GAMESTOP CORP
Form 10-K/A
September 02, 2005

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K/A
(Amendment No. 2)
FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

þ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended January 29, 2005

or

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

Commission File No. 1-31228

GameStop Corp.
(Exact name of registrant as specified in its Charter)

Delaware	**75-2951347**
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
625 Westport Parkway Grapevine, Texas	**76051**
(Address of principal executive offices)	*(Zip Code)*

Registrant s telephone number, including area code:
(817) 424-2000
Securities registered pursuant to Section 12(b) of the Act:

(Title of Class)	(Name of Exchange on Which Registered)
Class A Common Stock, $.001 par value per share	New York Stock Exchange
Class B Common Stock, $.001 par value per share	New York Stock Exchange
Rights to Purchase Series A Junior Participating Preferred Stock, $.001 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
None

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 o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. þ

Indicate by check mark whether the registrant is an accelerated filer (as defined on Rule 12b-2 of the Act). Yes þ No o

The aggregate market value of the voting and non-voting stock held by non-affiliates of the registrant was approximately $311,396,000, based upon the closing market price of $15.40 per share of Class A Common Stock on the New York Stock Exchange as of July 30, 2004.

Number of shares of $.001 par value Class A Common Stock outstanding as of August 30, 2005: 21,949,509

Number of shares of $.001 par value Class B Common Stock outstanding as of August 30, 2005: 29,901,662

EXPLANATORY NOTE

On April 11, 2005, GameStop Corp. (the Company) filed its Annual Report on Form 10-K for the fiscal year ended January 29, 2005 (the Original Filing) with the Securities and Exchange Commission (the SEC). As a result of the Company s expectation that it would not file its definitive proxy statement within 120 days after the end of the fiscal year covered by the Original Filing, the Company filed Amendment No. 1 on Form 10-K/A (the Amended Filing) on May 20, 2005 in order to furnish the information required by Items 10, 11, 12, 13 and 14 of Part III of Form 10-K. The Company hereby amends Item 1 of Part I and Items 7 and 8 of Part II of the Amended Filing, and the Company s consolidated financial statements (including the notes thereto), to respond to comments the Company received from the SEC with respect to the Original Filing and the Amended Filing. In addition, in connection with the filing of this amendment, we are including with this amendment certain currently dated certifications and therefore we are amending Part IV solely for that purpose. Except as described above, no other amendments are being made to the Original Filing or the Amended Filing.

This report continues to speak as of the date of the Original Filing, and the Company has not updated the disclosures in this report to speak as of a later date. Updated information regarding recent developments is included in the Company s other filings with the SEC and in press releases issued by the Company.

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PART I

Item 1. *Business*

General

GameStop Corp. (GameStop or the Company) is the largest video game and PC entertainment software specialty retailer in the United States, based on the number of U.S. stores we operate and our total U.S. revenues. We carry one of the largest assortments of new and used video game hardware, video game software and accessories, PC entertainment software, and related products, including action figures, trading cards and strategy guides. As of January 29, 2005, we operated 1,826 stores in the United States, Puerto Rico, Ireland, Northern Ireland and Guam. We operate most of our stores under the GameStop name. We carry a constantly changing selection of more than 5,000 stock keeping units (SKUs) of electronic game merchandise in most stores. In addition, we operate a web site at www.gamestop.com and publish *Game Informer*, the industry s largest circulation multi-platform video game magazine, with over 2,000,000 subscribers.

Of our 1,826 stores, 1,310 stores are located in strip centers and 516 stores are located in shopping malls and other locations. Our strip center stores, which average approximately 1,600 square feet, carry a balanced mix of new and used video game hardware, video game software and accessories, which we refer to as video game products, and PC entertainment software. Our mall stores, which average approximately 1,200 square feet, carry primarily new video game products and PC entertainment software, as well as used video game products. Our used video game products provide a unique value proposition to our customers, and our purchasing of used video game products provides our customers with an opportunity to trade in their used video game products for store credits and apply those credits towards other merchandise, which, in turn, increases sales.

Our corporate office and distribution facilities are housed in a 250,000 square foot headquarters and distribution center in Grapevine, Texas. In March 2004, we purchased a new 420,000 square foot facility in Grapevine, Texas. We relocated some of our distribution operations to this facility in fiscal 2004 (the 52 weeks ending January 29, 2005), and intend to relocate our headquarters and remaining distribution center operations to this facility in the second quarter of fiscal 2005 (the 52 weeks ending January 28, 2006).

Prior to February 12, 2002, we were a wholly-owned subsidiary of Barnes & Noble, Inc. (Barnes & Noble). On February 12, 2002, we completed an initial public offering of shares of our Class A common stock raising net proceeds of approximately $347.3 million. A portion of those proceeds was used to repay $250.0 million of our $400 million indebtedness to Barnes & Noble, with Barnes & Noble contributing the remaining $150.0 million of indebtedness to us as additional paid-in-capital. Barnes & Noble owned approximately 63% of the outstanding shares of our capital stock through its ownership of 100% of our Class B common stock until October 2004. On October 1, 2004, we repurchased approximately 6.1 million shares of our Class B common stock at a price equal to $18.26 per share for aggregate consideration of approximately $111.5 million. On November 12, 2004, Barnes & Noble distributed to its shareholders its remaining 29.9 million shares of our Class B common stock in a tax-free dividend. Our Class A common stock and our Class B common stock are traded on the New York Stock Exchange under the symbols GME and GME.B, respectively.

Disclosure Regarding Forward-looking Statements

This report on Form 10-K/A and other oral and written statements made by the Company to the public contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the Securities Act), and Section 21E of the Securities Exchange Act of 1934, as amended (the Exchange Act). The forward-looking statements involve a number of risks and uncertainties. A number of factors could cause our actual results, performance, achievements or industry results to be materially different from any future results, performance or achievements expressed or implied by these forward-looking statements. These factors include, but are not limited to:

- our reliance on suppliers and vendors for sufficient quantities of their products and for new product releases;
- economic conditions affecting the electronic game industry;
- the competitive environment in the electronic game industry;
- our ability to open and operate new stores;
- our ability to attract and retain qualified personnel;
- our ability to successfully and efficiently transfer our headquarters and distribution center to our new facility; and
- other factors described in this Form 10-K/A, including those set forth under the caption, Business Risk Factors.

In some cases, forward-looking statements can be identified by the use of terms such as anticipates, believes, continues, could, estimates, expects, intends, may, plans, potential, predicts, will, should, see expressions. These statements are only predictions based on current expectations and assumptions and involve known and unknown risks, uncertainties and other factors that may cause our or our industry s actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by such forward-looking statements. You should not place undue reliance on these forward-looking statements.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. We undertake no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise after the date of this Form 10-K/A. In light of these risks and uncertainties, the forward-looking events and circumstances contained in this Form 10-K/A may not occur, causing actual results to differ materially from those anticipated or implied by our forward-looking statements.

Risk Factors

An investment in our Company involves a high degree of risk. You should carefully consider the risks below, together with the other information contained in this report, before you make an investment decision with respect to our Company. The risks described below are not the only ones facing our Company. Additional risks not presently known to us, or that we consider immaterial, may also impair our business operations. Any of the following risks could materially adversely affect our business, operating results or financial condition, and could cause a decline in the trading price of our common stock and the value of your investment.

Risks Related to Our Business

We depend upon the timely delivery of products.

We depend on major hardware manufacturers, primarily Sony Computer Entertainment of America, Nintendo of America, Inc. and Microsoft Corp., to deliver new and existing video game platforms on a timely basis and in anticipated quantities. In addition, we depend on software publishers to introduce new and updated software titles. Any material delay in the introduction or delivery of hardware platforms or software titles could result in reduced sales in one or more fiscal quarters.

We depend upon third parties to develop products and software.

Our business depends upon the continued development of new and enhanced video game platforms, PC hardware and video game and PC entertainment software. Our business could suffer due to the failure of

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manufacturers to develop new or enhanced video game platforms, a decline in the continued technological development and use of multimedia PCs, or the failure of software publishers to develop popular game and entertainment titles for current or future generation video game systems or PC hardware.

Our ability to obtain favorable terms from our suppliers may impact our financial results.

Our financial results depend significantly upon the business terms we can obtain from our suppliers, including competitive prices, unsold product return policies, advertising and market development allowances, freight charges and payment terms. We purchase substantially all of our products directly from manufacturers, software publishers and approximately five distributors. Our largest vendors are Electronic Arts, Inc., Nintendo and Microsoft, which accounted for 14%, 13% and 12%, respectively, of our new product purchases in fiscal 2004. If our suppliers do not provide us with favorable business terms, we may not be able to offer products to our customers at competitive prices.

The video game system and software product industries are cyclical, which could cause significant fluctuation in our earnings.

The electronic game industry has been cyclical in nature in response to the introduction and maturation of new technology. Following the introduction of new video game platforms, sales of these platforms and related software and accessories generally increase due to initial demand, while sales of older platforms and related products generally decrease as customers migrate toward the new platforms. New video game platforms have historically been introduced approximately every five years. If video game platform manufacturers fail to develop new hardware platforms, our sales of video game products could decline.

An adverse trend in sales during the holiday selling season could impact our financial results.

Our business, like that of many specialty retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2004, we generated approximately 38% of our sales and approximately 56% of our operating earnings during the fourth quarter. Any adverse trend in sales during the holiday selling season could lower our results of operations for the fourth quarter and the entire year.

Our results of operations may fluctuate from quarter to quarter, which could result in a lower price for our common stock.

Our results of operations may fluctuate from quarter to quarter depending upon several factors, some of which are beyond our control. These factors include:

- the timing of new product releases;
- the timing of new store openings; and
- shifts in the timing of certain promotions.

These and other factors could affect our business, financial condition and results of operations, and this makes the prediction of our financial results on a quarterly basis difficult. Also, it is possible that our quarterly financial results may be below the expectations of public market analysts and investors.

Our failure to effectively manage new store openings could lower our sales and profitability.

Our growth strategy is largely dependent upon opening new stores and operating them profitably. We opened 338 stores in fiscal 2004 and expect to open approximately 370 to 400 new stores in fiscal 2005. Our ability to open new stores and operate them profitably depends upon a number of factors, some of which may be beyond our control. These factors include:

- the ability to identify new store locations, negotiate suitable leases and build out the stores in a timely and cost efficient manner;
- the ability to hire and train skilled associates;
- the ability to integrate new stores into our existing operations; and
- the ability to increase sales at new store locations.

Our growth will also depend on our ability to process increased merchandise volume resulting from new store openings through our inventory management systems and distribution facility in a timely manner. If we fail to manage new store openings in a timely and cost efficient manner, our growth may decrease.

If our management information systems fail to perform or are inadequate, our ability to manage our business could be disrupted.

We rely on computerized inventory and management systems to coordinate and manage the activities in our distribution center in Grapevine, Texas, as well as to communicate distribution information to the off-site third-party operated distribution centers with which we work. The third-party distribution centers pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. We use an inventory replenishment system to track sales and inventory. Our ability to rapidly process incoming shipments of new release titles and deliver them to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week, to keep our stores in stock at optimum levels and to move inventory efficiently. If our inventory or management information systems fail to adequately perform these functions, our business could be adversely affected.

Our failure to successfully and efficiently transfer our headquarters and distribution center to our new facility could lower our sales and profitability.

In March 2004, we purchased a new 420,000 square foot headquarters and distribution center in Grapevine, Texas. We relocated some of our distribution operations to this facility in fiscal 2004. We intend to transfer our headquarters and remaining distribution center operations to this facility in the second quarter of fiscal 2005. If this transfer is not implemented efficiently, our sales and profitability may be adversely affected.

Pressure from our competitors may force us to reduce our prices or increase spending, which could decrease our profitability.

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains, including Wal-Mart Stores, Inc. and Target Corporation; other video game and PC software specialty stores located in malls and other locations, including Electronics Boutique Holdings Corp.; toy retail chains, including Toys R Us, Inc.; mail-order businesses; catalogs; direct sales by software publishers; online retailers; and computer product and consumer electronics stores, including Best Buy Co., Inc. and Circuit City Stores, Inc. In addition, video games are available for rental from many video stores, some of whom, like Hollywood Entertainment Corp. and Blockbuster, Inc., have increased the availability of video game products for sale. Video game products may also be distributed through other methods which may emerge in the future. We also compete with sellers of used video game products. Some of our competitors in the electronic game industry have longer operating histories and may have greater financial resources than we do. Additionally, we compete with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers. If we lose customers to our competitors, or if we reduce our prices or increase our spending to maintain our customers, we may be less profitable.

International events could delay or prevent the delivery of products to our suppliers.

Our suppliers rely on foreign sources, primarily in Asia, to manufacture a significant portion of the products we purchase from them. As a result, any event causing a disruption of imports, including the imposition of import restrictions or trade restrictions in the form of tariffs or quotas, could increase the cost and reduce the supply of products available to us, which could lower our sales and profitability.

If we are unable to renew or enter into new leases on favorable terms, our revenue growth may decline.

All of our retail stores are located in leased premises. If the cost of leasing existing stores increases, we cannot assure you that we will be able to maintain our existing store locations as leases expire. In addition, we may not be able to enter into new leases on favorable terms or at all, or we may not be able to locate suitable alternative sites or additional sites for new store expansion in a timely manner. Our revenues and earnings may decline if we fail to maintain existing store locations, enter into new leases, locate alternative sites or find additional sites for new store expansion.

The ability to download video games and play video games on the Internet could lower our sales.

While it is currently not possible to download video game software onto existing video game platforms over the Internet, at some point in the future this technology may become available. A limited selection of PC entertainment software may currently be purchased for download over the Internet, and as technology advances, a broader selection of PC entertainment software may become available for purchase and download or playing on the Internet. If advances in technology continue to expand our customers ability to access software through these and other sources, our customers may no longer choose to purchase video games or PC entertainment software in our stores. As a result, our sales and earnings could decline.

If we fail to keep pace with changing industry technology, we will be at a competitive disadvantage.

The interactive entertainment industry is characterized by swiftly changing technology, evolving industry standards, frequent new and enhanced product introductions and product obsolescence. These characteristics require us to respond quickly to technological changes and to understand their impact on our customers preferences. If we fail to keep pace with these changes, our business may suffer.

The terms of our credit facility could restrict our operational flexibility.

In the event that we had outstanding borrowings under our credit facility, we would then be subject to operational covenants and other restrictions under our revolving credit facility. The covenants place restrictions on our ability to, among other things, incur more debt or create liens on our assets, merge or consolidate with others, make acquisitions and investments, dispose of assets and enter into transactions with affiliates. In addition, in the event that we had availability under the credit facility of less than $20,000,000, we would be restricted from paying dividends or repurchasing equity securities. These covenants could limit our operational flexibility and restrict our ability to borrow additional funds, if necessary, to finance operations.

Failure to comply with these operational covenants could result in an event of default under the terms of the credit facility which, if not cured or waived, could result in the borrowed amounts becoming due and payable. In addition, our obligations under the credit facility are secured by all assets owned by us and our subsidiaries. An event of default under the credit facility would permit the lenders to proceed directly against those assets.

We depend upon our key personnel and they would be difficult to replace.

Our success depends upon our ability to attract, motivate and retain key management for our stores and skilled merchandising, marketing and administrative personnel at our headquarters. We depend upon the continued services of our key executive officers, R. Richard Fontaine, our Chairman of the Board and Chief Executive Officer, Daniel A. DeMatteo, our Vice Chairman and Chief Operating Officer and David W.

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Carlson, our Executive Vice President and Chief Financial Officer. The loss of services of any of our key personnel could have a negative impact on our business.

We may engage in acquisitions which could negatively impact our business if we fail to successfully complete and integrate them.

To enhance our efforts to grow and compete, we may engage in acquisitions. Our plans to pursue future acquisitions are subject to our ability to negotiate favorable terms for these acquisitions. Accordingly, we cannot assure you that future acquisitions will be completed. In addition, to facilitate future acquisitions, we may take actions that could dilute the equity interests of our stockholders, increase our debt or cause us to assume contingent liabilities, all of which may have a detrimental effect on the price of our common stock. Finally, if any acquisitions are not successfully integrated with our business, our ongoing operations could be adversely affected.

Legislative actions, higher director and officer insurance costs and potential new accounting pronouncements are likely to cause our general and administrative expenses to increase and impact our future financial condition and results of operations.

In order to comply with the Sarbanes-Oxley Act of 2002, as well as changes to the New York Stock Exchange listing standards and rules adopted by the Securities and Exchange Commission (the SEC), we may be required to increase our expenditures on internal controls, and hire additional personnel and additional outside legal, accounting and advisory services, all of which may cause our general and administrative costs to increase. Insurers are also likely to increase premiums as a result of the high claims rates they have incurred in the past from other companies, and so our premiums for our directors and officers insurance policies are likely to increase. Changes in the accounting rules could materially increase the expenses that we report under generally accepted accounting principles (GAAP) and adversely affect our operating results.

The limited voting rights of our Class A common stock could impact its attractiveness to investors and its liquidity and, as a result, its market value.

The holders of our Class A and Class B common stock generally have identical rights, except that holders of our Class A common stock are entitled to one vote per share and holders of our Class B common stock are entitled to ten votes per share on all matters to be voted on by stockholders. The difference in the voting rights of the Class A and Class B common stock could diminish the value of the Class A common stock to the extent that investors or any potential future purchasers of our Class A common stock ascribe value to the superior voting rights of the Class B common stock.

Industry Background

According to NPD Group, Inc., a market research firm, the electronic game industry was an approximately $11.0 billion market in the United States in 2004. Of this $11.0 billion market, approximately $10.0 billion was attributable to video game products, excluding sales of used video game products, and approximately $1.0 billion was attributable to PC entertainment software.

New Video Game Products. The Entertainment Software Association (formerly the Interactive Digital Software Association), or ESA, estimates that 50% of all Americans, or approximately 145 million people, play video or computer games on a regular basis. We expect the following trends to result in increased sales of video game products:

Hardware Platform Technology Evolution. Video game hardware has evolved significantly from the early products launched in the 1980s. The processing speed of video game hardware has increased from 8-bit speeds in the 1980s to 128-bit speeds in next-generation systems such as Sony PlayStation 2, launched in 2000, and Nintendo GameCube and Microsoft Xbox, which both launched in November 2001. In addition, portable handheld video game devices have evolved from the 8-bit Nintendo Game Boy to the 128-bit Nintendo DS, which was introduced in November 2004. Technological developments in both chip processing speed and data storage have provided significant improvements in

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advanced graphics and audio quality, which allow software developers to create more advanced games, encourage existing players to upgrade their hardware platforms and attract new video game players to purchase an initial system. As general computer technology advances, we expect video game technology to make similar advances.

Next-Generation Systems Provide Multiple Capabilities Beyond Gaming. Many next-generation hardware platforms, including Sony PlayStation 2 and Microsoft Xbox, utilize a DVD software format and have the potential to serve as multi-purpose entertainment centers by doubling as a player for DVD movies and compact discs. In addition, both Sony PlayStation 2 and Microsoft Xbox manufacture accessories which provide internet connectivity.

Backward Compatibility. Sony PlayStation 2 and Nintendo DS are both backward compatible, meaning that titles produced for the earlier version of the hardware platform may be used on the new hardware platform. We believe that backward compatibility may result in more stable industry growth because the decrease in consumer demand for products associated with existing hardware platforms that typically precedes the release of next-generation hardware platforms may be diminished.

Introduction of Next-Generation Hardware Platforms Drives Software Demand. Sales of video game software generally increase as next-generation platforms mature and gain wider acceptance. Historically, when a new platform is released, a limited number of compatible game titles are immediately available, but the selection grows rapidly as manufacturers and third-party publishers develop and release game titles for that new platform. For example, when Sony PlayStation 2 was released in October 2000, approximately 30 game titles were available for sale. By January 2003, over 450 game titles for the Sony PlayStation 2 platform were available for sale. Currently, there are over 850 game titles for the Sony PlayStation 2 platform available for sale.

Broadening Demographic Appeal. While the typical electronic game enthusiast is male between the ages of 14 and 35, the electronic game industry is broadening its appeal. More females are playing electronic video games, in part due to the development of video game products that appeal to them. According to ESA, approximately 39% of all electronic game players are female. More adults are also playing video games as a portion of the population that played video games in their childhood continues to play and advance to the next-generation video game products. In addition, the availability of used video game products for sale has enabled a lower-economic demographic, that may not have been able to afford the considerably more expensive new video game products, to participate in the video game industry.

Used Video Game Market. As the installed base of video game hardware platforms has increased and new hardware platforms are introduced, a growing used video game market has evolved in the United States. Based on reports published by NPD, we believe that, as of December 2004, the installed base of video game hardware systems in the United States, based on original sales, totaled over 185 million units, including approximately 27 million Sony PlayStation 2 units, 12 million Microsoft Xbox units, 9 million Nintendo GameCube units, 27 million Nintendo Game Boy Advance and Game Boy Advance SP units, 29 million Sony PlayStation units and over 80 million units of older hardware platforms such as Sega Dreamcast, Nintendo 64, Nintendo Game Boy and Game Boy Color, Sega Genesis and Super Nintendo systems. Hardware manufacturers and third-party software publishers have produced a wide variety of software titles for each of these hardware platforms. Based on internal company estimates, we believe that the installed base of video game software units in the United States exceeds 700 million units.

PC Entertainment Software. PC entertainment software is generally sold in the form of CD-ROMs and played on multimedia PCs featuring fast processors, expanded memories, and enhanced graphics and audio capabilities.

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Business Strategy

Our goal is to enhance our position as the nation s largest specialty retailer of new and used video game products and PC entertainment software by focusing on the following strategies:

Targeting a Broad Audience of Game Players. We have created a store environment targeting a broad audience including the electronic game enthusiast, the casual gamer and the seasonal gift giver. Our mall stores primarily focus on the electronic game enthusiast who demands the latest merchandise featuring the hottest technology immediately on the day of release. Our strip center stores also serve the electronic game enthusiast, but focus on serving the value-oriented customer by offering a wide selection of value-priced used video game products and the opportunity to trade in used video game products in exchange for store credits applicable to future purchases, which, in turn, drives more sales.

Enhancing our Image as a Destination Location. Our stores serve as destination locations for game players due to our broad selection of products, knowledgeable sales associates, game-oriented environment and unique pricing proposition. We offer all major video game platforms, provide a broad assortment of video game products and offer a larger and more current selection of merchandise than other retailers. We provide a high level of customer service by hiring game enthusiasts and providing them with ongoing sales training, as well as training in the latest technical and functional elements of our products and services. Our stores are equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips.

Offering the Largest Selection of Used Video Game Products. We are the nation s leading provider and carry the broadest selection of used video game products for both current and previous generation platforms. We are one of the only retailers that provide video game software for previous generation platforms, giving us a unique advantage in the video game retail industry. The opportunity to trade in and purchase used video game products offers our customers a unique value proposition unavailable at mass merchants, toy stores and consumer electronics retailers. We obtain most of our used video game products from trade-ins made in our stores by our customers. Used video game products generate significantly higher gross margins than new video game products.

Building the GameStop Brand. We currently operate most of our stores under the GameStop name and have substantially completed the rebranding of our stores to the GameStop brand. Building the GameStop brand has enabled us to leverage brand awareness and to capture advertising and marketing efficiencies. Our branding strategy is further supported by the GameStop loyalty card and our web site. The GameStop loyalty card, which is obtained as a bonus with a paid subscription to our *Game Informer* magazine, offers customers discounts on selected merchandise in our stores. Our web site allows our customers to buy games on-line and to learn about the latest video game products and PC entertainment software and their availability in our stores.

Providing a First-to-Market Distribution Network. We employ a variety of rapid-response distribution methods in our efforts to be the first-to-market for new video game products and PC entertainment software. We strive to deliver popular new releases to selected stores within hours of release and to all of our stores by the next morning. This highly efficient distribution network is essential, as a significant portion of a new title s sales will be generated in the first few days and weeks following its release. As the largest specialty retailer of video game products and PC entertainment software in the United States, with a proven capability to distribute new releases to our customers quickly, we believe that we regularly receive a disproportionately large allocation of popular new video game products and PC entertainment software. On a daily basis, we actively monitor sales trends, customer reservations and store manager feedback to ensure a high in-stock position for each store. To assure our customers immediate access to new releases, we offer our customers the opportunity to pre-order products in our stores or through our web site prior to their release.

Investing in our Information Systems and Distribution Capabilities. We employ sophisticated and fully-integrated inventory management, store-level point of sale and financial systems and a centralized state-of-the-art distribution facility. These systems enable us to maximize the efficiency of the flow of over 5,000 SKUs, improve store efficiency, optimize store in-stock positions and carry a broad selection of inventory. Our

proprietary inventory management system enables us to maximize sales of new release titles and avoid markdowns as titles mature and utilizes electronic point-of-sale equipment that provides corporate headquarters with daily information regarding store-level sales and available inventory levels to automatically generate replenishment shipments to each store at least twice a week. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our systems enable each store to carry a merchandise assortment uniquely tailored to its own sales mix and customer needs. Our ability to react quickly to consumer purchasing trends has resulted in a target mix of inventory, reduced shipping and handling costs for overstocks and reduced our need to discount products.

Growth Strategy

New Store Expansion. We intend to continue to open new strip center stores in our targeted markets and new mall stores in selected mall locations. We opened 300 new stores in fiscal 2003 and 338 new stores in fiscal 2004. We plan on opening approximately 370 to 400 new stores in fiscal 2005. Our primary growth vehicle will be the expansion of our strip center store base, which we believe could grow to over 3,000 stores in the United States. Our strategy is to open strip center stores in targeted major metropolitan markets and in regional shopping centers in tertiary markets. We analyze each market relative to target population and other demographic indices, real estate availability, competitive factors and past operating history, if available. In some cases, these new stores may adversely impact sales at existing stores.

In addition, we began to expand in Europe in June 2003 by acquiring a majority interest in Gamesworld Group Limited (Gamesworld), an Ireland-based video game retailer with 10 stores throughout Ireland. Since our acquisition of Gamesworld, we have opened an additional 15 stores, including three in Northern Ireland. We plan to continue to expand in Europe.

Increase Comparable Store Sales. We plan to increase our comparable store sales by capitalizing on the growth in the video game industry, expanding our sales of used video game products and increasing awareness of the GameStop name.

Capitalize on Growth in Demand. Our sales of new and used video game software grew by approximately 26% in fiscal 2003 and by an additional 22% in fiscal 2004. In fiscal 2003 and fiscal 2004, our comparable store sales increased 0.8% and 1.7%, respectively, driven in large measure by the success of Sony PlayStation 2, Microsoft Xbox, Nintendo GameCube and Nintendo DS, which was launched in November 2004. Comparable store sales increased a modest 1.7% in fiscal 2004, as declining video game hardware price points and hardware shortages offset the increase in video game software sales, which was fueled by the success of Grand Theft Auto: San Andreas, from Take-Two Interactive Software, Inc. and Halo 2 from Microsoft Corp. During fiscal 2003 and fiscal 2004, we capitalized on the growth in demand for video game software and accessories that followed the increases in the installed hardware base of these four video game platforms. Over the next few years, we expect to continue to capitalize on the increasing installed base for these platforms, the release in March 2005 of the Sony PSP, the anticipated release in late 2005 of the Microsoft Xbox 2, the anticipated release in 2006 of the Sony PlayStation 3 and the related growth in video game software and accessories sales.

Increase Sales of Used Video Game Products. We will continue to expand the selection and availability of used video game products in both our mall and strip center stores. Our strategy consists of increasing consumer awareness of the benefits of trading in and buying used video game products at our stores through increased marketing activities. We expect the continued growth of new platform technology to drive trade-ins of previous generation products, as well as next generation platforms, thereby expanding the supply of used video game products.

Increase GameStop Brand Awareness. We intend to increase customer awareness of the benefits of shopping in our stores. In connection with our brand-building efforts, in each of the last three fiscal years, we increased the amount of media advertising in targeted markets. In fiscal 2005, we plan to continue to increase media advertising, to expand our GameStop loyalty card program, to aggressively promote trade-ins of used video game products in our stores and to leverage our web site at www.gamestop.com.

Merchandise

Substantially all of our revenues are derived from the sale of tangible products. Our product offerings consist of new and used video game products, PC entertainment software, and related products, such as action figures, trading cards and strategy guides. Our in-store inventory generally consists of a constantly changing selection of over 5,000 SKUs. We have a central buying group that negotiates terms, discounts and cooperative advertising allowances for all of our stores. We use customer requests and feedback, advance orders, industry magazines and product reviews to determine which new releases are expected to be hits. Advance orders are tracked at individual stores to distribute titles and capture demand effectively. This merchandise management is essential because a significant portion of a game s sales are usually generated in the first days and weeks following its release. We also carefully manage product pricing utilizing a tiered-pricing strategy that enables us to tailor pricing at our stores based on each store s competitive environment.

Video Game Software. We purchase new video game software directly from the leading manufacturers, including Sony, Microsoft and Nintendo, as well as over 40 third-party game publishers, such as Electronic Arts, Take-Two Interactive and Activision, Inc. We are one of the largest customers in the United States of video game titles sold by these publishers. We carry over 1,000 SKUs of new video game software at any given time across a variety of genres, including Sports, Action, Strategy, Adventure/ Role Playing and Simulation.

Used Video Game Products. We are the largest retailer of used video games in the United States. We provide our customers with an opportunity to trade in their used video game products in our stores in exchange for store credits which can be applied towards the purchase of other products, including new merchandise. We have the largest selection (over 4,000 SKUs) of used video game titles which have an average price of $13 as compared to $35 for new video game titles and which generate significantly higher gross margins than new video game products. Our trade-in program provides our customers with a unique value proposition which is unavailable at mass merchants, toy stores and consumer electronics retailers. This program provides us with an inventory of used video game products which we resell to our more value-oriented customers. In addition, our highly-customized inventory management system allows us to actively manage the pricing and product availability of our used video game products across our store base and to reallocate our inventory as necessary. Our trade-in program also allows us to be one of the only suppliers of previous generation platforms and related video games. We also operate a refurbishment center where defective video game products can be tested, repaired, relabeled, repackaged and redistributed back to our stores.

Video Game Hardware. We offer the video game platforms of all major manufacturers, including Sony PlayStation 2 and PlayStation, Microsoft Xbox, Nintendo DS, GameCube and Game Boy Advance SP. We also offer extended service agreements on video game hardware. In support of our strategy to be the destination location for electronic game players, we aggressively promote the sale of video game platforms. Video game hardware sales are generally driven by the introduction of new platform technology and the reduction in price points as platforms mature. Due to our strong relationships with the manufacturers of these platforms, we often receive disproportionately large allocations of new release hardware products, which is an important component of our strategy to be the destination of choice for electronic game players. We believe that selling video game hardware increases store traffic and promotes customer loyalty, leading to increased sales of video game software and accessories, which have higher gross margins than video game hardware.

PC Entertainment and Other Software. We purchase PC entertainment software from over 35 publishers, including Electronic Arts, Microsoft and Vivendi Universal. We offer PC entertainment software across a variety of genres, including Sports, Action, Strategy, Adventure/ Role Playing and Simulation.

Accessories and Other Products. Video game accessories consist primarily of controllers, memory cards and other add-ons. PC entertainment accessories consist primarily of video cards, joysticks and mice. We also carry strategy guides and magazines, as well as character-related merchandise, including action figures and trading cards. We carry over 750 SKUs of accessories and other products. In general, this category has higher margins than new video game and PC entertainment products.

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Store Operations

As of January 29, 2005, we operated 1,826 stores, primarily under the GameStop name. Each of our stores typically carries over 5,000 SKUs. We design our stores to provide an electronic gaming atmosphere with an engaging and visually-captivating layout. Our stores are equipped with several video game sampling areas, which provide our customers the opportunity to play games before purchase, as well as equipment to play video game clips. We use store configuration, in-store signage and product demonstrations to produce marketing opportunities both for our vendors and for us.

Store Formats

Strip Center Stores. Our strip center stores, which average approximately 1,600 square feet, carry a balanced mix of new and used video game products and PC entertainment software. As of January 29, 2005, we operated 1,310 strip center stores in the United States, Ireland, Northern Ireland and Puerto Rico. Our strip center stores are located in both high traffic power strip centers and local neighborhood strip centers, primarily in major metropolitan areas. These locations provide visibility, easy access and high frequency of visits. We target strip centers that are conveniently located, have a mass merchant or supermarket anchor tenant and have a high volume of customers.

Mall-Based Stores. Our mall-based stores, which average approximately 1,200 square feet, carry primarily new video game products and PC entertainment software, as well as used video game products. As of January 29, 2005, we operated 516 mall stores in high traffic shopping malls in targeted locations throughout the United States, Puerto Rico and Guam.

Site Selection and Locations

Site Selection. We have a dedicated staff of real estate personnel experienced in selecting store locations. Site selections for new stores are made after an extensive review of demographic data and other information relating to market potential, competitor access and visibility, compatible nearby tenants, accessible parking, location visibility, lease terms and the location of our other stores. Most of our stores are located in highly visible locations within malls and strip centers.

Locations. The table below sets forth the number of our stores located in each state, the District of Columbia, Ireland, Northern Ireland, Puerto Rico and Guam as of January 29, 2005:

State	Number of Stores
Alabama	27
Alaska	3
Arizona	34
Arkansas	11
California	206
Colorado	28
Connecticut	21
Delaware	8
District of Columbia	1
Florida	79
Georgia	45
Guam	2
Hawaii	13
Idaho	3
Illinois	94
Indiana	25

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State	Number of Stores
Iowa	20
Kansas	14
Kentucky	18
Louisiana	25
Maine	3
Maryland	46
Massachusetts	31
Michigan	66
Minnesota	32
Mississippi	17
Missouri	34
Montana	6
Nebraska	7
Nevada	18
New Hampshire	10
New Jersey	75
New Mexico	15
New York	89
North Carolina	39
North Dakota	6
Ohio	83
Oklahoma	23
Oregon	15
Pennsylvania	84
Puerto Rico	15
Rhode Island	5
South Carolina	20
South Dakota	3
Tennessee	30
Texas	204
Utah	21
Vermont	1
Virginia	50
Washington	43
West Virginia	11
Wisconsin	21
Wyoming	1
	1,801
Ireland	22
Northern Ireland	3
	1,826

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Game Informer

We publish *Game Informer*, a monthly video game magazine featuring reviews of new title releases, tips and secrets about existing games and news regarding current developments in the electronic game industry. The magazine is sold through subscription and through displays in our stores. For its February 2005 issue, the magazine had more than 2,000,000 paid subscriptions. According to Advertising Age magazine, *Game Informer* is the 26th largest consumer publication in the U.S. and had the third largest increase in paid circulation among U.S. consumer magazines in 2004, with an increase in excess of 43%. Also, according to Advertising Age magazine, *Game Informer* had the largest increase in paid circulation in 2003, with an increase in excess of 45%. *Game Informer* revenues are also generated through the sale of advertising space. In addition, we offer the GameStop loyalty card as a bonus with each paid subscription, providing our subscribers with a discount on selected merchandise.

E-Commerce

We operate an electronic commerce web site at www.gamestop.com that allows our customers to buy video game products and other merchandise on-line. The site also offers customers information and content about available games, release dates for upcoming games, and access to store information, such as location and product availability. In 2003, we entered into an arrangement with Amazon.com, Inc. under which we are the exclusive specialty video game retailer listed on Amazon.com.

