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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended June 30, 2003

or

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

For the transition period from to

Commission file number: 1-10864

UnitedHealth Group Incorporated

(Exact name of registrant as specified in its charter)

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

(952) 936-1300

(Registrant's telephone number, including area code)

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

As of August 11, 2003, 596,223,753 shares of the registrant's Common Stock, $.01 par value per share, were issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. *Financial Statements (unaudited)*

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In millions, except per share data)

	June 30, 2003	December 31, 2002
ASSETS		
Current Assets		
Cash and Cash Equivalents	$ 2,253	$ 1,130
Short-Term Investments	231	701
Accounts Receivable, net	836	835
Assets Under Management	2,007	2,069
Deferred Income Taxes and Other	457	439
Total Current Assets	5,784	5,174
Long-Term Investments	4,470	4,498
Property, Equipment, Capitalized Software, and Other Assets, Net	1,036	1,007
Goodwill	3,403	3,363
Other Intangible Assets, net	145	122
TOTAL ASSETS	$ 14,838	$ 14,164
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Medical Costs Payable	$ 4,031	$ 3,741
Accounts Payable and Accrued Liabilities	1,753	1,459
Other Policy Liabilities	1,765	1,781
Commercial Paper and Current Maturities of Long-Term Debt	350	811
Unearned Premiums	452	587
Total Current Liabilities	8,351	8,379
Long-Term Debt, less current maturities	1,400	950
Deferred Income Taxes and Other Liabilities	414	407
Commitments and Contingencies (Note 11)		
Shareholders' Equity		
Common Stock, $0.01 par value — 1,500 shares authorized; 590 and 599 shares issued and outstanding	6	6
Additional Paid-In Capital	14	170
Retained Earnings	4,468	4,104
Accumulated Other Comprehensive Income:		
Net Unrealized Gains on Investments, net of tax effects	185	148
Total Shareholders' Equity	4,673	4,428
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 14,838	$ 14,164

See notes to condensed consolidated financial statements

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)
(In millions, except per share data)

	Three Months Ended June 30, 2003	Three Months Ended June 30, 2002	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
REVENUES				
Premiums	$ 6,248	$ 5,316	$ 12,396	$ 10,562
Services	779	711	1,549	1,416
Investment and Other Income	60	51	117	113
Total Revenues	7,087	6,078	14,062	12,091
MEDICAL AND OPERATING COSTS				
Medical Costs	5,109	4,418	10,159	8,853
Operating Costs	1,195	1,075	2,394	2,115
Depreciation and Amortization	74	62	147	118
Total Medical and Operating Costs	6,378	5,555	12,700	11,086
EARNINGS FROM OPERATIONS	709	523	1,362	1,005
Interest Expense	(24)	(20)	(47)	(44)
EARNINGS BEFORE INCOME TAXES	685	503	1,315	961
Provision for Income Taxes	(246)	(178)	(473)	(341)
NET EARNINGS	$ 439	$ 325	$ 842	$ 620
BASIC NET EARNINGS PER COMMON SHARE	$ 0.74	$ 0.53	$ 1.42	$ 1.01
DILUTED NET EARNINGS PER COMMON SHARE	$ 0.71	$ 0.51	$ 1.36	$ 0.97
BASIC WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING	590	610	593	612
DILUTIVE EFFECT OF OUTSTANDING STOCK OPTIONS	28	31	28	30
WEIGHTED-AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, ASSUMING DILUTION	618	641	621	642

See notes to condensed consolidated financial statements

UNITEDHEALTH GROUP

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)
(In millions)

	Six Months Ended June 30, 2003	Six Months Ended June 30, 2002
OPERATING ACTIVITIES		
Net Earnings	$ 842	$ 620
Noncash Items:		
Depreciation and Amortization	147	118
Deferred Income Taxes and Other	(5)	70
Net Change in Other Operating Items, net of effects from acquisitions, sales of subsidiaries and changes in AARP balances:		
Accounts Receivable and Other Current Assets	25	(30)
Medical Costs Payable	283	48
Accounts Payable and Accrued Liabilities	349	409
Unearned Premiums	(151)	(205)
Cash Flows From Operating Activities	1,490	1,030
INVESTING ACTIVITIES		
Cash Paid for Acquisitions, net of cash assumed and other effects	(56)	(45)
Purchases of Property, Equipment and Capitalized Software, net	(181)	(216)
Purchases of Investments	(1,045)	(1,353)
Maturities and Sales of Investments	1,649	1,515
Cash Flows From (Used For) Investing Activities	367	(99)
FINANCING ACTIVITIES		
Proceeds from Common Stock Issuances	145	114
Common Stock Repurchases	(859)	(826)
Repayments of Commercial Paper, net	(461)	(454)
Proceeds from Issuance of Long-Term Debt	450	400
Dividends Paid	(9)	(9)
Cash Flows Used For Financing Activities	(734)	(775)
INCREASE IN CASH AND CASH EQUIVALENTS	1,123	156
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD	1,130	1,540
CASH AND CASH EQUIVALENTS, END OF PERIOD	$ 2,253	$ 1,696
Supplementary schedule of noncash investing activities:		
Common stock issued for acquisitions	$ —	$ 72

See notes to condensed consolidated financial statements

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 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, 2002.

These consolidated financial statements include certain amounts that are based on our best estimates and judgments. These estimates require us to apply complex assumptions and judgements, often because we must make estimates about the effects of matters that are inherently uncertain and will change in subsequent periods. The most significant estimates relate to medical costs, medical costs payable, revenues, contingent liabilities, and asset valuations, allowances and impairments. We adjust these estimates each period, as more current information becomes available, and any adjustment could have a significant impact on our consolidated operating results. The impact of any changes in estimates is included in the determination of earnings in the period in which the estimate is adjusted.

2. Stock-Based Compensation

We account for activity under our stock-based employee compensation plans under the recognition and measurement principles of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees." Accordingly, we do not recognize compensation expense when we grant employee stock options because we grant stock options at exercise prices not less than the fair value of our common stock on the date of grant.

The following table shows the effect on net earnings and earnings per share had we applied the fair value expense recognition provisions of Statement of Financial Accounting Standards (FAS) No. 123, "Accounting for Stock-Based Compensation," to stock-based employee compensation (in millions, except per share data).

