UNITEDHEALTH GROUP INC
Form 10-Q
May 05, 2010
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2010

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	**(I.R.S. Employer**

incorporation or organization)	**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 þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

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

Large accelerated filer þ Accelerated filer ¨ Non-accelerated filer ¨ Smaller reporting company ¨

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

As of April 30, 2010, there were 1,136,680,308 shares of the registrant s Common Stock, $.01 par value per share, issued and outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UnitedHealth Group

Condensed Consolidated Balance Sheets

(Unaudited)

(in millions, except per share data)	March 31, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	$ 9,920	$ 9,800
Short-term investments	1,155	1,239
Accounts receivable, net	2,309	1,954
Assets under management	2,401	2,383
Deferred income taxes	335	448
Other current receivables	1,664	1,838
Prepaid expenses and other current assets	595	538
Total current assets	18,379	18,200
Long-term investments	13,835	13,311
Property, equipment and capitalized software, net	2,070	2,140
Goodwill	20,830	20,727
Other intangible assets, net	2,297	2,381
Other assets	2,130	2,286
Total assets	$ 59,541	$ 59,045
Liabilities and shareholders equity		
Current liabilities:		
Medical costs payable	$ 9,281	$ 9,362
Accounts payable and accrued liabilities	6,385	6,283
Other policy liabilities	3,610	3,137
Commercial paper and current maturities of long-term debt	2,522	2,164
Unearned revenues	1,144	1,217
Total current liabilities	22,942	22,163
Long-term debt, less current maturities	8,001	9,009
Future policy benefits	2,323	2,325
Other liabilities	1,956	1,942
Total liabilities	35,222	35,439
Commitments and contingencies (Note 12)		
Shareholders equity:		
Preferred stock, $0.001 par value 10 shares authorized; no shares issued or outstanding	0	0
Common stock, $0.01 par value 3,000 shares authorized; 1,133 and 1,147 issued and outstanding	11	11
Retained earnings	24,056	23,342

Accumulated other comprehensive income (loss):		
Net unrealized gains on investments, net of tax effects	280	277
Foreign currency translation losses	(28)	(24)
Total shareholders equity	24,319	23,606
Total liabilities and shareholders equity	$ 59,541	$ 59,045

See Notes to the 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, 2010	2009
Revenues:		
Premiums	$ 21,128	$ 20,111
Services	1,364	1,296
Products	528	439
Investment and other income	173	158
Total revenues	23,193	22,004
Operating costs:		
Medical costs	17,170	16,570
Operating costs	3,276	3,128
Cost of products sold	483	404
Depreciation and amortization	248	234
Total operating costs	21,177	20,336
Earnings from operations	2,016	1,668
Interest expense	(125)	(131)
Earnings before income taxes	1,891	1,537
Provision for income taxes	(700)	(553)
Net earnings	$ 1,191	$ 984
Basic net earnings per common share	$ 1.04	$ 0.82
Diluted net earnings per common share	$ 1.03	$ 0.81
Basic weighted-average number of common shares outstanding	1,145	1,198
Dilutive effect of common stock equivalents	11	12
Diluted weighted-average number of common shares outstanding	1,156	1,210
Anti-dilutive shares excluded from the calculation of dilutive effect of common stock equivalents	82	121

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group

Condensed Consolidated Statements of Changes in Shareholders Equity

(Unaudited)

	Common Stock					
(in millions)	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at January 1, 2010	1,147	$ 11	$ 0	$ 23,342	$ 253	$ 23,606
Net earnings				1,191		1,191
Unrealized holding gains on investment securities during the period, net of tax expense of $17					27	27
Reclassification adjustment for net realized gains included in net earnings, net of tax expense of $14					(24)	(24)
Foreign currency translation loss					(4)	(4)
Comprehensive income						1,190
Issuances of common stock, and related tax benefits	5	0	47			47
Common stock repurchases	(19)	0	(149)	(477)		(626)
Share-based compensation, and related tax benefits			102			102
Balance at March 31, 2010	1,133	$ 11	$ 0	$ 24,056	$ 252	$ 24,319
Balance at January 1, 2009	1,201	$ 12	$ 38	$ 20,782	$ (52)	$ 20,780
Net earnings				984		984
Unrealized holding gains on investment securities during the period, net of tax expense of $37					66	66
Reclassification adjustment for net realized gains included in net earnings, net of tax expense of $1					(2)	(2)
Foreign currency translation loss					(6)	(6)
Comprehensive income						1,042
Issuances of common stock, and related tax benefits	12	0	128			128
Common stock repurchases	(32)	0	(280)	(409)		(689)
Share-based compensation, and related tax benefits			114			114
Balance at March 31, 2009	1,181	$ 12	$ 0	$ 21,357	$ 6	$ 21,375