Advertising

Our stores are primarily located in high traffic, high visibility areas of regional shopping malls and strip centers. Given the high foot traffic drawn past the stores themselves, we use in-store marketing efforts such as window displays and coming soon signs to attract customers, as well as to promote used video game products and subscriptions to our *Game Informer* magazine. Inside the stores, we feature selected products through the use of vendor displays, coming soon or preview videos, signs, catalogs, point-of-purchase materials and end-cap displays. These advertising efforts are designed to increase the initial sales of new titles upon their release. We receive cooperative advertising and market development funds from manufacturers, distributors, software publishers and accessory suppliers to promote their respective products. Generally, vendors agree to purchase advertising space in one of our advertising vehicles. Once we run the advertising, the vendor pays to us an agreed amount.

As part of our brand-building efforts and targeted growth strategies, in the last three years, we expanded our newspaper advertising in certain targeted markets at certain key times of the year. In addition, we expanded our use of radio advertising in certain markets to promote store openings. We plan to continue these efforts in fiscal 2005.

Information Management

Our operating strategy involves providing a broad merchandise selection to our customers as quickly and as cost-effectively as possible. We use our inventory management systems to maximize the efficiency of the flow of products to our stores, enhance store efficiency and optimize store in-stock and overall investment in inventory.

Distribution. We operate a 210,000 square foot state-of-the-art distribution center in Grapevine, Texas. By operating with a centralized distribution facility, we effectively control and minimize inventory levels. A technologically-advanced conveyor system and flow-through racks control costs and improve speed of fulfillment. The technology used in the distribution center allows for high-volume receiving, distributions to stores and returns to vendors. Inventory is shipped to each store at least twice a week, or daily, if necessary, in order to keep stores in supply of products. In order to support our first-to-market distribution network, we utilize the services of nine off-site, third-party operated distribution centers that pick up products from our suppliers, repackage the products for each of our stores and ship those products to our stores by package carriers. Our ability to rapidly process incoming shipments of new release titles and deliver them to all of our stores, either that day or by the next morning, enables us to meet peak demand and replenish stores at least twice a week. We purchased a new 420,000 square foot headquarters and distribution center in Grapevine, Texas in 2004 and relocated certain of our distribution center operations to this facility. We intend to move our remaining distribution center operations to that facility in the second quarter of fiscal 2005.

Management Information Systems. Our proprietary inventory management system and point-of-sale technology show daily sales and in-store stock by title by store. Systems in place use this data to automatically generate replenishment shipments to each store from our distribution center in Grapevine, Texas, enabling each store to carry a merchandise assortment uniquely tailored to its own sales mix and rate of sale. Our call lists and reservation system also provide our centralized buying staff with information to determine order size and inventory management for store-by-store inventory allocation. We constantly review and edit our merchandise categories with the objective of ensuring that inventory is up-to-date and meets customer needs. We use a centralized PC network-based information system based in our corporate offices, in order to minimize initial outlay of capital while allowing for flexibility and growth as operations expand.

Our in-store point-of-sale system enables us to efficiently manage in-store transactions. This proprietary point-of-sale system has been enhanced to facilitate trade-in transactions, including automatic look-up of trade-in prices and printing of machine-readable bar codes to facilitate in-store restocking of used video games. In addition, our central database of all used video game products allows us to actively manage the pricing and product availability of our used video game products across our store base and re-allocate our used video game products as necessary.

Field Management and Staff

Our United States, Puerto Rico and Guam store operations are managed by a centrally located vice president of stores, four divisional vice presidents and 14 regional store operations directors. The regions are divided into approximately 140 districts, each with a district manager covering an average of 13 stores. Our stores in Ireland and Northern Ireland are managed by the founders of Gamesworld. Each store employs, on average, one manager, one assistant manager and between two and ten sales associates, many of whom are part-time employees. We have cultivated a work environment that attracts employees who are actively interested in electronic games. We seek to hire and retain employees who know and enjoy working with our products so that they are better able to assist customers. To encourage them to sell the full range of our products, we provide our employees with targeted incentive programs to drive sales. We also provide our employees with the opportunity to take home and try new video games, which enables them to better discuss those games with our customers. In addition, employees are casually dressed to encourage customer access and increase the game-oriented focus of the stores. We also employ 14 regional loss prevention managers who assist the field in implementing security to prevent theft of our products.

Our stores communicate with our corporate offices via daily e-mail. This e-mail allows for better tracking of trends in upcoming titles, competitor strategies and in-stock inventory positions. In addition, this communication allows title selection in each store to be continuously updated and tailored to reflect the tastes and buying patterns of the store s local market. These communications also give field management access to relevant inventory levels and loss prevention information. We also sponsor an annual store managers conference, which we invite all video game software publishers to attend, and operate an intense educational training program to provide our employees with information about the video game products that will be released by those publishers in the holiday season.

Customer Service

Our store personnel provide value-added services to each customer, such as maintaining lists of regular customers, notifying each customer by phone when new titles are available, and reserving new releases for customers with a down payment to ensure product availability. In addition, our store personnel readily provide product reviews to ensure customers are making informed purchasing decisions and offer help-line numbers to increase a customer s enjoyment of the product upon purchase.

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Vendors

We purchase substantially all of our new products from approximately 85 manufacturers and software publishers and approximately five distributors. Purchases from the top ten vendors accounted for approximately 71% of our new product purchases in fiscal 2004. Only Electronic Arts, Nintendo and Microsoft (which accounted for 14%, 13% and 12%, respectively) individually accounted for more than 10% of our new product purchases during fiscal 2004. We have established price protections and return privileges with our primary vendors in order to reduce the risk of inventory obsolescence. In addition, we have no purchase contracts with trade vendors and conduct business on an order-by-order basis, a practice that is typical throughout the industry. We believe that maintaining and strengthening our long-term relationships with our vendors is essential to our operations and continued expansion. We believe that we have very good relations with our vendors.

Competition

The electronic game industry is intensely competitive and subject to rapid changes in consumer preferences and frequent new product introductions. We compete with mass merchants and regional chains, including Wal-Mart and Target; other video game and PC software specialty stores located in malls and other locations, including Electronics Boutique; toy retail chains, including Toys R Us; mail-order businesses; catalogs; direct sales by software publishers; online retailers; and computer product and consumer electronics stores, including Best Buy and Circuit City. In addition, video games are available for rental from many video stores, some of whom, like Hollywood Entertainment and Blockbuster, have increased the availability of video game products for sale. Video game products may also be distributed through other methods which may emerge in the future. We also compete with sellers of used video game products. Additionally, we compete with other forms of entertainment activities, including movies, television, theater, sporting events and family entertainment centers.

Seasonality

Our business, like that of many specialty retailers, is seasonal, with the major portion of our sales and operating profit realized during the fourth fiscal quarter, which includes the holiday selling season. During fiscal 2004, we generated approximately 38% of our sales and approximately 56% of our operating earnings during the fourth quarter. Any adverse trend in sales during the holiday selling season could lower our results of operations for the fourth quarter and the entire year.

Trademarks

We have a number of trademarks and servicemarks, including GameStop, Game Informer, Babbage s and FuncoLand, all of which have been registered by us with the United States Patent and Trademark Office. We maintain a policy of pursuing registration of our principal marks and opposing any infringement of our marks.

Employees

We have approximately 2,500 full-time salaried, 2,300 full-time hourly and between 12,000 and 18,000 part-time hourly employees depending on the time of year. Fluctuation in the number of part-time hourly employees is due to the seasonality of the electronic game industry. We believe that our relationship with our employees is excellent. None of our employees is represented by a labor union or is a member of a collective bargaining unit.

Available Information

We make available on our website (http://www.gamestop.com), under Investor Relations SEC Filings, free of charge, our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports as soon as reasonably practicable after we electronically file or furnish such material with the SEC. In addition, the Company s Code of Standards, Ethics and Conduct is available on our website under Investor Relations Corporate Governance and is available to our stockholders in print, free of charge, upon written request to the Company s Investor Relations Department at GameStop Corp., 2250 William D. Tate Avenue, Grapevine, Texas 76051.

Item 2. ***Properties***

All of our stores are leased. Store leases typically provide for an initial lease term of three to ten years, plus renewal options. This arrangement gives us the flexibility to pursue extension or relocation opportunities that arise from changing market conditions. We believe that, as current leases expire, we will be able to obtain either renewals at present locations or leases for equivalent locations in the same area.

The terms of the store leases for the 1,826 leased stores open as of January 29, 2005 expire as follows:

Lease Terms to Expire During (12 Months Ending on or About January 31)	Number of Stores
Expired and in negotiations	139
2006	186
2007	174
2008	132
2009	169
2010 and later	1,026
	1,826

In addition to our stores, we lease a 250,000 square foot headquarters and distribution center in Grapevine, Texas. This lease expires on January 31, 2006.

In March 2004, we purchased a 420,000 square foot facility in Grapevine, Texas. We relocated certain of our distribution operations to this facility in fiscal 2004 and will be relocating our headquarters and remaining distribution center operations to this facility in the second quarter of fiscal 2005. Management believes this facility will support our long-term growth.

We lease a 7,300 square foot office facility in Minneapolis, Minnesota which houses the operations of *Game Informer* magazine. This lease expires in February 2007.

We lease a 15,000 square foot facility in Dublin, Ireland, which houses the corporate and distribution operations for the Company s operations in Ireland and Northern Ireland. This lease expires in January 2013.

Item 3. ***Legal Proceedings***

On May 29, 2003, former Store Manager Carlos Moreira (Moreira) filed a class action lawsuit against the Company and its wholly-owned subsidiary Gamestop, Inc. (collectively GameStop) in Los Angeles County Superior Court alleging that GameStop s salaried retail managers were misclassified as exempt and should have been paid overtime. Moreira was seeking to represent a class of current and former salaried retail managers who were employed by GameStop in California at any time between May 29, 1999 and September 30, 2004. Moreira alleged claims for violation of California Labor Code sections 203, 226 and 1194 and California Business and Professions Code section 17200. Moreira was seeking recovery of unpaid overtime, interest, penalties, attorneys fees and costs. During court-ordered mediation in March 2004, the parties reached a settlement which defined the class of current and former salaried retail managers and will result in a cost to the Company of approximately $2,750,000. On January 28, 2005, the court granted approval of the settlement. The matter is now in the claims administration process. A provision for this proposed settlement was recorded in the 13 weeks ended May 1, 2004. Management expects that the final settlement and resolution of this case will take place in the second quarter of fiscal 2005.

On October 20, 2004, former Store Manager John P. Kurtz (Kurtz) filed a collective action lawsuit against the Company in U.S. District Court, Western District of Louisiana, Lafayette/ Opelousas Division,

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alleging that GameStop s salaried retail managers were misclassified as exempt and should have been paid overtime, in violation of the Fair Labor Standards Act. Kurtz is seeking to represent all current and former salaried retail managers who were employed by GameStop for the three years before October 20, 2004. Kurtz is seeking recovery of unpaid overtime, interest, penalties, attorneys fees and costs. On January 12, 2005, GameStop filed an answer to the complaint and a motion to transfer the action to the Northern District of Texas, Fort Worth Division. GameStop is awaiting the court s decision on the motion. Management intends to vigorously defend this action and does not believe there is sufficient information to estimate the amount of the possible loss, if any, resulting from the lawsuit.

On February 14, 2005, Steve Strickland, as personal representative of the Estate of Arnold Strickland, deceased, and Henry Mealer, as personal representative of the Estate of Ace Mealer, deceased, filed a wrongful death lawsuit against GameStop, Sony, Take-Two Interactive and Wal-Mart (collectively, the Defendants) and Devin Moore in the Circuit Court of Fayette County, Alabama, alleging that Defendants actions in designing, manufacturing, marketing and supplying Defendant Moore with violent video games were negligent and contributed to Defendant Moore killing Arnold Strickland and Ace Mealer. Plaintiffs are seeking damages in excess of $600 million under the Alabama wrongful death statute. GameStop and the other defendants are in the process of preparing an initial response and intend to vigorously defend this action.

In the ordinary course of our business, we are from time to time subject to various other legal proceedings. We do not believe that any such other legal proceedings, individually or in the aggregate, will have a material adverse effect on our operations or financial condition.

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

There were no matters submitted to a vote of security holders during the 13 weeks ended January 29, 2005.

PART II

Item 5. ***Market For Registrant s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities***

Price Range of Common Stock

The Company s Class A common stock is traded on the New York Stock Exchange (NYSE) under the symbol GME . The Company s Class B common stock began trading on the New York Stock Exchange (NYSE) under the symbol GME.B on November 12, 2004. As such, there was no public trading market for the Company s Class B common stock prior to that time.

The following table sets forth, for the periods indicated, the high and low sales prices of the Class A common stock on the NYSE Composite Tape.

	Fiscal 2004	
	High	**Low**
Fourth Quarter	$ 23.50	$ 18.68
Third Quarter	$ 20.23	$ 14.87
Second Quarter	$ 18.18	$ 14.54
First Quarter	$ 18.65	$ 16.29

	Fiscal 2003	
	High	**Low**
Fourth Quarter	$ 18.57	$ 14.30
Third Quarter	$ 18.92	$ 12.66
Second Quarter	$ 14.85	$ 11.55

First Quarter	$ 13.00	$ 7.59

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The following table sets forth, for the periods indicated, the high and low sales prices of the Class B common stock on the NYSE Composite Tape.

	Fiscal 2004	
	High	Low
Fourth Quarter (from November 12, 2004)	$ 24.00	$ 18.75

Approximate Number of Holders of Common Equity

As of February 23, 2005, there were approximately 8,500 record holders of the Company s $.001 par value per share Class A common stock and approximately 31,000 record holders of the Company s $.001 par value per share Class B common stock.

Dividends

The Company has never declared or paid any dividends on its common stock. We may consider in the future the advisability of paying dividends. However, our payment of dividends is and will continue to be restricted by or subject to, among other limitations, applicable provisions of federal and state laws, our earnings and various business considerations, including our financial condition, results of operations, cash flow, the level of our capital expenditures, our future business prospects, our status as a holding company and such other matters that our board of directors deems relevant. In addition, the terms of the revolving credit facility we entered into in June 2004 restricts our ability to pay dividends if the availability under the credit facility is less than $20,000,000. See Liquidity and Capital Resources included in Management s Discussion and Analysis of Financial Condition and Results of Operations.

Securities Authorized for Issuance under Equity Compensation Plans

Information for our equity compensation plans in effect as of January 29, 2005, is as follows:

Plan Category	Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	11,406,000	$ 10.86	5,168,000
Equity compensation plans not approved by security holders	0	not applicable	0
Total	11,406,000	$ 10.86	5,168,000

On March 11, 2005, an additional 2,102,000 options to purchase our Class A common stock were granted under our Amended and Restated 2001 Incentive Plan at an exercise price of $20.25 per share. These options vest in equal increments over three years and expire on March 10, 2015.

Purchases of Equity Securities by the Issuer and Affiliated Purchasers

There were no repurchases of the Company s equity securities during the fourth quarter of fiscal 2004. As of January 29, 2005, the Company had no amount remaining available for purchases under any repurchase program.

Item 6. ***Selected Consolidated Financial Data***

The following table sets forth our selected consolidated financial and operating data for the periods and at the dates indicated. Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January

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31. The fiscal years ended January 29, 2005, January 31, 2004, February 1, 2003 and February 2, 2002 consisted of 52 weeks and the fiscal year ended February 3, 2001 consisted of 53 weeks. The Statement of Operations Data for the fiscal years 2004, 2003 and 2002 and the Balance Sheet Data as of January 29, 2005 and January 31, 2004 are derived from, and are qualified by reference to, our audited financial statements which are included elsewhere in this Form 10-K/A. The Statement of Operations Data for fiscal years ended February 2, 2002 and February 3, 2001 and the Balance Sheet Data as of February 1, 2003, February 2, 2002 and February 3, 2001 are derived from our audited financial statements which are not included elsewhere in this Form 10-K/A.

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Our selected financial data set forth below should be read in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and notes thereto included elsewhere in this Form 10-K/A.

	Fiscal Year Ended January 29, 2005	Fiscal Year Ended January 31, 2004	Fiscal Year Ended February 1, 2003	Fiscal Year Ended February 2, 2002	Fiscal Year Ended February 3, 2001
	In Thousands, except per share data and statistical data				
Statement of Operations Data:					
Sales	$ 1,842,806	$ 1,578,838	$ 1,352,791	$ 1,121,138	$ 756,697
Cost of sales	1,333,506	1,145,893	1,012,145	855,386	570,995
Gross profit	509,300	432,945	340,646	265,752	185,702
Selling, general and administrative expenses(1)(2)	373,364	299,193	230,461	200,698	157,242
Depreciation and amortization(1)(2)	36,789	29,368	23,114	19,842	13,623
Amortization of goodwill				11,125	9,223
Operating earnings	99,147	104,384	87,071	34,087	5,614
Interest expense (income), net	236	(804)	(630)	19,452	23,411
Earnings (loss) before income taxes	98,911	105,188	87,701	14,635	(17,797)
Income tax expense (benefit)	37,985	41,721	35,297	7,675	(5,836)
Net earnings (loss)	$ 60,926	$ 63,467	$ 52,404	$ 6,960	$ (11,961)
Net earnings (loss) per Class A and Class B common share basic	$ 1.11	$ 1.13	$ 0.93	$ 0.19	$ (0.33)
Weighted average shares outstanding basic	54,662	56,330	56,289	36,009	36,009
Net earnings (loss) per Class A and Class B common share diluted	$ 1.05	$ 1.06	$ 0.87	$ 0.18	$ (0.33)
Weighted average shares outstanding diluted	57,796	59,764	60,419	39,397	36,009
Other Financial Data:					

Net earnings (loss) excluding the after-tax effect of goodwill amortization(3)	$	60,926	$	63,467	$	52,404	$	15,373	$	(5,212)
Net earnings (loss) per share excluding the after-tax effect of goodwill amortization diluted(3)	$	1.05	$	1.06	$	0.87	$	0.39	$	(0.14)
Store Operating Data:										
Stores open at the end of period		1,826		1,514		1,231		1,038		978
Comparable store sales increase (decrease)(4)		1.7%		0.8%		11.4%		32.0%		(6.7)%
Inventory turnover		5.4		4.9		4.9		5.2		4.6
Balance Sheet Data:										
Working capital (deficit)	$	110,093	$	188,378	$	174,482	$	31,107	$	(1,726)
Total assets(1)(2)		914,983		902,189		806,237		608,674		511,504
Total debt		36,520						399,623		385,148
Total liabilities(1)(2)		371,972		308,156		257,562		612,659		532,114
Stockholders equity (deficit)		543,011		594,033		548,675		(3,985)		(20,610)

(1) In 2004, we revised our method of accounting for rent expense to conform to GAAP, as recently clarified by the Chief Accountant of the SEC in a February 7, 2005 letter to the American Institute of Certified Public Accountants. A non-cash, after-tax adjustment of $3,312 was made in the fourth quarter of fiscal 2004 to correct the method of accounting for rent expense (and related deferred rent liability) to include the impact of escalating rents for periods in which we are reasonably assured of exercising lease options and to include any rent holiday period (a period during which the Company is not obligated to pay

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rent) the lease allows while the store is being constructed. We also corrected our calculation of depreciation expense for leasehold improvements for those leases which do not include an option period. The impact of these corrections on periods prior to fiscal 2004 was not material and the adjustment does not affect historical or future cash flows or the timing of payments under related leases. See Note 1 of Notes to Consolidated Financial Statements of the Company for additional information concerning lease accounting.

(2) In 2004, the Company changed its classification of tenant improvement allowances on the balance sheets, statement of operations and statements of cash flows. The Company historically classified tenant improvement allowances as reductions of property and equipment on the Company s balance sheets and as reductions in depreciation and amortization in the Company s statements of operations. In order to comply with the provisions of FASB Technical Bulletin No. 88-1, Issues Relating to Accounting for Leases (FTB 88-1), however, the Company has reclassified tenant improvement allowances as deferred rent liabilities (in other long-term liabilities) on the Company s balance sheets and as a reduction of rent expense (in selling, general and administrative expenses) in the statements of operations. The effect of this reclassification increased total assets and total liabilities on the Company s balance sheets by $4,671 as of January 29, 2005, $3,265 as of January 31, 2004, $2,328 as of February 1, 2003, $1,831 as of February 2, 2002 and $1,747 as of February 3, 2001 and decreased selling, general and administrative expense and increased depreciation expense in the Company s statements of operations by $671, $540, $601, $678 and $649 in fiscal 2004, 2003, 2002, 2001 and 2000, respectively. Note 1 of Notes to Consolidated Financial Statements of the Company provides additional information concerning lease accounting.

(3) Net earnings (loss) excluding the after-tax effect of goodwill amortization is presented here to provide additional information about our operations. These items should be considered in addition to, but not as a substitute for or superior to, operating earnings, net earnings, cash flow and other measures of financial performance prepared in accordance with GAAP.

(4) Stores are included in our comparable store sales base beginning in the 13th month of operation. Comparable store sales for the fiscal year ended February 3, 2001 were computed using the first 52 weeks of the 53 week fiscal year.

Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

The following discussion should be read in conjunction with the information contained in our consolidated financial statements, including the notes thereto. Statements regarding future economic performance, management s plans and objectives, and any statements concerning assumptions related to the foregoing contained in Management s Discussion and Analysis of Financial Condition and Results of Operations constitute forward-looking statements. Certain factors, which may cause actual results to vary materially from these forward-looking statements, accompany such statements or appear elsewhere in this Form 10-K/A, including the factors disclosed under Business Risk Factors.

General

We are the largest specialty retailer of video game products and PC entertainment software in the United States, based on the number of U.S. retail stores we operate and our total U.S. revenues. We sell new and used video game hardware, video game software and accessories, as well as PC entertainment software and related accessories and other merchandise. As of January 29, 2005, we operated 1,826 stores, in 50 states, the District of Columbia, Ireland, Northern Ireland, Puerto Rico and Guam, primarily under the name GameStop. We also operate an electronic commerce web site under the name gamestop.com and publish *Game Informer*, the industry s largest circulation multi-platform video game magazine in the United States.

Our fiscal year is composed of 52 or 53 weeks ending on the Saturday closest to January 31. The fiscal years ended January 29, 2005, or fiscal 2004, January 31, 2004, or fiscal 2003, and February 1, 2003, or fiscal 2002, consisted of 52 weeks.

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Our wholly-owned subsidiary Babbage s began operations in November 1996. In October 1999, Babbage s was acquired by, and became a wholly-owned subsidiary of, Barnes & Noble. In June 2000, Barnes & Noble acquired Funco and thereafter, Babbage s became a wholly-owned subsidiary of Funco. In December 2000, Funco changed its name to GameStop, Inc.

Growth in the video game industry is driven by the introduction of new technology. In October 2000, Sony introduced PlayStation 2 and, in November 2001, Microsoft introduced Xbox and Nintendo introduced GameCube. Nintendo introduced the Game Boy Advance SP in March 2003 and the DS in November 2004. As is typical following the introduction of new video game platforms, sales of new video game hardware generally increase as a percentage of sales in the first full year following introduction. As video game platforms mature, the sales mix attributable to complementary video game software and accessories, which generate higher gross margins, generally increases in the second and third years. The net effect is generally a decline in gross margins in the first full year following new platform releases and an increase in gross margins in the second and third years. Unit sales of maturing video game platforms are typically also driven by manufacturer-funded retail price decreases, further driving sales of related software and accessories. The retail prices for the PlayStation 2, the Xbox and the GameCube were reduced in May 2002 and May 2003, resulting in an increase in unit sales and sales of the related software and accessories. In September 2003, Nintendo reduced the retail price of the GameCube, which resulted in a significant increase in unit sales and sales of the related software and accessories during the fourth quarter of 2003. In March 2004, Microsoft reduced the retail price of the Xbox and, in May 2004, Sony reduced the retail price of the PlayStation2. We expect that the installed base of these hardware platforms and sales of related software and accessories will increase in the future. Sony launched the PSP in March 2005 and the Company anticipates that Microsoft will launch the Xbox 2 in November 2005. Because of these anticipated launches, we expect that our gross margin will decline from fiscal 2004 to fiscal 2005.

Critical Accounting Policies

The Company believes that the following are its most significant accounting policies which are important in determining the reporting of transactions and events.

Use of Estimates. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. In preparing these financial statements, management has made its best estimates and judgments of certain amounts included in the financial statements, giving due consideration to materiality. Changes in the estimates and assumptions used by management could have significant impact on the Company s financial results. Actual results could differ from those estimates.

Revenue Recognition. Revenue from the sales of the Company s products is recognized at the time of sale. The sales of used video game products are recorded at the retail price charged to the customer. Sales returns (which are not significant) are recognized at the time returns are made. Subscription and advertising revenues are recorded upon release of magazines for sale to consumers and are stated net of sales discounts. Magazine subscription revenue is recognized on a straight-line basis over the subscription period.

Merchandise Inventories. Our merchandise inventories are carried at the lower of cost or market using the average cost method. Used video game products traded in by customers are recorded as inventory at the amount of the store credit given to the customer. In valuing inventory, management is required to make assumptions regarding the necessity of reserves required to value potentially obsolete or over-valued items at the lower of cost or market. Management considers quantities on hand, recent sales, potential price protections and returns to vendors, among other factors, when making these assumptions.

Property and Equipment. Property and equipment are carried at cost less accumulated depreciation and amortization. Depreciation on furniture, fixtures and equipment is computed using the straight-line method over estimated useful lives (ranging from two to eight years). Maintenance and repairs are expensed as incurred, while betterments and major remodeling costs are capitalized. Leasehold improvements are capitalized and amortized over the shorter of their estimated useful lives or the terms of the respective leases,

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including renewal options in which the exercise of the option is reasonably assured (generally ranging from three to ten years). Capitalized lease acquisition costs are being amortized over the average lease terms of the underlying leases. Costs incurred in purchasing management information systems are capitalized and included in property and equipment. These costs are amortized over their estimated useful lives from the date the systems become operational. The Company periodically reviews its property and equipment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable or their depreciation or amortization periods should be accelerated. The Company assesses recoverability based on several factors, including management s intention with respect to its stores and those stores projected undiscounted cash flows. An impairment loss would be recognized for the amount by which the carrying amount of the assets exceeds the present value of their projected cash flows. No write-downs have been necessary by the Company through January 29, 2005.

Goodwill. Goodwill, aggregating $340.0 million, was recorded in the acquisition of Funco and through the application of push-down accounting in accordance with SAB 54 in connection with the acquisition of Babbage s by a subsidiary of Barnes & Noble. Goodwill in the amount of $2.9 million was recorded in connection with the acquisition of Gamesworld Group Limited in June 2003. Goodwill represents the excess purchase price over tangible net assets and identifiable intangible assets acquired. Effective February 3, 2002, the Company adopted the provisions of Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). SFAS 142 requires, among other things, that companies no longer amortize goodwill, but instead evaluate goodwill for impairment on at least an annual basis. Prior to the adoption of the provisions of SFAS 142, the Company s goodwill was amortized on a straight-line basis over a 30-year period. At February 2, 2002, accumulated amortization was $22.0 million. In accordance with the requirements of SFAS 142, the Company completed the initial impairment test of the goodwill attributable to its reporting unit as of February 3, 2002, and concluded that none of its goodwill was impaired. As part of this analysis, the Company determined that it has one reporting unit based upon the similar economic characteristics of its operations. Fair value of this reporting unit was estimated using market capitalization methodologies. Subsequent to the acquisition of Gamesworld Group Limited, the Company determined that it still has one reporting unit based upon the similar economic characteristics of its operations. The Company also evaluates the goodwill of its reporting unit for impairment at least annually. The Company elected to perform its annual impairment test during the fourth quarter of both fiscal 2003 and fiscal 2004 and concluded that none of its goodwill was impaired. Note 7 of Notes to Consolidated Financial Statements of the Company provides additional information concerning goodwill.

Cash Consideration Received from Vendors. The Company and its vendors participate in cooperative advertising programs and other vendor marketing programs in which the vendors provide the Company with cash consideration in exchange for marketing and advertising the vendors products. Our accounting for cooperative advertising arrangements and other vendor marketing programs, in accordance with FASB Emerging Issues Task Force Issue 02-16 or EITF 02-16, results in a portion of the consideration received from our vendors reducing the product costs in inventory rather than as an offset to our marketing and advertising costs as in years prior to fiscal 2003. The consideration serving as a reduction in inventory is recognized in cost of sales as inventory is sold. The amount of vendor allowances recorded as a reduction of inventory is determined by calculating the ratio of vendor allowances in excess of specific, incremental and identifiable advertising and promotional costs to merchandise purchases. The Company then applies this ratio to the value of inventory in determining the amount of vendor reimbursements recorded as a reduction to inventory reflected on the balance sheet. Because of the variability in the timing of our advertising and marketing programs throughout the year, the Company uses significant estimates in determining the amount of vendor allowances recorded as a reduction of inventory in interim periods, including estimates of full year vendor allowances, specific, incremental and identifiable advertising and promotional costs, merchandise purchases and value of inventory. Estimates of full year vendor allowances and the value of inventory are dependent upon estimates of full year merchandise purchases. Determining the amount of vendor allowances recorded as a reduction of inventory at the end of the fiscal year no longer requires the use of estimates as all vendor allowances, specific, incremental and identifiable advertising and promotional costs, merchandise purchases and value of inventory are known.

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Although management considers its advertising and marketing programs to be effective, we do not believe that we would be able to incur the same level of advertising expenditures if the vendors decreased or discontinued their allowances. In addition, management believes that the Company s revenues would be adversely affected if its vendors decreased or discontinued their allowances, but management is unable to quantify the impact.

Lease Accounting. The Company, similar to many other retailers, has revised its method of accounting for rent expense (and related deferred rent liability) and leasehold improvements funded by landlord incentives for allowances under operating leases (tenant improvement allowances) to conform to GAAP, as recently clarified by the Chief Accountant of the SEC in a February 7, 2005 letter to the American Institute of Certified Public Accountants. For all stores opened since the beginning of fiscal 2002, the Company had calculated straight-line rent expense using the initial lease term, but was generally depreciating leasehold improvements over the shorter of their estimated useful lives or the initial lease term plus the option periods. The Company corrected its calculation of straight-line rent expense to include the impact of escalating rents for periods in which it is reasonably assured of exercising lease options and to include in the lease term any period during which the Company is not obligated to pay rent while the store is being constructed (rent holiday). The Company also corrected its calculation of depreciation expense for leasehold improvements for those leases which do not include an option period. Because the effects of the correction were not material to any previous years, a non-cash, after-tax adjustment of $3.3 million was made in the fourth quarter of fiscal 2004 to correct the method of accounting for rent expense (and related deferred rent liability). Of the $3.3 million after-tax adjustment, $1.8 million pertained to the accounting for rent holidays, $1.4 million pertained to the calculation of straight-line rent expense to include the impact of escalating rents for periods in which the Company is reasonably assured of exercising lease options and $0.1 million pertained to the calculation of depreciation expense for leasehold improvements for the small portion of leases which do not include an option period. The aggregate effect of these corrections relating to prior years was $1.9 million ($0.9 million for fiscal 2003, $0.4 million for fiscal 2002 and $0.6 million for years prior to fiscal 2002). The correction does not affect historical or future cash flows or the timing of payments under related leases.

In addition, the Company has changed its classification of tenant improvement allowances on its balance sheets and statements of cash flows. Like many other retailers, the Company had historically classified tenant improvement allowances as reductions of property and equipment on the Company s balance sheets, as reductions in depreciation and amortization in the Company s statements of operations and as reductions in capital expenditures, an investing activity, on the Company s statements of cash flows. In order to comply with the provisions of FTB 88-1, however, the Company has reclassified tenant improvement allowances as deferred rent liabilities (in long-term liabilities) on the Company s balance sheets, as a reduction of rent expense (in selling, general and administrative expenses) in the statements of operations and as an operating activity on the statements of cash flows. The effect of this reclassification increased property and equipment and deferred rent and other long-term liabilities on the Company s balance sheets by $4.7 million as of January 29, 2005 and $3.3 million as of January 31, 2004, decreased selling, general and administrative expense and increased depreciation expense in the Company s statements of operations by $0.7 million, $0.5 million and $0.6 million in fiscal 2004, 2003 and 2002, respectively, and increased net cash flows provided by operating activities and increased net cash flows used in investing activities in the Company s statements of cash flows by $2.3 million, $1.5 million and $1.1 million in fiscal 2004, 2003 and 2002, respectively.

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Results of Operations

The following table sets forth certain income statement items as a percentage of sales for the periods indicated:

	Fiscal Year Ended January 29, 2005	Fiscal Year Ended January 31, 2004	Fiscal Year Ended February 1, 2003
Statement of Operations Data:			
Sales	100.0%	100.0%	100.0%
Cost of sales	72.4	72.6	74.8
Gross profit	27.6	27.4	25.2
Selling, general and administrative expenses	20.2	19.0	17.1
Depreciation and amortization	2.0	1.8	1.7
Operating earnings	5.4	6.6	6.4
Interest expense (income), net	0.0	0.0	(0.1)
Earnings before income taxes	5.4	6.6	6.5
Income tax expense	2.1	2.6	2.6
Net earnings	3.3%	4.0%	3.9%

The Company includes purchasing, receiving and distribution costs in selling, general and administrative expenses, rather than cost of goods sold, in the statement of operations. For the fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003 these purchasing, receiving and distribution costs amounted to $9.2 million, $9.5 million and $10.1 million, respectively. The Company includes processing fees associated with purchases made by check and credit cards in cost of sales, rather than selling, general and administrative expenses, in the statement of operations. For the fiscal years ended January 29, 2005, January 31, 2004 and February 1, 2003 these processing fees amounted to $12.0 million, $10.7 million and $10.7 million, respectively. As a result of these classifications, our gross margins are not comparable to those retailers that include purchasing, receiving and distribution costs in cost of sales and include processing fees associated with purchases made by check and credit cards in selling, general and administrative expenses. The net effect of the Company s classifications is that its cost of sales as a percentage of sales is higher than, and its selling, general and administrative expenses as a percentage of sales are lower than, they would have been had the Company s treatment conformed with those retailers that include purchasing, receiving and distribution costs in cost of sales and include processing fees associated with purchases made by check and credit cards in selling, general and administrative expenses, by 0.2% and 0.1% for the fiscal years ended January 29, 2005 and January 31, 2004, respectively. The effect of these classifications on the fiscal year ended February 1, 2003 was not material.

The following table sets forth sales (in millions) by significant product category for the periods indicated:

	Fiscal Year Ended January 29, 2005		Fiscal Year Ended January 31, 2004		Fiscal Year Ended February 1, 2003	
	Sales	Percent of Total	Sales	Percent of Total	Sales	Percent of Total

Reward performance that furthers our Company s mission to improve access to health and well-being services, simplify the health care experience, promote quality and make health care more affordable.

Reward performance that supports the Company s values by promoting a culture of integrity through compliance with laws and our own ethics policies, as well as commitment to community leadership and diversity.

Foster an entrepreneurial spirit that reflects innovative thinking and action, and effective and accountable management to maximize shareholder value.

Closely link compensation to individual performance, business unit performance and enterprise-wide performance by placing a substantial portion of pay at-risk through incentive compensation arrangements. The portion of at-risk incentive compensation increases as the executive s level of responsibility increases within our Company so that when exceptional performance warrants, total compensation earned by our executives should exceed amounts generally paid to individuals in comparable positions at other companies inside and outside of our industry.