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
NET EARNINGS				
As Reported	$ 439	$ 325	$ 842	$ 620
Compensation Expense, net of tax effect	(31)	(25)	(60)	(49)
Pro Forma	$ 408	$ 300	$ 782	$ 571
BASIC NET EARNINGS PER COMMON SHARE				
As Reported	$ 0.74	$ 0.53	$ 1.42	$ 1.01
Pro Forma	$ 0.69	$ 0.49	$ 1.32	$ 0.93
DILUTED NET EARNINGS PER COMMON SHARE				
As Reported	$ 0.71	$ 0.51	$ 1.36	$ 0.97
Pro Forma	$ 0.66	$ 0.47	$ 1.26	$ 0.89

3. Cash, Cash Equivalents and Investments

As of June 30, 2003, 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	$ 2,253	$ —	$ —	$ 2,253
Debt Securities — Available for Sale	4,189	284	(3)	4,470
Equity Securities — Available for Sale	149	10	(1)	158
Debt Securities — Held to Maturity	73	—	—	73
Total Cash and Investments	$ 6,664	$ 294	$ (4)	$ 6,954

During the three and six month periods ended June 30, we recorded realized gains and losses on the sale of investments as follows (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Gross Realized Gains	$ 14	$ 28	$ 22	$ 38
Gross Realized Losses	(9)	(36)	(16)	(46)
Net Realized Gains (Losses)	$ 5	$ (8)	$ 6	$ (8)

4. Goodwill and Other Intangible Assets

Changes in the carrying amount of goodwill, by operating segment, for the six months ended June 30, 2003, were as follows (in millions):

	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Consolidated Total
Balance at December 31, 2002	$ 1,693	$ 698	$ 363	$ 609	$ 3,363
Goodwill acquired	5	—	26	9	40
Balance at June 30, 2003	$ 1,698	$ 698	$ 389	$ 618	$ 3,403

The weighted-average useful life, gross carrying value, accumulated amortization and net carrying value of other intangible assets as of June 30, 2003 and December 31, 2002 were as follows (in millions):

		June 30, 2003			December 31, 2002		
	Weighted-Average Useful Life	Gross Carrying Value	Accumulated Amortization	Net Carrying Value	Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Customer Contracts and Membership Lists	14 years	$ 72	$ (3)	$ 69	$ 64	$ (1)	$ 63
Patents, Trademarks and Technology	11 years	80	(27)	53	58	(24)	34
Non-compete Agreements and Other	7 years	32	(9)	23	31	(6)	25
Total	10 years	$ 184	$ (39)	$ 145	$ 153	$ (31)	$ 122

Amortization expense relating to other intangible assets was approximately $4 and $8 million for the three and six month periods ended June 30, 2003. Estimated amortization expense relating to other intangible assets for the years ending December 31 are as follows (in millions):

2003	2004	2005	2006	2007
$17	$18	$17	$16	$14

5. Medical Costs Payable

As further discussed in the Critical Accounting Policies and Estimates section of Management's Discussion and Analysis, a substantial portion of our medical costs payable is based on estimates, which include estimates for the costs of health care services eligible individuals have received under risk-based arrangements but for which claims have either not yet been received or processed, and liabilities for physician, hospital and other medical cost disputes. Each period, our operating results include the effects of revisions in estimates related to all prior periods, based on actual claims processed and other changes in facts and circumstances. Our medical costs payable estimates as of December 31, 2001, 2000 and 1999 each developed favorably in the subsequent fiscal year by approximately $70 million, $30 million and $15 million, respectively. Our medical costs payable estimate as of December 31, 2002 also developed favorably by approximately $110 million during the six month period ended June 30, 2003.

Medical costs for the three month period ended June 30, 2003 include approximately $50 million of favorable medical cost development related to prior years and approximately $50 million of favorable medical cost development related to the first quarter of 2003. Management believes the amount of medical costs payable is reasonable and adequate to cover the company's liability for unpaid claims as of June 30, 2003.

6. Commercial Paper and Debt

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

	June 30, 2003		December 31, 2002	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Commercial Paper	$ —	$ —	$ 461	$ 461
Floating-Rate Notes due November 2003	100	100	100	100
6.6% Senior Unsecured Notes due December 2003	250	255	250	260
Floating-Rate Notes due November 2004	150	150	150	150
7.5% Senior Unsecured Notes due November 2005	400	451	400	450
5.2% Senior Unsecured Notes due January 2007	400	437	400	423
4.9% Senior Unsecured Notes due April 2013	450	474	—	—
Total Commercial Paper and Debt	1,750	1,867	1,761	1,844
Less Current Maturities	(350)	(355)	(811)	(821)
Long-Term Debt, less current maturities	$ 1,400	$ 1,512	$ 950	$ 1,023

As of June 30, 2003, we had no outstanding commercial paper. The interest rates on the floating-rate notes are reset quarterly to the three-month LIBOR (London Interbank Offered Rate) plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of June 30, 2003, the applicable rates on the notes were 1.6% and 1.9%, respectively.

In March 2003, we issued $450 million of 4.9% fixed-rate notes due April 2013. In January 2002, we issued $400 million of 5.2% fixed-rate notes due January 2007. We used proceeds from these borrowings to repay commercial paper and for general corporate purposes including working capital, capital expenditures, business acquisitions, and share repurchases. When we issued these notes, we entered into interest rate swap agreements that qualify as fair value hedges to convert a portion of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have aggregate notional amounts of $225 million, maturing April 2013 and $200 million, maturing January 2007. The variable rates are benchmarked to the six-month LIBOR rate and are reset on a semiannual basis in arrears. At June 30, 2003, the rate used to accrue interest expense on these swaps ranged from 1.2% to 1.3%. The differential between the fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Condensed Consolidated Statements of Operations.

We have credit arrangements for $900 million that support our commercial paper program. These credit arrangements include a $450 million revolving facility that expires in July 2005, and a $450 million, 364-day facility that expires in July 2004. We also have the capacity to issue approximately $200 million of extendible commercial notes (ECNs). As of June 30, 2003, we had no amounts outstanding under our credit facilities or ECNs.

Our debt agreements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

7. AARP

In January 1998, we initiated a 10-year contract to provide insurance products and services to members of AARP. 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 $3.8 billion annually.

The underwriting gains or losses related to the AARP business are 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 services expenses, marketing expenses and premium taxes. Underwriting gains and losses are recorded as an increase or decrease to the RSF and accrue to 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. We believe the RSF balance is sufficient to cover potential future underwriting or 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	
	June 30, 2003	December 31, 2002
Accounts Receivable	$ 342	$ 294
Assets Under Management	$ 1,960	$ 2,045
Medical Costs Payable	$ 881	$ 893
Other Policy Liabilities	$ 1,261	$ 1,299
Other Current Liabilities	$ 160	$ 147

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

8. Stock Split and Stock Repurchase Program

On May 7, 2003, the Company's Board of Directors declared a two-for-one split of the Company's common stock in the form of a 100 percent common stock dividend. The stock dividend was issued on June 18, 2003, to shareholders of record on June 2, 2003. All share and per share amounts have been restated to reflect the stock split.

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 restrictions on volume, pricing and timing. During the six months ended June 30, 2003, we repurchased 18.5 million shares at an aggregate cost of $808 million. In July 2003, the board of directors renewed the stock repurchase program and authorized the Company to repurchase up to 60 million shares of common stock under the program.

