates that are benchmarked to LIBOR, and are recorded on our Condensed Consolidated Balance Sheets. As of March 31, 2006, the aggregate liability, recorded at fair value, for all existing interest rate swaps was approximately $138 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 March 31, 2006, the rates used to accrue interest expense on these agreements ranged from 4.8% to 5.4%.

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%. After giving effect to the credit agreement amendments and waivers that we obtained from our lenders, we believe we were in compliance with the requirements of all debt covenants as of March 31, 2006. On August 28, 2006 we received a purported notice of default from persons claiming to hold certain of our debt securities alleging a violation of our indenture governing our debt securities. This followed our announcement that we would delay filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. On or about November 2, 2006, we received a purported notice of acceleration from the holders who previously sent the notice of default that purports to declare an acceleration

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of our 5.8% Senior Unsecured Notes due March 15, 2036. 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. 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. Immediately after the filing of this Form 10-Q/A, we will file our quarterly reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, as well as our annual report on Form 10-K for the year ended December 31, 2006. Should the Company ultimately be unsuccessful in this matter, we may be required to retire all or a portion of the $850 million of Senior Unsecured Notes due March 2036. We intend to prosecute the declaratory judgment action vigorously.

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

9. 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 three months ended March 31, 2006, we repurchased 30.1 million shares at an average price of approximately $58 per share and an aggregate cost of approximately $1.8 billion. As of March 31, 2006, we had Board of Directors authorization to purchase up to an additional 25.4 million shares of our common stock.

10. Stock-Based Compensation and Other Employee Benefit Plans

As further described in Note 1 and Note 2, we adopted FAS 123R as of January 1, 2006. FAS 123R requires all companies to measure compensation expense for all share-based payments (including employee stock options, stock appreciation rights and restricted stock) at fair value and recognize the expense over the related service period. We adopted FAS 123R using the modified retrospective transition method, under which all prior period financial statements are required to be restated to recognize compensation cost in the amounts historically disclosed under FAS 123.

As of March 31, 2006, we had approximately 95.4 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, restricted stock and restricted stock units. Our existing stock-based awards consist mainly of non-qualified stock options and stock-settled stock appreciation rights (SARs). Stock options and SARs generally vest ratably over four years and may be exercised up to 10 years from the date of grant. Stock option and SAR activity is summarized in the table below (shares in millions):

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	Three Months Ended March 31, 2006	
	Shares	Weighted-Average Exercise Price
Outstanding at Beginning of Period	186.8	$ 23
Granted	2.1	$ 58
Exercised	(9.6)	$ 14
Forfeited	(1.0)	$ 32
Outstanding at End of Period	178.3	$ 24
Exercisable at End of Period	113.9	$ 15

As of March 31, 2006 (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
$ 1.68 $ 9.77	45.3	3.4	$ 6	45.3	$ 6
$ 9.85 $20.06	47.3	5.9	$ 17	42.1	$ 17
$20.06 $38.88	54.2	7.6	$ 30	23.8	$ 27
$39.66 $62.90	31.5	9.2	$ 50	2.7	$ 45
$ 1.68 $62.90	178.3	6.4	$ 24	113.9	$ 15

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 March 31, 2006	Three Months Ended March 31, 2005
Risk-Free Interest Rate	4.1% 4.5%	4.1% 4.3%
Expected Volatility	24.2%	23.5%
Expected Dividend Yield	0.1%	0.1%
Forfeiture Rate	5.0%	5.0%
Expected Life in Years	4.1	4.1

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 months ended March 31, 2006 and 2005 was $14 per share and $12 per share, respectively. The aggregate fair value of stock options and SARs that vested during the three months ended March 31, 2006 and 2005 was $113 million and $145 million,

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respectively. As of March 31, 2006, the aggregate intrinsic value of outstanding stock options and SARs was $5.7 billion, with a weighted-average remaining contractual term of 6.4 years. The aggregate intrinsic value of exercisable stock options and SARs at that same date was $4.6 billion, with a weighted-average remaining contractual term of 5.2 years. The total intrinsic value of options and SARs exercised during the three months ended March 31, 2006 and 2005 was $423 million and $257 million, respectively.