Historical Structure of the Compensation Program

Consistent with the objectives outlined above, our compensation program has historically placed a greater emphasis on long-term, equity-based incentives as compared to fixed and short-term cash compensation and other elements of the program. The primary equity-based incentives have been

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stock options, and more recently stock-settled SARs[1]. Awards of equity-based compensation to executive officers have historically been significantly above the median at our peer group companies. This reflects the Company s belief that sustaining a strong entrepreneurial culture and aligning executive and shareholder economic interests are influenced by providing the opportunity for accumulating substantial levels of wealth if and to the extent shareholders enjoy substantial long-term stock price appreciation. In that regard, it is significant to note that, as shown in the following graph and table, over the 5-, 10- and 15-year periods ended December 31, 2006, our Company s compounded annualized total return to shareholders exceeded that of the S&P 500 Index by 18.7, 17.0 and 12.7 percentage points, respectively.

UnitedHealth Annualized Return v. S&P 500

The comparison assumes the investment of $100 on December 31, 1991 in Company stock and in the S&P 500 Index, and that dividends were reinvested when paid.

From 1999 until changes made in 2005 and 2006, Mr. Hemsley s compensation was largely dictated by the terms of his 1999 employment agreement. Among other things, that employment agreement specified Mr. Hemsley s minimum base salary and annual cash incentive target as a percentage of base salary, and provided that a supplemental executive retirement plan (SERP) would be established for him. The employment agreement also called for Mr. Hemsley to receive an annual stock option award or awards covering a specified minimum number of shares. Our Company s stock price performance significantly increased the value of option awards granted under his employment agreement in subsequent years to levels beyond those provided by most of our peer group companies. Assuming that

[1] A holder of stock-settled SARs has the right to receive an amount, in stock, equal to the appreciation in a specified number of shares of a company s stock over a period of time, but unlike stock options, no exercise price is payable.

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the return on the Company s common stock was equal to the return on the S&P 500 Index during the period that Mr. Hemsley s option grants were outstanding, the intrinsic value of those grants as of December 31, 2006 would have been approximately 85.5% less. During 2005 the Compensation Committee engaged outside counsel, who then engaged Hewitt to review and report on the Company s compensation practices with respect to Mr. Hemsley.

Against this background, the Compensation Committee, with the full support of Mr. Hemsley, amended Mr. Hemsley s employment agreement in August 2005 to eliminate fixed minimum annual option awards, which was of importance to the Compensation Committee in order to provide the Compensation Committee more flexibility to determine Mr. Hemsley s compensation on an annual basis, and to assist ongoing efforts to reduce the number of shares subject to annual option awards as a percentage of the Company s outstanding shares. The employment agreement was also amended to require that the Compensation Committee approve increases in Mr. Hemsley s salary, and to provide Mr. Hemsley with an immediate right to terminate his employment and receive severance in the event of the departure of Dr. McGuire. As discussed below, Mr. Hemsley entered into a new, differently-structured employment agreement upon becoming CEO.

Each of our other executive officers, including the named executive officers, also has an employment agreement, but none of these agreements provides for fixed minimum annual equity awards, perquisites or the provision of supplemental retirement benefits. In general, the Compensation Committee believes that it is advantageous to both our Company and the executives involved to have the terms and conditions of their employment arrangements, and the terms and conditions upon which those arrangements could be ended, clearly defined. Specifically, the Compensation Committee desired to specify and obtain non-competition, non-solicitation and non-disclosure commitments from executive officers in exchange for specified severance arrangements.

2006 Compensation Initiatives

During 2006, the Compensation Committee and its outside advisors reexamined the structure of the executive compensation program generally. Actions taken during 2006 by our Board of Directors and Compensation Committee as a result of this review included the following:

Equity-Award Initiatives

Created and approved an internal policy to specifically address equity award approval requirements, award levels, award terms, setting of grant dates and authority to modify existing awards, including the following:

- Require that the Compensation Committee make all grants of equity awards to employees in its sole discretion. Management has no authority to grant equity awards.
- Require that the Compensation Committee make grants of equity awards in connection with commencement of employment or the promotion or retention of existing employees only at its regularly scheduled quarterly meetings.
- Require that the Compensation Committee consider all broad-based grants of equity awards to employees only on an annual basis at its meeting held in connection with the Company s Annual Meeting of Shareholders.
- Provide that, in the event that the Compensation Committee determines not to make equity awards on the dates set forth above because the Company is in possession of material

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non-public information on that date, the Compensation Committee may grant such equity awards on a later date, when the Company is no longer in possession of material non-public information, which need not be at a regularly scheduled Compensation Committee meeting.

- Require that the date of grant of an equity award be the date on which the Compensation Committee acts to authorize the equity award, the recipients are clearly identified, and each recipient s equity award amount is final. In addition, each recipient s equity award must be promptly communicated to the recipient.

Reviewed and substantially revised the controls related to our equity award grant, exercise, modification and administration processes and, as of December 31, 2006, remediated the material weakness in internal control relating to stock option plan administration and accounting for and disclosure of stock option grants that, as a result of the independent review, we determined existed as of December 31, 2005.

Engaged an outside professional services firm to conduct regular testing of controls relating to equity award initiation and modification, equity award approval, equity award administration and equity award exercise administration processes and report the results of its review to the Compensation Committee on a quarterly basis.

Received written agreements, in light of the conclusions of the WilmerHale Report, from certain current and former senior executives to reset the exercise prices of all of their exercised and unexercised options with stated grant dates between 1994 and 2002 to ensure that there is no potential for financial gain (or financial loss to the Company) from the incorrect dating of any option.

- For Mr. Hemsley, the exercise prices of all options with stated grant dates between 1997, when he commenced employment at the Company, and 2002 have been reset to the highest closing share price during the stated grant year for each particular option. The exercise prices of certain post-2002 vested options have been increased to account for the value attributable to any options with stated grant dates between 1997 and 2002 that had been previously exercised.

- For an additional group of senior executives, including Ms. Quam and Messrs. Wichmann and Erlandson, the exercise prices of all options with stated grant dates between 1994 and 2002 have been reset to the closing price of the Company s common stock on the accounting measurement date for each grant. The exercise prices of certain post-2002 vested options have been increased to account for the value attributable to any options with stated grant dates between 1994 and 2002 that had been previously exercised.

See the 2006 Grants of Plan-Based Awards table below for additional details regarding these option repricing arrangements.

Considered total realized and unrealized gains from previous equity awards when determining annual grants of equity awards.

Severance and Benefits Reductions

Eliminated enhanced cash severance payments previously payable in connection with change-in-control transactions for all executive officers so that the cash severance amounts will not increase as a result of a change-in-control transaction.

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- Capped SERP benefits for Mr. Hemsley at the amount vested and accrued as of May 1, 2006.

- Eliminated Company-subsidized post-retirement health insurance for Mr. Hemsley.

- Eliminated personal use of corporate aircraft and tax gross-ups previously provided to certain executives in connection with their use of corporate aircraft.

- Eliminated perquisites previously provided to Mr. Hemsley other than benefits generally available to all employees and executive officers.

- Eliminated all tax gross-ups, including gross-up for change-in-control excise taxes, previously provided to our executive officers.

Guidelines and Policies

- Adopted share ownership guidelines for officers and directors. The guidelines are described in greater detail in Stock Ownership Guidelines; Hedging Transactions below.

- Considered and discussed adoption of a clawback policy in 2006 and subsequently adopted the policy in January 2007. The clawback policy is described in greater detail in Clawback Policy below.

New Employment Agreements

We entered into a new employment agreement in November 2006 with Mr. Hemsley to serve as President and CEO. Under the terms of the new four-year employment agreement, Mr. Hemsley is only assured of receiving his base salary each year. The agreement does not set any minimum or target level for any bonus or other incentive compensation for Mr. Hemsley. All awards of bonus and incentive compensation are solely at the discretion of the Compensation Committee. The new employment agreement also eliminated perquisites previously provided to the CEO other than benefits generally available to all employees and executive officers. Mr. Hemsley s employment agreement is described in greater detail on page .

On January 31, 2007, we entered into a new employment agreement with Mr. Mikan to serve as Executive Vice President and Chief Financial Officer of the Company. The terms of this agreement are effective retroactive to November 7, 2006 and are described in greater detail on page .

On April 17, 2007, we entered into new employment agreements with each of Messrs. Anderson and Wichmann. The terms of these agreements are effective retroactive to December 1, 2006 and are described in greater detail on page .

Elements of the Compensation Program

The elements of our executive compensation program are base salary, annual cash incentive awards, long-term cash incentive awards, long-term equity awards, standard benefits and post-employment compensation (in the event of a triggering event under the applicable employment agreement). In considering and determining the amount, the form, and the balance among the elements, the Company considered the following guidelines in 2006:

- Combined base pay and annual cash incentive targets will generally be positioned at or slightly above the median at peer group companies. Because annual cash incentive payments are specifically tied to earnings performance, exceptional performance for our shareholders will result in incentive payments that are above targeted levels.

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Long-term incentives consisting of cash and equity will result in a targeted total compensation opportunity that is above the median at peer group companies in order to further promote a performance-based culture in stronger alignment with shareholders.

The differential between the cash compensation of the CEO and the other most senior officers of the Company should be reduced.

Stock-settled SARs are now our preferred, but not exclusive, form of equity compensation because they closely align our executives interests with those of our shareholders.

Traditional employee benefits remain at the lower range of our peer group companies for senior executives.

Perquisites will be provided sparingly, if at all.

The Compensation Committee believes that the substantial majority of the total compensation opportunity of executive officers should be at-risk and payable only in the event of performance by executives that benefits the Company s shareholders and other constituents. In 2006, annual and long-term cash incentive opportunities and equity-based compensation constituted approximately 80% of the total compensation opportunity of our executive officers.

Base Salary

Base salary is provided to recognize individual performance and competence. The base salary level for each senior executive, including the named executive officers, is determined by reference to market comparisons, internal comparability with salaries of other executives, and the executive s level of responsibility, experience and knowledge. Base salary decreases as a percentage of total compensation as an executive s responsibilities increase. The employment agreements entered into with our current named executive officers generally reflect base salary levels that approximate the median level at our peer group companies.

The Compensation Committee approves base salary for the CEO (and did so for the COO when Mr. Hemsley served in that capacity) and approves base salaries for the other executive officers after considering recommendations made by the CEO.

Annual Cash Incentive Awards

The Compensation Committee makes annual cash incentive awards to executive officers, including the named executive officers, under our shareholder-approved Executive Incentive Plan. Annual cash bonuses are paid if and to the extent our Company meets the financial performance goals approved by the Compensation Committee for that year. The amount of annual cash bonuses is determined by means of an annual incentive target percentage that is approved by the Compensation Committee at the beginning of each year. This element is included in the executive compensation program because it focuses the leadership of our Company on achieving annual financial goals that are indicative of improved year-over-year performance, constitutes at-risk compensation payable only if the goals are achieved, and represents common market practice.

The Executive Incentive Plan specifies that the performance goal to be satisfied each year shall be expressed in terms of our earnings per share (EPS), reflecting the Compensation Committee s belief

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that growth in EPS closely correlates to growth in shareholder value and is the gating factor that must be met before any annual cash incentive award is payable. As discussed in greater detail below, the Compensation Committee uses other performance metrics to determine the actual annual cash incentive amounts payable to our executive officers.

At the beginning of each year, management recommends, and the Compensation Committee approves, an initial EPS goal that must be achieved before any bonus amount is paid to a named executive officer, and a second EPS goal that must be achieved for a bonus of up to the maximum amount to be payable. For EPS performance between the two EPS goals, a bonus of up to the individual target amount may be paid. For EPS performance above the second EPS goal, an award of up to the maximum annual cash incentive target amount is payable. In recent years, the Compensation Committee has approved the second EPS goal at an amount equal to the EPS guidance our Company provides to investors at the beginning of the year, and an initial EPS goal at 90% of the second EPS goal.

Although the Executive Incentive Plan permits a theoretical maximum individual annual cash incentive payout equal to 1% of our Company s net earnings (as defined in the plan), the Compensation Committee has generally used its discretion to limit the maximum bonus amount for each executive officer to 200% of his or her target bonus amount. The Compensation Committee routinely, exercises discretion to reduce (but not increase) the amount of any annual incentive otherwise payable under the terms of the Executive Incentive Plan. In exercising this discretion for executive officers, the Compensation Committee typically considers a variety of factors, including financial metrics such as revenue growth or operating income at either enterprise-wide or business unit levels, return on assets employed, progress against strategic initiatives, individual performance measures and, for executive officers other than the CEO, the CEO s recommendations. The Compensation Committee does not assign specific weightings to these factors. The discretionary adjustments allow the Compensation Committee to factor individual performance into its annual cash incentive payout decisions and thereby reward individual performance that furthers our Company s stated mission.

Long-Term Cash Incentive Awards

The Compensation Committee makes long-term cash incentive awards to a select group of senior executives, including the named executive officers. These awards are also made under the Executive Incentive Plan. Only those senior executives designated by the Compensation Committee whose positions and responsibilities enable them to have the greatest impact on the long-term performance of our Company are eligible for these long-term cash incentive awards. We include a long-term cash incentive component in the executive compensation program because it directly links the compensation of the senior leadership of our Company with long-term Company financial performance, motivates the most senior executives to sustain superior levels of performance, and constitutes additional at-risk compensation payable only if the specified goals are achieved.

The Executive Incentive Plan specifies that the performance goal or goals to be satisfied during any multi-year performance period shall be expressed in terms of one or more financial measures such as revenue growth, return on equity, operating cash flows, EPS and operating margin, each of which may be expressed either as an absolute standard or a comparative measure with respect to other companies, and applied at enterprise-wide or business unit levels. For these purposes, the Compensation Committee has elected to use a three-year performance period and a financial measure of total Company EPS over each three-year period.

This plan provides that the Compensation Committee shall adjust the Company s reported EPS for the impact of changes in accounting principles, extraordinary items and unusual or non-recurring losses.

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Since the adoption of the plan in 2002, such an adjustment has only occurred once, in connection with the Company s adoption in 2006 of Statement of Financial Accounting Standards No. 123 (revised 2004), Share-Based Payment (FAS 123R), to provide comparability over the periods.

At the beginning of each year, upon recommendation by management, the Compensation Committee approves the participants for the upcoming performance period and an EPS goal that must be achieved before any long-term cash incentive amount is paid. For the 2004-2006 performance period (incentives paid in 2007), in addition to approving an initial EPS goal that had to be achieved before any long-term cash incentive amount could be paid, the Compensation Committee also approved a second EPS goal that had to be achieved for the maximum long-term cash incentive amount to be payable. For EPS performance between the two EPS goals, an award of up to the target long-term cash incentive amount could be paid. For EPS performance above the second EPS goal, an award of generally up to 200% of the executive s long-term cash incentive target amount could be paid.

The Compensation Committee s practice has been to set the long-term cash incentive target for each participating executive at 50% of that individual s average base compensation over the three-year performance period. Although the Executive Incentive Plan permits a maximum individual long-term cash incentive payout in any given year equal to the lesser of 300% of a participant s average base compensation or $10,000,000, the Compensation Committee s practice generally has been to limit the maximum long-term individual incentive amount payable to 200% of the long-term cash incentive target amount payable. The Compensation Committee may also exercise discretion to reduce, but not increase, the amount of any long-term cash incentive amount otherwise payable under the terms of the Executive Incentive Plan. The Compensation Committee typically exercises this discretion in the same manner as described above under Annual Cash Incentive Awards.

Long-Term Equity Awards

All outstanding equity-based compensation awards to employees (other than equity awards assumed in connection with certain acquisitions) have been awarded under one of three equity-based compensation plans, the most recent of which, the 2002 Stock Incentive Plan, is the source of current awards. As compared to peer group companies, we have historically ascribed a significantly higher portion of the total compensation opportunity of our executives to equity-based compensation. By doing so, we provide to our executives a direct and substantial interest in the long-term performance of our Company s stock, which we believe establishes the strongest and most direct alignment between the interests of our executives and our shareholders. We also believe that our emphasis on equity-based compensation has contributed to an entrepreneurial Company culture that has served our shareholders well in a highly competitive and rapidly evolving industry. We believe that the forms of equity-based compensation we have emphasized, stock options and stock-settled SARs, when combined with our stock ownership guidelines, align our executives interest with those of our shareholders. First, stock options and SARs deliver value to an executive only to the extent that our stock price increases after the date of grant. Then, our stock ownership guidelines serve to motivate our executives to maintain that value and further the long-term return to shareholders.

With the elimination at the beginning of 2006 of favorable accounting treatment that had been accorded to stock options, we have begun to favor stock-settled SARs over stock options because a SAR that is comparable in value to a stock option will ultimately result in a smaller number of shares being issued under our equity-based compensation plans. In addition to stock options and SARs, we have occasionally made awards of restricted stock, but typically only in situations where we are hiring

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an executive who is forfeiting significant amounts of equity-based incentives as a result of leaving his or her former employer. We favor the use of stock options or SARs over time-vested restricted stock because of their pay for performance features.

We generally grant stock options and SARs with a term of 10 years with typically 25% of the covered shares vesting and becoming exercisable on each of the first four anniversaries of the date of grant. The Compensation Committee believes the four-year vesting terms together with grants made in successive years helps create a long-term incentive and strikes an appropriate balance between the interests of the Company, our shareholders and the individual employee in terms of the incentive, value creation and compensatory aspects of these equity awards.

Employment Benefits

Subject to the exceptions discussed below, our executive officers receive the same welfare and retirement benefits that are generally made available to our employees. Consistent with our philosophy that the substantial majority of compensation should be performance-based, benefits provided have been limited and are below the median level of benefits provided at peer group companies. These benefits include a 401(k) retirement plan, an employee stock purchase plan, short- and long-term disability plans, term life insurance coverage, dental coverage and a health insurance plan. Our executive officers are required to pay higher premiums for their health insurance so that premiums will be more affordable for lesser paid employees. These benefits are provided to be competitive in the marketplace and are consistent with the philosophy of our broad-based benefit program.

In addition to the Company s generally available benefits, commencing in 2007, the Company also provides each current named executive officer other than Mr. Hemsley and Ms. Quam a $2 million face value term life insurance policy and a long-term disability policy which covers 60% of his or her base salary in the event of a qualifying long-term disability, subject to the terms of the policy.

Executive officers may also participate in our Executive Savings Plan, which is a non-qualified, unfunded deferred compensation plan that permits an executive to defer receipt of up to 80% (100% prior to 2007) of his or her base salary and up to 100% of his or her annual and/or long-term cash incentives. This plan enables executives whose contributions to the Company s 401(k) Plan are limited under applicable tax law to save additional amounts on a tax-deferred basis. We provide this plan to be consistent with competitive market practices. In addition, consistent with market practice, we provide a matching credit of up to 50% of amounts deferred at the time of each deferral, but this matching credit applies only to the first 6% of the executive s base salary and annual cash incentive awards deferrals, and does not apply to deferrals of long-term performance awards or other special incentive awards. See the 2006 Nonqualified Deferred Compensation table below for additional information regarding contributions, earnings and distributions for each named executive officer under the Executive Savings Plan.

During 2006, we terminated a self-insured executive catastrophic medical plan available to senior executives under which no benefits had ever been paid to any executive officer.

Perquisites

We do not provide perquisites such as security services, private jet services, financial planning services, club memberships, apartments, vacation homes, automobiles or drivers for personal travel to our executive officers. We had historically reimbursed executives for financial planning expenses, but

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eliminated that perquisite at the end of 2006. In October 2006, our Board adopted a corporate aircraft use policy which was amended in April 2007 to prohibit personal use of corporate aircraft by any executive. As a result of these changes, we have essentially eliminated most of the traditional corporate perquisites that are common in the market for senior executives at large public companies.

Post-Employment Payments and Benefits

The employment agreements with our current named executive officers provide for severance payments in connection with their termination of employment under various circumstances, typically termination by the Company without cause or in some cases by the executive for a good reason. Accordingly, our current named executive officers are not entitled to any cash payments upon a change in control of the Company, unless the change in control also results in termination of employment by the Company without cause or by the executive officer for a good reason. As discussed elsewhere in this Compensation Discussion and Analysis, during 2006, we made a number of changes in our policies applicable to post-employment payments and benefits, including the elimination of enhanced cash severance payments that were previously payable upon termination by the Company without cause or in some cases by the executive for good reason in connection with a change in control of the Company and elimination of excise tax gross up payments payable in connection with a change in control. We also reduced the amount and circumstances under which severance payments and benefits would be provided to Mr. Hemsley under his CEO employment agreement.

In April 2004, Mr. Hemsley and the Company entered into a supplemental executive retirement pay (SERP) agreement that provides him a lump sum payment upon his retirement. Although the provision and amount of this SERP benefit to Mr. Hemsley were consistent with comparable arrangements of senior executives of peer group companies, in light of the value conferred to Mr. Hemsley from previously granted stock options, the Company and Mr. Hemsley agreed, pursuant to the terms of his November 7, 2006 CEO employment agreement, to cap the amount of the SERP lump sum payment at $10.7 million, the amount vested and accrued as of May 1, 2006. Although common in the market for senior executives, our other current named executive officers do not have SERP benefits and, with the exception of pre-existing supplemental executive retirement plan obligations that we may assume as a result of acquisitions, we do not provide such benefits.

Our stock option, SAR and other equity-based incentive award agreements typically provide that the awards will become fully vested and exercisable if the executive s employment ends due to death or disability, or if a change in control of the Company occurs. We adopted acceleration of the vesting of equity awards upon a change in control in 1994 to offer our executives greater protection in the context of a corporate restructuring. Our equity-award agreements also generally provide for continued vesting and exercisability during any period in which an executive receives severance and for continued exercisability of an award for a limited period of time after termination of employment for other reasons. In addition, certain equity awards granted from 2002 to 2005 also provide for continued vesting and exercisability for up to five years after retirement.

The circumstances under which severance and other post-employment payments and benefits will be made or provided and the amount of such payments and benefits are described in greater detail under Potential Payments Upon Termination or Change-in-Control below. We have provided these post-employment payments and benefits and severance payment triggers because they have enabled us to obtain specific post-employment non-competition, non-solicitation and non-disclosure obligations that we believe are of value to the Company and our shareholders.

Equity Award Historical Practices and New Policy

In early 2006, our Board of Directors initiated an independent review of the Company s stock option practices from 1994 to 2005. The independent review was conducted by the Independent Committee with the assistance of outside counsel, WilmerHale, and independent accounting advisors. On October 15, 2006, WilmerHale completed its review and concluded, among other things, that many of the stock option grants it reviewed were likely backdated, that a 1999 supplemental grant of stock options was not accounted for correctly in the Company s financial statements and that the Company s controls with respect to stock option grants were inadequate. For additional information concerning the Company s historic stock option practices, please refer to the complete text of the WilmerHale Report, a copy of which is available on the Company s website, www.unitedhealthgroup.com, and is included as an exhibit to the Company s Current Report on Form 8-K filed with the SEC on October 16, 2006. In light of the conclusions of the WilmerHale Report, we restated our historical financial statements as reflected in the 2006 Annual Report on Form 10-K that accompanies this proxy statement. In addition, certain former and current senior executives of the Company executed written agreements to reset the exercise prices of all of their exercised and unexercised options with stated grant dates between 1994 and 2002 to ensure that there is no potential for financial gain from the incorrect dating of any option. See 2006 Compensation Initiatives Equity Award Initiatives above for a description of these option repricing arrangements.

In June 2006, the Compensation Committee adopted an internal policy regarding equity awards to facilitate the establishment of appropriate processes, procedures and controls in connection with the administration of equity-based incentive plans. The policy requires that all grants of equity awards be made in the sole discretion of the Compensation Committee, and establishes set times when the Compensation Committee may consider granting equity awards. No authority to grant equity awards is delegated to management. As a result, there is no relationship between the timing of the award of equity grants and our release of material information. See 2006 Compensation Initiatives-Equity Award Initiatives for a description of the policy.

In addition to the terms specified in our equity award policy, our 2002 Stock Incentive Plan provides that the exercise price of a stock option or SAR award is not to be less than 100% of the fair market value of a share of our common stock on the date the award is granted. The plan also provides that for these purposes, the fair market value of a share of our common stock on a particular date is the closing price of a share on the NYSE on that date.

Since 2002, the Company has decreased the aggregate number of equity awards made on an annual basis as a percentage of shares outstanding at year end. The aggregate equity awards made in 2006 did not exceed 2% of the Company s shares outstanding at the end of 2006.

Stock Ownership Guidelines; Hedging Transactions

The Compensation Committee believes that an important corollary of an equity-based incentive program is significant stock ownership by senior executives. Significant stock ownership by senior executives further aligns management s interests with those of long-term shareholders because it helps motivate executives to maintain and further the long-term return to shareholders. Consistent with this view, in April 2006, the Board of Directors adopted stock ownership guidelines requiring that each

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executive officer beneficially own within three years of the adoption of the policy or his or her election or appointment as an executive officer for the first time, whichever is later, a number of shares of the Company s common stock with a fair market value equal to or in excess of a specified multiple of the individual s base salary, as follows:

- For the CEO, five times base salary; and
- For other executive officers, two times base salary.

Stock options and SARs do not count toward satisfaction of the ownership requirements, regardless of their vesting status. The Compensation Committee will review compliance with this requirement on an annual basis. As of the date of this proxy statement, Mr. Anderson meets the ownership requirements. Mr. Hemsley intends to meet the ownership requirements by the date of the annual meeting and the Compensation Committee believes that all other executive officers are making satisfactory progress towards meeting the ownership requirements.

In general, uncovered short sales of shares of our common stock by our executive officers are prohibited by SEC rules. Accordingly, under our insider trading policy, we prohibit short sales of shares of our common stock by our executive officers and discourage all employees, including our named executive officers, from engaging in any hedging transactions relating to our common stock. The policy also requires all employees to consult with our Office of the General Counsel if they intend to engage in any hedging transactions. No executive officer consulted with the Office of the General Counsel regarding hedging transactions in 2006.

Clawback Policy

The Board of Directors, acting upon the recommendation of the Compensation Committee, adopted a clawback policy in 2007 with the following key provisions:

Material Restatements

- The clawback policy applies to a defined list of approximately 30 members of senior management, including all executive officers, and applies to both incentive cash and equity compensation.
- Annual or long-term cash incentives: Any designated executive must repay the Company the entire amount of his or her annual or long-term cash incentive payment if the Board determines that he or she has engaged in fraud or misconduct that caused, in whole or in part, a material restatement of the Company s financial statements and the executive would have received a lower annual or long-term cash incentive payment if it had been based on the restated financial results.
- Equity compensation: If it is determined that a designated executive has engaged in fraud that causes, in whole or in part, a material restatement of the Company s financial statements, the Company will cancel his or her then-outstanding vested and unvested options/SARs or other unvested equity awards subject to the clawback policy, and the executive must return to the Company all gains from equity awards realized during the twelve-month period following the filing of the incorrect financial statements.

Violation of Noncompetition Covenants

- The clawback policy with respect to violations of noncompetition covenants, applies to a broader group of executives, and applies only to equity compensation.

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The policy requires cancellation of unvested options/SARs or other unvested equity awards and forfeiture of all equity awards which vested within one year prior to termination of employment or anytime thereafter if the employee violates a restrictive covenant.

Benchmarking of Executive Compensation

The Company s outside compensation consultant, Hewitt, regularly provides to management information regarding executive compensation practices within our Company s industry and among other companies of varying size. This generally has included information pertaining to the compensation practices of the companies named below. The Company also considers competitive third-party survey data of comparably sized companies in general industry. Management from time to time provides this information to the Compensation Committee. Benchmarking of executive compensation in this manner informs and influences both the compensation recommendations made by management to the Compensation Committee and the Compensation Committee s decisions regarding compensation, but does not replace the Compensation Committee s responsibility to determine the appropriate compensation levels for our executive officers. For purposes of executive compensation benchmarking, our executive officers are matched to benchmarks on the basis of job functions and responsibilities. Market compensation data is derived from these market matches, and statistical reference points (such as median and 75th percentile) are calculated for total compensation and for separate elements of the compensation program.

Since 2003, in addition to survey data, we have most commonly used a group of 30 companies for compensation benchmarking. This group of companies was originally selected and is modified from time to time by management after consultation with Hewitt, on the basis of annual revenue, cash flow return on average equity, and total shareholder return over three- and five-year periods. The intent of the Compensation Committee and our management is to generate and maintain a group of companies representing multiple industries and having generally strong financial performance and median revenue similar to, or smaller than, that of our Company and to supplement the information regarding these companies by survey data. This approach reflects the view that our Company competes for senior executive talent with successful companies across industry boundaries. The named companies used for benchmarking during 2006 are set forth below. When referring to peer group companies elsewhere in this Compensation Discussion and Analysis, we mean these named companies as well as the information included in the survey data.

3M Company	CIGNA Corporation	Pfizer Inc.
Abbott Laboratories	Coca-Cola Company	Procter & Gamble Company
Aetna, Inc.	ConAgra Foods Inc.	Sara Lee Corporation
American Express Company	Countrywide Financial Corp.	Target Corporation
Anheuser-Busch Companies, Inc.	Dell Inc.	United Technologies Corp.
AT&T, Inc.	FedEx Corporation	Verizon Communications Inc.
Bellsouth Corporation[2]	International Business Machines Corp.	Walgreen Company
Best Buy Company, Inc.	Johnson & Johnson	WellPoint Inc.
Bristol-Myers Squibb Company	Johnson Controls Inc.	Wells Fargo & Company
Caterpillar Inc.	PepsiCo Inc.	Wyeth

[2] Bellsouth became a wholly owned subsidiary of AT&T, Inc. on December 29, 2006.

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Accounting and Tax Considerations

Under Section 162(m) of the Internal Revenue Code, annual compensation in excess of $1 million to each of a company s CEO and four other most highly compensated executive officers that is not paid pursuant to a plan approved by shareholders and does not satisfy the performance-based exception of Section 162(m) is not deductible as a compensation expense for federal income tax purposes. Because qualifying performance-based compensation is not subject to the $1 million limit if certain requirements are met, we have sought to structure most at-risk elements of our executive compensation program so as to qualify those elements as performance-based compensation. Specifically, the Executive Incentive Plan has been structured so as to qualify both annual and long-term cash incentive compensation as performance-based. Stock options and SARs have been preferred as equity compensation vehicles in part because they typically qualify as performance-based compensation. However, stock options granted under the Company s 1998 Broad-Based Stock Incentive Plan and exercised by named executive officers do not qualify as performance-based compensation. The Company has not granted any equity awards under the 1998 plan since April 2002. Future exercises of stock options which have been determined to have an exercise price that was less than the closing price of our common stock on the accounting measurement date as a result of the review of our historic stock option practices by our named executive officers may not qualify as performance-based compensation under Section 162(m).

Compensation Actions Involving Named Executive Officers

The Compensation Committee typically considers the annual and long-term cash incentives for the prior year as well as base salaries for the named executive officers at its first regularly scheduled meeting each year. Under our equity award policy, the Compensation Committee will consider broad- based equity awards only at its regular meeting held in connection with the Company s annual meeting of shareholders. Compensation actions affecting the 2006 compensation of our named executive officers are discussed below. The Compensation Committee reviewed and considered tally sheets for each executive officer which set forth the executive s total compensation, including the value of equity awards previously granted to that officer when making compensation decisions.

2006 Financial and Operational Performance

Overall, the Company achieved strong financial and operational results in 2006. The Company s revenues for 2006 were $71.5 billion, an increase of 54% over 2005, net earnings for 2006 were $4.2 billion, an increase of 35% over 2005, and earnings from operations were approximately $7.0 billion in 2006, an increase of 37% over 2005. The Company s operational results were similarly strong with medical benefit membership increasing by more than 1.5 million people. The aggregate number of physicians and other care providers within our national network increased to 520,000 in 2006 from 500,000 in 2005 and the aggregate number of hospitals across the United States within our network increased to 4,700 hospitals in 2006 from 4,600 hospitals in 2005. In addition, the Company successfully launched its Medicare Part D business with enrollment of 5.7 million seniors, 4.5 million of whom were in stand-alone offerings. The Company also made substantial progress in merger integrations, including rebuilding and accelerating the integration of our Definity consumer-directed offerings and the integration of the PacifiCare business acquired in December 2005.

Performance Goals

As described in Annual Cash Incentive Awards and Long-Term Cash Incentive Awards above, the performance goals to be satisfied for annual and long-term cash incentive awards are expressed in terms of

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two EPS goals for one-year and three-year performance periods. In January 2006, the Compensation Committee set the second EPS goal for annual cash incentive awards for performance in 2006 (paid in 2007) at an amount equal to $2.90, the EPS guidance we provided to investors at the beginning of 2006, and set the initial EPS goal at an amount equal to $2.61, which was 90% of the second goal. In January 2004, the Compensation Committee set the second EPS goal for the 2004-2006 performance period for long-term cash incentive awards (paid in 2007) at an amount equal to $6.13, which was the sum of the EPS guidance we provided to investors for the first year of the performance period and EPS figures for the second and third years of the performance period that represented target annual EPS growth of 15%, and set the initial EPS goal at $5.52, which was 90% of the second EPS goal.

Actual EPS for 2006 was $2.97 and, after giving effect to the restatement of our historical financial statements, actual EPS for the 2004-2006 performance period was $7.11. As a result, we exceeded the second goals for both the annual and long-term cash incentive awards.

Compensation of Named Executive Officers

Stephen J. Hemsley

In January 2006, the Compensation Committee approved a stock option award to Mr. Hemsley to purchase 200,000 shares of common stock of the Company. The award was made in recognition of the Company s performance in 2005, including the successful completion of the PacifiCare acquisition, the successful launch of the Company s Medicare Part D prescription drug program, and other operational factors.

In 2006 and 2007, the independent members of the Board and the Compensation Committee, with the full cooperation of Mr. Hemsley, made a number of changes related to Mr. Hemsley s compensation. As noted earlier, under the terms of his new four-year employment agreement, Mr. Hemsley will only be assured of receiving his base salary each year. The agreement does not set any minimum or target level for any bonus or other incentive compensation for Mr. Hemsley. Any salary increases, annual and long-term cash incentive awards, and equity awards are solely at the discretion of the Compensation Committee. In May 2006, in light of the value of equity awards previously granted to Mr. Hemsley, the Compensation Committee discontinued granting equity-based awards to Mr. Hemsley. The new employment agreement also eliminated perquisites previously provided to Mr. Hemsley other than benefits generally available to all employees and executive officers. Specifically, under Mr. Hemsley s employment agreement, we will no longer pay the premiums for supplemental term life insurance and long-term disability polices that had been made available to Mr. Hemsley, will no longer provide an expense allowance to him, and will no longer provide enhanced severance benefits in connection with a change in control of the Company. Mr. Hemsley s employment agreement is described in greater detail on page .

Mr. Hemsley s agreement for supplemental executive retirement pay was also amended to freeze the lump sum SERP benefit at $10.7 million, the amount vested and accrued as of May 1, 2006. See the 2006 Pension Benefits table below for additional information regarding Mr. Hemsley s pension benefits.

In his capacity as President and COO, Mr. Hemsley did not receive an increase in his annual base salary, maintaining the same $1,000,000 salary in effect since 2003. In connection with his promotion to CEO in November 2006 and his increased responsibilities, his base salary was set at $1,300,000, which, in accordance with benchmarking data, approximated the median for CEOs at peer group companies.