9. Comprehensive Income

The table below presents comprehensive income for the three and six month periods ended June 30 (in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2003	2002	2003	2002
Net Earnings	$ 439	$ 325	$ 842	$ 620
Change in Net Unrealized Gains on Investments, net of tax effects	35	56	37	42
Comprehensive Income	$ 474	$ 381	$ 879	$ 662

10. 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 coordinates network-based health and well-being services on behalf of local employers and consumers. Ovations delivers health and well-being services for Americans age 50 and older. AmeriChoice facilitates and manages health care services for state Medicaid programs and their beneficiaries. 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 health and well-being access and services, business-to-business transaction processing services, consumer connectivity and technology support services to large employers and health plans.

- *Specialized Care Services* is a portfolio of health and well-being companies, each serving a specialized market need with a unique blend of benefits, networks, services and resources.

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- *Ingenix* is an international leader in the field of health care data analysis and application, serving pharmaceutical companies, health insurers and other payers, health care providers, large employers and governments.

Transactions between business segments principally consist of customer service and transaction processing services 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 best estimate of fair value, as if the services were purchased from or sold to third parties. 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.

Effective January 1, 2003, within the Health Care Services Segment, the Company transferred Medicaid-related business oversight from UnitedHealthcare to AmeriChoice, as well as certain Medicare-related businesses from UnitedHealthcare to Ovations. In addition, the Company transferred managed health plan services from UnitedHealthcare to Uniprise. The 2002 segment financial information has been restated for comparability purposes to conform to the current composition of business segments. The restatement had no effect on previously reported 2002 consolidated financial information.

The following tables present segment financial information for the three and six month periods ended June 30, 2003 and 2002 (in millions):

Three Months Ended June 30, 2003	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Eliminations	Consolidated
Revenues — External Customers	$ 6,056	$ 626	$ 262	$ 83	$ —	$ 7,027
Revenues — Intersegment	—	143	197	43	(383)	—
Investment and Other Income	50	6	4	—	—	60
Total Revenues	$ 6,106	$ 775	$ 463	$ 126	$ (383)	$ 7,087
Earnings from Operations	$ 450	$ 153	$ 93	$ 13	$ —	$ 709

Three Months Ended June 30, 2002	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Eliminations	Consolidated
Revenues — External Customers	$ 5,201	$ 527	$ 223	$ 76	$ —	$ 6,027
Revenues — Intersegment	—	129	148	33	(310)	—
Investment and Other Income	41	6	4	—	—	51
Total Revenues	$ 5,242	$ 662	$ 375	$ 109	$ (310)	$ 6,078
Earnings from Operations	$ 314	$ 129	$ 68	$ 12	$ —	$ 523

Six Months Ended June 30, 2003	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Eliminations	Consolidated
Revenues — External Customers	$ 12,023	$ 1,240	$ 517	$ 165	$ —	$ 13,945
Revenues — Intersegment	—	291	393	82	(766)	—
Investment and Other Income	97	13	7	—	—	117
Total Revenues	$ 12,120	$ 1,544	$ 917	$ 247	$ (766)	$ 14,062
Earnings from Operations	$ 852	$ 305	$ 181	$ 24	$ —	$ 1,362

UNITEDHEALTH GROUP

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Six Months Ended June 30, 2002	Health Care Services	Uniprise	Specialized Care Services	Ingenix	Eliminations	Consolidated
Revenues — External Customers	$ 10,333	$ 1,049	$ 442	$ 154	$ —	$ 11,978
Revenues — Intersegment	—	260	292	64	(616)	—
Investment and Other Income	92	13	8	—	—	113
Total Revenues	$ 10,425	$ 1,322	$ 742	$ 218	$ (616)	$ 12,091
Earnings from Operations	$ 590	$ 257	$ 134	$ 24	$ —	$ 1,005

11. Commitments and Contingencies

Legal Matters

Because of the nature of our businesses, we are routinely party to a variety of legal actions related to the design, management and offerings of our services. We record liabilities for our estimate 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. Following the events of September 11, 2001, the cost of business insurance coverage increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to routine matters incidental to our business.

Beginning in 1999, a series of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act (RICO). On May 1, 2003, the customer related claims were dismissed following a de minimis settlement.

In April 2000, the American Medical Association filed a lawsuit against the Company 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. We are engaged in discovery in this matter.

Although the results of pending litigation are always uncertain, we do not believe the results of any such actions currently threatened or pending, including those described above, will, individually or in aggregate, have a material adverse effect on our consolidated financial position or results of operations.

Governmental Regulation

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

We are also subject to various ongoing governmental investigations, audits and reviews, and we record liabilities for our estimate of probable costs resulting from these matters. Although the results of pending matters are always uncertain, we do not believe the results of any of the current investigations, audits or reviews, individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

12. Recently Issued Accounting Standards

In January 2003, the FASB issued Interpretation (FIN) No. 46, "Consolidation of Variable Interest Entities — an Interpretation of ARB No. 51." FIN No. 46 requires an enterprise to consolidate a variable interest entity (previously known generally as a special purpose entity) if that enterprise has a variable interest that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. This interpretation applies immediately to variable interest entities created or obtained after January 31, 2003. For those variable interest entities created or obtained prior to that date, the interpretation must be applied in the third quarter of 2003. We do not expect that the adoption of FIN No. 46 will have any impact on our consolidated financial position or results of operations.

In April 2003, the FASB issued FAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities". FAS No. 149 amends and clarifies accounting for derivative instruments and hedging activities under FAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". We do not expect that the adoption of FAS No. 149, which is effective for contracts entered into or modified after June 30, 2003, will have any impact on our consolidated financial position or results of operations.

In May 2003, the FASB issued FAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity". FAS No. 150 establishes standards for classifying and measuring as liabilities certain freestanding financial instruments that represent obligations of the issuer and have characteristics of both liabilities and equity. The adoption of FAS No. 150, which became effective on May 31, 2003, did not have a significant impact on our consolidated financial position or results of operations.

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Directors and Shareholders

UnitedHealth Group Incorporated
Minnetonka, Minnesota

We have reviewed the accompanying condensed consolidated balance sheet of UnitedHealth Group Incorporated and Subsidiaries (the Company) as of June 30, 2003, and the related condensed consolidated statements of operations and cash flows for the three-month and six-month periods ended June 30, 2003 and 2002. These interim condensed consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data and of making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to such interim condensed consolidated financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of UnitedHealth Group Incorporated and Subsidiaries as of December 31, 2002, and the related consolidated statements of operations, shareholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 23, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2002 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ DELOITTE & TOUCHE LLP

Minneapolis, Minnesota

July 17, 2003

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

The following discussion should be read together with the accompanying unaudited condensed consolidated financial statements and notes. In addition, the following discussion should be considered in light of a number of factors that affect the Company, the industry in which we operate, and business generally. These factors are described in Exhibit 99 to this Quarterly Report.