Restricted stock awards generally vest ratably over two to four 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):

	March 31, 2006	
	Shares	Weighted-Average Grant-Date Fair Value
Outstanding at Beginning of Period	1.8	$ 58
Granted	0.1	$ 59
Vested	(0.1)	$ 32
Outstanding at End of Period	1.8	$ 58

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 months ended March 31, 2006, we recognized compensation expense related to our stock-based compensation plans of $90 million ($57 million net of tax effects). For the three months ended March 31, 2005, we recognized compensation expense of $69 million ($44 million net of tax effects). Stock-based compensation expense is recognized within Operating Costs in the Condensed Consolidated Statements of Operations. As of March 31, 2006, there was $750 million of total unrecognized compensation cost related to stock awards that is expected to be recognized over a weighted-average period of approximately 1.5 years.

For the three months ended March 31, 2006 and 2005, the income tax benefit realized from stock-based awards was $161 million and $96 million, respectively.

As further discussed in Note 9, we maintain a common stock repurchase program. The objective of our share repurchase program is 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), former CEO and certain nonexecutive officer employees (which were assumed in an acquisition). No additional amounts will accrue under the SERPs to our former CEO and current 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 other periods as elected under the plan.

As further discussed in the Explanatory Note and in Note 2, the Company has restated its previously filed financial statements to reflect additional stock-based compensation expense and related tax effects following an independent investigation of its historic stock option practices.

11. AARP

In January 1998, we entered into a ten-year contract with AARP to provide health insurance products and services to members of AARP. These products and services are provided to supplement benefits covered under traditional Medicare (Medicare Supplement Insurance). Under the terms of the contract, 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 under this program. Premium revenues from our portion of the AARP insurance offerings are approximately $4.9 billion annually.

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 March 31, 2006 is sufficient to cover potential future underwriting and other risks 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	
	March 31, 2006	December 31, 2005
Accounts Receivable	$ 431	$ 414
Assets Under Management	$ 1,748	$ 1,792
Medical Costs Payable	$ 1,020	$ 1,001
Other Policy Liabilities	$ 881	$ 939
Other Current Liabilities	$ 278	$ 266

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 discretion, within investment guidelines approved by the AARP Medicare Supplement Insurance program. We

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do not guarantee any rates of investment return on these investments and, upon transfer of the AARP contract 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 March 31, 2006, 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
Cash and Cash Equivalents	$ 387	$	$	$ 387
Debt Securities Available for Sale	1,388	3	(30)	1,361
Total Cash and Investments	$ 1,775	$ 3	$ (30)	$ 1,748

As of March 31, 2006, we had investments with an aggregate fair value of $210 million under the AARP agreement in a continuous unrealized loss position of $8 million for 12 months or greater. These investments are subject to the same processes and reviews as the rest of our investment portfolio, including impairment analyses. As a result of these reviews, as is further discussed in Note 5, we did not identify any other-than-temporary impairments. Interest earnings and realized investment gains and losses on these assets accrue to the overall benefit of the AARP policyholders through the RSF and are, therefore, not included in our earnings.

Under a separate license agreement with AARP, we sell Medicare Prescription Drug benefit plans under the AARP brand name. We pay AARP a royalty under this agreement and assume all operational and underwriting risks and losses.

12. 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-month periods ended March 31 (in millions):

	Three Months Ended March 31,	
	2006	2005
Net Earnings	$ 891	$ 736
Change in Net Unrealized (Losses) Gains on Investments, net of tax effects	(81)	(90)
Comprehensive Income	$ 810	$ 646

13. 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, including the administration of supplemental health insurance coverage on behalf of AARP. AmeriChoice provides network-based health and well-being services to

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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.

Specialized Care Services offers a comprehensive platform of specialty health, wellness and ancillary benefits, services and resources to specific customer markets nationwide.

Ingenix offers database and data management services, software products, publications, consulting services, outsourced services and pharmaceutical development and consulting services on a national and 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 Specialized Care Services, 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.