See Notes to the Condensed Consolidated Financial Statements

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UnitedHealth Group

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Three Months Ended March 31, 2010	Three Months Ended March 31, 2009
Operating activities		
Net earnings	$ 1,191	$ 984
Noncash items:		
Depreciation and amortization	248	234
Deferred income taxes	83	4
Share-based compensation	100	95
Other	(8)	(10)
Net change in other operating items, net of effects from acquisitions and changes in AARP balances:		
Accounts receivable	(318)	(337)
Other assets	(76)	(513)
Medical costs payable	(106)	504
Accounts payable and other liabilities	265	213
Other policy liabilities	(137)	(8)
Unearned revenues	(37)	(54)
Cash flows from operating activities	1,205	1,112
Investing activities		
Cash paid for acquisitions, net of cash assumed	(78)	0
Purchases of property, equipment and capitalized software	(132)	(160)
Purchases of investments	(2,073)	(2,102)
Sales of investments	960	1,349
Maturities of investments	740	757
Cash flows used for investing activities	(583)	(156)
Financing activities		
Proceeds from (repayments of) commercial paper, net	225	(39)
Payments for retirement of long-term debt	(833)	(900)
Proceeds from interest rate swap termination	0	513
Common stock repurchases	(626)	(689)
Proceeds from common stock issuances	95	173
Share-based compensation excess tax benefit	7	28
Customer funds administered	898	621
Checks outstanding	(215)	(188)
Other	(53)	(14)
Cash flows used for financing activities	(502)	(495)
Increase in cash and cash equivalents	120	461
Cash and cash equivalents, beginning of period	9,800	7,426
Cash and cash equivalents, end of period	$ 9,920	$ 7,887

See Notes to the Condensed Consolidated Financial Statements

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UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

Basis of Presentation

The accompanying Condensed Consolidated Financial Statements include the consolidated accounts of UnitedHealth Group Incorporated and its subsidiaries (the Company). The Company has eliminated intercompany balances and transactions. The year end condensed consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by U.S. Generally Accepted Accounting Principles (U.S. GAAP). In accordance with the rules and regulations of the U.S. Securities and Exchange Commission (SEC), the Company has omitted certain footnote disclosures that would substantially duplicate the disclosures contained in its annual audited Consolidated Financial Statements. However, these Condensed Consolidated Financial Statements should be read together with the Consolidated Financial Statements and the Notes included in the Company s Annual Report on Form 10-K for the year ended December 31, 2009 as filed with the SEC (2009 10-K). The accompanying Condensed Consolidated Financial Statements include all normal recurring adjustments necessary to present the interim financial statements fairly.

Use of Estimates

These Condensed Consolidated Financial Statements include certain amounts based on the Company s best estimates and judgments. The Company s most significant estimates relate to medical costs, medical costs payable, revenues, goodwill, other intangible assets, investments, income taxes and contingent liabilities. These estimates require the application of complex assumptions and judgments, often because they involve matters that are inherently uncertain and will likely change in subsequent periods. The impact of any changes in estimates is included in earnings in the period in which the estimate is adjusted.

Recent Accounting Standards

Recently Adopted Accounting Standards. In January 2010, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2010-06, Improving Disclosures about Fair Value Measurements (ASU 2010-06). This update amends the fair value guidance of the FASB Accounting Standards Codification (ASC) to require additional disclosures regarding (i) transfers in and out of Level 1 and Level 2 fair value measurements and (ii) activity in Level 3 fair value measurements. ASU 2010-06 also clarifies existing disclosure requirements regarding (i) the level of asset and liability disaggregation and (ii) fair value measurement inputs and valuation techniques. The new disclosures and clarifications of existing disclosures are effective for the Company s fiscal year 2010, except for the disclosures about purchases, sales, issuances and settlements in the roll forward of activity in Level 3 fair value measurements, which will be effective for the Company s fiscal year 2011. The Company s fair value disclosures have been included in Note 3 of Notes to the Condensed Consolidated Financial Statements.

Recently Issued Accounting Standards. In October 2009, the FASB issued ASU No. 2009-13, Multiple-Deliverable Revenue Arrangements (ASU 2009-13). This update removes the criterion that entities must use objective and reliable evidence of fair value in separately accounting for deliverables and provides entities with a hierarchy of evidence that must be considered when allocating arrangement consideration. The new guidance also requires entities to allocate arrangement consideration to the separate units of accounting based on the deliverables relative selling price. The provisions will be effective for revenue arrangements entered into or materially modified in the Company s fiscal year 2011 and must be applied prospectively. The Company is currently evaluating the impact of the provisions of ASU 2009-13.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The Company has determined that all other recently issued accounting standards will not have a material impact on its Condensed Consolidated Financial Statements, or do not apply to its operations.