Summary highlights of our second quarter 2003 results include:

- Diluted net earnings per share of $0.71 increased 39% from $0.51 per share reported in the second quarter of 2002 and increased 9% from $0.65 per share reported in the first quarter of 2003.
- Cash flows from operations were nearly $1.5 billion for the six months ended June 30, 2003, compared to $1.0 billion for the six months ended June 30, 2002, an increase of $460 million, or 45%.
- Earnings from operations increased to $709 million in the second quarter of 2003, up $186 million, or 36%, over the prior year and up $56 million, or 9%, sequentially over the first quarter of 2003.
- Consolidated revenues of $7.1 billion increased $1.0 billion, or 17%, over the second quarter of 2002 and $112 million, or 2%, sequentially over the first quarter of 2003.
- The consolidated medical care ratio was 81.8%, a decline from 83.1% in the second quarter of 2002.
- The operating cost ratio was 16.9%, an improvement from 17.7% during the second quarter of 2002.
- Consolidated operating margin reached 10.0%, improving from 8.6% in the second quarter of 2002.
- Annualized return on equity reached 38.5% in the second quarter of 2003, up from 33.2% in the second quarter of 2002.

Summary Operating Information

	Three Months Ended June 30,			Six Months Ended June 30,		
(In millions, except per share data)	2003	2002	Percent Change	2003	2002	Percent Change
Total Revenues	$ 7,087	$ 6,078	17%	$ 14,062	$ 12,091	16%
Earnings from Operations	$ 709	$ 523	36%	$ 1,362	$ 1,005	36%
Net Earnings	$ 439	$ 325	35%	$ 842	$ 620	36%
Diluted Net Earnings Per Common Share	$ 0.71	$ 0.51	39%	$ 1.36	$ 0.97	40%
Medical Care Ratio	81.8%	83.1%		82.0%	83.8%	
Medical Care Ratio, Excluding AARP	80.4%	81.2%		80.7%	82.1%	
Operating Cost Ratio	16.9%	17.7%		17.0%	17.5%	
Return on Equity (annualized)	38.5%	33.2%		37.3%	31.7%	
Operating Margin	10.0%	8.6%		9.7%	8.3%	

Results of Operations

Consolidated Financial Results

Revenues

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

Premium revenues are derived from risk-based arrangements in which the premium is fixed, typically for a one-year period, and we assume the economic risk of funding health care services and related administrative costs. Service revenues consist primarily of fees derived from services performed for customers that self-insure the medical costs of their employees and their dependents. For both premium risk-based and fee-based customer arrangements, we provide coordination and facilitation of medical services, transaction processing, customer, consumer and care provider services, and access to contracted networks of physicians, hospitals and other health care professionals.

Consolidated revenues increased by $1.0 billion, or 17%, year-over-year in the second quarter of 2003 to $7.1 billion. Consolidated revenues increased by 11% as a result of premium rate increases and growth across business segments and 6% as a result of revenues from businesses acquired since the second quarter of 2002. Following is a discussion of second quarter consolidated revenue trends for each of our three revenue components.

Premium Revenues

Consolidated premium revenues for the three and six months ended June 30, 2003 totaled $6.2 billion and $12.4 billion, respectively, an increase of $932 million, or 18%, and $1.8 billion, or 17%, over the comparable 2002 periods.

UnitedHealthcare premium revenues for the three and six months ended June 30, 2003 were $3.6 billion and $7.2 billion, respectively, an increase of $453 million, or 14%, and $938 million, or 15%, over the comparable 2002 periods. This was due primarily to premium rate increases on renewing commercial risk-based business. Premium revenues from Medicaid programs for the three and six months ended June 30, 2003 increased by $303 million and $586 million, respectively, over the three and six month periods ended June 30, 2002. This increase was primarily the result of the acquisition of AmeriChoice on September 30, 2002. The remaining premium revenue growth for the three and six months ended June 30, 2003 resulted primarily from an increase in the number of individuals served by both Ovations' Medicare supplement products provided to AARP members and by its Evercare business. In addition, Specialized Care Services realized an increase in premium revenues due to strong growth in several of its specialty benefits businesses.

Service Revenues

Service revenues for the three and six months ended June 30, 2003 totaled $779 million and $1.5 billion, representing an increase of $68 million, or 10%, and $133 million, or 9%, over the comparable 2002 periods. The increase in service revenues was driven primarily by aggregate growth of 7% in individuals served by Uniprise and UnitedHealthcare under fee-based arrangements. For the three and six months ended June 30, 2003, Uniprise and UnitedHealthcare service revenues grew by an aggregate of $66 million and $120 million, respectively, over the comparable prior year periods.

Investment and Other Income

Investment and other income during the three and six months ended June 30, 2003 totaled $60 million and $117 million, respectively, representing increases of $9 million and $4 million, respectively, from the comparable periods in 2002. For the three and six months ended June 30, 2003, interest income decreased by $4 million and $10 million, respectively, driven by lower interest yields on investments partially offset by the impact of increased levels of cash and fixed income investments. Net capital gains on sales of investments were $5 million and $6 million for the three and six months ended June 30, 2003, respectively, compared to a net capital loss of $8 million for both the three and six months ended June 30, 2002.

Medical Costs

The combination of pricing, benefit designs, consumer health care utilization and comprehensive care facilitation efforts is reflected in the medical care ratio (medical costs as a percentage of premium revenues).

For the three month periods ended June 30, the consolidated medical care ratio decreased from 83.1% in 2002 to 81.8% in 2003. Excluding the AARP business,[1] on a year-over-year basis, the medical care ratio decreased 80 basis points from 81.2% in 2002 to 80.4% in 2003. The decrease in the medical care ratio was primarily driven by favorable development of prior period medical cost estimates, as further discussed below. Excluding the impact of favorable medical cost development, the medical care ratio in the second quarter of 2003 was largely consistent with the second quarter of 2002.

Each period, our operating results include the effects of revisions in medical cost estimates related to all prior periods. Changes in estimates may relate to the prior fiscal year or to prior quarterly reporting periods within the same fiscal year. Changes in estimates for prior quarterly reporting periods within the same fiscal year have no impact on total medical costs reported for that fiscal year. Changes in medical costs payable estimates for prior fiscal years that are identified in the current year are included in total medical costs reported for the current fiscal year. Medical costs for the three months ended June 30, 2003 include approximately $50 million of favorable medical cost development related to prior years and approximately $50 million of favorable medical cost development related to the first quarter of 2003. Medical costs for the three months ended June 30, 2002 include approximately $30 million of favorable medical cost development related to prior years and approximately $10 million of favorable medical cost development related to the first quarter of 2002.