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Mr. Hemsley s annual cash incentive for 2006 (paid in 2007) was $1.875 million, reflecting an annual cash incentive target of 125% of his base salary as of September 30, 2006 and a payout of 150% of the target amount. His long-term cash incentive for the 2004-2006 performance period (also paid in 2007) was $1 million, reflecting a long-term cash incentive target of 50% of his average base salary during the 2004-2006 performance period and a payout of 196% of the target payout. The Compensation Committee considered a number of factors in determining Mr. Hemsley s annual and long-term cash incentive awards, including the following:

The strong operational and financial performance of the Company in 2006.

Mr. Hemsley s increased responsibilities as CEO of the Company.

An analysis and comparison of the internal pay equity of Mr. Hemsley s cash incentive compensation to cash incentive compensation awarded to other executive officers and certain of the other most senior managers at the Company. The Compensation Committee believes an internal pay equity analysis is appropriate because the senior leadership team including the CEO is the management team most responsible for the Company s financial results.

The cash incentive payouts made to Mr. Hemsley for 2006 represented a decrease from the payouts for 2005 when he served as President and COO, and a substantial decrease from the 2005 payouts to our former CEO. The Compensation Committee noted that this action was consistent with its intent to reduce the differential between the cash compensation of the CEO and certain of the other most senior officers of the Company.

The view of outside compensation consultant Semler Brossy that the payouts were reasonable within a competitive context.

The Compensation Committee did not make specific assessments of, quantify or otherwise assign relative weights to the factors considered in reaching its decision.

In light of the conclusions of the WilmerHale report, the Company received a written agreement dated November 6, 2006 from Mr. Hemsley to reset the exercise prices of all options with stated grant dates between 1997 and 2002 to the highest closing share price during the stated grant year for each particular option.

See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Mr. Hemsley s 2006 total compensation.

George L. Mikan III

In April 2006, in connection with his promotion to Senior Vice President of Finance and his increased responsibilities, Mr. Mikan s base salary was set at $435,000.

In January 2007, we entered into a new employment agreement with Mr. Mikan to serve as Executive Vice President and CFO of the Company. The terms of this agreement were made retroactive to November 7, 2006 when he assumed these functions. In connection with his promotion and his increased responsibilities, Mr. Mikan s base salary was set at $650,000 which, in accordance with benchmarking data, approximated the median for CFOs at peer group companies.

Mr. Mikan s annual cash incentive for 2006 (paid in 2007) was $652,000, reflecting an annual cash incentive target of 60% of his base salary as of September 30, 2006 and a payout of 250% of the target amount. This 250% payout exceeds the 200% of target limit that the Compensation Committee

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generally follows. His long-term cash incentive for the 2004-2006 performance period (also paid in 2007) was $96,000, reflecting a pro rata long-term cash incentive target of 50% of his average base salary during the 2004-2006 performance period and a payout of 199% of the target payout.

The Compensation Committee considered a number of factors in determining Mr. Mikan s 2006 annual and long-term cash incentive awards, including the strong overall Company performance from both a financial and operational perspective, achievement of the second EPS goals for both the annual and long-term cash incentive awards set by the Compensation Committee, Mr. Mikan s increased responsibilities as Executive Vice President and CFO of the Company, the leadership role that Mr. Mikan played with respect to the restatement of the Company s historical financial statements arising from the Company s historic stock option practices and the remediation as of December 31, 2006 of the Company s material weakness in internal control over financial reporting relating to stock option plan administration and accounting for and disclosure of stock option grants, and Mr. Mikan s overall contributions to the Company in 2006, and market competitiveness.

In May 2006, in connection with its annual grant of broad-based equity awards to Company employees, the Compensation Committee, after considering recommendations made by management, approved a stock-settled SAR award to Mr. Mikan with respect to 125,000 shares of common stock of the Company.

See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Mr. Mikan s 2006 total compensation.

Richard H. Anderson

Mr. Anderson s annual cash incentive for 2006 (paid in 2007) was $800,000, reflecting an annual cash incentive target of 100% of his base salary as of September 30, 2006 and a payout of 133% of the target amount. His long-term cash incentive for the 2004-2006 performance period (also paid in 2007) was $430,000, reflecting a pro rata long-term cash incentive target of 50% of his average base salary during the 2004-2006 performance period and a payout of 200% of the target payout.

The Compensation Committee considered a number of factors in determining Mr. Anderson s 2006 annual and long-term cash incentive awards, including the strong overall Company performance from a financial and operational perspective, achievement of the second EPS goals for both the annual and long- term cash incentive awards set by the Compensation Committee, the strong 2006 financial and operational performance by Ingenix, where Mr. Anderson served as CEO until his promotion in December 2006, the leadership role that Mr. Anderson played in resolving issues related to the Company s historic stock option practices, Mr. Anderson s increased enterprise-wide and functional responsibilities as Executive Vice President of the Company and President of the Commercial Services Group, Mr. Anderson s overall contributions to the Company in 2006, and market competitiveness.

In light of the additional responsibilities assumed by Mr. Anderson in December 2006, the Compensation Committee set his base salary at $800,000 at its January 2007 meeting, effective December 1, 2006.

In May 2006, in connection with its annual grant of broad-based equity awards to Company employees, the Compensation Committee, after considering recommendations made by management, approved a stock-settled SAR award to Mr. Anderson with respect to 150,000 shares of common stock of the Company.

See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Mr. Anderson s 2006 total compensation.

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Lois E. Quam

In February 2006, in recognition of Ms. Quam s leadership role in the completion of the PacifiCare acquisition and the general performance and growth of businesses under Ms. Quam s responsibility, the Compensation Committee set Ms. Quam s base salary at $475,000.

Ms. Quam s annual cash incentive for 2006 (paid in 2007) was $650,000, reflecting an annual cash incentive target of 75% of her base salary as of September 30, 2006 and a payout of 182% of the target amount. Her long-term cash incentive for the 2004-2006 performance period (also paid in 2007) was $437,000, reflecting a long-term cash incentive target of 50% of her average base salary during the 2004-2006 performance period and a payout of 200% of the target payout.

The Compensation Committee considered a number of factors in determining Ms. Quam s 2006 annual and long-term cash incentive awards, including the strong overall Company performance from both a financial and operational perspective, achievement of the second EPS goals for both the annual and long-term cash incentive awards set by the Compensation Committee, the strong 2006 financial and operational performance by Ovations, where Ms. Quam served as CEO until her promotion in December 2006, Ms. Quam s increased enterprise-wide and functional responsibilities as Executive Vice President of the Company and President of the Public and Senior Markets Group, Ms. Quam s overall contributions to the Company in 2006, and market competitiveness.

In May 2006, in connection with its annual grant of broad-based equity awards to Company employees, the Compensation Committee, after considering recommendations made by management, approved a stock-settled SAR award to Ms. Quam to purchase 150,000 shares of common stock of the Company.

In light of the additional responsibilities assumed by Ms. Quam in December 2006, the Compensation Committee set her base salary at $675,000 at its January 2007 meeting, effective as of December 1, 2006.

In light of the conclusions of the WilmerHale Report, the Company received a written agreement dated November 2006 from Ms. Quam to reset the exercise prices of all options with stated grant dates between 1994 and 2002 to the closing price of the Company s common stock on the revised measurement date for each grant.

See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Ms. Quam s 2006 total compensation.

David S. Wichmann

Mr. Wichmann s annual cash incentive for 2006 (paid in 2007) was $600,000, reflecting an annual cash incentive target of 75% of his base salary as of September 30, 2006 and a payout of 165% of the target amount. His long-term cash incentive for the 2004-2006 performance period (also paid in 2007) was $481,000, reflecting a long-term cash incentive target of 50% of his average base salary during the 2004-2006 performance period and a payout of 200% of the target payout.

The Compensation Committee considered a number of factors in determining Mr. Wichmann s 2006 annual and long-term cash incentive awards, including the strong overall Company performance from a financial and operational perspective, achievement of the second EPS goals for both the annual and long-term cash incentive awards set by the Compensation Committee, the strong financial and operational performance of UnitedHealthcare, where Mr. Wichmann served as President and COO until his promotion in December 2006, Mr. Wichmann s leadership role in the integration of the PacifiCare business, Mr. Wichmann s increased enterprise-wide and functional responsibilities as

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Executive Vice President of the Company and President of the Individual and Employer Markets Group, Mr. Wichmann s overall contributions to the Company in 2006, and market competitiveness.

In May 2006, in connection with its annual grant of broad-based equity awards to Company employees, the Compensation Committee, after considering recommendations made by management, approved a stock-settled SAR award to Mr. Wichmann with respect to 150,000 shares of common stock of the Company.

In light of the additional responsibilities assumed by Mr. Wichmann in December 2006, the Compensation Committee set his base salary at $675,000 at its January 2007 meeting, effective as of December 1, 2006.

In light of the conclusions of the WilmerHale Report, the Company received a written agreement dated November 2006 from Mr. Wichmann to reset the exercise prices of all options with stated grant dates between 1994 and 2002 to the closing price of the Company s common stock on the revised measurement date for each grant.

See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Mr. Wichmann s 2006 total compensation.

Patrick J. Erlandson

On November 7, 2006, Patrick J. Erlandson, who had served as CFO of the Company since January 2001, stepped down as CFO of the Company and transferred to a non-financial operational role within the Company.

In May 2006, in connection with its annual grant of broad-based equity awards to Company employees, the Compensation Committee, after considering recommendations made by management, approved a stock-settled SAR award to Mr. Erlandson with respect to 125,000 shares of common stock of the Company.

In light of the conclusions of the WilmerHale report, the Company received a written agreement dated November 2006 from Mr. Erlandson to reset the exercise prices of all options with stated grant dates between 1994 and 2002 to the closing price of the Company s common stock on the revised measurement date for each grant.

In 2006, Mr. Erlandson received the same employee benefits that were then made available to our employees and executive officers generally. In December 2006, the Company increased Mr. Erlandson s base salary by $5,000 in light of the Company s elimination of executive perquisites such as financial planning reimbursement, supplemental executive long-term disability insurance, and executive catastrophic medical plan. Mr. Erlandson did not receive any annual or long-term cash incentive awards for the 2006 and 2004-2006 performance periods. See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Mr. Erlandson s 2006 total compensation.

Compensation of Departed Named Executive Officers

William W. McGuire, M.D.

The employment of Dr. McGuire, our former Chairman and CEO, terminated on November 30, 2006. The Company has not entered into any agreement with Dr. McGuire with respect to his departure.

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On November 29, 2006, the United States District Court for the District of Minnesota entered an Order granting a joint motion for temporary injunctive relief made by plaintiffs and Dr. McGuire, a defendant in the matters entitled *In Re UnitedHealth Group Incorporated Shareholder Derivative Litigation* and *In re UnitedHealth Group Incorporated PSLRA Litigation.* The Order was based on findings, among other things, that Dr. McGuire s employment with the Company would terminate on November 30, 2006 and that there had been a showing that all parties to the matters would benefit from the requested relief.

Pursuant to the Order, until 30 days after a final decision regarding Dr. McGuire by the Special Litigation Committee established by the Board of Directors of the Company on June 26, 2006:

Dr. McGuire is preliminarily enjoined from exercising any Company stock options without Court approval;

The Company and Dr. McGuire are preliminarily enjoined from taking any further action pursuant to or having any effect on Dr. McGuire s employment agreement effective October 13, 1999, any amendments thereto, any agreements entered into pursuant to either of the foregoing, or any stock option agreements and any amendments thereto, made by and between the Company and Dr. McGuire, and, while the preliminary injunction is in effect, no payments shall be made to Dr. McGuire under these agreements, including any payments under his supplemental executive retirement plan described below, except for unpaid wages earned through November 30, 2006, accrued vacation, benefits and sick pay, and all unreimbursed business expenses;

The running of any time periods (including any time to exercise any stock options) under these agreements is tolled; and

No arbitration pursuant to Dr. McGuire s employment agreement will be commenced.

As of the date of this proxy statement, the Special Litigation Committee has not reached a final decision.

In January 2006, prior to the Board becoming aware of the matters underlying the review of historic stock option practices, the Compensation Committee increased Dr. McGuire s base salary to $2.3 million in light of strong overall 2005 Company performance from a financial and operational perspective. At that time, the Compensation Committee also approved a stock option award to Dr. McGuire to purchase 400,000 shares of common stock of the Company. The award was made in recognition of the Company s performance in 2005, including the successful completion of the PacifiCare acquisition, the successful launch of the Company s Medicare Part D prescription drug program, and other operational achievements.

In light of the conclusions of the WilmerHale Report, the Company received a written agreement dated November 2006 from Dr. McGuire to reset the exercise prices of all options with stated grant dates between 1994 and 2002 to the highest closing share price during the stated grant year for each particular option.

Prior to his departure, Dr. McGuire received the same employee benefits that were then generally made available to our employees and executive officers, such as participation in our 401(k) plan and Executive Savings Plan, reimbursements for financial planning expenses, and Company-paid supplemental long-term disability insurance. He also received additional perquisites in the form of Company-paid security expenses and the related tax gross-ups, personal use of Company aircraft

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(including payment by the Company of his personal tax liability associated with such personal use), and an expense allowance. In addition, under his 1999 employment agreement, Dr. McGuire may receive a supplemental retirement benefit upon termination of his employment for any reason, and Dr. McGuire was the owner of two life insurance policies totaling $5.5 million in benefits and a supplemental disability insurance policy for which we paid the premiums. See the 2006 Summary Compensation Table, 2006 Pension Benefits table and other related compensation tables below for details regarding Dr. McGuire s 2006 total compensation and pension benefits.

David J. Lubben

On October 15, 2006, David J. Lubben, who had served as General Counsel and Secretary of the Company since October 1996, stepped down from these positions and has since left the Company.

In light of the conclusions of the WilmerHale Report, the Company received a written agreement dated November 2006 from Mr. Lubben to reset the exercise prices of all options with stated grant dates between 1994 and 2002 to the closing price of the Company s common stock on the accounting measurement date for each grant.

Prior to his departure, Mr. Lubben received the same employee benefits that were then generally made available to our employees and executive officers. See the 2006 Summary Compensation Table and other related compensation tables below for details regarding Mr. Lubben s 2006 total compensation.

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COMPENSATION AND HUMAN RESOURCES COMMITTEE REPORT

The Compensation and Human Resources Committee has reviewed and discussed the above Compensation Discussion and Analysis with management. Based on the review and discussions, the Compensation and Human Resources Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated by reference into the Company s Annual Report on Form 10-K for the year ended December 31, 2006. This report was provided by the following independent directors who comprise the Compensation and Human Resources Committee:

James A. Johnson (Chair)

Thomas H. Kean

Gail R. Wilensky, Ph.D.

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2006 Summary Compensation Table*

The following table provides certain summary information for the fiscal year ended December 31, 2006 relating to compensation paid to, or accrued by us on behalf of, our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers for fiscal 2006, our former Chairman and Chief Executive Officer, our former Chief Financial Officer, and our former General Counsel and Secretary.

Name and Principal Position (a)	Year (b)	Salary ($) (1) (c)	Stock Awards ($) (2) (e)	Option/SAR Awards ($) (2) (f)	Non-Equity Incentive Plan Compensation ($) (g)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($) (3) (h)	All Other Compensation ($) (4) (i)	Total ($) (j)
Stephen J. Hemsley President and Chief Executive Officer (5)	2006	1,019,615		11,290,311 (6)(7)	1,875,000 (8) 1,000,000 (9)	257,229 (10)	106,873	15,549,028
George L. Mikan III Executive Vice President and Chief Financial Officer (11)	2006	445,809		2,123,277	652,000 (8) 96,000 (9)		22,192	3,339,278
Richard H. Anderson Executive Vice President and President of Commercial Services Group (12)	2006	612,307	902,750	1,557,562	800,000 (8) 430,000 (9)		22,993	4,325,612
Lois E. Quam Executive Vice President and President of Public and Senior Markets Group (13)	2006	480,384		2,211,383 (14)	650,000 (8) 437,000 (9)		33,532	3,812,299
David S. Wichmann Executive Vice President and President of Individual and Employer Markets Group (15)	2006	496,693		2,584,633	600,000 (8) 481,000 (9)		32,359	4,194,685
Patrick J. Erlandson Former Chief Financial Officer (16)	2006	465,000		2,300,469			16,673	2,782,142

Departed Executive Officers							
William W. McGuire, M.D.	2006	2,146,923	9,409,277 (18)		16,185 (19)	477,314	12,049,699
Former Chairman and Chief Executive							
Officer (17)							
David J. Lubben	2006	475,000	4,788,138 (6)			32,052	5,295,190
Former General Counsel and Secretary (20)							

* Please see Compensation Discussion and Analysis above for a description of our compensation program necessary to an understanding of the information disclosed in this table. Please see

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Executive Employment Agreements below for a description of the material terms of each named executive officer s employment agreement.

(1) Amounts reported include the following salary amounts deferred by the named executive officers in 2006 under our Executive Savings Plan: Mr. Hemsley $45,000; Mr. Mikan $10,062; Mr. Anderson $45,065; Ms. Quam $31,808; Mr. Wichmann $14,100; Mr. Erlandson $22,200; Dr. McGuire $113,815; and Mr. Lubben $13,500.

(2) The actual value to be realized by an executive officer related to stock options/SARs depends upon the appreciation in value of the Company s stock and the length of time the stock option/SAR is held. No value will be realized with respect to any stock option/SAR if the Company s stock price does not increase following the award s grant date.

The amount reported in this column is based on the dollar amount recognized for financial statement reporting purposes with respect to the Company s fiscal year ended December 31, 2006 in accordance with FAS 123R, but disregarding the estimate of forfeitures related to service-based vesting conditions, for the fair value of stock options, SARs and restricted stock, as applicable, granted in 2006, as well as prior fiscal years (2003, 2004 and 2005). These amounts reflect the Company s accounting expense for these awards, and do not correspond to the actual value that will be recognized by the named executive officers.

We applied a binominal model and used the following assumptions in computing the dollar amount recognized for financial statement reporting purposes in 2003: risk-free interest rate of 2.6%; expected volatility of 30.9%; expected dividend yield of 0.1%; and expected life of 4.1 years. For a description of the assumptions used in 2004, 2005 and 2006 in computing the dollar amount recognized for financial statement reporting purposes, see Note 11 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

Compensation expense related to restricted stock awards was determined based upon the fair value of the underlying common stock on the date of grant. See the 2006 Grants of Plan-Based Awards table for information on stock option and SAR awards made in 2006.

(3) Along with certain other highly compensated employees of the Company, executive officers participate in our Executive Savings Plan, which is a nonqualified, unfunded deferred compensation plan. The Executive Savings Plan does not credit above-market earnings or preferential earnings to the amounts deferred, and accordingly, none of the amounts reported represent nonqualified deferred compensation earnings. There are no measuring investments tied to Company stock performance. The measuring investments are a collection of unaffiliated mutual funds identified by the Company.

(4) All other compensation consists of the following:

a. Mr. Hemsley: Company contributions to Mr. Hemsley under our 401(k) Savings Plan of $6,600; Company contributions to Mr. Hemsley under our Executive Savings Plan of $96,060; and Company-paid disability insurance premiums of $4,213. Mr. Hemsley did not receive any compensation in connection with his service as a director of the Company.

b. Mr. Mikan: Company contributions to Mr. Mikan under our 401(k) Savings Plan of $6,600; Company contributions to Mr. Mikan under our Executive Savings Plan of $14,781; and Company-paid disability insurance premiums of $811.

c. Mr. Anderson: Company contributions to Mr. Anderson under our 401(k) Savings Plan of $4,728; Company contributions to Mr. Anderson under our Executive Savings Plan of $13,292; Company-paid disability insurance premiums of $2,723; and restricted stock dividend of $2,250.

d. Ms. Quam: Company contributions to Ms. Quam under our 401(k) Savings Plan of $4,715; Company contributions to Ms. Quam under our Executive Savings Plan of $25,077; and Company-paid disability insurance premiums of $3,740.

e. Mr. Wichmann: Company contributions to Mr. Wichmann under our 401(k) Savings Plan of $6,600; Company contributions to Mr. Wichmann under our Executive Savings Plan of $22,050; and Company-paid disability insurance premiums of $3,709.

f. Mr. Erlandson: Company contributions to Mr. Erlandson under our 401(k) Savings Plan of $5,712; Company contributions to Mr. Erlandson under our Executive Savings Plan of $8,238; and Company-paid disability insurance premiums of $2,723.

g. Dr. McGuire: Personal use of Company aircraft of $138,218 (computed on an aggregate incremental cost basis); security expenses of $22,886 (including tax gross-up of $9,785); an expense allowance of $21,600; Company contributions to Dr. McGuire under our 401(k) Savings Plan of $6,600; Company contributions to Dr. McGuire under our Executive Savings Plan of $231,148; Company-paid disability insurance premiums of $23,271 (including tax gross up of $8,875); and financial planning and bookkeeping assistance fees of $33,591. We have reported the aggregate incremental cost to the Company of any personal use of Company aircraft based on the cost of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs and smaller variable costs. Since Company aircraft were used primarily for business travel, we did not include the fixed costs that do not change based on usage, such as pilots salaries, the purchase costs of Company aircraft, and the cost of maintenance not related to trips. In October 2006, the Board of Directors adopted a Company aircraft use policy which was amended on April 2007 to prohibit personal use of Company aircraft. Dr. McGuire did not receive any compensation in connection with his service as Chairman of the Board of Directors of the Company.

h. Mr. Lubben: Company contributions to Mr. Lubben under our 401(k) Savings Plan of $6,600; Company contributions to Mr. Lubben under our Executive Savings Plan of $21,750; and Company-paid disability insurance premiums of $3,702.

As permitted by SEC rules, the amounts reported in this column exclude perquisites and personal benefits provided to a named executive officer in 2006 when the total value of all perquisites and personal benefits provided to such named executive officer in 2006 was less than $10,000.

As described in the Compensation Discussion and Analysis section above, the Company eliminated named executive officers entitlement to reimbursement for financial planning fees at the end of 2006.

(5) Mr. Hemsley served as President and Chief Operating Officer until November 2006 and became President and Chief Executive Officer on November 30, 2006.

(6) As a result of increasing the exercise price of certain stock options to Messrs. Hemsley and Lubben, as described in notes (4) and (9) to the 2006 Grants of Plan-Based Awards table,

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these options were treated as new awards subject to the retirement eligibility provisions of FAS 123R, which resulted in acceleration of expense recognition through their eligible retirement dates.

(7) Mr. Hemsley has acted to relinquish all options he received for which vesting and exercisability were suspended in 1999 and reinstated in 2000. In accordance with FAS 123R, the Company did not reverse any compensation expense in connection with such relinquishment since the awards were previously vested.

(8) Amounts reported are annual cash incentive awards earned by our named executive officers under our Executive Incentive Plan in 2006 and paid in 2007. These amounts include the following amounts of annual incentive awards deferred by the named executive officers in 2007 under our Executive Savings Plan: Mr. Hemsley $112,500; Mr. Mikan $39,120; Mr. Anderson $0; Ms. Quam $39,000; Mr. Wichmann $36,000; Mr. Erlandson $0; Dr. McGuire $0; and Mr. Lubben $0.

(9) Amounts reported are long-term cash incentives earned for the 2004-2006 performance period under our Executive Incentive Plan and paid in 2007. These amounts were not deferred by the named executive officers in 2007 under our Executive Savings Plan.

(10) The amount reported shows the estimated increase in the lump sum cash benefit payable to Mr. Hemsley under his supplemental executive retirement plan upon his termination of employment for any reason. Prior to 2006, the amount of this lump sum payment was determined by taking the actuarial equivalent of an annual lifetime payment that was equal to a percentage, based on Mr. Hemsley s age at termination, of his average base salary and short-term incentive award for the five years preceding his termination. The actuarial equivalent was determined by using unisex mortality tables set forth in IRS Revenue Ruling 2001-62 and a discount rate determined by reference to an assumed interest rate of 5% available at the time of the calculation. Had Mr. Hemsley terminated employment at the end of 2005, his lump sum payment, as disclosed in the Company s proxy statement for the 2006 Annual Meeting, would have been approximately $10,446,000. In May 2006, the amount of Mr. Hemsley s supplemental retirement benefit was frozen based on his current age and average base salary and converted into a lump sum of $10,703,229. The $257,229 increase in value from 2005 to 2006 was attributable to a decrease in the assumed interest rate from the end of 2005 to May 2006 (decrease from 5% to 4.73%). The $10,703,229 lump sum amount will not change in the future, regardless of fluctuations in interest rates or adjustments to Mr. Hemsley s age, years of service or average base salary.

(11) Mr. Mikan served as Chief Financial Officer for the Company s UnitedHealthcare division and President of UnitedHealth Networks until February 2006, as Senior Vice President of Finance until November 2006, and became Executive Vice President and Chief Financial Officer on November 7, 2006.

(12) Mr. Anderson served as Executive Vice President of the Company and Chief Executive Officer of Ingenix until November 2006 and became Executive Vice President of the Company and President of our Commercial Services Group on December 1, 2006.

(13) Ms. Quam served as Chief Executive Officer of Ovations until November 2006 and became Executive Vice President of the Company and President of our Public and Senior Markets Group on December 1, 2006.

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(14) Ms. Quam has acted to relinquish all options she received for which vesting and exercisability were suspended in 1999 and reinstated in 2000. In accordance with FAS 123R, the Company did not reverse any compensation expense in connection with such relinquishment since the awards were previously vested.

(15) Mr. Wichmann served as President and Chief Operating Officer of UnitedHealthcare until November 2006 and became Executive Vice President of the Company and President of our Individual and Employer Markets Group on December 1, 2006.

(16) Mr. Erlandson served as Chief Financial Officer until November 7, 2006.

(17) Dr. McGuire served as Chairman of the Board until October 15, 2006 and as Chief Executive Officer until November 30, 2006. On November 29, 2006, the United States District Court for the District of Minnesota issued an Order preliminarily enjoining Dr. McGuire from exercising any Company stock options without Court approval and preliminarily enjoining the Company and Dr. McGuire from taking any further action pursuant to or having any effect on Dr. McGuire s employment agreement, as amended, any stock option agreements, as amended, and other related agreements. The Order also provides that while the preliminary injunction is in effect, the Company cannot make any payments to Dr. McGuire under these agreements, including any payments under Dr. McGuire s supplemental executive retirement plan. See Compensation Discussion and Analysis Compensation of Departed Named Executive Officers above for a description of the Order.

(18) In connection with Dr. McGuire s departure on November 30, 2006, the Company reversed certain compensation expense related to Dr. McGuire s unvested options previously recognized for financial statement reporting purposes in accordance with FAS 123R. See note (2) above for a description of the valuation assumptions used in computing the dollar amount recognized for financial statement reporting purposes with respect to these unvested options.

(19) The amount reported shows the estimated increase in the present value of the supplemental retirement benefit payable to Dr. McGuire upon his termination of employment for any reason. The amount of this present value benefit was determined by taking the actuarial equivalent of an annual lifetime payment that was equal to a percentage, based on Dr. McGuire s age at termination, of his average cash compensation (as defined in his agreement, but generally consisting of base salary, short-term annual incentive awards and long-term cash incentive awards) for the three calendar years immediately preceding his termination of employment. Had Dr. McGuire terminated employment at the end of 2005, his present value benefit would have been $91,287,700, calculated using an assumed discount rate of 4% (as specified in his agreement) and IRS Revenue Ruling 2001-62 unisex mortality tables. Based on Dr. McGuire s termination of employment on November 30, 2006, the present value of Dr. McGuire s benefit was $91,303,885. The $16,185 increase in value from 2005 to 2006 was attributable to an increase in Dr. McGuire s age. See note (17) above for a description of the Order issued by the United States District Court for the District of Minnesota related to Dr. McGuire s employment agreement (including any payments under the supplemental executive retirement plan) and other related agreements.

(20) Mr. Lubben served as General Counsel and Secretary until October 15, 2006.

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2006 Grants of Plan-Based Awards*

The following table presents information regarding each grant of an award under our compensation plans made during 2006 to our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers for fiscal 2006, our former Chairman and Chief Executive Officer, our former Chief Financial Officer, and our former General Counsel and Secretary.

		Estimated Future Payouts Under Non-Equity Incentive Plan Awards					
Name	Grant Date (1)	Threshold ($)	Target ($)	Maximum ($)	All Other Option/ SAR Awards: Number of Securities Underlying Options/ SARs (#)	Exercise or Grant Price of Option/ SAR Awards ($/Sh) (2)	Grant Date Fair Value of Option/ SAR Awards (3) ($)
(a)	(b)	(c)	(d)	(e)	(j)	(k)	(l)
Stephen J. Hemsley		0	1,250,000 (5)	2,500,000 (5)			
		0	613,193 (6)	1,226,385 (6)			
President and Chief Executive Officer	1/31/06 11/7/06 (4)				200,000 (7)	59.42 (4)	3,054,000 (4)
George L. Mikan III		0	261,000 (5)	652,000 (5)			
		0	274,648 (6)	549,296 (6)			
Executive Vice President and Chief Financial Officer	5/2/06				125,000 (8)	48.58	1,313,750
Richard H. Anderson		0	600,000 (5)	1,200,000 (5)			
		0	374,825 (6)	749,649 (6)			
Executive Vice President and President of Commercial Services Group	5/2/06				150,000 (8)	48.58	1,576,500
Lois E. Quam (9)		0	356,250 (5)	712,500 (5)			
		0	310,217 (6)	620,433 (6)			
Executive Vice President and President of Public and Senior Markets Group	5/2/06				150,000 (8)	48.58	1,576,500
David S. Wichmann (9)		0	363,750 (5)	727,500 (5)			
		0	312,935 (6)	625,869 (6)			
Executive Vice President and President of Individual and Employer Markets Group	5/2/06				150,000 (8)	48.58	1,576,500
Patrick J. Erlandson (9)		0	348,750 (5)	697,500 (5)			
		0	237,754 (6)	475,509 (6)			

Former Chief Financial Officer	5/2/06	125,000 (8)	48.58	1,313,750
Departed Executive Officers				
William W. McGuire, M.D. (10)	1/31/06 11/7/06 (11)	400,000 (7)	59.42 (11)	6,108,000 (11)
Former Chairman and Chief Executive Officer				
David J. Lubben (9)(10)				
Former General Counsel and Secretary				

* Please see Compensation Discussion and Analysis above for a description of our compensation program necessary to an understanding of the information disclosed in this table.

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(1) Except for the increase in exercise price of options noted in notes (4), (9) and (11), each grant date shown is the date of a regularly scheduled quarterly meeting on which the Compensation Committee met and granted the awards.

(2) Each per share exercise price/grant price of the awards shown was the per share closing market price of our common stock on the grant date.

(3) The actual value to be realized by an executive officer depends upon the appreciation in value of the Company s stock and the length of time the stock option/SAR is held. No value will be realized with respect to any stock option/SAR if the Company s stock price does not increase following the grant date. The amount reported in the column is based on the grant date fair value of the awards computed in accordance with FAS 123R. For a description of the assumptions used in computing the grant date fair value pursuant to FAS 123R, see Note 11 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

(4) In 2006, Mr. Hemsley entered into agreements with the Company to increase the exercise prices of certain Company stock options granted to him as specified below. Mr. Hemsley also has acted to relinquish all options he received for which vesting and exercisability were suspended in 1999 and reinstated in 2000. The incremental fair value, computed as of the repricing date in accordance with FAS 123R, with respect to each repriced option is zero.

Grant Date	Option Shares Outstanding (#)	Original Exercise Price ($)	Measurement Date Price ($)	Revised Exercise Price ($)
10/13/1999	2,880,000	5.0157	7.0000	8.1788
10/13/1999	2,360,000	5.0157	6.4375	8.1788
3/8/2000	1,200,000	5.9532	10.4297	15.6250
1/17/2001	1,200,000	13.1719	14.8000	18.0475
1/7/2002	1,200,000	17.3875	18.6375	25.0925
2/12/2003	900,000	20.0600	19.9950	30.1383
2/11/2004	600,000	29.7000	29.7000	39.7783
2/3/2005	150,000	45.2800	44.4650	55.3583
5/2/2005	62,500	47.3400	48.3550	57.4183
5/2/2005	187,500	47.3400	48.3550	48.3550

(5) Amounts represent estimated potential payouts of annual cash incentive awards granted under our Executive Incentive Plan in 2006 upon the satisfaction of the performance goals, expressed in terms of our EPS, for the 2006 performance period. While the Executive Incentive Plan permits a maximum annual cash incentive payout for each named executive officer equal to 1% of our Company s net earnings (as defined in the plan), the maximum amounts reported for each named executive officer other than Mr. Mikan equal 200% of each executive officer s target amount because the Compensation Committee s practice is generally to limit annual cash incentive payouts to 200% of the target amount. For Mr. Mikan, the Compensation Committee determined to pay him an annual cash incentive award for 2006 equal to 250% of his target amount due to Mr. Mikan s increased responsibilities as Executive Vice President and Chief Financial Officer of the Company*,* his maximum amount reported is equal to 250% of his target amount. The actual annual cash incentive amounts earned in connection with these awards were paid in 2007 and reported in column (g) of the 2006 Summary Compensation Table. See Compensation

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Discussion and Analysis Elements of Compensation Annual Cash Incentive Awards for a description of the Company s annual cash incentive award program, including annual cash incentive award targets, expressed as a percentage of base salary, and maximum incentive payout amounts. See also Compensation Discussion and Analysis Compensation Actions Involving Named Executive Officers Performance Goals for a discussion of the performance goals that the Compensation Committee established for the 2006 performance period.

(6) Amounts represent estimated future payouts of long-term cash incentive awards granted under our Executive Incentive Plan in 2006 upon the satisfaction of performance goals, expressed in terms of our EPS, for the 2006-2008 performance period. In 2006, upon recommendation by management, the Compensation Committee approved a minimum EPS goal of $8.57 for the 2006-2008 performance period that must be achieved before the target amount shown above becomes earned and payable. The $8.57 EPS goal was 85% of the sum of the EPS guidance we provided to investors for the first year of the performance period and EPS figures for the second and third years of the performance period that represent target annual EPS growth of 15%. In 2009, the Committee will determine whether or not the performance goal has been achieved. The estimated target and maximum awards listed in the table were computed assuming that participants salaries are increased 5% effective February 1, 2008. See Compensation Discussion and Analysis Elements of Compensation Long-Term Cash Incentive Awards for a description of the Company s long-term cash incentive award program, including long-term cash incentive award targets, expressed as a percentage of base salary, and maximum incentive payout amounts.

(7) Amounts represent stock options granted under our 2002 Stock Incentive Plan. All options granted under our 2002 Stock Incentive Plan are nonqualified stock options, expire ten years following the date of grant, typically vest and become exercisable as to 25% of the covered shares on each of the first four anniversaries of the date of grant, and are subject to earlier termination upon certain events related to termination of employment. Options not yet exercisable generally become exercisable upon a change in control of the Company, as such term is defined in each executive s equity-award agreement. See Compensation Discussion and Analysis Elements of Compensation Long-Term Equity Awards for a description of the Company s equity awards program. See also the Outstanding Awards at 2006 Fiscal Year-End table for the vesting schedule of all outstanding equity awards for each named executive officer.