2. Investments

A summary of short-term and long-term investments is as follows:

(in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2010				
Debt securities available-for-sale:				
U.S. government and agency obligations	$ 1,707	$ 5	$ (12)	$ 1,700
State and municipal obligations	5,973	224	(11)	6,186
Corporate obligations	3,695	169	(4)	3,860
U.S. agency mortgage-backed securities	1,862	63	(3)	1,922
Non-U.S. agency mortgage-backed securities	493	21	(1)	513
Total debt securities available-for-sale	13,730	482	(31)	14,181
Equity securities available-for-sale	604	12	(14)	602
Debt securities held-to-maturity:				
U.S. government and agency obligations	168	4	0	172
State and municipal obligations	16	0	0	16
Corporate obligations	23	0	0	23
Total debt securities held-to-maturity	207	4	0	211
Total investments	$ 14,541	$ 498	$ (45)	$ 14,994
December 31, 2009				
Debt securities available-for-sale:				
U.S. government and agency obligations	$ 1,566	$ 12	$ (11)	$ 1,567
State and municipal obligations	6,080	248	(11)	6,317
Corporate obligations	3,278	149	(6)	3,421
U.S. agency mortgage-backed securities	1,870	64	(3)	1,931
Non-U.S. agency mortgage-backed securities	535	8	(5)	538
Total debt securities available-for-sale	13,329	481	(36)	13,774
Equity securities available-for-sale	579	12	(14)	577
Debt securities held-to-maturity:				
U.S. government and agency obligations	158	4	0	162
State and municipal obligations	17	0	0	17
Corporate obligations	24	0	0	24

Total debt securities held-to-maturity	199	4	0	203
Total investments	$ 14,107	$ 497	$ (50)	$ 14,554

Included in the Company s investment portfolio were securities collateralized by sub-prime home equity lines of credit with fair values of $8 million and $9 million as of March 31, 2010 and December 31, 2009, respectively. Also included were Alt-A securities with fair values of $18 million and $19 million as of March 31, 2010 and December 31, 2009, respectively.

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

The fair values of the Company s mortgage-backed securities by credit rating and non-U.S. agency mortgage-backed securities by origination as of March 31, 2010 were as follows:

(in millions)	AAA	AA	A	BBB	Non-Investment Grade	Total Fair Value
2007	$ 72	$ 0	$ 1	$ 9	$ 3	$ 85
2006	134	0	6	0	18	158
2005	123	1	2	0	12	138
Pre-2005	130	0	1	1	0	132
U.S agency mortgage-backed securities	1,922	0	0	0	0	1,922
Total	$ 2,381	$ 1	$ 10	$ 10	$ 33	$ 2,435

The amortized cost and fair value of available-for-sale debt securities as of March 31, 2010, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 1,310	$ 1,322
Due after one year through five years	4,672	4,865
Due after five years through ten years	3,118	3,221
Due after ten years	2,275	2,338
U.S. agency mortgage-backed securities	1,862	1,922
Non-U.S. agency mortgage-backed securities	493	513
Total debt securities available-for-sale	$ 13,730	$ 14,181

The amortized cost and fair value of held-to-maturity debt securities as of March 31, 2010, by contractual maturity, were as follows:

(in millions)	Amortized Cost	Fair Value
Due in one year or less	$ 58	$ 58
Due after one year through five years	113	115
Due after five years through ten years	26	28
Due after ten years	10	10
Total debt securities held-to-maturity	$ 207	$ 211

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(in millions)	Less Than 12 Months Fair Value	Less Than 12 Months Gross Unrealized Losses	12 Months or Greater Fair Value	12 Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
March 31, 2010						
Debt securities available-for-sale:						
U.S. government and agency obligations	$ 961	$ (11)	$ 13	$ (1)	$ 974	$ (12)
State and municipal obligations	499	(8)	90	(3)	589	(11)
Corporate obligations	373	(3)	33	(1)	406	(4)
U.S. agency mortgage-backed securities	457	(3)	0	0	457	(3)
Non-U.S. agency mortgage-backed securities	4	(1)	5	0	9	(1)
Total debt securities available-for-sale	$ 2,294	$ (26)	$ 141	$ (5)	$ 2,435	$ (31)
Equity securities available-for-sale	$ 183	$ (14)	$ 8	$ 0	$ 191	$ (14)
December 31, 2009						
Debt securities available-for-sale:						
U.S. government and agency obligations	$ 437	$ (11)	$ 4	$ 0	$ 441	$ (11)
State and municipal obligations	392	(6)	100	(5)	492	(11)
Corporate obligations	304	(3)	69	(3)	373	(6)
U.S. agency mortgage-backed securities	355	(3)	2	0	357	(3)
Non-U.S. agency mortgage-backed securities	134	(1)	86	(4)	220	(5)
Total debt securities available-for-sale	$ 1,622	$ (24)	$ 261	$ (12)	$ 1,883	$ (36)
Equity securities available-for-sale	$ 169	$ (13)	$ 1	$ (1)	$ 170	$ (14)