For the six months ended June 30, the consolidated medical care ratio decreased from 83.8% in 2002 to 82.0% in 2003. Excluding the AARP business, on a year-over-year basis, the medical care ratio decreased 140 basis points from 82.1% to 80.7%. Approximately 50 basis points of the decrease in the medical care ratio was driven by the favorable development of prior period medical cost estimates. Medical costs for the six months ended June 30, 2003 and 2002 include approximately $110 million and $50 million, respectively, of favorable medical cost development related to prior years. The balance of the medical care ratio decrease resulted primarily from changes in product, business, and customer mix.

For the three and six months ended June 30, 2003, on an absolute dollar basis, medical costs increased $691 million, or 16%, and $1.3 billion, or 15%, respectively, over the comparable 2002 periods. The increase was driven primarily by a rise in medical costs of approximately 11% driven by medical cost inflation and increased health care consumption and the additional medical costs related to businesses acquired since June 30, 2002. These increases were partially offset by the improved medical care ratios described above.

Operating Costs

The operating cost ratio (operating costs as a percentage of total revenues) for the three and six months ended June 30, 2003 was 16.9% and 17.0%, down from 17.7% and 17.5% in the comparable 2002 periods. These decreases were driven primarily by business mix changes, productivity gains from technology deployment and other cost management initiatives.

On an absolute dollar basis, operating costs for the three and six months ended June 30, 2003 increased $120 million, or 11%, and $279 million, or 13%, over the comparable periods in 2002. This increase was driven

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[1] Management believes disclosure of the medical care ratio excluding the AARP business is meaningful since underwriting gains or losses related to the AARP business accrue to AARP policyholders through a rate stabilization fund (RSF). Although the Company is at risk for underwriting losses to the extent cumulative net losses exceed the balance in the RSF, the Company has not been required to fund any underwriting deficits to date and management believes the RSF balance is sufficient to cover potential future underwriting or other risks associated with the contract during the foreseeable future.

by a 7% increase in total individuals served by Health Care Services and Uniprise, increases in broker commissions and premium taxes, general operating cost inflation and the additional operating costs associated with acquired businesses.

Depreciation and Amortization

Depreciation and amortization for the three and six months ended June 30, 2003 was $74 million and $147 million, respectively, an increase of $12 million and $29 million over the comparable prior year periods. These increases are due to additional depreciation and amortization resulting from higher levels of property, equipment, computer hardware and capitalized software as a result of technology enhancements, business growth and businesses acquired since the first half of 2002.

Income Taxes

Our effective income tax rate was 36.0% in the second quarter of 2003 and 35.5% in the second quarter of 2002. The increase is mainly due to the September 30, 2002 acquisition of AmeriChoice, which operates primarily in markets that have comparatively higher state and local income tax rates.

Business Segments

The following summarizes the operating results of our business segments for three and six months ended June 30 (in millions):

Revenues

	Three Months Ended June 30,			Six Months Ended June 30,		
	2003	2002	Percent Change	2003	2002	Percent Change
Health Care Services	$ 6,106	$ 5,242	16%	$ 12,120	$ 10,425	16%
Uniprise	775	662	17%	1,544	1,322	17%
Specialized Care Services	463	375	23%	917	742	24%
Ingenix	126	109	16%	247	218	13%
Corporate	(383)	(310)	n/a	(766)	(616)	n/a
Total Consolidated	$ 7,087	$ 6,078	17%	$ 14,062	$ 12,091	16%

Earnings from Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2003	2002	Percent Change	2003	2002	Percent Change
Health Care Services	$ 450	$ 314	43%	$ 852	$ 590	44%
Uniprise	153	129	19%	305	257	19%
Specialized Care Services	93	68	37%	181	134	35%
Ingenix	13	12	8%	24	24	—%
Total Consolidated	$ 709	$ 523	36%	$ 1,362	$ 1,005	36%

Health Care Services

The Health Care Services segment (comprised of the UnitedHealthcare, Ovations and AmeriChoice businesses) had revenues of $6.1 billion and $12.1 billion for the three and six months ended June 30, 2003, respectively, representing increases of $864 million, or 16%, and $1.7 billion, or 16%, over the comparable 2002 periods.

The increase in revenues primarily resulted from an increase in UnitedHealthcare premium revenues for the three and six months ended June 30, 2003, of $453 million, or 14%, and $938 million, or 15%, respectively, over the comparable 2002 periods. This increase was due primarily to premium rate increases on renewing commercial risk-based business. Premium revenues from Medicaid programs for the three and six months ended June 30, 2003 increased by $303 million and $586 million, respectively, over the three and six month periods ended June 30, 2002. This increase was primarily the result of the acquisition of AmeriChoice on September 30, 2002. The remaining revenue growth in 2003 resulted primarily from an increase in the number of individuals served by both Ovations' Medicare supplement products provided to AARP members and by its Evercare business.

For the three and six months ended June 30, 2003, Health Care Services earnings from operations were $450 million and $852 million, respectively, representing increases of $136 million, or 43%, and $262 million, or 44%, over the comparable periods in 2002. These increases primarily resulted from improved gross margins on UnitedHealthcare's risk-based products and revenue growth. Health Care Services' operating margin for the three and six months ended June 30, 2003 was 7.4% and 7.0%, respectively, an increase of 140 basis points and 130 basis points from the three and six months ended June 30, 2002, respectively. These increases were driven by a combination of an improved medical care ratio and a shift in product mix from risk-based products to higher-margin, fee-based products.

UnitedHealthcare's commercial medical care ratio improved to 80.7% for the second quarter of 2003 from 81.6% in the second quarter of 2002. The decrease in the medical care ratio was primarily driven by favorable development of prior period medical cost estimates, as previously discussed. Excluding the impact of favorable medical cost development, the medical care ratio in the second quarter of 2003 was largely consistent with the second quarter of 2002.

The number of individuals served by UnitedHealthcare increased by 205,000, or 3%, in the second quarter of 2003 over the second quarter of 2002. This included an increase of 220,000, or 9%, in the number of individuals served with fee-based products, driven by new customer relationships and customers converting from risk-based products to fee-based products. In addition, there was a decrease of 15,000 in the number of individuals served by risk-based products, driven by customers converting to self-funded, fee-based arrangements and UnitedHealthcare's targeted withdrawal of risk-based product offerings from unprofitable arrangements with customers using multiple health benefit carriers, partially offset by new customer relationships.

Ovation's year-over-year Medicare+Choice enrollment was relatively stable, with 225,000 individuals served as of June 30, 2003. Medicaid enrollment increased by 430,000, largely due to the acquisition of AmeriChoice on September 30, 2002, which served approximately 360,000 individuals as of the acquisition date.