(8) Amounts represent stock-settled SARs granted under our 2002 Stock Incentive Plan. All stock-settled SARs granted in 2006 expire ten years following the date of grant, typically vest and become exercisable as to 25% of the covered shares on each of the first four anniversaries of the date of grant, and are subject to earlier termination upon certain events related to termination of employment. Stock-settled SARs not yet exercisable generally become exercisable upon a change in control of the Company, as such term is defined in each executive s equity-award agreement. See Compensation Discussion and Analysis Elements of Compensation Long-Term Equity Awards for a description of the Company s equity awards program. See also the Outstanding Awards at 2006 Fiscal Year-End table for the vesting schedule of all outstanding equity awards for each named executive officer.

(9) In 2006, each of Ms. Quam and Messrs. Wichmann, Erlandson and Lubben entered into agreements with the Company to, upon finalization of the accounting measurement date, increase the exercise prices of certain Company stock options granted to him or her as specified below. The accounting measurement date for each option grant was finalized on March 6, 2007 when the

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Company filed with the SEC its annual report on Form 10-K for the year ended December 31, 2006 and restated its historical financial statements. Ms. Quam also has acted to relinquish all options she received for which vesting and exercisability were suspended in 1999 and reinstated in 2000. The incremental fair value, computed as of the repricing date in accordance with FAS 123R, with respect to each repriced option is zero.

Lois E. Quam

Grant Date	Option Shares Outstanding (#)	Original Exercise Price ($)	Revised Exercise Price ($)
3/8/2000	26,800	5.9532	10.4297
7/26/2000	120,000	9.7735	13.3281
1/17/2001	240,000	13.1719	14.8000
1/7/2002	300,000	17.3875	18.6375
8/5/2002	140,000	20.5350	21.7000
2/12/2003	200,000	20.0600	24.5339
11/28/2003	75,000	26.9500	31.4239
12/7/2004	138,000	39.8500	44.3239
5/2/2005	25,000	47.3400	51.8139
5/2/2005	75,000	47.3400	48.3550
10/31/2005	65,000	57.8900	59.0000

David S. Wichmann

Grant Date	Option Shares Outstanding (#)	Original Exercise Price ($)	Revised Exercise Price ($)
3/8/2000	60,000	5.9532	8.0859
7/26/2000	120,000	9.7735	14.7891
1/17/2001	240,000	13.1719	14.5075
1/17/2001	80,000	13.1719	14.7000
1/7/2002	300,000	17.3875	18.2375
8/5/2002	200,000	20.5350	22.1100
2/12/2003	200,000	20.0600	22.5086
11/28/2003	112,500	26.9500	29.3986
8/6/2004	75,000	30.6750	33.1236
8/6/2004	75,000	30.6750	31.5350
12/7/2004	154,000	39.8500	42.2986
5/2/2005	25,000	47.3400	49.7886
5/2/2005	75,000	47.3400	48.3550
10/31/2005	65,000	57.8900	59.0000

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Patrick J. Erlandson

Grant Date	Option Shares Outstanding (#)	Original Exercise Price ($)	Revised Exercise Price ($)
7/26/2000	30,000	9.7735	14.7891
1/17/2001	55,000	13.1719	14.8000
1/7/2002	300,000	17.3875	18.6375
8/5/2002	200,000	20.5350	21.7000
2/12/2003	200,000	20.0600	24.1141
11/28/2003	90,000	26.9500	31.0041
12/7/2004	154,000	39.8500	43.9041
5/2/2005	25,000	47.3400	51.3941
5/2/2005	75,000	47.3400	48.3550
10/31/2005	50,000	57.8900	59.0000

David J. Lubben

Grant Date	Option Shares Outstanding (#)	Original Exercise Price ($)	Revised Exercise Price ($)
10/13/1999	110,080	5.0157	6.3125
3/8/2000	160,000	5.9532	10.4297
7/26/2000	120,000	9.7735	13.3281
1/17/2001	300,000	13.1719	14.8000
1/7/2002	300,000	17.3875	18.6375
8/5/2002	200,000	20.5350	21.7000
2/12/2003	200,000	20.0600	22.7027
11/28/2003	75,000	26.9500	29.5927
12/7/2004	123,000	39.8500	42.4927
5/2/2005	25,000	47.3400	49.9827
5/2/2005	75,000	47.3400	48.3550
10/31/2005	50,000	57.8900	59.0000

(10) In January 2006, in connection with the grant of annual and long-term cash incentive awards to our named executive officers as described in notes (5) and (6) above and prior to the Board becoming aware of the matters underlying the review of historic stock option practices, the Compensation Committee approved annual and long-term cash incentive award targets to Dr. McGuire and Mr. Lubben for a 2006 annual cash incentive award and a long-term cash incentive award for the 2006-2008 performance period. On the grant date, the estimated target and maximum payouts of the annual cash incentives to Dr. McGuire and Mr. Lubben were: Dr. McGuire $3,450,000 (target) and $6,900,000 (maximum); and Mr. Lubben $356,250 (target) and $712,500 (maximum), and the estimated target and maximum payouts of the long-term cash incentives to Dr. McGuire and Mr. Lubben were: Dr. McGuire $1,148,000 (target) and $2,296,000 (maximum); and Mr. Lubben $237,500 (target) and $475,000 (maximum). The employment of Dr. McGuire and Mr. Lubben terminated in 2006. Dr. McGuire and Mr. Lubben did not receive any actual annual or long-term cash incentive payments as a result of the January 2006 target award designations.

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(11) In 2006, Dr. McGuire entered into agreements with the Company to increase the exercise prices of certain Company stock options granted to him as specified below. The incremental fair value, computed as of the repricing date in accordance with FAS 123R, with respect to each repriced option is zero.

Grant Date	Option Shares Outstanding (#)	Original Exercise Price ($)	Measurement Date Price ($)	Revised Exercise Price ($)
10/27/1997	292,000	5.3829	6.0000	7.5000
1/20/1998	2,000,000	5.9922	9.0781	15.6250
2/17/1999	2,000,000	5.8516	5.5859	15.6250
10/13/1999	600,000	5.0157	6.6406	8.7188
10/13/1999	6,000,000	5.0157	7.0000	8.7188
10/13/1999	7,270,496	5.0157	6.4375	8.7188
3/8/2000	2,600,000	5.9532	10.4297	15.6250
1/17/2001	2,600,000	13.1719	14.8000	18.0475
1/7/2002	2,600,000	17.3875	18.6375	25.0925
2/12/2003	1,950,000	20.0600	19.9950	33.6246
2/11/2004	1,300,000	29.7000	29.7000	43.2646
2/3/2005	325,000	45.2800	44.4650	58.8446
5/2/2005	100,000	47.3400	48.3550	60.9046
5/2/2005	300,000	47.3400	48.3550	48.3550

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Outstanding Equity Awards at 2006 Fiscal Year-End

The following table presents information regarding outstanding equity awards held at the end of 2006 by our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers for fiscal 2006, our former Chairman and Chief Executive Officer, our former Chief Financial Officer, and our former General Counsel and Secretary.

	Option/SAR Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options/SARs (#) Exercisable (1)	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable	Option/SAR Exercise/ Grant Price ($) (2)	Option/SAR Expiration Date (3)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
(a)	(b)	(c)	(e)	(f)	(g)	(h)
Stephen J. Hemsley		200,000 (4)	59.4200	1/31/2016		
President and Chief Executive Officer		187,500 (5)	48.3350 (2)	5/02/2015		
	62,500		57.4183 (2)	5/02/2015		
		450,000 (6)	45.2800	2/03/2015		
	150,000		55.3583 (2)	2/03/2015		
		600,000 (7)	29.7000	2/11/2014		
	600,000		39.7783 (2)	2/11/2014		
		300,000 (8)	20.0600	2/12/2013		
	900,000		30.1383 (2)	2/12/2013		
	1,200,000		25.0925 (2)	1/07/2012		
	1,200,000		18.0475 (2)	1/17/2011		
	1,200,000		15.6250 (2)	3/08/2010		
	2,880,000		8.7188 (2)	10/13/2009		
	2,360,000		8.7188 (2)	10/13/2009		
George L. Mikan III		125,000 (9)	48.5800	5/02/2016		
Executive Vice President and Chief Financial Officer	11,250	33,750 (10)	57.8900	10/31/2015		
	25,000	75,000 (5)	47.3400	5/2/2015		
	95,000	95,000 (11)	38.8750	11/4/2014		
	75,000	75,000 (12)	30.1700	5/10/2014		
	52,500	17,500 (13)	26.1750	10/28/2013		
	75,000	25,000 (8)	20.0600	2/12/2013		
	60,000		20.5350	8/5/2012		
	85,000		17.3875	1/7/2012		
	40,000		14.1750	6/1/2011		
Richard H. Anderson		150,000 (9)	48.5800	5/02/2016	50,000 (14)	2,686,500 (15)
Executive Vice President and President of Commercial	16,250	48,750 (10)	57.8900	10/31/2015		
	25,000	75,000 (5)	47.3400	5/02/2015		
	150,000	150,000 (16)	36.1100	11/01/2014		

Services Group

Lois E. Quam		150,000 (9)	48.5800	5/02/2016
	16,250	48,750 (10)	59.0000 (2)	10/31/2015
Executive Vice President and President of Public and Senior Markets Group	25,000		51.8139 (2)	5/02/2015
		75,000 (5)	48.3550 (2)	5/02/2015
	138,000		44.3239 (2)	12/07/2014
		138,000 (17)	39.8500	12/07/2014
	75,000		31.4239 (2)	11/28/2013
		25,000 (18)	26.9500	11/28/2013
	150,000	50,000 (8)	24.5339 (2)	2/12/2013
	140,000		21.7000 (2)	8/05/2012
	300,000		18.6375 (2)	1/07/2012
	240,000		14.8000 (2)	1/17/2011
	120,000		13.3281 (2)	7/26/2010
	26,800		10.4247 (2)	3/08/2010

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	Option/SAR Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options/SARs (#) Exercisable (1)	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable	Option/SAR Exercise/ Grant Price ($) (2)	Option/SAR Expiration Date (3)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
(a)	(b)	(c)	(e)	(f)	(g)	(h)
David S. Wichmann		150,000 (9)	48.5800	5/02/2016		
Executive Vice President and President of Individual and Employer Markets Group	16,250	48,750 (10)	59.0000 (2)	10/31/2015		
	25,000		49.7886 (2)	5/02/2015		
		75,000 (5)	48.3550 (2)	5/02/2015		
	154,000		42.2986 (2)	12/07/2014		
		154,000 (17)	39.8500	12/07/2014		
	75,000		33.1236 (2)	8/06/2014		
		75,000 (19)	31.5350 (2)	8/06/2014		
	112,500		29.3986 (2)	11/28/2013		
		37,500 (18)	26.9500	11/28/2013		
	150,000	50,000 (8)	22.5086 (2)	2/12/2013		
	200,000		22.1100 (2)	8/05/2012		
	300,000		18.2375 (2)	1/07/2012		
	80,000		14.7000 (2)	1/17/2011		
	240,000		14.5075 (2)	1/17/2011		
	120,000		14.7981 (2)	7/26/2010		
	60,000		8.0859 (2)	3/08/2010		
Patrick J. Erlandson		125,000 (9)	48.5800	5/02/2016		
Former Chief Financial Officer	12,500	37,500 (10)	59.0000 (2)	10/31/2015		
	25,000		51.3941 (2)	5/02/2015		
		75,000 (5)	48.3550 (2)	5/02/2015		
	154,000		43.9041 (2)	12/07/2014		
		154,000 (17)	39.8500	12/07/2014		
	90,000		31.0041 (2)	11/28/2013		
		30,000 (18)	26.9500	11/28/2013		
	150,000	50,000 (8)	24.1141 (2)	2/12/2013		
	200,000		21.7000 (2)	8/05/2012		
	300,000		18.6375 (2)	1/07/2012		
	55,000		14.8000 (2)	1/17/2011		
	30,000		14.7891 (2)	7/26/2010		
Departed Executive Officers						
William W. McGuire, M.D.		400,000 (4)	59.4200	1/31/2016		
Former Chairman and		300,000 (20)	48.3350 (2)	5/02/2015		
	100,000		60.9046 (2)	5/02/2015		
Chief Executive Officer		975,000 (20)	45.2800	2/03/2015		

325,000		58.8446 (2)	2/03/2015
	1,300,000 (21)	29.7000	2/11/2014
1,300,000		43.2646 (2)	2/11/2014
	650,000 (22)	20.0600	2/12/2013
1,950,000		33.6246 (2)	2/12/2013
2,600,000		25.0925 (2)	1/07/2012
2,600,000		18.0475 (2)	1/17/2011
2,600,000		15.6250 (2)	3/08/2010
6,000,000		8.7188 (2)	10/13/2009
600,000		8.7188 (2)	10/13/2009
7,270,496		8.7188 (2)	10/13/2009
2,000,000		15.6250 (2)	2/17/2009
2,000,000		15.6250 (2)	1/20/2008
292,000		7.5000 (2)	10/27/2007

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	Option/SAR Awards				Stock Awards	
Name	Number of Securities Underlying Unexercised Options/SARs (#) Exercisable (1)	Number of Securities Underlying Unexercised Options/ SARs (#) Unexercisable	Option/SAR Exercise/ Grant Price ($) (2)	Option/SAR Expiration Date (3)	Number of Shares or Units of Stock That Have Not Vested (#)	Market Value of Shares or Units of Stock That Have Not Vested ($)
(a)	(b)	(c)	(e)	(f)	(g)	(h)
David J. Lubben	12,500	37,500 (10)	59.0000 (2)	10/31/2015		
	25,000		49.9827 (2)	5/02/2015		
Former General Counsel		75,000 (5)	48.3550 (2)	5/02/2015		
	123,000		42.4927 (2)	12/07/2014		
Secretary		123,000 (17)	39.8500	12/07/2014		
	75,000		29.5927 (2)	11/28/2013		
		25,000 (18)	26.9500	11/28/2013		
	150,000	50,000 (8)	22.7027 (2)	2/12/2013		
	200,000		21.7000 (2)	8/05/2012		
	300,000		18.6375 (2)	1/07/2012		
	300,000		14.8000 (2)	1/17/2011		
	120,000		13.3281 (2)	7/26/2010		
	160,000		10.4297 (2)	3/08/2010		
	110,080		6.3125 (2)	10/13/2009		

(1) All exercisable options are currently vested.

(2) The exercise prices of some of the options shown in the table have been increased. See notes (4), (9) and (11) to the 2006 Grants of Plan-Based Awards table for details.

(3) The expiration date shown is the latest date that options may be exercised. Options may terminate earlier in certain circumstances, such as in connection with the named executive officer s termination of employment.

(4) Options vest at a rate of 25% annually on January 31 from the years 2007 through 2010.

(5) Options vest at a rate of 25% annually on May 2 from the years 2006 through 2009.

(6) Options vest at a rate of 25% annually on February 3 from the years 2006 through 2009.

(7) Options vest at a rate of 25% annually on February 11 from the years 2005 through 2008.

(8) Options vest at a rate of 25% annually on February 12 from the years 2004 through 2007.

(9) Stock-settled SARs vest at a rate of 25% annually on May 2 from the years 2007 through 2010.

(10) Options vest at a rate of 25% annually on October 31 from the years 2006 through 2009.

(11) Options vest at a rate of 25% on November 4 from the years 2005 through 2008.

(12) Options vest at a rate of 25% annually on May 10 from the years 2005 through 2008.

(13) Options vest at a rate of 25% annually on October 28 from the years 2004 through 2007.

(14) A restricted stock grant totaling 100,000 shares was made to Mr. Anderson under our 2002 Stock Incentive Plan on November 1, 2004. These shares vest at a rate of 25% of the shares on each of the first four anniversaries of the date of grant.

(15) Based on the per share closing market price of our common stock on December 29, 2006 (the last trading day of the fiscal year 2006) of $53.73.

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(16) Options vest at a rate of 25% annually on November 1 from the years 2005 through 2008.

(17) Options vest at a rate of 25% annually on December 7 from the years 2005 through 2008.

(18) Options vest at a rate of 25% annually on November 28 from the years 2004 to 2007.

(19) Options vest at a rate of 25% annually on August 6 from the years 2005 through 2008.

(20) Options vest at a rate of 25% annually on January 1 from the years 2006 through 2009.

(21) Options vest at a rate of 25% annually on January 1 from the years 2005 through 2008.

(22) Options vest at a rate of 25% annually on January 1 from the years 2004 through 2007.

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2006 Option Exercises and Stock Vested

The following table presents information regarding the exercise of stock options and the vesting of restricted stock awards during 2006 by or for our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers for fiscal 2006, our former Chairman and Chief Executive Officer, our former Chief Financial Officer, and our former General Counsel and Secretary.

	Option Awards		Stock Awards	
Name	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise ($)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting ($)
(a)	(b)	(c)	(d)	(e)
Stephen J. Hemsley				
President and Chief Executive Officer				
George L. Mikan III				
Executive Vice President and Chief Financial Officer				
Richard H. Anderson			25,000 (1)	1,207,500 (2)
Executive Vice President and President of Commercial Services Group				
Lois E. Quam				
Executive Vice President and President of Public and Senior Markets Group				
David S. Wichmann				
Executive Vice President and President of Individual and Employer Markets Group				
Patrick J. Erlandson				
Former Chief Financial Officer				
Departed Executive Officers				
William W. McGuire, M.D.	2,300,000	124,418,547 (3)		
Former Chairman and Chief Executive Officer				
David J. Lubben				
Former General Counsel and Secretary				

(1)

A restricted stock grant totaling 100,000 shares was made to Mr. Anderson under the Company s 2002 Stock Incentive Plan on November 1, 2004. These shares vest at a rate of 25% of the shares on each of the first four anniversaries of the date of grant (25,000 of which vested on November 1, 2006). The Company withheld a total of 10,328 shares to satisfy tax withholding obligations upon the vesting of 25,000 shares of restricted stock on November 1, 2006.

(2) Computed by multiplying 25,000, the number of shares that vested on November 1, 2006, by $48.30, the per share closing price of UnitedHealth Group common stock reported on the NYSE on November 1, 2006.

(3) Computed by multiplying the number of shares acquired upon exercise of 2,300,000 stock options by the difference between the per share price of our common stock reported on the NYSE at the time of exercise ($59.10) on February 23, 2006 and the exercise price of the options (1,570,496 options had an exercise price of $5.00; 729,504 options had an exercise price of $5.0157).

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2006 Pension Benefits

The following table presents information regarding the present value of accumulated benefits payable under our non-qualified defined-benefit pension plans covering our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers for fiscal 2006, our former Chairman and Chief Executive Officer, our former Chief Financial Officer, and our former General Counsel and Secretary.

Name	Plan Name	Number of Years Credited Service (#)	Present Value of Accumulated Benefit ($)	Payments During Last Fiscal Year ($)
(a)	(b)	(c)	(d)	(e)
Stephen J. Hemsley President and Chief Executive Officer	Individual Agreement for Supplemental Executive Retirement Pay	(1)	10,703,229 (1)	
George L. Mikan III Executive Vice President and Chief Financial Officer	N/A			
Richard H. Anderson Executive Vice President and President of Commercial Services Group	N/A			
Lois E. Quam Executive Vice President and President of Public and Senior Markets Group	N/A			
David S. Wichmann Executive Vice President and President of Individual and Employer Markets Group	N/A			

Patrick J. Erlandson Former Chief Financial Officer	N/A		
Departed Executive Officers			
William W. McGuire, M.D. Former Chairman and Chief Executive Officer	Individual Agreement for Supplemental Executive Retirement Pay	(2)	91,303,885 (2)
David J. Lubben Former General Counsel and Secretary	N/A		

(1) Upon termination of Mr. Hemsley s employment for any reason, a lump-sum benefit of $10,703,229, will be paid six months and one day after his termination. In the event of Mr. Hemsley s death prior to payment of his entire supplemental retirement benefit, his surviving spouse will receive any unpaid benefit. The dollar amount of this lump sum benefit will not vary, regardless of Mr. Hemsley s age, years of service or average compensation at the time of his actual termination.

(2) Upon termination of Dr. McGuire s employment for any reason, a supplemental retirement benefit is payable, expressed in terms of an annual lifetime benefit, equal to 58% of his average cash

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compensation (as defined in his agreement, but generally consisting of base salary, short-term annual cash incentive awards and long-term cash incentive awards) for the three calendar years immediately preceding his termination of employment. The present value of the accumulated benefit was computed using a 4% discount rate as specified in his agreement and IRS Revenue Ruling 2001-62 unisex mortality tables. Under his supplemental executive retirement plan, amounts that were vested as of December 31, 2004 will be paid as an annual annuity. Under the supplemental retirement plan, amounts that accrue for service for 2005 into the future will be paid in a lump sum, calculated using a 4% discount rate. Based on Dr. McGuire s termination of employment on November 30, 2006, the present value of Dr. McGuire s benefit was $91,303,885. On November 29, 2006, the United States District Court for the District of Minnesota issued an Order, providing, among other things, that while the preliminary injunction is in effect, the Company cannot make any payments to Dr. McGuire under his supplemental executive retirement plan. See Compensation Discussion and Analysis-Compensation of Departed Named Executive Officers above for a description the Order.

2006 Nonqualified Deferred Compensation

The following table presents information as of the end of 2006 regarding the non-qualified deferred compensation arrangements for our Chief Executive Officer, our Chief Financial Officer, each of our three other most highly compensated executive officers for fiscal 2006, our former Chairman and Chief Executive Officer, our former Chief Financial Officer, and our former General Counsel and Secretary.

Name	Executive Contributions in Last FY ($) (1) (2)	Registrant Contributions in Last FY ($) (1) (3)	Aggregate Earnings in Last FY ($) (4)	Aggregate Withdrawals/ Distributions ($) (5)	Aggregate Balance at Last FYE ($)
(a)	(b)	(c)	(d)	(e)	(f)
Stephen J. Hemsley	949,620	96,060	230,823		5,484,190
President and Chief Executive Officer					
George L. Mikan III	29,562	14,781	9,713		154,075
Executive Vice President					
and Chief Financial Officer					
Richard H. Anderson	45,065	13,292	18,869		145,024
Executive Vice President					
and President of					
Commercial Services Group					
Lois E. Quam	63,308	25,077	60,288		605,433
Executive Vice President					
and President of Public and					
Senior Markets Group					
David S. Wichmann	44,100	22,050	146,746		1,099,947

Executive Vice President				
and President of Individual				
and Employer Markets Group				
Patrick J. Erlandson	22,200	8,238	25,719	218,002
Former Chief Financial Officer				
Departed Executive Officers				
William W. McGuire, M.D.	462,295	231,148	1,278,291	11,541,340
Former Chairman and				
Chief Executive Officer				
David J. Lubben	43,500	21,750	63,952	670,424
Former General Counsel and Secretary				

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(1) All amounts in columns (b) and (c) are reported as compensation in the 2006 Summary Compensation Table. In addition to the amounts shown in columns (b) and (c), column (f) includes the following amounts reported in the Summary Compensation Table for prior years: Mr. Hemsley $4,287,813; Mr. Anderson $68,238; Mr. Wichmann $478,889; Dr. McGuire $8,349,815; and Mr. Lubben $427,044. Because Messrs. Mikan and Erlandson and Ms. Quam were not previously named executive officers, their compensation has not previously been reported.

(2) Along with certain other highly compensated employees of the Company, executive officers participate in our Executive Savings Plan, which is a nonqualified, unfunded deferred compensation plan. Under the plan, employees may generally defer up to 100% of their eligible annual base salary (80% effective January 1, 2007), annual incentive awards, and long-term cash incentive awards. In addition, employee deferrals may be made to the plan when an employee s contributions to the Company s 401(k) plan reach certain limits imposed by the Internal Revenue Code (the 401(k) restoration option). Amounts deferred, including company credits, are credited to a bookkeeping account maintained for each participant, and are distributable pursuant to an election made by the participant as to time and form of payment that is made prior to the time of deferral. The Company maintains a Rabbi Trust for the plan. The Company s practice is to set aside amounts in the Rabbi Trust to be used to pay for all benefits under the plan, but the Company is under no obligation to do so except in the event of a change in control.

(3) For the first 6% of the employee s 401(k) restoration option and annual incentive award deferrals under our Executive Savings Plan, the Company provides a matching credit of up to 50% of amounts deferred at the time of each deferral. This matching credit does not apply to deferrals of salary (apart from the 401(k) restoration option), long-term cash incentive awards, or other special incentive awards.

(4) Amounts deferred are credited with earnings from measuring investments selected by the employee from a collection of unaffiliated mutual funds identified by the Company. The returns on those mutual funds for the year ended December 31, 2006 ranged from 4.43% to 22.17%, with a median return of 13.72%. Executives may change their selection of measuring investments on a daily basis (effective January 1, 2007*).*

(5) Under our Executive Savings Plan, unless a participant in the plan elects to receive distributions during the term of his or her employment with the Company, benefits will be paid no earlier than at the beginning of the year following the executive s termination. However, upon a showing of severe financial hardship, an executive may be allowed to access funds in his or her deferred compensation account earlier. Benefits can be received either as a lump sum payment, in five or ten annual installments, in pre-selected amounts and on pre-selected dates, or a combination thereof. A participant may change his or her election with respect to the timing and form of distribution for such deferrals. However, for deferrals relating to services performed on or after January 1, 2004, participants may not accelerate the timing of the distributions.

Executive Employment Agreements

We have entered into an employment agreement with each of the executive officers named in the 2006 Summary Compensation Table.

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Stephen J. Hemsley On November 7, 2006, the Board entered into an employment agreement with Mr. Hemsley to serve as President and CEO. The employment agreement provides for a four-year term, which will extend automatically for additional one-year periods unless sooner terminated in accordance with the terms of the employment agreement. During the period of his employment, the Board will nominate Mr. Hemsley for election by the shareholders of the Company to the Board.

Under the employment agreement, Mr. Hemsley will receive a base salary of $1,300,000, with any increases in the sole discretion of the Compensation Committee and ultimately the independent members of the Board. The employment agreement does not set any minimum or target level for any bonus or other incentive compensation. All bonus and incentive compensation awards are solely at the discretion of the Compensation Committee. Mr. Hemsley is eligible to participate in the Company s generally available employee benefit programs. The Company previously announced on May 1, 2006 that it was discontinuing equity-based awards for a small number of the Company s most senior and longest tenured executives, including Mr. Hemsley.

Upon termination of Mr. Hemsley s employment for any reason, he is entitled to a previously accrued and vested lump sum supplemental retirement benefit of $10,703,229, to be paid six months and one day after his termination. As previously announced, the amount of the lump sum retirement benefit has been frozen at the amount accrued as of May 1, 2006 and will not increase or otherwise vary, regardless of Mr. Hemsley s age, years of service or average compensation at the time of his actual termination.

If Mr. Hemsley s employment is terminated by the Company without Cause (as defined in the employment agreement, Cause generally means willful and continued failure to perform his duties after written notice and a failure to remedy such deficiency, a violation of the Company s Code of Conduct that is materially detrimental to the Company and is not remedied after written notice, engaging in fraud, material dishonesty or gross misconduct in connection with the Company s business or conviction of a felony), other than upon expiration of the term of the employment agreement, or by Mr. Hemsley for Good Reason (as defined in the employment agreement, generally meaning an assignment of duties inconsistent with his position or duties, a relocation of the Company s principal place of business, failure by the Board to elect Mr. Hemsley as CEO, failure by the Board to nominate Mr. Hemsley to serve on the Board, the Company s failure to pay or provide Mr. Hemsley s base salary, incentive compensation or other benefits, or any other material breach of Mr. Hemsley s employment agreement that is not remedied), the Company will pay Mr. Hemsley his annual base salary for the longer of the remainder of the term under the employment agreement or twelve months.

If Mr. Hemsley s employment is terminated because of his death or permanent disability, the Company will pay him or his beneficiaries two years total compensation of base salary plus the last two calendar years average bonus, excluding any special or one-time bonus or incentive compensation payments.

If Mr. Hemsley is terminated by the Company for Cause, by Mr. Hemsley without Good Reason or because of his retirement or upon expiration of the term of the employment agreement, he will not be entitled to any further compensation from the Company other than earned but unpaid salary and benefits.

Pursuant to the employment agreement, Mr. Hemsley is subject to provisions prohibiting his solicitation of the Company s employees and customers or competing with the Company during the term of the employment agreement and the longer of two years following termination or the period that severance payments are made to him under the employment agreement. In addition, he is prohibited at all times from disclosing confidential information related to the Company.

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George L. Mikan III, Richard H. Anderson and David S. Wichmann Each of Messrs. Mikan, Anderson and Wichmann entered into an employment agreement with the Company, effective as of November 7, 2006 for the employment agreement of Mr. Mikan and effective as of December 1, 2006 for the employment agreements of Messrs. Anderson and Wichmann, each to serve as an executive officer of the Company. The titles of these executive officers are specified in the 2006 Summary Compensation Table above.

Under their respective employment agreements, Messrs. Mikan, Anderson and Wichmann will report to the President and CEO of the Company and will receive a base salary of $650,000, $800,000, and $675,000, respectively, with any adjustments in the discretion of the Compensation Committee. These executive officers are eligible to participate in the Company s incentive compensation plans. The amount of any actual bonus payable to each executive officer is in the discretion of the Compensation Committee. These executive officers also are eligible to receive stock-based awards in the discretion of the Compensation Committee and to participate in the Company s generally available employee benefit programs. During the term of each executive officer s employment, in addition to the Company s generally available benefits, the Company will provide such executive officer, at the Company s expense, a $2 million face value term life insurance policy and a long-term disability policy which covers 60% of his base salary in the event of a qualifying long-term disability, subject to the terms of the policy.

Each employment agreement and each executive officer s employment may be terminated (a) at any time by the Company with or without Cause (as defined in the employment agreement and described below), (b) at any time by the executive officer with or without Good Reason (as defined in the employment agreement and described below), and (c) upon the executive officer s death or disability that renders him incapable of performing the essential functions of his job, with or without reasonable accommodation. If an executive officer s employment is terminated by the Company without Cause or by the executive officer for Good Reason, the Company will provide the executive officer with outplacement services consistent with those provided to similarly situated executives and pay the executive officer severance compensation equal to the sum of (a) 200% of his annualized base salary as of his termination date, and (b) 200% of the average of his last two calendar years bonus, excluding any equity awards and any special or one-time bonus or incentive compensation payments (except if termination occurs within two years following the effective date of the executive officer s employment agreement, the amount payable will be 200% of the greater of the executive officer s target incentive or the most recent year s annual bonus after the first year anniversary of the effective date of the employment agreement), and (c) $12,000 to offset the costs of benefit continuation coverage. The severance compensation will be payable over a 24-month period.

For purposes of each applicable employment agreement, Cause generally means material failure to follow the Company s reasonable direction or to perform any duties reasonably required on material matters, a material violation of, or failure to act upon or report known or suspected violations of, the Company s Principles of Integrity and Compliance, conviction of a felony, commission of any criminal or dishonest act or any conduct that is materially detrimental to the interests of the Company, or material breach of the employment agreement. The employment agreement provides that the Company will, within 120 days of the discovery of the conduct constituting Cause, give the executive officer written notice specifying the conduct constituting Cause in reasonable detail and the executive officer will have 60 days to remedy such conduct, if the conduct is reasonably capable of being remedied. In any instance where the Company may have grounds for Cause, failure by the Company to provide written notice of the grounds for Cause within 120 days of discovery will be a waiver of its

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right to assert the subject conduct as a basis for termination for Cause. For purposes of each applicable employment agreement, Good Reason will generally exist if the Company (a) reduces the executive officer s base salary or long- or short-term target bonus percentage other than in connection with a general reduction affecting a group of similarly situated employees, (b) moves the executive officer s primary work location more than 50 miles, (c) makes changes that substantially diminish the executive officer s duties or responsibilities, or (d) changes the executive officer s reporting relationship away from the President and CEO of the Company. The employment agreement provides that the executive officer must give the Company written notice specifying in reasonable detail the circumstances constituting Good Reason within 120 days of becoming aware of such circumstances, or such circumstances will not constitute Good Reason. If the circumstances constituting Good Reason are reasonably capable of being remedied, the Company will have 60 days to remedy such circumstances.

Pursuant to their respective employment agreements, each executive officer is subject to provisions prohibiting his solicitation of the Company s employees or competing with the Company during the term of the employment agreement and two years following termination for any reason. In addition, each executive officer is prohibited at all times from disclosing confidential information related to the Company.

Lois E. Quam Ms. Quam entered into an employment agreement, effective as of October 16, 1998, as amended, to serve as an executive of the Company. The agreement remains in effect until terminated by either the Company or Ms. Quam under certain circumstances. Under the agreement, Ms. Quam is eligible to receive a base salary and participate in our incentive bonus and stock plans and our other employee benefit plans. If Ms. Quam is terminated without Cause (as defined in the employment agreement and described below) or terminates due to a Change in Employment (as defined in the employment agreement and described below), she is entitled to receive two times the sum of (i) her annual base salary at the time of termination plus (ii) one-half of the total bonus payments made to her for the prior two calendar years, paid in biweekly payments over a 12-month period. Severance also includes reasonable job search fees and a one-time cash payment equal to the Company s portion of employee-only health, dental and group term life insurance benefits for 12 months.

Under the terms of her employment agreement, a termination without Cause generally means a termination other than for a refusal to follow the direction of the Board of Directors or her supervisor or a failure to perform required duties on material matters, in each case that is not cured after notice, a material violation of the Company s Code of Conduct or commission of crime or act of fraud or dishonesty in connection with her employment. The agreement generally provides that a Change in Employment will be deemed to have occurred if Ms. Quam s duties are materially and adversely changed without her prior consent, her salary or benefits are reduced (other than a general reduction of salaries by the Company), the termination of the employment agreement without the termination of employment of Ms. Quam, or the geographic location for the performance of her duties is moved more than 50 miles without her prior consent.

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During the term of her agreement and during certain periods of time following termination of the agreement, Ms. Quam is subject to confidentiality, non-solicitation and non-competition provisions.

Patrick J. Erlandson Mr. Erlandson entered into an employment agreement, effective as of October 1, 1998, as amended, to serve as an executive of the Company. The agreement remains in effect until terminated by either the Company or Mr. Erlandson under certain circumstances. Under the agreement, Mr. Erlandson is eligible to receive base salary and participate in our incentive bonus and stock plans and our other employee benefit plans. If Mr. Erlandson is terminated without Cause, (as defined in the employment agreement and described below) or terminates due to a Change in Employment (as defined in the employment agreement and described below), he is entitled to receive his annual base salary at the time of termination plus one-half of the total bonus payments made to him for the prior two calendar years, paid in biweekly payments over a 12-month period. Severance also includes reasonable job search fees and a one-time cash payment equal to the Company s portion of employee-only health, dental and group term life insurance benefits for twelve months.

Under the terms of his employment agreement, a termination without Cause generally means a termination other than for a refusal to follow the direction of the Board of Directors or his immediate supervisor or a failure to perform required duties on material matters, in each case that is not cured after notice, a material violation of the Company s Code of Conduct or commission of crime or act of fraud or dishonesty in connection with his employment. The agreement generally provides that a Change in Employment will be deemed to have occurred if Mr. Erlandson s duties are materially and adversely changed without his prior consent, his salary or benefits are reduced (other than a general reduction of salaries by the Company), the termination of the employment agreement without the termination of employment of Mr. Erlandson, or the geographic location for the performance of his duties is moved more than 50 miles without his prior consent.

During the term of his agreement and during certain periods of time following termination of the agreement, Mr. Erlandson is subject to confidentiality, non-solicitation and non-competition provisions.