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

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	March 31, 2010		December 31, 2009	
(in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
AAA	$ 462	$ (3)	$ 543	$ (6)
AA	0	0	31	(2)
A	1	0	0	0
BBB	0	0	1	0
Non-investment grade	3	(1)	2	0
Total	$ 466	$ (4)	$ 577	$ (8)

The unrealized losses from all securities as of March 31, 2010 were generated from approximately 1,300 positions out of a total of approximately 12,000 positions. The Company believes that it will collect all principal and interest due on all investments that have an amortized cost in excess of fair value. The unrealized losses on investments in U.S. government and agency obligations, state and municipal obligations and corporate obligations as of March 31, 2010 were primarily caused by interest rate increases and not by unfavorable changes in the credit ratings associated with these securities. The Company evaluates impairment at each reporting period for securities where the fair value of the investment is less than its amortized cost. The contractual cash flows of the U.S. government and agency obligations are guaranteed by either the U.S. government or an agency of the U.S. government. The Company expects that the securities would not be settled at a price less than the amortized cost of the Company s investment. The Company evaluated the underlying credit quality of the issuers and the credit ratings of the state and municipal obligations and the corporate obligations, noting neither a significant deterioration since purchase nor other factors leading to an other-than-temporary impairment (OTTI). The unrealized losses on mortgage-backed securities as of March 31, 2010 were primarily caused by higher interest rates in the marketplace, reflecting the higher perceived risk assigned by fixed-income investors to commercial mortgage-backed securities. These unrealized losses represented less than 1% of the total amortized cost of the Company s mortgage-backed security holdings as of March 31, 2010. The Company believes these losses to be temporary. Approximately 99% of the Company s mortgage-backed securities in an unrealized loss position as of March 31, 2010 were rated AAA with no known deterioration or other factors leading to an OTTI. As of March 31, 2010, the Company did not have the intent to sell any of the securities in an unrealized loss position.

As of March 31, 2010, the Company s holdings of non-U.S. agency mortgage-backed securities included $8 million of commercial mortgage loans in default. These investments were acquired in the first quarter of 2008 pursuant to an acquisition and were recorded at fair value. They represented less than 1% of the Company s total mortgage-backed security holdings as of March 31, 2010.

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

UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

(in millions)	**Three Months Ended March 31, 2010**	**2009**
Total OTTI	$ (1)	$ (32)
Portion of loss recognized in other comprehensive income	0	n/a
Net OTTI recognized in earnings	(1)	(32)
Gross realized losses from sales	(1)	(11)
Gross realized gains from sales	40	46
Net realized gains	$ 38	$ 3

For the three months ended March 31, 2010 and 2009, all of the recorded OTTI resulted from the Company s intent to sell certain impaired securities.

3. Fair Value

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

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

The fair value hierarchy is as follows:

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

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

Quoted prices for similar assets/liabilities in active markets;

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UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

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

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

(in millions)	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)	Total Fair Value
March 31, 2010				
Cash and cash equivalents	$ 9,021	$ 899	$ 0	$ 9,920
Debt securities available-for-sale:				
U.S. government and agency obligations	1,194	506	0	1,700
State and municipal obligations	0	6,186	0	6,186
Corporate obligations	22	3,732	106	3,860
U.S. agency mortgage-backed securities	0	1,922	0	1,922
Non-U.S. agency mortgage-backed securities	0	505	8	513
Total debt securities available-for-sale	1,216	12,851	114	14,181
Equity securities available-for-sale	276	2	324	602
Total cash, cash equivalents and investments at fair value	$ 10,513	$ 13,752	$ 438	$ 24,703
Percentage of total cash, cash equivalents and investments at fair value	42%	56%	2%	100%
Interest rate swap liabilities	$ 0	$ 14	$ 0	$ 14
December 31, 2009				
Cash and cash equivalents	$ 9,135	$ 665	$ 0	$ 9,800
Debt securities available-for-sale:				
U.S. government and agency obligations	1,024	543	0	1,567
State and municipal obligations	0	6,317	0	6,317
Corporate obligations	18	3,293	110	3,421
U.S. agency mortgage-backed securities	0	1,931	0	1,931

Non-U.S. agency mortgage-backed securities	0	528	10	538
Total debt securities available-for-sale	1,042	12,612	120	13,774
Equity securities available-for-sale	262	3	312	577
Total cash, cash equivalents and investments at fair value	$ 10,439	$ 13,280	$ 432	$ 24,151
Percentage of total cash, cash equivalents and investments at fair value	43%	55%	2%	100%

There were no transfers between Levels 1 and 2 during the three months ended March 31, 2010.