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

	2003	2002
Commercial		
Risk-based	4,985	5,000
Fee-based	2,805	2,585
	7,790	7,585
Medicare	225	225
Medicaid	1,070	640
Total Health Care Services	9,085	8,450

Uniprise

Uniprise revenues for the three and six months ended June 30, 2003 were $775 million and $1.5 billion, respectively, an increase of 17% over each of the comparable 2002 periods. These increases were driven primarily by a 7% year-over-year increase in Uniprise's customer base, annual service fee increases for selfinsured customers, and changes in customer funding mix in the third quarter of 2002. Uniprise served 9.2 million and 8.6 million individuals as of June 30, 2003 and 2002, respectively.

For the three and six months ended June 30, 2003, Uniprise earnings from operations were $153 million and $305 million, respectively, an increase of 19% over each of the prior year comparable periods. Operating margin for the three and six months ended June 30, 2003 improved to 19.7% and 19.8% from 19.5% and 19.4%, respectively, in the comparable 2002 periods. Uniprise has expanded its operating margin through operating cost efficiencies derived from process improvements, technology deployment and cost management initiatives, primarily in the form of reduced labor and occupancy costs supporting its transaction processing and customer service, billing and enrollment functions. Additionally, Uniprise's infrastructure can be scaled efficiently, allowing its business to grow revenues at a proportionately higher rate than the associated growth in operating expenses.

Specialized Care Services

For the three and six months ended June 30, 2003, Specialized Care Services revenues of $463 million and $917 million, respectively, increased by $88 million, or 23%, and $175 million, or 24%, over the comparable 2002 periods. These increases were principally driven by an increase in the number of individuals served by United Behavioral Health, its mental health benefits business, Dental Benefit Providers, its dental services business, and Spectera, its vision care benefits business, as well as rate increases related to these businesses.

Earnings from operations for the three and six months ended June 30, 2003 of $93 million and $181 million, respectively, increased $25 million, or 37%, and $47 million, or 35%, over the comparable 2002 periods. Specialized Care Services' operating margin increased to 20.1% in the second quarter of 2003, up from 18.1% in the comparable 2002 period. This increase was driven primarily by operational and productivity improvements at United Behavioral Health. With the continuing growth of the Specialized Care Services segment, we are currently consolidating production and service operations to a segment-wide service and production infrastructure to improve service quality and consistency and enhance productivity and efficiency.

Ingenix

For the three and six months ended June 30, 2003, Ingenix revenues of $126 million and $247 million, respectively, increased by $17 million, or 16%, and $29 million, or 13%, over the comparable 2002 periods. This was driven by new business growth in the health information business as well as businesses acquired since the second quarter of 2002.

Earnings from operations were $13 million in the second quarter of 2003, up $1 million, or 8%, from the comparable 2002 period. The operating margin was 10.3% in the second quarter of 2003, down from 11.0% in the second quarter of 2002. The reduction in operating margin was primarily due to cancellations and delays of certain clinical research trials by pharmaceutical clients. This reduction was partially offset by growth and expanding margins in the health information business. Ingenix generates higher revenues and operating margins in the second half of the year due to seasonally strong demand for higher margin software and information content products.

Financial Condition and Liquidity at June 30, 2003

Liquidity

We manage our cash, investments and capital structure so we are able to meet the short- and long-term obligations of our business while maintaining financial flexibility and liquidity. We forecast, analyze and monitor our cash flows to enable prudent investment and financing within the confines of our financial strategy, such as our self-imposed limit of 30% on our debt-to-total-capital ratio (calculated as the sum of commercial paper and debt divided by the sum of commercial paper, debt and shareholders' equity).

A majority of the assets held by our regulated subsidiaries are in the form of cash, cash equivalents and investments. After considering expected cash flows from operating activities, we generally invest monies of regulated subsidiaries that exceed our near-term obligations in longer term, investment grade marketable debt securities, to improve our overall investment return. Factors we consider in making these investment decisions include our board of directors' approved investment policy, regulatory limitations, return objectives, tax implications, risk tolerance and maturity dates. Our long-term investments are also available for sale to meet short-term liquidity and other needs. Monies in excess of the capital needs of our regulated entities are paid to their non-regulated parent companies, typically in the form of dividends, for general corporate use, when and as permitted by applicable regulations.

Our non-regulated businesses also generate significant cash from operations. Also, we issue long-term debt and commercial paper with staggered maturity dates and have available credit facilities. These additional sources of liquidity allow us to maintain further operating and financial flexibility. Because of this flexibility, we typically maintain low cash and investment balances in our non-regulated companies. Cash in these entities is generally used to reinvest in our businesses in the form of capital expenditures, to expand the depth and breadth of our services through business acquisitions, and to repurchase shares of our common stock, depending on market conditions.

Cash generated from operating activities, our primary source of liquidity, is principally from net earnings, excluding depreciation and amortization. As a result, any future decline in our profitability may have a negative impact on our liquidity. The availability of financing in the form of debt or equity is influenced by many factors, including our profitability, operating cash flows, debt levels, debt ratings, contractual restrictions, regulatory requirements and market conditions. We believe that our strategies and actions toward maintaining financial flexibility mitigate much of this risk.

Cash and Investments

Cash flow from operations was $1.5 billion and $1.0 billion for the six months ended June 30, 2003 and 2002, respectively, representing an increase of $460 million, or 45%. This increase in operating cash flows resulted from an increase of $176 million in net income excluding depreciation, amortization and other non cash items and an increase of $284 million due to cash generated by working capital changes.

We maintained a strong financial condition and liquidity position, with cash and investments of nearly $7.0 billion at June 30, 2003. Total cash and investments increased by $625 million since December 31, 2002, primarily resulting from strong cash flows from operations partially offset by common stock repurchases and capital expenditures.

As further described under "Regulatory Capital and Dividend Restrictions," many of our subsidiaries are subject to various government regulations that restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. At June 30, 2003, approximately $888 million of our $7.0 billion of cash and investments was held by non-regulated subsidiaries. Of this amount, $730 million was available for general corporate use, including acquisitions and share repurchases. The remaining $158 million consists primarily of public and non-public equity securities held by UnitedHealth Capital, our investment capital business.

Financing and Investing Activities

We use commercial paper and debt to maintain adequate operating and financial flexibility. As of both June 30, 2003, and December 31, 2002, we had commercial paper and debt outstanding of approximately $1.8 billion. Our debt-to-total-capital ratio was 27.2% and 28.5% as of June 30, 2003 and December 31, 2002, respectively. We expect to maintain our debt-to-total-capital ratio at 30% or less. We believe the prudent use of leverage optimizes our cost of capital and return on shareholders' equity, while maintaining appropriate liquidity.

As of June 30, 2003 we had no outstanding commercial paper. The interest rates on our floating-rate notes are reset quarterly to the three-month LIBOR plus 0.3% for the notes due November 2003 and to the three-month LIBOR plus 0.6% for the notes due November 2004. As of June 30, 2003, the applicable rates on the notes were 1.6% and 1.9%, respectively.