William W. McGuire, M.D. Dr. McGuire entered into an employment agreement, effective as of October 13, 1999, as amended on August 5, 2005, to serve as Chief Executive Officer of the Company. The employment of Dr. McGuire ended on November 30, 2006. The Company has not entered into any agreement with Dr. McGuire with respect to his departure.

As discussed under Compensation Discussion and Analysis Compensation of Departed Named Executive Officers above, on November 29, 2006, the United States District Court for the District of Minnesota entered an Order preliminarily enjoining Dr. McGuire from exercising any Company stock options without Court approval and preliminarily enjoining the Company and Dr. McGuire from taking any further action pursuant to or having an effect on Dr. McGuire s employment agreement, as amended, and other related agreements. The Order also provides that while the preliminary injunction is in effect, the Company cannot make any payments to Dr. McGuire under these agreements, including any payments under Dr. McGuire s supplemental executive retirement plan. See Compensation Discussion and Analysis Compensation of Departed Named Executive Officers above for a description of the Order. See Potential Payments Upon Termination or Change-in-Control below for a discussion that applies specifically to the Company s employment agreement with Dr. McGuire in connection with potential payments to Dr. McGuire upon termination of employment. The Company has taken no position with respect to these employment agreement provisions.

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David J. Lubben Mr. Lubben entered into an employment agreement, effective as of October 16, 1998, as amended, to serve as General Counsel and Secretary of the Company. On October 15, 2006, Mr. Lubben stepped down from these positions and left the Company on December 30, 2006. The Company has not entered into any agreement with Mr. Lubben with respect to his departure. See Potential Payments Upon Termination or Change-in-Control below for a discussion that applies specifically to the Company s employment agreement with Mr. Lubben in connection with potential payments to Mr. Lubben upon termination of employment. The Company has taken no position with respect to these employment agreement provisions.

Potential Payments Upon Termination or Change-in-Control

The following discussion does not address those benefits, plans or arrangements that would be paid or available following termination of employment that do not discriminate in scope, terms or operation in favor of the executive officers of the Company and that are generally available to all salaried employees.

Executive Incentive Plan

As discussed under Compensation Discussion and Analysis above, annual cash incentive awards and long-term cash incentive awards are made to our executive officers, including the named executive officers, under our shareholder-approved Executive Incentive Plan. All executives who participate in the Executive Incentive Plan are subject to the same terms and conditions in the event of termination of employment or a change-in-control.

Annual Cash Incentive Awards. No annual cash incentive award will be paid to an executive who is not actively employed by the Company at the time the award would otherwise be paid, except in the case of death or permanent disability. In the event an executive dies or becomes permanently disabled before the end of a performance period or after the end of a performance period but before the award is paid, the Compensation Committee may, in its discretion, determine that the executive (or the executive s estate) be paid a pro rated portion of the award that the executive would have received but for the death or disability. Assuming death or disability occurred as of December 31, 2006, the estimated target and maximum annual cash incentive awards to Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam would have been the estimated target and maximum annual cash incentive amounts specified under the column (d) and column (e) of the 2006 Grants of Plan-Based Awards table. See the 2006 Grants of Plan-Based Awards table and the accompanying note (5) to the table for details.

Long-Term Cash Incentive Awards. No long-term cash incentive awards will be paid to an executive who is not actively employed by the Company at the time the award would otherwise be paid, except in the case of death or permanent disability. In the event an executive dies or becomes permanently disabled before the end of a performance period or after the end of a performance period but before the award is paid, the Compensation Committee may, in its discretion, determine that the executive (or the executive s estate) be paid a pro rated portion of the award that the executive would have received but for the death or disability. In such event, the pro rationing will be based on the portion of the performance period prior to death or disability, and the measurement of Company and executive performance will be based on performance through the end of the fiscal year of the Company which ends closest to the executive s date of death or disability.

In the event of a change-in-control, the Company or its successor must pay each executive (or credit to the executive s account in the Company s Executive Savings Plan if a timely deferral election is in effect) a pro rated portion of the maximum long-term cash incentive award for which the executive

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is eligible for each performance period within 90 days of the occurrence. A change-in-control for this purpose generally means any of the following events: (i) the acquisition of 20% or more of the Company s outstanding common stock or combined voting power of the Company s outstanding voting securities in a transaction or series of transactions not approved in advance by a vote of at least three-quarters of the Continuing Directors (as described below), (ii) if individuals who, as of January 1, 2002 constitute the Board of Directors (including Continuing Directors) cease for any reason to constitute at least a majority, (iii) approval by the shareholders of a reorganization, merger, consolidation, liquidation or dissolution of the Company or of the sale of all or substantially all of the assets of the Company not approved in advance by a vote of at least three-quarters of the Continuing Directors (as described below), (iv) the first purchase under any tender offer or exchange offer pursuant to which shares of the Company s common stock are purchased, or (v) at least a majority of the Continuing Directors determine in their sole discretion that there has been a change-in-control of the Company. A director as of January 1, 2002 or any person becoming a director subsequent to January 1, 2002 whose nomination for election was approved in advance by a vote of at least three-quarters of the Continuing Directors is deemed to be a Continuing Director.

Assuming death or disability occurred as of December 31, 2006, the target long-term cash incentive awards to Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam for the 2004-2006 performance period would have been approximately $510,000, $48,000, $215,000, $241,000, $227,000 and $219,000, respectively, and the maximum long-term cash incentive awards to Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam for the 2004-2006 performance period would have been approximately $1,019,000, $97,000, $431,000, $482,000, $453,000 and $438,000, respectively. The Compensation Committee also has the discretion to pay a pro rata award for the 2005-2007 and the 2006-2008 performance periods. Assuming death or disability occurred as of December 31, 2006 and that the Compensation Committee exercised this discretion, the pro rated maximum long-term cash incentive awards to Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam for the 2005-2007 performance period would have been approximately $673,000, $106,000, $404,000, $327,000, $310,000 and $298,000, respectively, and for the 2006-2008 performance period would have been approximately $340,000, $106,000, $204,000, $166,000, $155,000 and $160,000, respectively.

Assuming a change-in-control occurred as of December 31, 2006, the pro rated maximum long-term cash incentive awards to Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam for all performance periods would have been $2,032,000, $309,000, $1,039,000, $975,000, $918,000 and $897,000, respectively. These amounts are based on the executives actual base compensation earned during 2005 and 2006, with no projected base compensation assumed for 2007.

Executive Savings Plan

As described under Compensation Discussion and Analysis above, executive officers may participate in our Executive Savings Plan, which is a non-qualified, unfunded deferred compensation plan that permits an executive to defer receipt of up to 80% (100% prior to 2007) of his or her base salary and up to 100% of his or her annual and/or long-term cash incentives. In addition, consistent with market practice, under the Executive Savings Plan, we provide a matching credit of up to 50% of amounts deferred at the time of each deferral, but this matching credit applies only to the first 6% of the executive s base salary and annual cash incentive awards deferrals, and does not apply to deferrals of long-term performance awards or other special incentive awards. All of our current named executive officers participate in this plan.

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In the event of termination for any reason, our named executive officers will be entitled to receive payment of the amounts disclosed under the 2006 Nonqualified Deferred Compensation table in the time and manner determined under their elections with respect to distributions under the plan. Should the Company determine that a delay in payment is necessary in order to comply with Section 409A of the Internal Revenue Code, all or a portion of the amounts disclosed under the 2006 Nonqualified Deferred Compensation table will be delayed six months and one day after separation from service.

2002 Stock Incentive Plan

All outstanding equity-based compensation awards to employees (other than equity awards assumed in connection with certain acquisitions) have been awarded under one of three equity-based compensation plans, the most recent of which, the shareholder-approved 2002 Stock Incentive Plan, is the source of current equity awards. All current outstanding unvested equity awards to our named executive officers were granted under this plan. All employees who receive equity awards under the 2002 Stock Incentive Plan are subject to the same terms and conditions in the event of a termination of employment or a change-in-control. In the event an equity award holder is entitled to severance under any employment agreement, vesting will continue for the period of such severance.

Change-in-Control. In the event of a change-in-control of the Company, all outstanding unvested equity awards will vest immediately. For this purpose, a change-in-control means the sale of all or substantially all of the Company s assets or any merger, reorganization, or exchange or tender offer which, in each case, will result in a change in the power to elect 50% or more of the members of the Board of Directors of the Company.

Assuming a change-in-control occurred as of December 31, 2006, the intrinsic value of the unvested options and SARs held by Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam that would become vested upon a change-in-control would have been approximately $29.3 million, $5.6 million, $3.9 million, $7.5 million, $5.5 million, and $5.2 million, respectively, and the intrinsic value of the unvested restricted stock held by Mr. Anderson that would become vested upon a change-in-control would have been approximately $2.7 million. The intrinsic value of the options and SARs was calculated based on the difference between the closing price of the Company s stock on December 29, 2006 ($53.73) and the exercise or grant price of the unvested stock options and SARs as of such date. The intrinsic value of the restricted stock was calculated based on the closing price of the Company s stock on December 29, 2006.

Termination Upon Death or Permanent Disability. If an equity award holder dies or becomes permanently disabled and is unable to return to work, all outstanding unvested equity awards held by such holder will immediately vest, and the holder (or the holder s personal representative, administrator or guardian as applicable) may exercise the equity awards at any time within a period of five years (but not after the award s expiration date) following termination of employment due to death or disability or for such longer period at the discretion of the Compensation Committee. Assuming death or permanent disability occurred as of December 31, 2006, the intrinsic value of the unvested equity awards held by Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam that would become vested upon such termination event would have been equal to the amounts specified under Change-in-Control above.

Termination for Retirement. Equity awards granted between 2002 and 2005 provide that if an equity award holder s employment is terminated other than by reason of death or disability and has attained age 55 and whose age plus years of service with the Company total 65 or more, such termination will be deemed retirement. In the event of retirement, any unvested equity awards will

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continue to vest as if the equity award holder had not terminated employment and, in the case of stock options, the holder may exercise the options at any time within a period of five years (but not after the award s expiration date) following termination of employment or for such longer period at the discretion of the Compensation Committee. Assuming retirement occurred as of December 31, 2006, the intrinsic value of the unvested options held by Messrs. Hemsley, Mikan, Anderson, Wichmann and Erlandson and Ms. Quam that would become vested upon retirement would have been approximately $29.3 million, $5.0 million, $3.1 million, $6.8 million, $4.8 million, and $4.4 million, respectively, and the intrinsic value of the unvested restricted stock held by Mr. Anderson that would become vested upon retirement would have been $2.7 million.

Employment Agreements

Stephen J. Hemsley

The following discussion applies specifically to the Company s employment agreement with Mr. Hemsley in connection with potential payments to Mr. Hemsley upon termination of employment or a change-in-control. The defined terms used in this section and the terms of the employment agreement are described in greater details under Executive Employment Agreements above.

Termination for Any Reason. Upon termination of Mr. Hemsley s employment for any reason, he is entitled to a previously accrued and vested lump sum supplemental retirement benefit of approximately $10.7 million, to be paid six months and one day after his termination. As previously announced, the amount of the lump sum retirement benefit has been frozen at the amount accrued as of May 1, 2006 and will not increase or otherwise vary, regardless of Mr. Hemsley s age, years of service or average compensation at the time of his actual termination. See the Pension Benefits table for additional details. Had Mr. Hemsley s employment terminated for any reason on December 31, 2006, he or his beneficiaries would have been entitled to this lump sum payment.

Termination Without Cause or for Good Reason. Had Mr. Hemsley s employment terminated without Cause or for Good Reason on December 31, 2006, total cash payments to him or his beneficiaries would have been equal to payment of his base salary for the remainder of his initial term under his employment agreement, or approximately $5.1 million, plus the lump sum amount described in Termination for any Reason above.

Termination Upon Death or Disability. Had Mr. Hemsley s employment terminated on December 31, 2006 as a result of death or permanent disability, total cash payments to him or his beneficiaries would have been equal to two years total compensation of his base salary plus the last two years average bonus, or approximately $6.9 million, plus the lump sum amount described in Termination for Any Reason above.

George L. Mikan III, Richard H. Anderson and David S. Wichmann

The following discussion applies specifically to the Company s employment agreements with Messrs. Mikan, Anderson and Wichmann in connection with potential payments to such executive officers upon termination of employment or a change-in-control. The defined terms used in this section and the terms of the employment agreements are described in greater detail under Executive Employment Agreements above.

Termination Without Cause or for Good Reason. Had Messrs. Mikan, Anderson and Wichmann s employment terminated on December 31, 2006 without Cause or for Good Reason, cash payments to

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Messrs. Mikan, Anderson and Wichmann would have been equal to 24 months of such executive s base salary plus 200% of the executive s target bonus, or approximately $2.5 million, $3.2 million and $2.6 million, respectively. The severance compensation will be payable over a 24-month period. In addition, each executive will be entitled to receive a $12,000 cash payment to offset the costs of benefits continuation coverage, and will be provided with outplacement services.

Termination Upon Disability. In addition to the Company s generally available benefits, the Company provides Messrs. Mikan, Anderson and Wichmann with a long term disability policy which covers 60% of their respective base salaries in the event of a qualifying disability. Had Messrs. Mikan, Anderson and Wichmann s employment been terminated due to disability on December 31, 2006, this supplemental annual disability benefit to Messrs. Mikan, Anderson and Wichmann, respectively, would have been approximately $390,000, $480,000 and $405,000, respectively.

Termination Upon Death. In addition to the Company s generally available benefits, the Company provides Messrs. Mikan, Anderson and Wichmann term life insurance with a face value of $2 million. Accordingly, had Messrs. Mikan, Anderson, and Wichmann s employment been terminated due to death on December 31, 2006, the life insurance benefits to Messrs. Mikan, Anderson and Wichmann would have been $2 million.

Lois E. Quam

The following discussion applies specifically to the Company s employment agreement with Ms. Quam in connection with potential payments to Ms. Quam upon termination of employment or a change-in-control. The defined terms used in this section and the terms of the employment agreement are described in greater detail under Executive Employment Agreements above.

Termination Without Cause or Change in Employment. Had Ms. Quam s employment been terminated without Cause or due to a Change in Employment on December 31, 2006, cash payments to Ms. Quam would have been equal to two times the sum of (i) her annual base salary plus (ii) one-half of the total bonus payments made to her for the prior two calendar years, or approximately $2.3 million. The severance compensation would be payable over a twelve-month period. In addition, Ms. Quam would be entitled to a lump sum cash payment in an amount equal to the premiums the Company pays for employee-only health, dental and group term life insurance coverage, which would be approximately $6,000. The Company would also pay an outplacement firm selected by the Company job search fees during her severance period, which would be approximately $10,000.

Patrick J. Erlandson

The following discussion applies specifically to the Company s employment agreement with Mr. Erlandson in connection with potential payments to Mr. Erlandson upon termination of employment or a change-in-control. The defined terms used in this section and the terms of the employment agreement are described in greater detail under Executive Employment Agreements above.

Termination Without Cause or Change in Employment. Had Mr. Erlandson been terminated without Cause or due to a Change in Employment on December 31, 2006, cash payments to Mr. Erlandson would have been equal to the sum of (i) his annual base salary plus (ii) one-half of the total bonus payments made to him for the prior two calendar years, or approximately $688,000. The severance compensation would be payable over a twelve-month period. In addition, Mr. Erlandson would be entitled to a lump sum cash payment in an amount equal to the premiums the Company pays

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for employee-only health, dental and group term life insurance coverage, which would be approximately $6,000. The Company would also pay an outplacement firm selected by the Company job search fees during his severance period, which would be approximately $10,000.

William W. McGuire, M.D.

The employment of Dr. McGuire, our former Chairman of the Board and CEO, ended on November 30, 2006. The Company has not entered into any agreement with Dr. McGuire with respect to his departure.

As discussed under Compensation Discussion and Analysis Compensation of Departed Named Executive Officers above, on November 29, 2006, the United States District Court for the District of Minnesota entered an Order preliminarily enjoining Dr. McGuire from exercising any Company stock options without Court approval and preliminarily enjoining the Company and Dr. McGuire from taking any further action pursuant to or having an effect on Dr. McGuire s employment agreement, as amended, any stock option agreements, as amended, and other related agreements, in each case until 30 days after a final decision is reached by the Special Litigation Committee regarding Dr. McGuire. The Order also provides that while the preliminary injunction is in effect, the Company cannot make any payments to Dr. McGuire under these agreements, including any payments under Dr. McGuire s supplemental executive retirement plan. See Compensation Discussion and Analysis Compensation of Departed Named Executive Officers above for a description of the Order.

The following discussion applies specifically to the Company s employment agreement with Dr. McGuire in connection with potential payments to Dr. McGuire upon termination of employment. As of the date of this proxy statement, the Special Litigation Committee has not reached a final decision as to Dr. McGuire. The Company has taken no position with respect to these provisions.

Termination for Any Reason. In connection with Dr. McGuire s termination of employment on November 30, 2006, Dr. McGuire may receive, under the terms of his employment agreement, payments under his supplemental executive retirement plan as disclosed under the 2006 Pension Benefits table above. Dr. McGuire is not entitled to any cash severance payments upon termination of his employment for any reason.

Termination for Any Reason Other Than by the Company for Cause. Pursuant to an amendment to Dr. McGuire s employment agreement adopted effective August 5, 2005, Dr. McGuire s termination will be considered a termination of his employment by reason of retirement in good standing unless it is determined that his employment was terminated by the Company for Cause (as this term is defined in Dr. McGuire s employment agreement; generally, Cause means a termination for willful and continued failure to perform his duties after written notice and a failure to remedy such deficiency, a violation of the Company s Code of Conduct that is materially detrimental to the Company and not remedied after written notice, conviction of a felony or any other willful and material breach of the employment agreement that is not remedied after written notice).

In addition, upon Dr. McGuire s termination other than for Cause, the agreement provides that all of his stock options that were not vested at the time of termination would become vested and exercisable, and all of his options would remain exercisable for a period of 72 months after his termination of employment (subject to earlier termination upon expiration of the option in accordance with the terms of such option). The intrinsic value of the unvested options held by Dr. McGuire that would become vested upon such termination event would have been approximately $50 million as of

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November 30, 2006. The intrinsic value of the options was calculated based on the difference between the closing price of the Company s stock on November 30, 2006 ($49.08) and the exercise price of the unvested stock options as of such date.

Dr. McGuire s employment agreement also provides for certain post-termination benefits, including but not limited to payments for health and disability coverage. On May 1, 2006, the Board of Directors enacted a package of governance and compensation improvements, including the elimination of various types of executive benefits, such as some of those in Dr. McGuire s employment agreement.

Termination for Cause. Notwithstanding the foregoing items, if Dr. McGuire is determined to have been terminated for Cause, he would not be entitled to the post-termination benefits described above. In addition, all of his outstanding unvested stock options would terminate. Dr. McGuire may, however, receive payment of the supplemental executive retirement plan amounts described under Termination for Any Reason above and under the 2006 Pension Benefits table.

David J. Lubben

On October 15, 2006, Mr. Lubben, who had served as General Counsel and Secretary of the Company since October 1996, stepped down from these positions and his employment with the Company ended on December 30, 2006. The Company has not entered into any agreement with Mr. Lubben with respect to his departure.

The following discussion applies specifically to the Company s employment agreement with Mr. Lubben in connection with potential payments to Mr. Lubben upon termination of employment. Mr. Lubben has asserted a right to severance benefits, including severance payments, under the agreement. The Company has taken no position with respect to Mr. Lubben s assertion and has made no severance payments or awarded Mr. Lubben any other severance benefits under the agreement.

Termination Without Cause or Change in Employment. Mr. Lubben s employment agreement provided for severance compensation in the event of termination without Cause or a Change in Employment in an amount equal to (a) 200% of his annualized base salary as of his termination date, and (b) the total of any bonus or incentive compensation paid or payable for the two most recent calendar years (excluding any special or one-time bonus or incentive compensation payments). Such total severance amount was approximately $2.0 million as of the termination date.

In addition, his agreement provides for a one-time cash payment within a reasonable time following termination of employment in an amount equal to the portion of the premiums that the Company subsidizes for employee-only health, dental and group term life coverage for one year. Such amount was approximately $6,000 as of the termination date.

The agreement also provides for reasonable outplacement job search fees in an amount deemed reasonable by the Company.

Pursuant to the agreement, Cause is defined generally to mean (a) the refusal to follow reasonable direction of the Board or his supervisor or to perform any duties reasonably required on material matters by the Company, in each case that is not cured after notice, (b) material violations of the Company s Code of Conduct, or (c) commission of any criminal act or act of fraud or dishonesty in connection with his employment. Pursuant to the agreement, a Change in Employment is generally deemed to have occurred (a) if (i) his duties are materially and adversely changed without his prior consent, (ii) his salary or benefits are reduced other than as a general reduction of salaries and

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benefits by the Company, (iii) without terminating his employment the Company terminates the agreement, or (iv) the location for the performance of his duties is moved more than 50 miles from the location at the effective date of the agreement without his prior consent, and (b) in the case of (i), (ii), (iii) and (iv) of (a) above, in the period beginning 90 days before the time a Change in Employment occurs, Cause does not exist or if Cause does exist the Company has not given him written notice that Cause exists.

DIRECTOR COMPENSATION

Our compensation and benefit program for our non-employee directors is designed to compensate our non-employee directors fairly for work required for a company of our size and scope, and align our non-employee directors interests with the long-term interests of our shareholders. The Compensation Committee and the Board of Directors review the compensation level of our non-employee directors on an annual basis. As discussed under Corporate Governance above, our Board reduced quarterly equity compensation for continuing non-employee directors by approximately 40% in May 2006, following an earlier reduction of 20% in 2005. In addition, in January 2007, the Board, after considering recommendations from the Compensation Committee, reduced initial one-time grants of stock options to new directors by approximately 57%.

Directors who are not Company employees receive an annual cash retainer of $30,000, a cash meeting attendance fee of $1,500 for attending each Board meeting in person ($750 for attending by telephone), and a cash meeting attendance fee of $1,000 for attending each committee meeting in person ($500 for attending by telephone). We also pay our directors who are unable to attend a meeting the standard telephone attendance fee if they receive a briefing by telephone prior to or after the meeting. In addition, we pay the Chairman of the Board an additional annual cash retainer of $300,000 and the Chair of each of the Audit Committee and the Compensation Committee an additional annual cash retainer of $5,000. Director compensation payable in cash is paid on a quarterly basis.

Under our Directors Compensation Deferral Plan (Director Deferral Plan), non-employee directors may elect to defer annually receipt of all or a percentage of their retainer and meeting fees, including committee meeting fees (but not stock options or other stock-based compensation). Amounts deferred are credited to a bookkeeping account maintained for each director participant, and are distributable upon the termination of the director s directorship for any reason. Subject to certain additional rules set forth in the Director Deferral Plan, participating directors may elect whether distribution is made in either (a) an immediate lump sum; (b) in a series of five or ten annual installments; (c) in a delayed lump sum following either the fifth or tenth anniversary of the termination of the director s directorship; or (d) in pre-selected amounts and on pre-selected dates while the director remains a member of our Board of Directors. The Director Deferral Plan does not provide for matching contributions by the Company, but our Board of Directors may determine, in its discretion, to supplement the accounts of participating directors with additional amounts. No accounts were supplemented in 2006.

Non-employee directors also receive grants of non-qualified stock options under the UnitedHealth Group Incorporated 2002 Stock Incentive Plan. Under the 2002 Stock Incentive Plan and terms approved by the Board of Directors with respect to non-employee director grants made pursuant to the 2002 Stock Incentive Plan, our non-employee directors receive quarterly grants of non-qualified stock options to purchase 5,000 shares of our common stock and conversion grants made pursuant to an

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election by a director to convert certain cash compensation into equity of the Company as set forth more fully below.

A new director also receives an initial one-time grant of non-qualified stock options to purchase 25,000 shares of our common stock. The new director may elect to take all or a portion of the initial one-time stock option award in restricted stock units, using a four-to-one conversion ratio (which would result in an award of 6,250 restricted stock units if all options were elected to be received in the form of restricted stock units). These stock options or restricted stock units, as the case may be, are granted on the date of the director s appointment to the Board. The options or restricted stock units vest 25% per year for four years subject to service on the Board on the vesting date. A director is required to retain the underlying shares of this equity award (net of any exercise price or taxes) until he or she completes his or her service on the Board.

Directors may also elect to convert cash Board retainers, cash retainers for service as Chair of the Audit Committee or Compensation Committee and cash meeting attendance fees for regularly scheduled quarterly Board and committee meetings into non-qualified stock options or shares of common stock of the Company. The cash retainer payable for service as Chairman of the Board and cash meeting attendance fees for special meetings are not eligible for conversion into either non-qualified stock options or shares of common stock of the Company. The conversion grants are made on the day of each regularly scheduled quarterly Board meeting and become exercisable immediately upon grant. If a director elects to convert his or her eligible cash compensation into stock options, he or she will receive a non-qualified stock option to purchase the number of shares of our common stock equal to four times the amount of the cash compensation foregone, divided by the fair market value of one share of our common stock on the date of grant. If a director elects to convert his or her eligible cash compensation into shares of our common stock, he or she will receive the number of shares equal to the cash compensation foregone, divided by the fair market value of one share of our common stock on the date of grant. The quarterly grants are made automatically on the first business day following the end of each fiscal quarter and become exercisable immediately upon grant.

The exercise price for all stock options granted under the 2002 Stock Incentive Plan is the closing sale price of our common stock on the date the option is granted.

Under our stock ownership guidelines, we require new directors to achieve ownership of 10,000 shares of the Company s common stock (excluding stock options, but including restricted stock units after vesting) within five years upon appointment to the Board and require current directors to achieve ownership of 20,000 shares of the Company s common stock by April 26, 2009. All directors subject to the 20,000 share ownership requirement have satisfied the requirement other than Dr. Shalala who is not seeking re-election.

We reimburse directors for any out-of-pocket expenses incurred in connection with service as a director. We also provide health care coverage to current and past directors who are not eligible for coverage under another group health care benefit program or Medicare.

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The following table provides summary information for the fiscal year ended December 31, 2006 relating to compensation paid to or accrued by us on behalf of any of our non-employee directors who served in such capacity during 2006.

2006 Director Compensation

Name	Fees Earned or Paid in Cash ($) (1)	Option Awards ($) (2)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compensation ($)	Total ($)
(a)	(b)	(d)	(f)	(g)	(h)
William C. Ballard, Jr.	88,500	408,820	(3)		497,320
Richard T. Burke	169,000	412,868	(3)	6,296 (4)	588,164
James A. Johnson	98,750	413,139	(3)		511,889
Thomas H. Kean	73,000	412,680	(3)	50,000 (5)	535,680
Douglas W. Leatherdale	95,250	412,819	(3)		508,069
Mary O. Mundinger, Dr.P.H.	73,750	412,575	(3)		486,325
Robert L. Ryan	72,750	412,497	(3)		485,247
Donna E. Shalala, Ph.D.	67,500 (6)	408,820	(3)		476,320
William G. Spears (7)	59,750 (6)	408,820	(3)	(8)	468,570
Gail R. Wilensky, Ph.D.	70,750	410,818	(3)		481,568

(1) Amounts reported include the following annual retainer and/or meeting attendance fees earned by the directors but elected by directors to be converted into options to purchase our common stock: Mr. Burke $49,250 (3,880 shares); Mr. Johnson $52,250 (4,120 shares); Mr. Kean $47,250 (3,710 shares); Mr. Leatherdale $48,250 (3,790 shares); Dr. Mundinger $44,250 (3,490 shares); Mr. Ryan $43,750 (3,460 shares); and Dr. Wilensky $21,625 (1,730 shares).

(2) The actual value to be realized by a director depends upon the appreciation in value of the Company s stock and the length of time the stock option is held. No value will be realized with respect to any stock option if the Company s stock price does not increase following the grant date. The amount reported in the column is based on the dollar amount recognized for financial statement reporting purposes with respect to the Company s fiscal year ended December 31, 2006 in accordance with FAS 123R, but disregarding the estimate of forfeitures related to service-based vesting conditions. For a description of the assumptions used in computing the dollar amount recognized for financial statement reporting purposes, see Note 11 to Consolidated Financial Statements included in the Company s Annual Report on Form 10-K for the fiscal year ended December 31, 2006. All option awards were 100% vested on the grant date. Amounts reported include the following incremental values of options issued in lieu of annual retainer and/or cash meeting fees (incremental values refer to the FAS 123R values of the options issued less the amount of annual retainer and/or cash meeting fees foregone): Mr. Burke $4,048; Mr. Johnson $4,319; Mr. Kean $3,860; Mr. Leatherdale $3,995; Dr. Mundinger $3,755; Mr. Ryan $3,677; and Dr. Wilensky $1,998.

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The grant date fair values of the awards computed in accordance with FAS 123R are as follows:

	1/3/06 ($)	1/31/06 ($)	4/3/06 ($)	5/1/06 ($)	7/3/06 ($)	8/1/06 ($)	10/2/06 ($)	10/31/06 ($)
William C. Ballard, Jr.	158,600		121,120		63,600		65,500	
Richard T. Burke	158,600	11,605	121,120	17,544	63,600	11,348	65,500	12,801
James A. Johnson	158,600	12,369	121,120	17,272	63,600	12,835	65,500	14,094
Thomas H. Kean	158,600	12,674	121,120	15,368	63,600	10,268	65,500	12,801
Douglas W. Leatherdale	158,600	12,674	121,120	16,456	63,600	11,348	65,500	11,766
Mary O. Mundinger, Dr.P.H.	158,600	11,147	121,120	14,824	63,600	10,268	65,500	11,766
Robert L. Ryan	158,600	10,078	121,120	14,280	63,600	10,268	65,500	12,801
Donna E. Shalala, Ph.D.	158,600		121,120		63,600		65,500	
William G. Spears	158,600		121,120		63,600		65,500	
Gail R. Wilensky, Ph.D.	158,600	4,276	121,120	7,208	63,600	5,674	65,500	6,465

As of December 31, 2006, our non-employee directors had the following options outstanding: Mr. Ballard 320,000 shares; Mr. Burke 379,390 shares; Mr. Johnson 380,130 shares; Mr. Kean 378,720 shares; Mr. Leatherdale 383,150 shares; Dr. Mundinger 335,080 shares; Mr. Ryan 191,170 shares; Dr. Shalala 118,000 shares; Mr. Spears 378,590 shares; and Dr. Wilensky 270,960 shares.

(3) The Director Deferral Plan does not credit above-market earnings or preferential earnings to the amounts deferred. There are no measuring investments tied to Company stock performance. The measuring investments are a collection of unaffiliated mutual funds identified by the Company.

(4) We provide health care coverage to current and past directors who are not eligible for coverage under another group health care benefit program or Medicare. In 2006, we paid $6,296 in health care premiums on behalf of Mr. Burke.

(5) The Company made a donation of $50,000 to Drew University (where Mr. Kean was formerly President), which is being combined with donations from other companies to fund a visiting professorship in recognition of Mr. Kean s contributions as Chairman of The National Commission on Terrorist Attacks upon the United States (more commonly known as the 9/11 Commission). The Company made a similar donation in 2005 and will make donations of equal amounts in 2007 through 2009.

(6) All cash fees earned by Dr. Shalala and Mr. Spears were deferred under our Director Deferral Plan. The amounts reported include the deferred amounts.

(7) Mr. Spears resigned as a director of the Company on October 15, 2006.

(8) Reflects personal use of Company aircraft with no aggregate incremental cost. We report the aggregate incremental cost to the Company of any such personal use of Company aircraft based on the cost of fuel, trip-related maintenance, crew travel expenses, on-board catering, landing fees, trip-related hangar/parking costs and smaller variable costs. Since Company aircraft are used primarily for business travel, we do not include the fixed costs that do not change based on usage, such as pilots salaries, the purchase costs of Company aircraft, and the cost of maintenance not related to trips.

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CERTAIN RELATIONSHIPS AND TRANSACTIONS

Approval or Ratification of Related-Person Transactions

In October 2006, the Board adopted a Related-Person Transactions Approval Policy which is administered by the Audit Committee. A copy of the policy is available on our website at *www.unitedhealthgroup.com*. Under the policy, the following related-person transactions are prohibited unless approved or ratified by the Audit Committee:

- Any transaction or series of transactions directly or indirectly involving a director, executive officer or five-percent shareholder of the Company or any of their respective immediate family members, in which the Company or its subsidiaries is directly or indirectly a participant and the amount involved exceeds $1.00.
- Any amendment or modification to an existing related-person transaction.
- Any transaction or relationship involving a director that is not deemed to be immaterial under the Company s Standards for Director Independence as then in effect.

Related-person transactions under the policy do not include:

- Indemnification and advancement of expenses made pursuant to the Company s Articles of Incorporation or Bylaws or pursuant to any agreement or instrument.
- Any transaction that involves the providing of compensation to a director or executive officer in connection with his or her duties to the Company or any of its subsidiaries, including the reimbursement of business expenses incurred in the ordinary course.

Under the policy, Company management will determine whether a transaction falls under the definition of a related-person transaction, requiring review by the Audit Committee. Identifying possible related-person transactions involves a number of search and identification processes and procedures, including the following:

- The Company annually requests each director, director nominee and executive officer of the Company to verify and update certain information, including:
  - A list of the immediate family members of each executive officer of the Company. Under the policy, immediate family member means any child, stepchild, parent, stepparent, spouse, sibling, mothers- and fathers-in-law, sons- and daughters-in-law and any person (other than a tenant or employee) sharing the same household as the director, executive officer or five-percent shareholder.
  - A list of the entities (except the Company) where a director or executive officer of the Company (or an immediate family member) is a director, executive officer or employee.
  - A list of the entities where a director or executive officer of the Company (or an immediate family member) is a partner or principal or in a similar position or in which such person has a 10% or greater beneficial ownership

interest.

Each charitable or non-profit organization where a director or executive officer of the Company (or an immediate family member) is an executive officer, director or trustee.

The Company identifies five-percent shareholders of the Company by reviewing Schedules 13G and 13D filed with the SEC periodically.

The Company compiles a list of all the above-referenced persons and entities provided by directors and executive officers, reviews the updated list, and expands the list if necessary, based on its review of SEC filings and Internet searches.

The Company distributes the list within the Company, including applicable subsidiaries of the Company, and conducts periodic searches to identify any potential related-person transactions.

The Company reviews search results and, with respect to any transactions that fall within the definition of related-person transactions under the policy, submits relevant information to the Audit Committee for approval, ratification or other action. The Nominating Committee also reviews the identified related-person transactions in connection with its recommendations to the Board on the independence determinations of each director of the Company.

In determining whether to approve or ratify a related-person transaction, the Audit Committee will consider, among others, the following factors to the extent deemed relevant by the Audit Committee:

Whether the terms of the related-person transaction are fair to the Company and on terms at least as favorable as would apply if the other party was not or did not have an affiliation with a director, executive officer or five-percent shareholder of the Company.

Whether there are demonstrable business reasons for the Company to enter into the related-person transaction.

Whether the related-person transaction could impair the independence of a director under the Company s Standards for Director Independence.

Whether the related-person transaction would present an improper conflict of interest for any director or executive officer of the Company, taking into account the size of the transaction, the overall financial position of the director or executive officer, the direct or indirect nature of the interest of the director or executive officer in the transaction, the ongoing nature of any proposed relationship, and any other factors the Audit Committee deems relevant.

