

UNITEDHEALTH GROUP INC  
Form 10-Q  
August 06, 2007  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Form 10-Q**

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

or

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

Commission file number: 1-10864

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**UnitedHealth Group Incorporated**

(Exact name of registrant as specified in its charter)

**Minnesota**  
(State or other jurisdiction of  
incorporation or organization)

**UnitedHealth Group Center**

**9900 Bren Road East**

**Minnetonka, Minnesota**  
(Address of principal executive offices)

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

Identification No.)

**55343**

(Zip Code)

**(952) 936-1300**

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(Registrant's telephone number, including area code)

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

Indicate by check mark whether the registrant 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  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

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

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements (unaudited)****UNITEDHEALTH GROUP****CONDENSED CONSOLIDATED BALANCE SHEETS****(Unaudited)****(In millions, except per share data)**

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

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

See notes to condensed consolidated financial statements

**Table of Contents****UNITEDHEALTH GROUP****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(Unaudited)****(In millions, except per share data)**

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

See notes to condensed consolidated financial statements

**Table of Contents****UNITEDHEALTH GROUP****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(Unaudited)****(In millions)**

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

See notes to condensed consolidated financial statements





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**UNITEDHEALTH GROUP**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**1. Basis of Presentation and Use of Estimates**

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

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

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

**2. Medicare Part D Pharmacy Benefits Contract**

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

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

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

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

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

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

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*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

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**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

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

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

The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidies represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by CMS for costs incurred for these contract elements and, accordingly, there is no insurance risk to th