In March 2003, we issued $450 million of 4.9% fixed-rate notes due April 2013. In January 2002, we issued $400 million of 5.2% fixed-rate notes due January 2007. We used proceeds from these borrowings to repay commercial paper and for general corporate purposes including working capital, capital expenditures, business acquisitions and share repurchases. When we issued these notes, we entered into interest rate swap agreements that qualify as fair value hedges to convert a portion of our interest rate exposure from a fixed to a variable rate. The interest rate swap agreements have aggregate notional amounts of $225 million, maturing April 2013 and $200 million, maturing January 2007. The variable rates are benchmarked to the six-month LIBOR rate and are reset on a semiannual basis in arrears. At June 30, 2003, the rate used to accrue interest expense on these swaps ranged from 1.2% to 1.3%. The differential between the fixed and variable rates to be paid or received is accrued and recognized over the life of the agreements as an adjustment to interest expense in the Condensed Consolidated Statements of Operations.

We have credit arrangements for $900 million that support our commercial paper program. These credit arrangements include a $450 million revolving facility that expires in July 2005, and a $450 million, 364-day facility that expires in July 2004. We also have the capacity to issue approximately $200 million of extendible commercial notes (ECNs). As of June 30, 2003, we had no amounts outstanding under our credit facilities or ECNs.

Our debt arrangements and credit facilities contain various covenants, the most restrictive of which require us to maintain a debt-to-total-capital ratio below 45% and to exceed specified minimum interest coverage levels. We are in compliance with the requirements of all debt covenants.

Our senior debt is rated “A” by Standard & Poor’s (S&P) and Fitch, and “A3” by Moody’s. Our commercial paper and ECN programs are rated “A-1” by S&P, “F-1” by Fitch, and “P-2” by Moody’s. Consistent with our intention of maintaining our senior debt ratings in the “A” range, we intend to maintain our debt-to-total-capital ratio at 30% or less. A significant downgrade in our debt and commercial paper ratings could adversely affect our borrowing capacity and costs.

On May 7, 2003, the Company’s Board of Directors declared a two-for-one split of the Company’s common stock in the form of a 100 percent common stock dividend. The stock dividend was issued on June 18, 2003, to shareholders of record on June 2, 2003. All share and per share amounts have been restated to reflect the stock split.

In July 2003, the Securities and Exchange Commission declared our recently filed S-3 and S-4 shelf registration statements effective. Under the S-3 shelf registration statement (for common stock, preferred stock, debt securities, and other securities), the remaining issuing capacity of all covered securities is $1.25 billion. We may publicly offer securities from time to time at prices and terms to be determined at the time of offering. Under our S-4 acquisition shelf registration statement, we have remaining issuing capacity of approximately 24.3 million shares of our common stock in connection with acquisition activities.

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 six months ended June 30, 2003, we repurchased 18.5 million shares at an aggregate cost of approximately $808 million. In July 2003, the board of directors renewed the stock repurchase program and authorized the Company to repurchase up to 60 million shares of common stock under the program.

Regulatory Capital and Dividend Restrictions

We conduct a significant portion of our operations through companies that are subject to standards established by the National Association of Insurance Commissioners (NAIC). These standards, among other things, require these subsidiaries to maintain specified levels of statutory capital, as defined by each state, and restrict the timing and amount of dividends and other distributions that may be paid to their parent companies. Generally, the amount of dividend distributions that may be paid by a regulated subsidiary, without prior approval by state regulatory authorities, is limited based on the entity’s level of statutory net income and statutory capital and surplus. The agencies that assess our creditworthiness also consider capital adequacy levels when establishing our debt ratings. Consistent with our intent to maintain our senior debt ratings in the

"A" range, we maintain an aggregate statutory capital level for our regulated subsidiaries that is significantly higher than the minimum level regulators require.

Critical Accounting Policies and Estimates

Critical accounting policies are those policies that require management to make the most challenging judgments, often because they must estimate the effects of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions. The following provides a summary of our accounting policies and estimation procedures surrounding medical costs. For a detailed description of all our critical accounting policies, see the Results of Operations section of the consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2002.

Medical Costs

Each reporting period, we estimate our obligations for medical care services that have been rendered on behalf of insured consumers but for which claims have either not yet been received or processed. Depending on the health care provider and type of service, the typical billing lag for services can range from 2 to 90 days from date of service. Substantially all claims related to medical care services are known and settled within nine to twelve months from the date of service.

We estimate and maintain liabilities for these incurred but not reported (IBNR) services. These estimates are established pursuant to an actuarial process that is consistently applied, centrally controlled and automated. The actuarial models consider such factors as time from date of service to claim receipt, claim backlogs, seasonal variances in medical care consumption, provider contract rate changes, medical care utilization and other medical cost trends, membership volume and demographics, benefit plan changes, and business mix changes related to products, customers, and geography.

Each quarter, the company re-examines previously established medical costs payable estimates based on actual claim submissions and other changes in facts and circumstances. As the liability estimate recorded in prior periods becomes more exact, the amount of the estimate will increase or decrease with the change in estimate being included in medical costs in the period in which the change is identified. Accordingly, in every reporting period our operating results include the effects of more completely developed medical costs payable estimates associated with previously reported periods. If the revised estimate of medical costs is less than the previous estimate, reported medical costs in the current period will be decreased (favorable development). If the revised estimate of medical costs is more than the previous estimate, reported medical costs in the current period will be increased (unfavorable development). Historically, the net impact of estimate developments has represented less than three-tenths of one percent of annual medical costs, less than three percent of annual earnings from operations and less than three percent of medical costs payable. The effects of estimate changes have not been significant to the company's annual operating results or financial position in each of the last four years.

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

	Favorable Development	Net Impact on Medical Costs(a)	Medical Costs		Earnings from Operations	
			As Reported	As Adjusted(b)	As Reported	As Adjusted(b)
1999	$ 20	$ 5	$ 15,043	$ 15,048	$ 943	$ 938
2000	$ 15	$ (15)	$ 16,155	$ 16,140	$ 1,200	$ 1,215
2001	$ 30	$ (40)	$ 17,644	$ 17,604	$ 1,566	$ 1,606
2002	$ 70	$ (40)(c)	$ 18,192	$ 18,152(c)	$ 2,186	$ 2,226(c)

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

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

(c) For the six month period ended June 30, 2003, the company recorded favorable medical cost development of $110 million pertaining to 2002. The amount of prior period development in 2003 may change as our December 31, 2002 medical costs payable estimate continues to develop throughout 2003.