The following table presents segment financial information for the three-month periods ended March 31, 2006 and 2005 (in millions):

Three Months Ended March 31, 2006	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Intersegment Eliminations	Consolidated
Revenues External Customers	$ 15,621	$ 1,044	$ 573	$ 144	$	$ 17,382
Revenues Intersegment		276	397	64	(737)	
Investment and Other Income	174	14	11			199
Total Revenues	$ 15,795	$ 1,334	$ 981	$ 208	$ (737)	$ 17,581
Earnings from Operations	$ 1,057	$ 209	$ 177	$ 30	$	$ 1,473

Three Months Ended March 31, 2005	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Intersegment Eliminations	Consolidated
Revenues External Customers	$ 9,525	$ 1,015	$ 382	$ 111	$	$ 11,033
Revenues Intersegment		176	260	59	(495)	
Investment and Other Income	101	8	5			114

Total Revenues	$	9,626	$	1,199	$	647	$	170	$	(495)	$	11,147
Earnings from Operations	$	891	$	172	$	120	$	15	$		$	1,198

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14. 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 seeking documents relating to stock option grants and other compensation for the persons who from 2003 to the present 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 present relating to our 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 present concerning our executive compensation and 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. We are pursuing an appeal of the Order denying the Protective Order.

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. With the exception of the Civil Investigative Demand from the Minnesota Attorney General, we have generally cooperated and will continue to cooperate with the regulatory authorities. 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 directors and officers 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 the 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 a shareholder demand, and determine whether the Company s rights and remedies should be pursued. Based on the existence of our Special Litigation Committee, defendants have moved to dismiss or in the alternative to stay the litigation pending resolution of the Special Litigation Committee process. 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 nominal defendant. On February 6, 2007, the State Court Judge entered an order staying the action pending resolution of the Special Litigation Committee process.

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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 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. We intend to vigorously defend 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 State District Court for the District of Minnesota. This action alleges that the fiduciaries to the Company-sponsored 401(k) plan violated ERISA by allowing the plan to continue to hold company stock. Defendants filed a motion to dismiss on February 6, 2007. We intend to vigorously defend against the action.

On August 28, 2006, we received a purported notice of default from persons claiming to hold certain of our debt securities alleging a violation of our indenture governing our debt securities. This follows 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 holders who previously sent the notice of default that purports to declare an acceleration of our 5.8% Senior Unsecured Notes due March 15, 2036 as a result of our not filing our quarterly report on Form 10-Q for the quarter ended June 30, 2006. Immediately after the filing of this Form 10-Q/A, we will file our quarterly reports on Form 10-Q for the quarters ended June 30, 2006 and September 30, 2006, as well as our annual report on Form 10-K for the year ended December 31, 2006. Should the Company ultimately be unsuccessful in this matter, we may be required to retire all or a portion of the $850 million of Senior Unsecured Notes due March 2036. We intend to vigorously prosecute the declaratory judgement action.

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.

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.

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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 both UnitedHealthcare and PacifiCare, and virtually all major entities in the health benefits business. In December 2000, a multidistrict litigation panel consolidated several litigation cases involving the Company and our affiliates in the Southern District Court of Florida, Miami division. Generally, the health care provider plaintiffs allege violations of ERISA and the Racketeer Influenced Corrupt Organization Act (RICO) in connection with alleged undisclosed policies intended to maximize profits. Other allegations include 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 and that order was reviewed by the Eleventh Circuit Court of Appeals. The Eleventh Circuit affirmed the class action status of the RICO claims, but reversed as to the breach of contract, unjust enrichment and prompt payment claims. During the course of the litigation, there have been co-defendant settlements. On January 31, 2006, the trial court dismissed all remaining claims against PacifiCare, and on June 19, 2006, the trial court dismissed all remaining claims against UnitedHealthcare brought by the lead plaintiff. The tag-along lawsuits remain outstanding. On July 27, 2006, the plaintiffs filed a notice of appeal to the Eleventh Circuit Court of Appeals challenging the dismissal of UnitedHealthcare. We intend to vigorously defend against the action.

On March 15, 2000, the American Medical Association filed a lawsuit against the Company in the Supreme Court of the State of New York, County of New York. On April 13, 2000, we removed this 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. An amended complaint was filed on August 25, 2000, which alleged two classes of plaintiffs, an ERISA class and a non-ERISA class. After the Court dismissed certain ERISA claims and the claims brought by the American Medical Association, a third amended complaint was filed. On October 25, 2002, the court granted in part and denied in part our motion to dismiss the third amended complaint. On May 21, 2003, we filed a counterclaim complaint in this matter alleging antitrust violations against the American Medical Association and asserting claims based on improper billing practices against an individual provider plaintiff. On May 26, 2004, we filed a motion for partial summary judgment seeking the dismissal of certain claims and parties based, in part, due to lack of standing. On July 16, 2004,