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UNITEDHEALTH GROUP

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

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

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

Equity Securities. Equity securities are held as available-for-sale investments. Fair value estimates for Level 1 and Level 2 publicly traded equity securities are based on quoted market prices and/or other market data for the same or comparable instruments and transactions in establishing the prices. The fair values of Level 3 investments in venture capital portfolios are estimated using market modeling approaches that rely heavily on management assumptions and qualitative observations. These investments totaled $289 million as of March 31, 2010. The fair values of the Company s various venture capital investments are computed using limited quantitative and qualitative observations of activity for similar companies in the current market. The key inputs utilized in the Company s market modeling include, as applicable, transactions for comparable companies in similar industries and having similar revenue and growth characteristics; similar preferences in the capital structure; discounted cash flows; liquidation values and milestones established at initial funding; and the assumption that the values of the Company s venture capital investments can be inferred from these inputs. The Company s remaining Level 3 equity securities holdings of $35 million mainly consist of preferred stock for which there is no active market.

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

A reconciliation of the beginning and ending balances of assets measured at fair value on a recurring basis using Level 3 inputs is as follows:

	March 31, 2010			March 31, 2009		
(in millions)	**Debt Securities**	**Equity Securities**	**Total**	**Debt Securities**	**Equity Securities**	**Total**
Balance at beginning of period	$ 120	$ 312	$ 432	$ 62	$ 304	$ 366
(Sales) purchases, net	(5)	10	5	(2)	(2)	(4)
Net unrealized losses in accumulated other comprehensive income	0	0	0	0	(1)	(1)
Net realized (losses) gains in investment and other income	(1)	2	1	0	0	0
Balance at end of period	$ 114	$ 324	$ 438	$ 60	$ 301	$ 361

There were no transfers into or from Level 3 for the three months ended March 31, 2010 and 2009.

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There were no significant fair value adjustments recorded during the three months ended March 31, 2010 or 2009 for non-financial assets and liabilities or financial assets and liabilities that are measured at fair value on a nonrecurring basis. These assets and liabilities are subject to fair value adjustments only in certain circumstances, such as when the Company records impairments.

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

	March 31, 2010		December 31, 2009	
(in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Assets				
Debt securities available-for-sale	$ 14,181	$ 14,181	$ 13,774	$ 13,774
Equity securities available-for-sale	602	602	577	577
Debt securities held-to-maturity	207	211	199	203
AARP Program-related investments	2,168	2,168	2,114	2,114
Liabilities				
Senior unsecured notes	10,523	10,702	11,173	11,043
Interest rate swaps	14	14	0	0

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

AARP Program-related Investments. AARP Program-related investments consist of debt and equity securities held to fund costs associated with the AARP Program (see Note 10 of Notes to the Condensed Consolidated Financial Statements). The Company elected to measure the AARP assets under management, of which the investments are a part, at fair value, pursuant to the fair value option. See the preceding discussion regarding the methods and assumptions used to estimate the fair value of debt and equity securities.

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

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

4. Medicare Part D Pharmacy Benefits Contract

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

	March 31, 2010		December 31, 2009	
(in millions)	CMS Subsidies (a)	Risk-Share	CMS Subsidies (a)	Risk-Share
Other current receivables	$ 0	$ 0	$ 271	$ 0
Other policy liabilities	490	44	0	268

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

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The Catastrophic Reinsurance Subsidy and the Low-Income Member Cost Sharing Subsidy represent cost reimbursements under the Medicare Part D program. The Company is fully reimbursed by the Centers for Medicare and Medicaid Services (CMS) for costs incurred for these contract elements and, accordingly, there is no insurance risk to the Company. Amounts received for these subsidies are not reflected as premium revenues, but rather are accounted for as deposits in other policy liabilities in the Condensed Consolidated Balance Sheets. As of December 31, 2009, the amounts received for these subsidies were insufficient to cover the costs incurred for these contract elements; therefore, the Company recorded a receivable in other current receivables in the Condensed Consolidated Balance Sheets.

Premiums from CMS are subject to risk-sharing provisions based on a comparison of the Company s annual bid estimates of prescription drug costs and the actual costs incurred. Variances may result in CMS making additional payments to the Company or require the Company to remit funds to CMS subsequent to the end of the year. The Company records risk-share adjustments to premium revenue and other policy liabilities or other current receivables in the Condensed Consolidated Balance Sheets.