Inflation

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

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

Concentrations of Credit Risk

Investments in financial instruments such as marketable securities and accounts receivable may subject UnitedHealth Group to concentrations of credit risk. Our investments in marketable securities are managed under an investment policy authorized by our board of directors. This policy limits the amounts that may be invested in any one issuer and generally limits our investments to U.S. Government and Agency securities, state and municipal securities and corporate debt obligations that are investment grade. Concentrations of credit risk with respect to accounts receivable are limited due to the large number of employer groups that constitute our customer base. As of June 30, 2003, there were no significant concentrations of credit risk.

Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

Market risk represents the risk of changes in value of a financial instrument caused by changes in interest rates and equity prices.

Approximately $6.8 billion of our cash and investments at June 30, 2003, was invested in fixed income securities. We manage our investment portfolio within risk parameters approved by our board of directors; however, our fixed income securities are subject to the effects of market fluctuations in interest rates. Assuming a hypothetical and immediate 1% increase or decrease in interest rates applicable to our fixed income portfolio at June 30, 2003, the fair value of our fixed income investments would decrease or increase by approximately $200 million.

At June 30, 2003, we had $158 million of equity investments, primarily held by our UnitedHealth Capital business in various public and non-public companies concentrated in the areas of health care delivery and related information technologies. Market conditions that affect the value of health care or technology stocks will likewise impact the value of our equity portfolio.

Item 4. *Controls and Procedures*

Evaluation of Disclosure Controls and Procedures

As of June 30, 2003, an evaluation was carried out under the supervision and with the participation of the Company's management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the design and operation of these disclosure controls and procedures were effective.

Changes in Internal Controls Over Financial Reporting

There were no significant changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2003 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. *Legal Proceedings*

In September 1999, a group of plaintiffs' trial lawyers publicly announced that they were targeting the managed care industry by way of class action litigation. Since that time, several claims against us have been alleged that generally challenge managed care practices, including cost containment mechanisms, disclosure obligations and payment methodologies. These claims are described in the following paragraph. We intend to defend vigorously all of these claims.

In Re: Managed Care Litigation: MDL No. 1334. Beginning in 1999, a series of class action lawsuits were filed against us and virtually all major entities in the health benefits businesses. A multi-district litigation panel has consolidated several litigation cases involving UnitedHealth Group and our affiliates in the Southern District Court of Florida, Miami division. The first of these suits was initiated in February 2000. In December 2000, the UnitedHealth Group litigation was consolidated with litigation involving other industry members for the coordination of pre-trial proceedings. The litigation has been divided into two tracks, with one track comprising consumer claims and the other health care provider claims. Generally, the claims made in this consolidated litigation allege violations of ERISA and RICO in connection with alleged undisclosed policies intended to maximize profits. The litigation also asserts breach of state prompt payment laws and breach of contract claims alleging that UnitedHealth Group affiliates fail 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. Following the Court's initial decisions on industry members' motions to dismiss the complaints, amended complaints were filed in both tracks. On September 26, 2002, the trial court denied the consumer track plaintiffs' motion for class certification while granting the health care provider track plaintiffs' certification motion. Discovery commenced in both tracks of the litigation on September 30, 2002. The Eleventh Circuit granted the industry defendants' petition seeking review of the district court's certification order in the health care provider track litigation. On April 7, 2003, the United States Supreme Court reversed the Eleventh Circuit's arbitration decision and found that the health care provider track plaintiffs' RICO claims against PacifiCare and UnitedHealthcare should be arbitrated. On

May 1, 2003, the district court entered an order dismissing the consumer track litigation following a de minimis settlement.

The American Medical Association et al. v. Metropolitan Life Insurance Company, United HealthCare Services, Inc. and UnitedHealth Group. This lawsuit was filed on March 15, 2000, 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. We are engaged in discovery in this matter.

Because of the nature of our business, we are routinely subject to lawsuits alleging various causes of action. Some of these suits may include claims for substantial non-economic, treble or punitive damages. We record liabilities for our estimate of probable costs resulting from these matters. Although the results of pending litigation are always uncertain, we do not believe the results of any such actions, including those described above, or any other types of actions, currently threatened or pending, individually or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

At the Company's Annual Meeting of Shareholders held on May 7, 2003 (the "Annual Meeting"), the Company's shareholders voted on three items: the election of directors, the ratification of the appointment of Deloitte & Touche LLP as independent public auditors for the Company, and a shareholder proposal requesting the expensing of stock options.

The four directors elected at the Annual Meeting were: James A. Johnson, with 259,999,678 votes cast for his election and 5,961,738 votes withheld; Douglas W. Leatherdale with 260,081,090 votes cast for his election and 5,880,326 votes withheld; William W. McGuire, M.D., with 261,510,453 votes cast for his election and 4,450,963 votes withheld; and Mary O. Mundinger with 256,367,422 votes cast for her election and 9,593,994 votes withheld. The directors whose terms of office continued after the Annual Meeting were: William C. Ballard, Jr., Richard T. Burke, Stephen J. Hemsley, Thomas H. Kean, Robert L. Ryan, Donna E. Shalala, William G. Spears and Gail R. Wilensky.

The appointment of Deloitte & Touche LLP as independent public auditors for the Company for the year ending December 31, 2003 was ratified with 256,366,950 votes cast for ratification, 8,115,733 votes cast against ratification and 1,478,733 votes abstaining. There were no broker non-votes on this matter.

The Shareholder Proposal was not ratified with 124,177,655 votes against the proposal, 115,297,075 votes for the proposal, and 5,473,637 votes abstaining. There were 21,013,049 broker non-votes cast on this matter.

Item 6. ***Exhibits and Reports on Form 8-K***

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

Exhibit Number		Description
Exhibit 10	—	Amendments to Pharmacy Benefit Management Agreement between United HealthCare Services, Inc. and Merck Medco Managed Care, LLC
Exhibit 15	—	Letter Re Unaudited Interim Financial Information
Exhibit 31	—	Certifications Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
Exhibit 32	—	Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
Exhibit 99	—	Cautionary Statements

(b) *Reports on Form 8-K*

The Company filed two Current Reports on Form 8-K during the quarter ended June 30, 2003. These reports were filed on May 8, 2003 and May 21, 2003. The May 8, 2003 report provided information regarding a declaration by the Board of Directors of a two-for-one stock split of the Company's common stock in the form of a 100 percent common stock dividend issuable on June 18, 2003 to shareholders of record on June 2, 2003. The May 21, 2003 report provided information pursuant to Regulation FD relating to presentations by officers of the Company at investor meetings and conferences.

SIGNATURES

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

UNITEDHEALTH GROUP INCORPORATED

/s/ STEPHEN J. HEMSLEY Stephen J. Hemsley	President and Chief Operating Officer	Dated: August 13, 2003
/s/ PATRICK J. ERLANDSON Patrick J. Erlandson	Chief Financial Officer and Chief Accounting Officer	Dated: August 13, 2003