Any member of the Audit Committee who has an interest in the transaction under discussion will abstain from voting on the approval of the related-person transaction, but may, if so requested by the Chair of the Audit Committee, participate in some or all of the Audit Committee s discussions of the related-person transaction. Any related-person transaction that is not approved or ratified, as the case may be, will be voided, terminated or amended, or such other actions will be taken in each case as determined by the Audit Committee so as to avoid or otherwise address any resulting conflict of interest.

As required under SEC rules, transactions that are determined to be directly or indirectly material to the Company or a related person are disclosed in the Company s proxy statement.

Related-Person Transactions

Dr. Shalala is the President of the University of Miami. The University of Miami includes a general hospital and a physician group that have contractual agreements with the Company as part of the Company s broad national network of 4,700 hospitals and more than 520,000 physicians and other care providers. During the University of Miami s 2006 fiscal year, we paid approximately $32.3 million to the University of Miami for medical expenses on behalf of consumers who obtain health insurance

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from the Company. In addition, during the University of Miami s 2006 fiscal year, self-funded customers of the Company paid the University of Miami approximately $15.3 million for medical expenses of their health benefit plan participants who received health care services from the University of Miami. Separately, the University of Miami purchased products from the Company with a value of approximately $14.6 million in fiscal 2006. In addition, in April 2007, the University of Miami announced its intent to purchase Cedars Medical Center in Miami, Florida from HCA, which will likely result in additional revenues paid to the University of Miami by the Company for medical expenses of customers received at Cedars Medical Center. The Company also contributed $1 million to the University of Miami, which was used to fund a clinic in Overtown, Florida to provide access to medical care by underinsured and uninsured members of the community. Dr. Shalala had no interest in any of these transactions and was not involved in the negotiations of any of the contractual agreements.

The Company believes that the pricing terms were determined on an arm s-length basis and were within comparable range to other contracts with similar facilities in the South Florida market. After considering such information as it deemed relevant, the Audit Committee ratified the Company s provider relationship with the University of Miami and its affiliates.

Advances of Defense Costs for Certain Litigation Matters

Members of the Company s current Board of Directors, former Board member William G. Spears, former Chairman and CEO, William W. McGuire, M.D. and certain current and former officers, have been named as defendants in lawsuits arising out of the issues relating to the dating of stock options. The current and former directors and officers who have been named as defendants in these actions have a legal right under the Minnesota Business Corporation Act and the Company s Bylaws to advancement of their costs of defense. Accordingly, in 2006 the Company has advanced defense costs on behalf of the current and former directors and officers amounting to approximately $8.1 million. The Company has directors and officers insurance that it anticipates will provide reimbursement for amounts advanced exceeding the Company s $25 million retention.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

During fiscal 2006, Messrs. Johnson, Spears and Kean, Dr. Mundinger, Dr. Shalala and Dr. Wilensky served on the Compensation Committee. Mr. Johnson served on the Compensation Committee for the entire fiscal 2006. Mr. Spears and Dr. Mundinger served on the Compensation Committee through April 2006, at which time Dr. Shalala and Dr. Wilensky were appointed to the Compensation Committee. Dr. Shalala served on the Compensation Committee until October 31, 2006, and Mr. Kean was appointed to the Compensation Committee on November 7, 2006. None of these persons has ever been an officer or employee of the Company or any of our subsidiaries and has no interlocking relationships requiring disclosure under applicable SEC rules.

As described under Corporate Governance Director Independence and Certain Relationships and Transactions above, on January 30, 2007, Dr. Shalala was deemed to be a non-independent director under the NYSE rules and the Company s Standards for Director Independence because the Board determined that the Company s hospital and physician services network relationship with the University of Miami, where Dr. Shalala serves as the president, slightly exceeded 2% of the University of Miami s consolidated gross revenues for the first time during its last fiscal year.

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PERFORMANCE GRAPHS

The following two performance graphs compare the Company s total return to shareholders with indexes of other specified companies and the S&P 500 Index. The first graph compares the cumulative five-year total return to shareholders on UnitedHealth Group s common stock relative to the cumulative total returns of the S&P 500 index, and a customized peer group (the *Fortune 50* Group), an index of certain *Fortune 50* companies. The second graph compares our cumulative total return to shareholders with the S&P 500 Index and an index of a group of health care peer companies selected by us for the five-year period ended December 31, 2006. The Company is not included in either the *Fortune 50* Group index in the first graph or the health care peer group index in the second graph. In calculating the cumulative total shareholder return of the indexes, the shareholder returns of the *Fortune 50* Group companies in the first graph and the health care peer group companies in the second graph are weighted according to the stock market capitalizations of the companies at January 1 of each year. The comparisons assume an investment of $100 on December 31, 2001 in company common stock and in each index, and that dividends were reinvested when paid.

***Fortune* 50 Group**

The *Fortune 50* Group consists of the following companies: American International Group, Inc, Berkshire Hathaway Inc, Cardinal Health Inc, Citigroup Inc, General Electric Company, International Business Machine Corp. and Johnson & Johnson. Although there are differences in terms of size and industry, like UnitedHealth Group, all of these companies are large multi-segment companies using a well-defined operating model in one or more broad sectors of the economy. These companies have also distinguished themselves by the consistency of their growth and performance, in many cases over multiple decades.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

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Health Care Peer Group

The companies included in our health care peer group are Aetna Inc., Cigna Corporation, Coventry Health Care, Inc., Humana Inc. and WellPoint, Inc. We believe that this group accurately reflects our peers in the health care industry.

The stock price performance included in this graph is not necessarily indicative of future stock price performance.

ARTICLES OF INCORPORATION AND BYLAWS AMENDMENTS

Both our Nominating Committee and our Board of Directors regularly evaluate all of our corporate governance practices to ensure that they remain in the best interests of the Company and our shareholders. In light of current and best practices, the Board of Directors, upon the recommendation of the Nominating Committee, is proposing to adopt a majority-vote standard for the election of directors, to declassify the Board, and to eliminate the supermajority-vote requirements for the removal of directors and for certain business combination transactions with related persons. The Board believes that these changes are in the best interest of the Company and shareholders.

In order to implement these proposed changes, the Board is proposing a series of amendments to our Articles of Incorporation and Bylaws. These specific proposals are described in detail below and are also marked on the proposed form of Restated Articles of Incorporation attached to this proxy statement as Appendix A and the proposed form of Amended and Restated Bylaws attached to this proxy statement as Appendix B. The Board of Directors has also approved an amendment to our Articles of Incorporation to eliminate several series of preferred stock, none of which are currently outstanding. That amendment does not require shareholder approval. The Board of Directors has also made certain changes to the Bylaws, including responses to recent changes in Minnesota law, which do not require shareholder approval.

Proposed Amendment to Articles of Incorporation Requiring a Majority Vote for Election of Directors

Current Standard

Minnesota law provides that, unless otherwise specified in a company s articles of incorporation, directors are elected by a plurality of the votes cast. Our Articles of Incorporation are silent on this

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issue, so the plurality standard governs: director nominees with the most votes cast in their favor are elected.

Description of Amendment Generally

The Board of Directors recommends shareholder approval of a proposal to amend the Company s Articles of Incorporation to require that a candidate in an uncontested election for director receive a majority of the votes cast in order to be elected. In contested elections where the number of nominees exceeds the number of directors to be elected, the required vote would continue to be a plurality of votes cast.

Background

The Nominating Committee and the full Board of Directors have carefully considered the merits of a majority-vote standard compared to a plurality vote standard. The difference in standards would not have had any impact on prior elections of directors of the Company because all director nominees have received vote totals exceeding a majority of the shares outstanding. However, the Board recognizes that requiring a majority of the votes cast ensures that only directors with broad acceptability among the shareholders will be elected to the Board and enhances the accountability of each Board member to the shareholders, and is recommending that shareholders approve the majority-vote standard.

Amendment of Articles of Incorporation

Under Minnesota law, an election standard other than a plurality may be used only if it is specified in a company s articles of incorporation. The proposed amendment to our Articles of Incorporation operates as follows:

- Subject to any rights of holders of any preferred stock of our Company, each director in an uncontested election would be elected at a meeting of shareholders by the vote of a majority of the votes cast with respect to the director.

- In a contested election of directors in which the number of nominees exceeds the number of directors to be elected, the directors will continue to be elected by a plurality of the votes present in person or by proxy at the meeting.

- For purposes of the majority-vote standard, a majority of the votes cast means that the shares that are voted for a director must exceed the shares voted against the director.

The amendment would be effected by adding a new article to our Articles of Incorporation. The text of the proposed amendment is reflected as Article 4 in the marked copy of the proposed form of Restated Articles of Incorporation attached to this proxy statement as Appendix A. If the amendment is adopted, the Company would retain its director resignation policy to address a Minnesota statute that allows a director who was not elected to retain his or her position until a replacement director is elected to the Board.

Effectiveness

If approved, this amendment will become effective upon the filing of the Restated Articles of Incorporation with the Minnesota Secretary of State. The Company would make such a filing promptly after the Annual Meeting. The new standard would then be applicable to the election of directors beginning at our 2008 Annual Meeting.

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Vote Required

This proposal must be approved by holders of a majority of our common stock voting in person or by proxy at the Annual Meeting and entitled to vote thereon.

The Board of Directors recommends a vote FOR the proposal. Proxies will be voted FOR the proposal unless you specify otherwise.

Proposed Amendment to Articles of Incorporation and Bylaws Providing for the Annual Election of All Members of the Board of Directors

Current Classification of the Company s Board of Directors

Our Articles of Incorporation and Bylaws currently provide that the directors terms of office are staggered by dividing the total number of directors into three classes, with each class containing as nearly equal a number as possible, and that at each Annual Meeting only one class of directors is considered by the shareholders for election to a term of three years to succeed those directors whose terms expire at the meeting.

Description of Amendment Generally

The Board of Directors recommends shareholder approval of a proposal to amend our Articles of Incorporation and Bylaws to eliminate the current classification of our directors. In the absence of such a classification, each of the directors would be elected and hold office until his or her successor is elected at the next Annual Meeting.

Background

The Nominating Committee and the full Board have considered the merits of the classified board structure, taking a variety of perspectives into account. While the Board believes that the classified board structure has promoted continuity and stability and reinforced a commitment to a long-term point of view, it also believes that the annual election of directors would increase the Board s accountability to shareholders.

Amendment of Articles of Incorporation

The proposed amendment would delete Article 4(a) of our current Articles of Incorporation, thereby eliminating the classes of directors and the current practice of three-year terms for directors. The proposed amendment is reflected in the marked copy of the proposed form of Restated Articles of Incorporation attached to this proxy statement as Appendix A.

Amendment of Bylaws

The proposed amendment would delete Section 3.02(b) of our current Bylaws, thereby eliminating the classes of directors and the current practice of three-year terms for directors. The proposed amendment is reflected in the marked copy of the Bylaws attached to this proxy statement as Appendix B.

Effectiveness

If this proposal is approved by the shareholders, then our Board will be declassified, and all directors will be elected for a one-year term beginning at the 2008 Annual Meeting.

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Vote Required

This proposal must be approved by the holders of $66^2/_3\%$ of the outstanding shares of our common stock.

The Board of Directors recommends a vote FOR the proposal. Proxies will be voted FOR the proposal unless you specify otherwise.

Proposed Amendment to Articles of Incorporation and Bylaws to Eliminate Supermajority Provisions for the Removal of Directors

Current Standards

Our Articles of Incorporation and Bylaws currently provide that no director may be removed from office without the affirmative vote of the holders of not less than $66^2/_3\%$ of the outstanding shares of our common stock or the affirmative vote of $66^2/_3\%$ of our directors.

Description of Amendment Generally

The Board of Directors recommends shareholder approval of a proposal to amend the Company s Articles of Incorporation and Bylaws to eliminate the supermajority requirement for the removal of directors.

Background

The supermajority provision relating to the removal of directors may have the effect of promoting continuity and stability in the management of the business and affairs of the Company and encouraging persons considering unsolicited tender offers, or other unilateral takeover actions, to negotiate with the Board of Directors rather than pursue non-negotiated takeover attempts. While our Board of Directors believes this is an important benefit, the Board also believes that removal of the supermajority provision would increase the Board s accountability to shareholders.

Amendment of Articles of Incorporation

If the Amendment is approved, Articles 4(b) and (c) would be deleted from the Articles of Incorporation. The proposed amendment is reflected in the marked copy of the proposed form of Restated Articles of Incorporation attached to this proxy statement as Appendix A.

Amendment of Bylaws

If the Amendment is approved, Section 3.13 of the Bylaws would be amended to provide that directors may be removed from office in accordance with Minnesota law. The amendment is reflected in the marked copy of the Bylaws attached to this proxy statement as Appendix B.

Effectiveness

If the removal proposal is approved by shareholders, then, effective after the filing of our Restated Articles of Incorporation described above, Minnesota law would provide that directors may be removed, with or without cause, by a vote of a majority of the voting power of all shares entitled to vote in an election of directors.

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Vote Required

This proposal must be approved by holders of $66^2/_3$% of the outstanding shares of our common stock.

The Board of Directors recommends a vote FOR the proposal. Proxies will be voted FOR the amendments unless you specify otherwise.

Proposed Amendment to Articles of Incorporation to Eliminate Supermajority Provisions Relating to Certain Business Combinations

Current Standard

Our Articles of Incorporation provide that the affirmative vote of the holders of not less than $66^2/_3$% of the outstanding shares of our common stock is required to approve certain transactions with a person or entity that beneficially owns 20% or more of our outstanding common stock, unless the 20% beneficial ownership or the transaction has been approved by $66^2/_3$% of our continuing directors. We refer to such a person or entity as a related person in this proposal. Under our current Articles of Incorporation, the following transactions with related persons require supermajority shareholder approval:

- certain mergers or consolidations of the Company or a subsidiary of the Company with or into a related person or the merger or consolidation of a related person with or into the Company or a subsidiary of the Company;

- certain sales, leases, exchanges, transfers or other dispositions of all or substantially all the Company s or a subsidiary s assets to a related person or the acquisition through purchase, lease, exchange, transfer or other disposition, of all or a substantial portion of the assets of a related person by the Company or a subsidiary;

- the issuance of any securities of the Company or a subsidiary to a related person;

- the reclassification of Company securities, or the recapitalization or other transaction that would have the effect of increasing the voting power of the related person; or

- any agreement, contract or other arrangement providing for any of the transactions described above.

Description of Amendment Generally

The Board of Directors recommends shareholder approval of a proposal to amend the Company s Articles of Incorporation that would eliminate the supermajority requirement for approval of transactions with related persons.

Background

The supermajority provision relating to business combinations with related persons has been viewed as benefiting shareholders by encouraging persons considering unsolicited tender offers, or other unilateral takeover actions, to negotiate with the Board of Directors before becoming 20% shareholders rather than pursue non-negotiated takeover attempts. While our Board of Directors believes this is an important benefit, the Board recognizes that the Company s current market capitalization and status as a regulated entity makes the Company an unlikely target of an unsolicited takeover attempt.

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Amendment of Articles of Incorporation

If the Amendment is approved, Article 5 of our current Articles of Incorporation would be deleted. The proposed amendment is reflected in the marked copy of the proposed form of Restated Articles of Incorporation attached to this proxy statement as Appendix A.

Vote Required

This proposal must be approved by holders of $66^2/_3$% of the outstanding shares of our common stock.

The Board of Directors recommends a vote FOR the proposal. Proxies will be voted FOR the amendments unless you specify otherwise.

Proposed Adoption of Restated Articles of Incorporation

Description of Amendment Generally

In addition to the proposed amendments to our Articles of Incorporation described above, the Board of Directors recommends shareholder approval of a proposal to amend and restate the Company s Articles of Incorporation to reflect, as to each that is approved, the amendments to implement majority voting, declassify our Board and remove supermajority approval provisions, to integrate into a single document all of the provisions of our Articles of Incorporation which are currently in effect and operative, and to make certain stylistic, clarifying and conforming changes such as section number references. The proposed amendment would not change our authorized capital stock, indemnification of officers and directors or limitation of liability provisions and would not adversely affect the rights or preferences of the holders of the Company s outstanding capital stock.

Amendment and Restatement of Articles of Incorporation

If the proposed amendment is approved, Articles 1, 3 and 8 of our current Articles of Incorporation would incorporate certain stylistic, clarifying and conforming changes. In addition, the Restated Articles of Incorporation would integrate into a single document the operative provisions of the Articles of Merger and previous amendments to the Articles of Incorporation, which were filed with the Secretary of State of Minnesota on March 1, 2000, May 14, 2001, and May 24, 2005, respectively, and the elimination of several series of preferred stock, none of which are currently outstanding. The proposed amendment is reflected in the marked copy of the proposed form of Restated Articles of Incorporation attached to this proxy statement as Appendix A.

Effect of Other Proposals

If any of the proposed amendments to our Articles of Incorporation described above is not approved, then that amendment will not be made, and the Restated Articles of Incorporation will retain the current provisions governing the subject matter of that proposal.

Vote Required

This proposal must be approved by holders of a majority of our common stock voting in person or by proxy at the Annual Meeting and entitled to vote thereon.

The Board of Directors recommends a vote FOR the proposal. Proxies will be voted FOR the amendments unless you specify otherwise.

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AUDIT COMMITTEE REPORT

The Audit Committee of our Board of Directors is comprised of three non-employee directors. The Board of Directors has determined that all of the members of the Audit Committee are independent within the meaning of the listing standards of the New York Stock Exchange, the rules of the Securities and Exchange Commission and the Company s standards for director independence. The Audit Committee operates under a written charter adopted by the Board of Directors.

Management is responsible for the Company s internal controls and the financial reporting process. Our independent registered public accounting firm, Deloitte & Touche LLP, is responsible for performing an independent audit of our consolidated financial statements in accordance with the standards of the Public Company Accounting Oversight Board (United States), expressing an opinion as to the conformity of such financial statements with generally accepted accounting principles, and auditing management s assessment of the effectiveness of internal control over financial reporting. The Audit Committee s responsibility is to monitor and oversee these processes. The Audit Committee has discussed and reviewed with both management and Deloitte & Touche management s annual report on the Company s internal control over financial reporting and Deloitte & Touche s attestation. The Audit Committee also discussed with management and Deloitte & Touche the process used to support certifications by the Company s Chief Executive Officer and Chief Financial Officer that are required by the Securities and Exchange Commission and the Sarbanes-Oxley Act of 2002 to accompany the Company s periodic filings with the Securities and Exchange Commission and the process used to support management s annual report on the Company s internal controls over financial reporting.

Management represented to the Audit Committee that our consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America, and the Audit Committee has reviewed and discussed with management and the independent registered public accounting firm in separate sessions the Company s consolidated financial statements for the fiscal year ended December 31, 2006 and the restated financial statements for the years ending December 31, 2005 and December 31, 2004. Further information regarding these restated financial statements can be found in the Company s 2006 Annual Report on Form 10-K.

The Audit Committee discussed with the independent registered public accounting firm matters required to be discussed by Statement on Auditing Standards No. 61 (Communications with Audit Committees) and Rule 2-07 of Regulation S-X. Our independent registered public accounting firm also provided to the Audit Committee the written disclosures and the letter required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees), and the Audit Committee discussed with the independent registered public accounting firm the accounting firm s independence. In considering the independence of the independent registered public accounting firm, the Audit Committee took into consideration whether the provision of non-audit services is compatible with maintaining the independence of the independent registered public accounting firm.

Based upon the Audit Committee s review of the financial statements and the restated financial statements, independent discussions with management and the independent registered public accounting firm, and the Audit Committee s review of the representation of management and the report of the independent registered public accounting firm to the Audit Committee, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements for the year ended December 31, 2006 and the restated financial statements for the prior periods noted above, be included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006 filed with the SEC.

Members of the Audit Committee

William C. Ballard, Jr., Chair

James A. Johnson

Douglas W. Leatherdale

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INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Disclosure of Fees Paid to Independent Registered Public Accounting Firm

Aggregate fees billed to the Company for the fiscal year ended December 31, 2006 represent fees billed by the Company s principal independent registered public accounting firm, Deloitte & Touche LLP, the member firms of Deloitte Touche Tohmatsu, and their respective affiliates, which includes Deloitte Consulting (collectively, Deloitte & Touche). The Audit Committee pre-approved the audit and non-audit services provided in fiscal year 2006 by Deloitte & Touche, as reflected in the table below.

Fee Category	Fiscal Year Ended 2006	2005
Audit Fees	$ 26,978,000	$ 14,100,000
Audit-Related Fees (a)	1,048,000	1,865,000
Total Audit and Audit Related Fees	$ 28,026,000	15,965,000
Tax Fees (b)	595,000	580,000
All Other Fees (c)	85,000	130,000
Total	$ 28,706,000	$ 16,675,000

(a) Audit-Related Fees include benefit plan and other required audits, certain AICPA agreed-upon procedures, internal control assessments, and due diligence services.

(b) Tax Fees include tax compliance, planning and support services.

(c) All Other Fees include allowable actuarial reviews, security systems assistance, risk management support, and contract analysis and review assistance services.

Audit Committee s Consideration of Independence of Independent Registered Public Accounting Firm

The Audit Committee has reviewed the nature of non-audit services provided by Deloitte & Touche and has concluded that these services are compatible with maintaining the firm s ability to serve as our independent registered public accounting firm.

Audit and Non-Audit Services Approval Policy

The Audit Committee has adopted an Audit and Non-Audit Services Approval Policy (the Policy) outlining the scope of services that Deloitte & Touche may provide to the Company. The Policy sets forth guidelines and procedures the Company must follow when retaining Deloitte & Touche to perform audit, audit-related, tax, and other services. In addition to providing detailed descriptions of the specific types of services which may be provided under these four categories, the Policy also specifies certain non-audit services that may not be performed by Deloitte & Touche under any circumstances.

Pursuant to the Policy, the Audit Committee has pre-approved for each service sub-category a fee threshold under which all services are deemed pre-approved for 2006 and 2007. Additional specific pre-approval is required from the Audit Committee to exceed these pre-approved dollar amounts for proposed new individual projects exceeding specified dollar thresholds, or to add new specific service sub-categories. The services provided by our independent registered public accounting firm and related fees are discussed with the Audit Committee at each regular meeting, and the Policy is evaluated and updated periodically by the Audit Committee.

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Ratification of Independent Registered Public Accounting Firm

The Audit Committee has reappointed Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007. The Board of Directors has proposed that the shareholders ratify this appointment at the Annual Meeting. Representatives of Deloitte & Touche LLP are expected to be present at the meeting, will have an opportunity to make a statement and will be available to respond to appropriate questions from shareholders. If our shareholders do not ratify the appointment of Deloitte & Touche LLP, the Audit Committee is not obligated to appoint another independent registered public accounting firm, but will reconsider the appointment. The Audit Committee evaluates, at least every three years, whether there should be a rotation of the Company s independent registered public accounting firm.

The Board of Directors recommends a vote FOR ratification of the selection of Deloitte & Touche LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2007. Proxies will be voted FOR ratifying this selection unless you specify otherwise.

SHAREHOLDER PROPOSALS

The following shareholder proposals will be voted on at the Annual Meeting only if properly presented by or on behalf of the shareholder proponent. Some of the following shareholder proposals contain assertions about the Company that we believe are incorrect. We have not attempted to refute all of the inaccuracies. However, the Board of Directors has recommended a vote against each of these proposals for the reasons set forth following each proposal.

Shareholder Proposal No. 1 Performance-Vesting Shares

We have been informed that the American Federation of Labor and Congress of Industrial Organizations, 815 Sixteenth Street, N.W., Washington, D.C. 20006, a beneficial holder of 400 shares of common stock, intends to introduce at the Annual Meeting the following resolution. In accordance with SEC rules, the text of the proposed shareholder resolution and supporting statement is printed verbatim from its submission.

RESOLVED, that the shareholders of UnitedHealth Group (the Company) urge the Board of Directors to adopt a policy that a significant portion of future equity compensation grants to senior executives shall be shares of stock that require the achievement of performance goals as a prerequisite to vesting (performance-vesting shares).

This policy shall apply to existing employment agreements and equity compensation plans only if the use of performance-vesting shares can be legally implemented by the Company, and will otherwise apply to the design of all future plans and agreements.

The proponent has furnished the following statement:

We believe that our Company s compensation policies should encourage the ownership of stock by senior executives in order to align their interests with those of shareholders. To achieve this goal, we favor granting senior executives actual shares of stock that vest only after meeting specified performance goals. In our opinion, performance-vesting shares are a better form of equity compensation than fixed-price stock options or time-vesting restricted stock.

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Fixed-price stock option grants provide senior executives with incentives that may not be in the best interests of long-term shareholders. In our view, stock option grants promise executives all the benefit of share price increases while limiting their exposure to the risk of share price declines. This asymmetrical incentive structure can reward executives for share price volatility, a measure of investment risk. Stock options can also reward short-term decision-making because many executives options can be exercised just one year after the grant date. Furthermore, we believe that stock options can create a strong incentive to manipulate a company s stock price through questionable or even fraudulent accounting.

On October 15, 2006, our Company s CEO, general counsel and a member of the board were forced to resign after the completion of an investigation into the timing of stock options. The report found that UnitedHealth had backdated options to maximize employees compensation and concluded that the Company was riddled with poor controls and conflicts of interest. Further, investigators found that most of the 29 stock grants that accounted for nearly 450 million stock options that the company awarded between 1994 and 2002 were likely backdated. (New York Times, 10/16/2006).

Similarly, we oppose granting executives time-vesting restricted stock that does not include any performance requirements. In our view, time-vesting restricted stock rewards tenure, not performance. Instead, we believe vesting requirements should be tailored to measure each individual executive s performance through disclosed benchmarks, in addition to the Company s share price. To align their incentives with those of long-term shareholders, we also believe that senior executives should be required to hold a significant portion of these performance-vesting shares for as long as they remain executives of the Company.

Executive compensation consultant Pearl Meyer has said if a company is going to issue restricted stock grants as a way of making sure executives are owners rather than optionees, the grant should be earned on a performance basis it shouldn t be just a giveaway.

The Board of Directors unanimously recommends a vote AGAINST the foregoing proposal for the following reasons:

The Board of Directors has carefully considered the proposal submitted by the American Federation of Labor and Congress of Industrial Organizations, which is similar to a proposal rejected by shareholders at our 2005 annual meeting. While the Board of Directors strongly supports and uses performance-based compensation, the Board believes that adoption of this proposal would limit the Company s ability to use stock options and SARs to compensate senior executives and would not be in the interest of the Company.

The Board of Directors believes that its Compensation Committee should retain the necessary flexibility to make compensation awards based on a review of all relevant information in order to attract, motivate and retain executives in today s highly competitive market for talent. The Compensation Committee consists entirely of independent outside directors who devote considerable time and effort to compensation issues and make decisions they believe are in the best interests of the Company and its shareholders. If the Board of Directors were to adopt the American Federation of Labor and Congress of Industrial Organization s proposal, the Company would be precluded from granting a significant portion of its equity awards to senior executives in the form of stock options and SARs, even if our Compensation Committee determined such awards to be appropriate, necessary, and in the interest of the Company.

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The Company strongly believes in linking both cash and equity components of executive compensation to Company performance, and believes that the portion of total compensation linked to performance or at risk should be the highest for our most senior executives. The Compensation Committee has structured the Company s senior executive compensation programs so that a significant portion of executives total compensation is at-risk, tied both to annual and long-term financial performance of the Company as well as to the creation of value for its shareholders. Unlike other companies, the Company has not used time-vesting restricted stock as a significant component of our senior executive compensation programs, as the Compensation Committee believes and agrees with the American Federation of Labor and Congress of Industrial Organizations that time-vesting restricted stock awards are not sufficiently tied to the creation of shareholder value. Over the 5-, 10- and 15-year periods ended December 31, 2006, our Company s compounded annualized total return to shareholders exceeded that of the S&P 500 index by 18.7, 17.0 and 12.7 percentage points, respectively. The Board of Directors believes that stock option awards were effective in motivating our senior executives to achieve the Company s consistently strong performance, and that stock option and SAR awards will continue to provide strong incentives to our senior executives for continued future performance performance which benefits both the recipient and the Company s shareholders.

As more fully discussed in Compensation Discussion and Analysis, the Compensation Committee adopted an internal policy regarding equity awards to facilitate the establishment of appropriate processes, procedures and controls in connection with the administration of equity-based incentive plans. The Board believes that the implementation of this equity award policy addresses the concerns raised by the American Federation of Labor and Congress of Industrial Organizations regarding the Company s controls over its equity plans and the timing of awards made thereunder, and believes that any further action is unnecessary. The Compensation Committee already is authorized and has the flexibility to use performance share awards in the Company s executive compensation program in circumstances where it determines that doing so is appropriate and would serve the Company s interests in implementing an optimal compensation program and, accordingly, independent of this proposal has considered and will consider in the future whether such awards should be used. Moreover, in 2006 the Company adopted stock ownership guidelines for its executives which the Board believes are an important element of the Company s executive compensation programs and further help align the interests of the Company s senior executives with the interests of its shareholders. The Board believes that the stock ownership requirements contained in the guidelines ensure that executives maintain a long-term interest in the Company s financial performance, and mitigate any perceived incentive to capitalize on short-term fluctuations in the Company s share price to maximize the value of stock options or SARs.

The Board of Directors believes that it is to the benefit of the Company to retain flexibility with respect to executive compensation rather than to commit to a particular proposal or compensation tool, the specifics of which it believes are less than optimal for the Company and our shareholders. The Board of Directors also believes that the proposal could potentially undermine the long-term interests of shareholders by putting the Company at a competitive disadvantage by restricting the Board of Directors ability to compensate management in the manner it believes will be most effective at aligning their interests with those of our shareholders and by adversely affecting the Company s ability to attract, motivate and retain the most talented executives to manage the business.

For the reasons described above, the Board recommends a vote AGAINST this proposal. Proxies will be voted AGAINST the proposal unless you specify otherwise.

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Shareholder Proposal No. 2 Supplemental Executive Retirement Plan

We have been informed that the Massachusetts Laborers Pension Fund (the MLP Fund), 14 New England Executive Park, Suite 200, P.O. Box 4000, Burlington, Massachusetts 01803-0900, a beneficial holder of approximately 7,200 shares of common stock, intends to introduce at the Annual Meeting the following resolution. In accordance with SEC rules, the text of the proposed shareholder resolution and supporting statement is printed verbatim from its submission.

Be it Resolved: That the shareholders of UnitedHealth Group Incorporated (Company) hereby urge that the Board of Director s executive compensation committee establish a policy limiting the benefits provided under the Company s supplemental executive retirement plan (SERP Policy). The SERP Policy should provide for the following: (1) a limitation of covered compensation to a senior executive s annual salary, and (2) the exclusion of all incentive or bonus pay from inclusion in the plan s definition of covered compensation used to establish benefits. The SERP Policy should be implemented in a manner so as not to interfere with existing contractual rights of any supplemental plan participant.

The proponent has furnished the following statement:

We believe that one of the most troubling aspects of the sharp rise in executive compensation is the excessive pension benefits provided to senior corporate executives through the use of supplemental executive retirement plans (SERPs). Our Company has established a SERP, the Supplemental Employee Retirement Plan. The Supplemental Employee Retirement Plan provides the Company s chief executive officer (CEO) retirement benefits far greater than those permitted under the Company s tax-qualified pension plan. Our proposal seeks to limit excessive pension benefits by limiting the type of compensation used to calculate pension benefits under the SERP plan(s).

At present, U.S. tax law maintains a $220,000 limit on the level of compensation used to determine a participant s retirement benefit under a tax-qualified pension plan. Our Company has established a SERP as a complement to its tax-qualified plan in order to provide its CEO increased retirement benefits. This is accomplished by raising the level of compensation used in the pension formula to calculate retirement benefits. The SERP establishes a higher compensation level on which to calculate the CEO s pension benefits by including his base annual compensation and incentive compensation in the compensation figure. The Company s 2006 proxy statement states:

Had Dr. McGuire retired on December 31, 2005, his annual payments under the supplemental retirement benefit would be approximately $5,092,000 per year and his lump sum payout would be $6,442,000.

Our position is that the inclusion of an executive s incentive compensation along with his or her full salary in the pension calculation is overly generous and unjustifiable. The only type of compensation used in the SERP for establishing the level of additional pension benefits should be an executive s annual salary. No variable incentive pay should be included in a senior executive s pension calculation under the SERP. The inclusion of annual bonus or incentive payments in determining increased pension benefits can dramatically increase the pension benefit afforded senior executives and has the additional undesirable effect of converting one-time incentive compensation into guaranteed lifetime pension income.

The proposal s limitation on the type of compensation that can be considered in determining senior executives retirement benefits to only the executive s salary is a necessary and reasonable restriction

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on the excessiveness of supplemental retirement benefits. We urge your support for this important executive compensation reform.

The Board of Directors unanimously recommends a vote AGAINST the foregoing proposal for the following reasons:

The Board of Directors believes that the change suggested by this proposal is unnecessary. Stephen J. Hemsley, the Company s current CEO is the only current executive officer with a SERP and the Board acted to freeze that SERP at the amount vested and accrued as of May 1, 2006. As a result, Mr. Hemsley will not accrue any additional SERP benefits for service after May 1, 2006, meaning that Mr. Hemsley will not accrue any SERP benefits for his service as our CEO.

For the reasons described above, the Board believes that the foregoing proposal is unnecessary and the Board recommends a vote AGAINST this proposal. Proxies will be voted AGAINST the proposal unless you specify otherwise.

Shareholder Proposal No. 3 Advisory Resolution on Compensation of Named Executive Officers

We have been informed that Hermes Administration Services Limited on behalf of Britel Fund Nominees Limited and Hermes Assured Limited, Lloyds Chambers, 1 Portsoken Street, London E1 8HZ, United Kingdom intends to introduce at the Annual Meeting the following resolution. Britel Fund Nominees Limited is the registered owner of 392,749 shares of common stock and the beneficial owner of those shares is BT Pension Scheme. Hermes Assured Limited is the registered and beneficial owner of 308,953 shares of common stock. Both of these entities have their registered offices at Lloyds Chambers, 1 Portsoken Street, London E1 8HZ, United Kingdom. In accordance with SEC rules, the text of the proposed shareholder resolution and supporting statement is printed verbatim from its submission.

RESOLVED, on a motion of Britel Fund Nominees Limited and Hermes Assured Limited (Hermes), that the shareholders of UnitedHealth Group Inc., urge the board of directors to adopt a policy under which shareholders could vote at each annual meeting on an advisory resolution, to be proposed by UnitedHealth s management, to ratify the compensation of the named executive officers (NEOs) set forth in the proxy statement s 2006 Summary Compensation Table (the SCT) and the accompanying narrative disclosure of material factors provided to understand the SCT (but not the Compensation Discussion and Analysis). The proposal submitted to shareholders should make clear that the vote is non-binding and would not affect any compensation paid or awarded to any NEO.

The proponent has furnished the following statement:

Investors are increasingly concerned about executive compensation and lack of disclosure thereof that sometimes appears to be insufficiently aligned with the creation of shareholder value. Recent media attention on questionable dating of stock options grants by companies has also raised investor concerns.

We believe that existing U.S. corporate governance arrangements, including SEC rules and stock exchange listing standards, do not give shareholders enough mechanisms to provide input to boards on senior executive compensation. By contrast, public companies in the United Kingdom allow shareholders to cast an advisory vote on the directors remuneration report, which discloses executive

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compensation. Such a vote is not binding, but gives shareholders a clear voice that could help shape senior executive compensation.