5. Medical Costs and Medical Costs Payable

Medical costs and medical costs payable include estimates of the Company s obligations for medical care services that have been rendered on behalf of insured consumers, but for which claims have either not yet been received or processed, and for liabilities for physician, hospital and other medical cost disputes. The Company develops estimates for medical costs incurred but not reported using an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider factors such as time from date of service to claim receipt, claim backlogs, care provider contract rate changes, medical care consumption and other medical cost trends. The Company estimates liabilities for physician, hospital and other medical cost disputes based upon an analysis of potential outcomes, assuming a combination of litigation and settlement strategies. Each period, the Company re-examines previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the medical costs payable estimates recorded in prior periods develop, the Company adjusts the amount of the estimates and includes the changes in estimates in medical costs in the period in which the change is identified.

For the three months ended March 31, 2010 and 2009, there was $490 million and $200 million, respectively, of net favorable medical cost development related to prior fiscal years. The 2010 favorable development was primarily driven by changes in previous estimates related to more efficient claims handling and processing, resulting in higher completion factors, lower than expected health system utilization levels, the H1N1 influenza outbreak being less costly than had been estimated and the mix effect of longer duration state Medicaid members who have a more favorable health status. None of the factors discussed above were individually material to the net favorable medical cost development in the three months ended March 31, 2009.

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6. Commercial Paper and Long-Term Debt

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

	March 31, 2010			December 31, 2009		
(in millions)	Par Value	Carrying Value (a)	Fair Value (b)	Par Value	Carrying Value (c)	Fair Value (b)
Commercial paper	$ 225	$ 225	$ 225	$ 0	$ 0	$ 0
Senior unsecured floating-rate notes due June 2010	500	500	500	500	500	499
5.1% senior unsecured notes due November 2010	250	255	257	250	257	259
Senior unsecured floating-rate notes due February 2011	250	250	251	250	250	251
5.3% senior unsecured notes due March 2011 (d)	705	726	733	750	781	777
5.5% senior unsecured notes due November 2012 (d)	352	373	381	450	480	481
4.9% senior unsecured notes due February 2013 (d)	534	531	571	550	549	575
4.9% senior unsecured notes due April 2013 (d)	409	420	434	450	464	472
4.8% senior unsecured notes due February 2014 (d)	172	183	181	250	268	256
5.0% senior unsecured notes due August 2014 (d)	389	417	411	500	540	518
4.9% senior unsecured notes due March 2015 (d)	416	446	436	500	544	513
5.4% senior unsecured notes due March 2016 (d)	601	675	633	750	847	772
5.4% senior unsecured notes due November 2016	95	95	100	95	95	98
6.0% senior unsecured notes due June 2017 (d)	441	515	472	500	587	523
6.0% senior unsecured notes due November 2017 (d)	156	178	168	250	285	258
6.0% senior unsecured notes due February 2018	1,100	1,099	1,174	1,100	1,099	1,136
Zero coupon senior unsecured notes due November 2022 (e)	1,095	566	627	1,095	558	611
5.8% senior unsecured notes due March 2036	850	844	796	850	844	762
6.5% senior unsecured notes due June 2037	500	495	508	500	495	493
6.6% senior unsecured notes due November 2037	650	645	676	650	645	651
6.9% senior unsecured notes due February 2038	1,100	1,085	1,168	1,100	1,085	1,138
Total commercial paper and long-term debt	10,790	10,523	10,702	11,340	11,173	11,043
Total commercial paper and current maturities of long-term debt	(3,025)	(2,522)	(2,593)	(2,620)	(2,164)	(2,173)
Long-term debt, less current maturities	$ 7,765	$ 8,001	$ 8,109	$ 8,720	$ 9,009	$ 8,870

(a) The carrying value of debt has been adjusted based upon the applicable interest rate swap fair values discussed under Interest Rate Swap Contracts below.

(b) Estimated based on third-party quoted market prices for the same or similar issues.

(c) The carrying value of debt reflects accretion of issuance discounts, debt issuance fees and unamortized net gains or losses on related interest rate swap contracts, which terminated in January 2009.

(d) A portion of these notes was classified with the current maturities of long-term debt in the Condensed Consolidated Balance Sheets as of December 31, 2009 due to the debt tender offers discussed under Debt Tender below.

(e) These notes have been classified with the current maturities of long-term debt in the Condensed Consolidated Balance Sheets as of March 31, 2010 and December 31, 2009 due to a current note holder option to put the note to the Company beginning on November 15, 2010, and on each November 15 thereafter until 2022 (except 2014), for a specified price.

Commercial Paper and Bank Credit Facility

Commercial paper consists of senior unsecured debt sold on a discount basis with maturities up to 270 days. As of March 31, 2010, the Company had $225 million of outstanding commercial paper with interest rates ranging from 0.3% to 0.4%.

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The Company has a $2.5 billion five-year revolving bank credit facility with 23 banks, which matures in May 2012. This facility supports the Company s commercial paper program and is available for general corporate purposes. There were no amounts outstanding under this facility as of March 31, 2010. The interest rate is variable based on term and amount and is calculated based on the London Interbank Offered Rate (LIBOR) plus a spread. As of March 31, 2010, the interest rate on this facility, had it been drawn, would have ranged from 0.4% to 0.7%.

Debt Covenants

The Company s bank credit facility contains various covenants, the most restrictive of which requires the Company to maintain a debt-to-total-capital ratio, calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders equity, below 50%. The Company was in compliance with its debt covenants as of March 31, 2010.

Debt Tender

In February 2010, the Company completed cash tender offers for $775 million in aggregate principal of certain of its outstanding fixed-rate notes to improve the matching of interest rate exposure related to its floating rate assets and liabilities on its balance sheet.

Interest Rate Swap Contracts

During the first quarter of 2010, the Company entered into interest rate swap contracts to convert a portion of its interest rate exposure from fixed rates to floating rates to more closely align interest expense with interest income received on its cash equivalent and investment balances. The floating rates are benchmarked to LIBOR. The swaps are designated as fair value hedges of fixed-rate debt. Since the specific terms and notional amounts of the swaps match those of the debt being hedged, they were assumed to be effective hedges and all changes in fair value of the swaps were recorded on the Condensed Consolidated Balance Sheets with no net impact recorded in the Condensed Consolidated Statements of Operations.

The following table summarizes the location and fair value of fair value hedges on the Company s Condensed Consolidated Balance Sheets as of March 31, 2010:

Type of Fair Value Hedge	Notional Amount (in millions)	Balance Sheet Location	Estimated Fair Value (in millions)
Interest rate swap contracts	$ 2,977	Accounts payable and accrued liabilities/Other liabilities	$ 14

The following table provides a summary of the effect of fair value hedges on the Company s Condensed Consolidated Statements of Operations for the three months ended March 31, 2010:

Type of Fair Value Hedge	Income Statement Location of Derivative Loss	Hedge Loss Recognized (in millions)	Hedged Item	Income Statement Location of Hedged Item Gain	Hedged Item Gain Recognized (in millions)
Interest rate swap contracts	Interest expense	$ (14)	Fixed rate debt	Interest expense	$ 14

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7. Income Taxes

The Company s income tax rate for the three months ended March 31, 2010 and 2009 was 37.0% and 36.0%, respectively. The increase in the effective income tax rate resulted primarily from limitations on the future deductibility of certain compensation related to the Patient Protection and Affordable Care Act, as modified by the Health Care and Education Reconciliation Act of 2010 (Health Reform Legislation), which was signed into law during the first quarter of 2010.

8. Share Repurchase Program

Under its Board of Directors authorization, the Company maintains a share repurchase program. The objectives of the share repurchase program are to optimize the Company s capital structure and cost of capital, thereby improving returns to shareholders, as well as to offset the dilutive impact of share-based awards. Repurchases may be made from time to time at prevailing prices in the open market, subject to certain Board restrictions. In February 2010, the Board renewed and increased the Company s share repurchase program, and authorized the Company to repurchase up to 120 million shares of its common stock. During the three months ended March 31, 2010, the Company repurchased 18.9 million shares at an average price of approximately $33 per share and an aggregate cost of $626 million. As of March 31, 2010, the Company had Board authorization to purchase up to an additional 105.2 million shares of its common stock.

9. Share-Based Compensation

As of March 31, 2010, the Company had 54.4 million shares available for future grants of share-based awards under its share-based compensation plan, including, but not limited to, incentive or non-qualified stock options, stock-settled stock appreciation rights (SARs), and up to 12.0 million of awards in restricted stock and restricted stock units (collectively, restricted shares). The Company s outstanding share-based awards consist mainly of non-qualified stock options, SARs and restricted shares.

Stock Options and SARs

Stock options and SARs generally vest ratably over four to six years and may be exercised up to 10 years from the date of grant. Stock option and SAR activity for the three months ended March 31, 2010 is summarized in the table below:

	Shares (in thousands)	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Life (in years)	Aggregate Intrinsic Value (in millions)
Outstanding at beginning of period	124,146	$ 39		
Granted	8,751	33		
Exercised	(3,363)	18		
Forfeited	(1,897)	45		
Outstanding at end of period	127,637	$ 39	5.6	$ 354
Exercisable, end of period	86,960	$ 39	4.4	$ 315
Vested and expected to vest at end of period	121,755	$ 39	5.5	$ 348

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

	Three Months Ended March 31,	
	2010	**2009**
Risk free interest rate	2.1%	1.7%-1.8%
Expected volatility	45.8%	41.3%-42.4%
Expected dividend yield	0.1%	0.1%
Forfeiture rate	5.0%	5.0%
Expected life in years	4.6 - 5.1	4.4 - 5.1

Risk-free interest rates are based on U.S. Treasury yields in effect at the time of grant. Expected volatilities are based on the historical volatility of the Company s common stock and the implied volatility from exchange-traded options on the Company s common stock. The Company uses historical data to estimate option and SAR exercises and forfeitures within the valuation model. The expected lives of options and SARs granted represents the period of time that the awards granted are expected to be outstanding based on historical exercise patterns.

The weighted-average grant date fair value of stock options and SARs granted for the three months ended March 31, 2010 and 2009 was approximately $13 per share and $10 per share, respectively. The total intrinsic value of stock options and SARs exercised during the three months ended March 31, 2010 and 2009 was $53 million and $207 million, respectively.

Restricted Shares

Restricted shares generally vest ratably over two to five years. Compensation expense related to restricted shares is based on the share price on date of grant. Restricted share activity for the three months ended March 31, 2010 is summarized in the table below:

(shares in thousands)	**Shares**	**Weighted-Average Grant Date Fair Value**
Nonvested at beginning of period	10,620	$ 32
Granted	4,022	33
Vested	(1,432)	30
Forfeited	(132)	32
Nonvested at end of period	13,078	$ 32

The weighted-average grant date fair value of restricted shares granted during the three months ended March 31, 2009 was approximately $29 per share. The total fair value of restricted shares vested during the three months ended March 31, 2010 and 2009 was $43 million and $9 million, respectively.

Share-Based Compensation Recognition

The Company recognizes compensation expense for share-based awards, including stock options, SARs and restricted shares, on a straight-line basis over the related service period (generally the vesting period) of the

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award, or to an employee s eligible retirement date under the award agreement, if earlier. For the three months ended March 31, 2010 and 2009, the Company recognized compensation expense related to its share-based compensation plans of $100 million ($87 million net of tax effects) and $95 million ($63 million net of tax effects), respectively. Share-based compensation expense is recognized in operating costs in the Company s Condensed Consolidated Statements of Operations. As of March 31, 2010, there was $628 million of total unrecognized compensation cost related to share awards that is expected to be recognized over a weighted-average period of 1.5 years. For the three months ended March 31, 2010 and 2009, the income tax benefit realized from share-based award exercises was $28 million and $53 million, respectively.

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

10. AARP

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

Under the Program, the Company is compensated for transaction processing and other services, as well as for assuming underwriting risk. The Company is also engaged in product development activities to complement the insurance offerings.

The Company s agreement with AARP on the Program provides for the maintenance of the Rate Stabilization Fund (RSF) that is held by the Company on behalf of policyholders. Underwriting gains or losses related to the AARP Medicare Supplement Insurance business are directly recorded as an increase or decrease to the RSF. The primary components of the underwriting results are premium revenue, medical costs, investment income, administrative expenses, member service expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to the overall benefit of the AARP policyholders, unless cumulative net losses were to exceed the balance in the RSF. To the extent underwriting losses exceed the balance in the RSF, losses would be borne by the Company. Deficits may be recovered by underwriting gains in future periods of the contract. To date, the Company has not been required to fund any underwriting deficits. The RSF balance is reported in other policy liabilities in the Condensed Consolidated Balance Sheets and changes in the RSF are reported in medical costs in the Condensed Consolidated Statement of Operations. The Company believes the RSF balance as of March 31, 2010 is sufficient to cover potential future underwriting and other risks and liabilities associated with the contract.

The effects of changes in balance sheet amounts associated with the Program also accrue to the overall benefit of the AARP policyholders through the RSF balance. Accordingly, the Company excludes the effect of such changes in its Condensed Consolidated Statements of Cash Flows.

Under the Company s agreement with AARP, the Company separately manages the assets that support the Program. These assets are held at fair value in the Condensed Consolidated Balance Sheets as assets under management. These assets are invested at the Company s discretion, within investment guidelines approved by

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the Program, and are used to pay costs associated with the Program. The Company does not guarantee any rates of investment return on these investments and upon any transfer of the Program to another entity, the Company would transfer cash in an amount equal to the fair value of these investments at the date of transfer. Interest earnings and realized investment gains and losses on these assets accrue to the overall benefit of the AARP policyholders through the RSF and, thus, are not included in the Company s earnings.

The Company elected to measure the entirety of the AARP assets under management at fair value, pursuant to the fair value option.

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

(in millions)	March 31, 2010