Hermes experience with this type of vote as UK shareholders has been positive. Since this rule was introduced in 2002, it has successfully provided shareholders with a basis for dialogue with remuneration committees and boards of companies where there are concerns regarding compensation. While the resolution has been defeated in only a handful of cases, we believe that it has dramatically increased the level and quality of discussion between remuneration committees and investors, and thereby has helped drive more effective remuneration structures.

U.S. stock exchange listing standards require shareholder approval of equity-based compensation plans, but those plans set only general parameters and accord the compensation committee substantial discretion in making awards and establishing performance thresholds for a particular year. Shareholders do not have a means to provide ongoing feedback on the application of those general standards to individual pay packages.

Withholding votes from compensation committee members who are standing for reelection is a blunt and inadequate instrument for registering dissatisfaction with the way in which the committee has administered compensation plans and policies in the previous year.

Accordingly, we urge UnitedHealth s board to let shareholders express their opinion about senior executive compensation by establishing an annual referendum process. The results of such a vote would, we think, provide UnitedHealth with useful information about whether shareholders view the company s senior executive compensation, as reported each year, to be in shareholders best interests.

We urge shareholders to vote ***for*** *this proposal.*

The Board of Directors unanimously recommends a vote AGAINST the foregoing proposal for the following reasons:

The Board of Directors believes that its Compensation Committee has an effective process for establishing executive compensation that is based on performance in alignment with shareholder value creation and which responsibly achieves the purpose of attracting, motivating and retaining the best executives in order to maintain the Company s competitiveness.

Overseeing the setting and administration of the Company s executive compensation is a core responsibility of the Compensation Committee. The Compensation Committee is comprised exclusively of independent directors who meet on a regular basis to establish and review the Company s policies and practices related to total compensation for executives, as well as annual and long-term performance goals and objectives for the Company s executive officers. The Company s compensation approach is disclosed and set forth in detail in the Compensation Discussion and Analysis above. The Company believes that its compensation policies and programs effectively serve the interests of shareholders and the Company and are appropriately balanced and competitive to accomplish the crucial task of recruiting, motivating and retaining talented senior executives.

The Board of Directors believes that an advisory resolution would neither change the contents of the 2006 Summary Compensation Table and its accompanying narrative disclosure nor have any legal consequences on any compensation arrangement. In addition, an advisory vote would not provide the Compensation Committee with insight into specific shareholder concerns regarding executive compensation. Effective means of communicating concerns to the Compensation Committee and to

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the Board are available to shareholders. For example, shareholders may contact the Board of Directors or the Compensation Committee directly by mail (the procedures for communicating with the Board of Directors or the Compensation Committee are described under the Corporate Governance section of this proxy statement).

Few public U.S. companies utilize a shareholder ratification process for executive compensation. The Board of Directors is concerned that adopting this practice could put the Company at a competitive disadvantage and negatively affect stockholder value by creating the impression among senior executives that compensation opportunities may be arbitrarily limited or negatively affected by this practice when compared with opportunities at our competitors.

The Board of Directors and its Compensation Committee exercise great care and discipline in determining and disclosing executive compensation. The Board of Directors does not believe the advisory vote called for by the proponent will enhance the Company s governance practices or improve communication with shareholders, nor is it in the best interests of shareholders.

For the reasons described above, the Board recommends a vote AGAINST this proposal. Proxies will be voted AGAINST the proposal unless you specify otherwise.

Shareholder Proposal No. 4 Relating to Shareholder Nominees for Election to UnitedHealth Group s Board of Directors

We have been informed that the California Public Employees Retirement System (CalPERS), P.O. Box 942707, Sacramento, California 94229-2707, a beneficial holder of approximately 6,600,000 shares of common stock, intends to introduce at the Annual Meeting the following resolution. In accordance with SEC rules, the text of the proposed shareholder resolution and supporting statement is printed verbatim from its submission.

RESOLVED, the shareholders of UnitedHealth Group, Inc. (the Company), request that the Board amend the Company s bylaws to add the following to Section 3.03:

Notwithstanding the above, the corporation shall include in its proxy materials for a meeting of shareholders at which directors are to be elected the name, together with the Disclosure and Statement (both as defined in this section 3.17), of any person nominated for election to the Board of Directors by a shareholder or group thereof that satisfies the requirements of this section 3.17 (the Nominator), and allow shareholders to vote with respect to such nominee on the corporation s proxy card. Each Nominator may nominate up to two candidates for election at a meeting.

A Nominator must:

(a) have beneficially owned 3% or more of the corporation s outstanding common stock (Required Shares) continuously for at least two years;

(b) provide written notice received by the Secretary within the time period specified in the first paragraph of this section containing (i) with respect to the nominee, (A) the information required by such section and (B) such nominee s consent to being named in the proxy statement and to serving as a director if elected; and (ii) with respect to the Nominator, proof of ownership of the Required Shares; and

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(c) execute an undertaking that it agrees to (i) assume all liability stemming from any legal or regulatory violation arising out of the Nominator s communications with the corporation s shareholders, including, without limitation, the Disclosure and Statement; (ii) to the extent it uses soliciting material other than the corporation s proxy materials, comply with all applicable laws and regulations, including, without limitation, the SEC s Rule 14a-12.

The Nominator may furnish a statement, not to exceed 500 words, in support of the nominee s candidacy (the Statement) at the time the Disclosure is submitted. The Board of Directors shall adopt a procedure for timely resolving disputes over whether notice of a nomination was timely given and whether the Disclosure and Statement comply with this section 3.17 and any applicable SEC rules.

The proponent has furnished the following statement:

As an indication of the extent of the compensation problems at many public corporations, President George W. Bush recently said he was floored when he sees guys making a billion dollars as a CEO of a company. President Bush also stated that he hopes that shareholders should take a good hard look at some of these companies.

The Wilmer Cutler Report exposed many compensation-related problems at the Company including inadequate internal controls, a lack of disclosure regarding financial relationships between the former CEO and the Chairman of the Compensation Committee, the improper repricing of options and the improper backdating of options. For these reasons, CalPERS is sponsoring this proposal that will allow shareowners a meaningful voice in the election of the Board of Directors who set the compensation of the Company s officers.

Access to the proxy for purposes of electing a director nominated by large shareowners is the most effective mechanism for ensuring accountability.

Please vote FOR this proposal.

The Board of Directors unanimously recommends a vote AGAINST the foregoing proposal for the following reasons:

The CalPERS proposal, if adopted by the Company, would result in disruptive, divisive and expensive director elections without benefit to the shareholders as a whole. Further, the proposal is unnecessary because the Company s policies and procedures already provide the Company s shareholders with the opportunity for meaningful input into the director nomination and election process.

First, in November 2006, the Company formed a nominating advisory committee (the Nominating Advisory Committee). The Nominating Advisory Committee provides input on desired characteristics of the Board, suggests additional director candidates for consideration by the Nominating and Corporate Governance Committee and the Company s Board of Directors; and it provides feedback about characteristics of specific director candidates under consideration by the Nominating and Corporate Governance Committee and the Company s Board of Directors. Second, the Company s existing Bylaws permit shareholders to nominate director candidates for consideration at annual stockholder meetings. In addition, representatives of the Company have met with representatives of CalPERS and assured them that the Company is open to input and dialogue as to prospective director candidates recommended by our shareholders.

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Further, the Company is recommending additional significant governance initiatives with respect to director elections. This proxy statement contains a proposal to amend the Company s Bylaws and Articles of Incorporation to implement a majority-voting standard. The Board of Directors recommends that the shareholders vote for the amendment to implement majority voting. These changes, if approved by the shareholders, would require directors to receive a majority of the votes cast in a director election, except in contested elections. The Company will retain its existing director resignation policy, whereby any incumbent director who fails to receive a majority vote in favor of his or her re-election must submit his or her resignation for consideration by the Board of Directors. In addition, under the Board of Directors proposed changes, all directors will serve one-year terms and stand for election at each annual meeting. Taken together, all of these policies provide shareholders a greatly increased voice in the annual director election process.

Permitting certain shareholders or shareholder groups to nominate director candidates in the Company s proxy materials could result in expensive and divisive director elections without offering shareholders additional benefit. It could also lead to the election of special interest directors who may be inclined to represent the interests of the shareholders who nominated them and not the interests of all of the Company s shareholders. This proposal, if implemented, could have a tremendously disruptive effect by turning every director election into a proxy contest, effectively requiring the expenditure of significant Company resources in a manner inconsistent with the creation of shareholder value.

Some have pointed to the costs of printing and mailing a competing proxy as a barrier to shareholder proposed director candidates. As of July 1, 2007, the SEC will allow for the electronic delivery of proxy materials by persons other than an issuer to be distributed by posting the materials on the Internet and giving shareholders a notice of their availability (except where materials related to a business combination). Electronic delivery of proxy materials should reduce the mailing and printing costs associated with third party solicitations. By utilizing the additional flexibility provided by electronic delivery of proxy materials, shareholders will have a greater ability to express their views on and influence the outcome and the process of annual elections than ever before and proposals such as those put forward by CalPERS would impose an undue burden on the Company that all shareholders would have to bear without offering shareholders any substantial additional benefit.

For the reasons described above, the Board recommends a vote AGAINST this proposal. Proxies will be voted AGAINST the proposal unless you specify otherwise.

SHAREHOLDER PROPOSALS FOR THE NEXT ANNUAL MEETING

In order to be eligible for inclusion in our proxy statement for our 2008 Annual Meeting or to be considered at that meeting, shareholder proposals must be received, in writing, at our principal executive offices at UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota 55343, Attention: Corporate Secretary, not later than December [ ], 2007. Shareholder proposals must be in the form provided in our Bylaws.

If we do not receive a shareholder proposal by the deadline described above, the proposal will be excluded from the proxy statement and from consideration at the 2008 Annual Meeting. This advance notice requirement supersedes the notice period in SEC Rule 14a-4(c)(1) of the federal proxy rules regarding the discretionary proxy voting authority with respect to such shareholder business.

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HOUSEHOLDING NOTICE

The SEC has adopted rules that allow us to deliver a single copy of each of the annual report, proxy statement and other documents related to a shareholder meeting to any household at which two or more shareholders reside who share the same last name or whom we believe to be members of the same family. This procedure is referred to as householding.

If you share the same last name and address with one or more shareholders, unless we receive contrary instructions from you (or from one of these other shareholders), you and all other shareholders who have your last name and live at the same home address will receive only one copy of any of our annual report, proxy statement for our Annual Meeting of Shareholders and other documents we file and deliver in connection with any other meeting of shareholders. A separate proxy card for each registered shareholder who shares your last name and lives at your home address will be included with householded materials.

If you participate in householding but wish to receive a separate copy of this proxy statement or our annual report to shareholders for any reason, we will deliver a separate copy of these documents to you promptly upon your written or oral request. Such requests should be directed to the Office of the General Counsel, UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota 55343, telephone (800) 328-5979. You may opt out of householding at any time prior to 30 days before the mailing of proxy materials each year, which you can measure by reference to the date 30 days before the mailing date of the proxy statement for the prior year s Annual Meeting.

If we do not hear from you by the deadlines described above, you will be deemed to have consented to the delivery of only one set of these documents to your household for future meetings. We intend to household indefinitely, and your consent will be perpetual unless you revoke it. If you revoke your consent, we will begin sending you individual copies of these documents within 30 days after we receive your revocation notice.

Your participation in the householding program is encouraged. It will reduce the volume of duplicate information received at your household as well as the cost to us of preparing and mailing duplicate materials. As an alternative to householding, you may wish to receive documents electronically. Instructions for consenting to electronic delivery are described above under the heading Electronic Delivery of Proxy Materials. If you consent to electronic delivery, we will not be householding so you need not call the phone number above to object to householding.

We have been notified that some brokers and banks will household proxy materials. If your shares are held in street name by a broker, bank or other nominee, you may request information about householding from your bank, broker or other holder of record.

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OTHER MATTERS AT MEETING

In accordance with the requirements of advance notice described in our Bylaws, no shareholder proposals other than those included in this proxy statement will be presented at the 2007 Annual Meeting. We know of no other matters that may come before the Annual Meeting. However, if any matters calling for a vote of the shareholders, other than those referred to in this proxy statement, should properly come before the meeting, the persons named in the enclosed proxy will vote such proxy according to their individual judgment.

BY ORDER OF THE BOARD OF DIRECTORS,

Forrest G. Burke
Acting General Counsel
Dated: April [ ], 2007

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APPENDIX A

~~SECOND~~ THIRD RESTATED

ARTICLES OF INCORPORATION

OF

UNITEDHEALTH GROUP INCORPORATED

1. The name of this corporation ~~shall be~~ is UnitedHealth Group Incorporated.

2. The address of the registered office of this corporation is: c/o C T Corporation System Inc., ~~405 Second Avenue South~~ 100 South Fifth Street, Suite 1075, Minneapolis, Minnesota ~~55401~~ 55402. The name of the registered agent of this corporation is C T Corporation System Inc.

3. *Capital Stock*.

(a) *Authorized Classes of Stock*. The total number of shares of capital stock ~~which~~ that this corporation is authorized to issue is 3,010,000,000 shares, including 3,000,000,000 shares of Common Stock, $.01 par value, and 10,000,000 shares of Preferred Stock, $.001 par value. Shares of each class of stock of the corporation may be issued for such consideration and for such corporate purposes as the Board of Directors may from time to time determine.

(b) *Serial Preferred Stock*. The Board of Directors of the corporation is hereby authorized to issue from time to time one or more series of the Preferred Stock and, with respect to each such series, to fix by resolution of a majority of the whole Board of Directors the relative rights and preference of ~~each~~ such series. The authority of the Board of Directors with respect to each series shall include, but not be limited to, the determination or fixing of the following:

(i) The number of shares constituting such series and the designation of such series.

(ii) The dividend rate of such series, the conditions and dates upon which such dividends shall be payable, the relation which such dividends shall bear to the dividends payable on any other classes or series of the corporation s capital stock, and whether such dividends shall be cumulative or non-cumulative.

(iii) Whether the shares of such series shall be subject to redemption by the corporation at the option of either the corporation or the holder or both, or upon the happening of a specified event, and the terms and conditions of such redemption.

(iv) The terms and amount of any sinking fund provided for the purchase or redemption of the shares of such series.

(v) Whether or not the shares of such series shall be convertible into, or exchangeable for, shares of any other class, and the terms of such conversion or exchange.

(vi) The restrictions, if any, on the issue or reissue of any additional Preferred Stock, including increases or decreases in the number of shares of any series subsequent to the issue of shares of that series.

(vii) The rights of the holders of the shares of such series upon the voluntary/involuntary liquidation, dissolution or winding up of the corporation.

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(viii) Any right to vote with holders of shares of any series or class.

(c) *Common Stock*. The holders of the Common Stock shall have and possess all rights as ~~stockholders~~ shareholders of the corporation, except if such rights may be limited by the preferences, rights, limitations, and restrictions of the Preferred Stock.

(d) *Pre-emptive Rights*. No holders of shares of any class or series of this corporation shall have any pre-emptive rights to subscribe for any shares of any class or series of stock of this corporation, whether now or hereafter authorized, or for any obligations convertible into shares of any class or series of stock of this corporation, whether now or hereafter authorized.

(e) *Cumulative Voting*. No holders of shares of any class or series of this corporation shall have any right to cumulate votes for the election of the Board of Directors.

(f) *Shareholder Approval*. Shares of any class or series of the corporation may be issued to the holders of shares of another class or series of the corporation, whether to effect a share dividend or split or otherwise, without the authorization or approval of the holders of shares of any class or series of the corporation, except as otherwise provided in the designation of any series of Preferred Stock.

~~4. (a) The board of directors of this corporation shall be divided into three classes, Class I, Class II and Class III, as nearly equal in number as possible, with the term of office of Class I expiring at the annual meeting of shareholders of this corporation in 1984, of Class II expiring at the annual meeting of shareholders in 1985 and of Class III expiring at the annual meeting of shareholders in 1986. At each annual meeting of shareholders, directors chosen to succeed those whose terms then expire shall be elected for a term of office expiring at the third succeeding annual meeting of shareholders after their election.~~

~~(b) No director of this corporation shall be removed from office with or without cause without~~

~~(i) the affirmative vote of the holders of not less than 66-2/3 percent of the outstanding shares of Common Stock of this corporation, or~~

~~(ii) the affirmative vote of 66-2/3 percent of the directors in office at the time such vote is taken.~~

~~(c) This Article 4 may not be amended, altered, changed or repealed without the affirmative vote of the holders of not less than 66-2/3 percent of the outstanding shares of Common Stock of this corporation.~~

~~5.(a) The affirmative vote of the holders of not less than 66-2/3 percent of the outstanding shares of capital stock of this corporation entitled to vote generally in the election of directors shall be required for approval or authorization of any Business Combination (as hereinafter defined) of this corporation with any Related Person; provided, however, that the 67 percent voting requirement shall not apply if:~~

~~(i) The Continuing Directors of this corporation (as hereinafter defined) by a two-thirds vote (A) have expressly approved in advance the acquisition of outstanding shares of Common Stock of this corporation that caused the Related Person to become a Related Person, or (B) have approved the Business Combination prior to the Related Person involved in the Business Combination having become a Related Person;(ii) The Business Combination is solely between~~

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~~this corporation and another corporation, one hundred percent of the capital stock of which is owned, directly or indirectly, by this corporation; or~~

~~(ii) The Business Combination is a merger or consolidation and the cash or fair market value as determined by this corporation s board of directors, of the property, securities and other consideration to be received per share by holders of the Common Stock in the Business Combination is not less than the highest per share price (with appropriate adjustments for recapitalizations and for stock splits, stock dividends and like distributions, if any) paid by the Related Person in acquiring any of its holdings of this corporation s Common Stock.~~

~~(a) The term Business Combination shall mean (i) any merger or consolidation of this corporation or a subsidiary thereof with or into a Related Person, (ii) any sale, lease, exchange, transfer or other disposition, in one transaction or a series of related transactions, of all or any Substantial Part (as hereinafter defined) of the assets either of this corporation (including without limitation any voting securities of a subsidiary thereof) or of a subsidiary thereof, to a Related Person, (iii) any merger or consolidation of a Related Person with or into this corporation or a subsidiary thereof, (iv) any sale, lease, exchange, transfer or other disposition, in one transaction or a series of related transactions, of all or any Substantial Part of the assets of a Related Person to this corporation or a subsidiary thereof, (v) the issuance of any securities of this corporation or a subsidiary thereof to a Related Person, (vi) any reclassification of securities, recapitalization or other transaction that would have the effect of increasing the voting power of a Related Person and (vii) any agreement, contract or other arrangement providing for any of the transactions described in this definition of Business Combination.~~

~~(b) The term Related Persons shall mean and include any individual, corporation, partnership or other person or entity which, together with its Affiliates and Associates (as defined by Rule 12b-2 under the Securities Exchange Act of 1934), Beneficially Owns (as defined by Rule 13d-3 under the Securities Exchange Act of 1934) in the aggregate 20 percent or more of the outstanding Common Stock of this corporation, and any Affiliate or Associate of any such individual corporation, partnership or other person or entity.~~

~~(c) The term Substantial Part shall mean more than 30 percent of the fair market value of the total assets of the corporation in question, as of the end of its most recent fiscal year ending prior to the time the determination is being made.~~

~~(d) Without limitation, any shares of Common Stock of this corporation that any Related Person has the right to acquire pursuant to any agreement, or upon exercise of conversion rights, warrants or options or otherwise, shall be deemed beneficially owned by the Related Person.~~

~~(e) For the purposes of subparagraph (3) of this Article Five the term other consideration to be received shall include, without limitation, Common Stock of this corporation retained by its existing stockholders in the event of a Business Combination in which this corporation is the surviving corporation.~~

~~(f) The term Continuing Director shall mean a director who was a member of the board of directors of this corporation immediately prior to the time that the Related Person involved in a Business Combination became a Related Person.~~

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~~(g) This Article 5 may not be amended, altered, changed or repealed without the affirmative vote of the holders of not less than 66 2/3 percent of the outstanding shares of capital stock of this corporation entitled to vote generally in the election of directors.~~

4. *Election of Directors.*

(a) Subject to the rights, if any, of the holders of one or more series of Preferred Stock, voting separately by series to elect directors in accordance with the terms of such Preferred Stock, each director shall be elected by the vote of a majority of the votes cast with respect to the director at a meeting of shareholders called for such purpose at which a quorum is present. For purposes of this paragraph (a), a majority of the votes cast means that the number of votes cast for a director must exceed the number of votes cast against that director.

(b) Notwithstanding paragraph (a) of this Article 4, directors shall be elected by a plurality of the votes present and entitled to vote on the election of directors at any such meeting for which the number of nominees (other than nominees withdrawn on or before the day preceding the date the corporation first mails its notice for such meeting to the shareholders) exceeds the number of directors to be elected.

~~6.~~ 5. An action required or permitted to be taken at a meeting of the Board of Directors of the corporation may be taken by a written action, signed, or counterparts of a written action signed in the aggregate, by all of the directors unless the action need not be approved by the shareholders of the corporation, in which case the action may be taken by a written action signed, or counterparts of a written action signed in the aggregate, by the number of directors that would be required to take the same action at a meeting of the Board of Directors of the corporation at which all of the directors were present.

~~7.~~ 6. The provisions of Section 302A.671 of the Minnesota Statutes shall not apply to this corporation.

~~8.~~ 7. *Liability of Directors.*

(a) A director of this corporation shall not be personally liable to the corporation or its shareholders for monetary damages for breach of fiduciary duty as a director, except for liability:

(i) for any breach of the director s duty of loyalty to the corporation or its shareholders;

(ii) for acts or omissions not in good faith or ~~which~~ that involve intentional misconduct or a knowing violation of law;

(iii) under Sections 302A.559 or 80A.23 of the Minnesota Statutes;

(iv) for any transaction from which the director derived an improper personal benefit; or

(v) for any act or omission occurring prior to the date when this Article ~~8~~ 7 (including any predecessor provision) became effective.

(b) If the Minnesota Business Corporation Act is hereafter amended to authorize the further elimination or limitation of the liability of a director, then the liability of a director of the corporation shall be eliminated or limited to the fullest extent permitted by the Minnesota Business Corporation Act, as so amended.

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(c) Any repeal or modification of the foregoing provisions of this Article ~~8~~ 7 by the shareholders of the corporation shall not adversely affect any right or protection of a director of the corporation existing at the time of such repeal or modification.

~~Attached to these Restated Articles is a copy of the the Certificate of Designation filed with the Minnesota Secretary of State on February 19, 1988 with respect to the resolution adopted by the Board of Directors on November 11, 1987 establishing the Series A, Series B & Series C Convertible Preferred Stock, which also continues in effect as part of the Restated Articles.~~

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APPENDIX B

~~SECOND~~ THIRD AMENDED AND RESTATED BYLAWS

OF

UNITEDHEALTH GROUP INCORPORATED

(Effective as of ~~February 11, 2003~~ ________, 2007)

ARTICLE I

OFFICES, CORPORATE SEAL

Section 1.01. *Registered Office*. The registered office of the corporation in Minnesota shall be that set forth in the Restated Articles of Incorporation or in the most recent amendment of the Articles of Incorporation or resolution of the directors filed with the Secretary of State of Minnesota changing the registered office.

Section 1.02. *Other Offices*. The corporation may have such other offices, within or without the State of Minnesota, as the directors shall, from time to time, determine.

Section 1.03. *Corporate Seal*. The corporation shall have no seal.

ARTICLE II

~~MEETING~~ MEETINGS OF SHAREHOLDERS

Section 2.01. *Place and Time of Meetings*. Except as provided otherwise by Minnesota Statutes, Chapter 302A, meetings of the shareholders may be held at any place, within or without the State of Minnesota, or solely by remote communication (as defined in Section 301A.011(61) of the Minnesota Statutes) (Remote Communication), as may from time to time be designated by the directors and, in the absence of such designation, shall be held at the registered office of the corporation in the State of Minnesota. The directors shall designate the time of day for each meeting and, in the absence of such designation, every meeting of shareholders shall be held at ten o clock a.m.

Section 2.02. *Regular Meetings*.

(a) A regular meeting of the shareholders shall be held on such date as the Board of Directors shall by resolution establish.

(b) At a regular meeting of the shareholders, voting as provided in the Articles of Incorporation and these Bylaws, shall elect qualified successors for directors who serve for an indefinite term or whose terms have expired or are due to expire within six months after the date of the meeting and shall transact such other business as may properly come before them.

Section 2.03. *Special Meetings*. Special meetings of the shareholders may be held at any time and for any purpose and may be called by the Chief Executive Officer, the Chairman of the Board, the Chief Financial Officer, any two directors, or by a shareholder or shareholders holding ten percent (10%) or more of the shares entitled to vote on the matters to be presented to the meeting, except that

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a special meeting of shareholders called for the purpose of considering any action to directly or indirectly facilitate or effect a business combination (as defined by Minnesota Law), including any action to change or otherwise affect the composition of the Board of Directors for that purpose, may not be called by less than twenty-five percent (25%) of the shares entitled to vote on the matters to be presented at the meeting. The Board of Directors may designate that the special meeting is to be held solely by Remote Communication.

Section 2.04. *Quorum, Adjourned Meetings*. The ~~holder~~ holders of a majority of the shares entitled to vote shall constitute a quorum for the transaction of business at any regular or special meeting. In case a quorum shall not be present at a meeting, those present may adjourn the meeting to such day as they shall, by majority vote, agree upon, and a notice of such adjournment and the date and time at which such meeting shall be reconvened shall be mailed to each shareholder entitled to vote at least 5 days before such adjourned meeting. If a quorum is present, a meeting may be adjourned from time to time without notice other than announcement at the meeting. At adjourned meetings at which a quorum is present, any business may be transacted which might have been transacted at the meeting as originally noticed. If a quorum is present, the shareholders may continue to transact business until adjournment notwithstanding the withdrawal of enough shareholders to leave less than a quorum.

Section 2.05. *Voting*. At each meeting of the shareholders, every shareholder having the right to vote shall be entitled to vote either in person or by proxy. Each shareholder, unless the Articles of Incorporation or statute provide otherwise, shall have one vote for each share having voting power registered in such shareholder s name on the books of the corporation. Jointly owned shares may be voted by any joint owner unless the corporation receives written notice from any one of them denying the authority of that person to vote those shares. Upon the demand of any shareholder, the vote upon any question before the meeting shall be by ballot. All questions shall be decided by the affirmative vote of the holders of a majority of the power of the shares present and entitled to vote on that item of business, except if otherwise required by statute, the Articles of the Incorporation, or these Bylaws.

Section 2.06. *Closing of Books*. The Board of Directors may fix a time, not exceeding 60 days preceding the date of any meeting of shareholders, as a record date for the determination of the shareholders entitled to notice of, and to vote at, such meeting, notwithstanding any transfer of shares on the books of the corporation after any record date so fixed. The Board of Directors may close the books of the corporation against the transfer of shares during the whole or any part of such period. If the Board of Directors fails to fix a record date for determination of the shareholders entitled to notice of, and to vote at, any meeting of shareholders, the record date shall be the 20th day preceding the date of such meeting.

Section 2.07. *Notice of Meetings*. There shall be mailed to each shareholder, shown by the books of the corporation to be a holder of record of voting shares, a notice setting out the time and place or information regarding Remote Communication, if applicable, of each regular and each special meeting, except where the meeting is an adjourned meeting and the date, time and place of the meeting were announced at the time of adjournment, which notice shall be mailed at least five days prior thereto; except that notice of a meeting at which an agreement of merger or exchange is to be considered shall be mailed to all shareholders of record, whether entitled to vote or not, at least fourteen days prior thereto. Every notice of any special meeting called pursuant to Section 2.03 hereof

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shall state the purpose or purposes for which the meeting has been called, and the business transacted at all special meetings shall be confined to the purpose stated in the notice. Notice may be given by means of mail, or if consented to by the shareholder in a manner that complies with the federal securities laws, facsimile, electronic mail, electronic posting, or any other form of electronic communication to which the shareholder has consented.

Section 2.08. *Waiver of Notice*. Notice of any regular or special meeting may be waived by any shareholder either before, at or after such meeting orally, by authenticated electronic communication (as defined under Sections 302A.011(62) and 302A.011(60), respectively, of the Minnesota Statutes), or in a writing signed by such shareholder or a representative entitled to vote the shares of such shareholder. A shareholder, by his attendance at any meeting of shareholders or by his participation by means of Remote Communication, shall be deemed to have waived notice of such meeting, except where the shareholder objects at the beginning of the meeting to the transaction of business because the item may not lawfully be considered at that meeting and does not participate in the consideration of the item at that meeting.

Section 2.09. *Written Action*. Any action which might be taken at a meeting of the shareholders may be taken without a meeting if done in writing and signed, or consented to by authenticated electronic communication (as defined under Sections 302A.011(62) and 302A.011(60), respectively, of the Minnesota Statutes) by all of the shareholders entitled to vote on that action.

Section 2.10. *Business to be Brought Before the Meeting*. A shareholder must provide written notice of any proposal to be submitted at an annual meeting and such notice must be delivered to the Secretary of the corporation so as to be received at the principal executive offices of the corporation not less than 120 days in advance of the first anniversary of the date of the corporation s proxy statement released to shareholders in connection with the previous year s annual meeting of shareholders, except that ~~is~~ if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year s proxy statement, such notice must be so received a reasonable time before the solicitation is made. Each such notice shall set forth as to each matter the shareholder proposes to bring before the annual meeting (a) a brief description of the business desired to be brought before the annual meeting and the reasons for conducting such business at the annual meeting; (b) the name and address of the shareholder proposing such business; (c) the class and number of share of the corporation which are beneficially owned by the shareholder; (d) any material interest of the shareholder in such business; and (e) such other information regarding such business as would be required to be included in a proxy statement filed pursuant to the proxy rules of the Securities and Exchange Commission had the matter been proposed by the Board of Directors. Notwithstanding anything in these Bylaws to the contrary, no business shall be considered properly brought before an annual meeting by a shareholder unless it is brought in accordance with the procedures set forth in this Section 2.10.

Section 2.11. *Remote Communication*. To the extent authorized by the Board, a shareholder, not physically present in person or by means of proxy, may, by any means of Remote Communication, participate in a meeting of shareholders held at a designated place. Participation by a shareholder by that means constitutes presence at the meeting.

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ARTICLE III

DIRECTORS

Section 3.01. *General Powers*. The business and affairs of the corporation shall be managed by or under the direction of the Board of Directors, except as otherwise permitted by statute.

Section 3.02. *Number, Election and Term of Office*. ~~a)~~ The Board of Directors shall consist of one or more members, and the number of directors may be increased or decreased from time to time by the affirmative vote of a majority of directors present at a duly held meeting at the time the action is taken or the affirmative vote of the holders of a majority of the voting power of the shares present and entitled to vote on that item of business, considered for this purpose as one class. Except as otherwise provided by law or by these ~~bylaws~~ Bylaws, the directors of the corporation shall be elected at the Annual Meeting of Shareholders in each year. Each of the directors shall hold office until the expiration of his term, as specified herein, and until such director s successor shall have been elected and shall qualify, or until the earlier death, resignation, or disqualification of such order.

~~b) The Board of Directors of this corporation shall be divided into three classes, Class I, Class II, Class III, as nearly equal in number as possible. At each Annual Meeting of Shareholders, directors chosen to succeed those whose term is then expired, shall be elected for a term of office expiring at the third succeeding Annual Meeting of Shareholders after their election. In case of any increase or decrease in the number of directors, the increase or decrease shall be distributed among the several classes as nearly equal as possible, as shall be determined by the affirmative vote of a majority of directors present at a duly held meeting at the time the action is taken or by the affirmative vote of the holders of a majority of the voting power of the shares present and entitled to vote on that item of business.~~

Section 3.03. *Nomination of Director Candidates*.

(a) Nomination of candidates for election to the Board of Directors of the corporation at any annual meeting of the shareholders may be made only by or at the direction of the Board of Directors or by a shareholder entitled to vote at such annual meeting. All such nominations, except those made by or at the direction of the Board of Directors, shall be made pursuant to timely notice in writing to the Secretary of the corporation. To be timely, any such notice must be received at the principal executive offices of the corporation not less than 120 days in advance of the first anniversary of the date of the corporation s proxy statement released to shareholders in connection with the previous year s annual meeting of shareholders, except that if no annual meeting was held in the previous year or the date of the annual meeting has been changed by more than 30 days from the date contemplated at the time of the previous year s proxy statement, such notice must be so received a reasonable time before the solicitation is made, and must set forth (i) the name, age, business address, residence address and the principal occupation or employment of each nominee proposed in such notice; (ii) the name and address of the shareholder giving the notice as the same appears in the corporation s stock register; (iii) the number of shares of capital stock of the corporation which are beneficially owned by each such nominee and by such shareholder; and (iv) such other information concerning each such nominee as would be required soliciting proxies for the election of such nominee. Such notice must also include a signed consent of each such nominee to serve as a director of the corporation, if elected.

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(b) If the officer of the corporation presiding at an annual meeting of the shareholders determines that a director nomination was not made in accordance with the foregoing procedures, such nomination shall be void and shall be disregarded for all purposes.

Section 3.04. *Determination of Contested Elections*.

(a) In the event that there are more candidates for election to the Board of Directors at a meeting of the shareholders than there are directors to be elected at such meeting (a Contested Election), the vote for election of directors shall be by ballot and the officer of the corporation presiding at the meeting shall appoint two persons, who need not be shareholders, to act as Inspectors of Election at such meeting.

(b) The Inspectors so appointed, before entering on the discharge of their duties, shall take and subscribe on oath or affirmation faithfully to execute the duties of Inspectors at such meeting with strict impartiality and according to the best of their ability, and thereupon the Inspectors shall take charge of the polls and after the balloting shall canvas the votes and determine in accordance with law and make a certificate to the corporation of the results of the vote taken. No director or candidate for the office of director shall be appointed an Inspector.

(c) The nominees for election to the Board of Directors in a Contested Election who are certified by the Inspectors as having been elected shall be deemed to be duly elected and qualified upon the expiration of three business days following the date of such certification; provided that, in the event any court proceedings are commenced which challenge the results of such Contested Election, such nominees shall not be deemed to be duly elected and qualified until all such court proceedings, including appeals, shall have been finally concluded.

Section 3.05. *Chairman of the Board*. The Board of Directors may elect from their number~~,~~ a Chairman of the Board, who shall not be deemed an officer of the Corporation as a result of such title. The Chairman of the Board, if one is elected, shall preside at all meetings of the directors and shall have such other duties as may be prescribed, from time to time, by the Board of Directors.

Section 3.06. *Board Meetings*. Meetings of the Board of Directors may be held from time to time at such time and place within or without the State of Minnesota or solely by Remote Communication as may be designated in the notice of such meeting.

Section 3.07. *Calling Meetings; Notice*. Meetings of the Board of Directors may be called by the Chairman of the Board by giving at least twenty-four hours notice, or by any other director by giving at least five days notice, of the date, time and place or information regarding Remote Communication, if applicable, to each director in person or by mail, telephone, facsimile, electronic mail, electronic posting, or any other form of electronic communication.

Section 3.08. *Waiver of Notice*. Notice of any meeting of the Board of Directors may be waived by any director either before, at, or after such meeting orally or in a writing signed by such director. A director, by his attendance at any meeting of the Board of Directors, shall be deemed to have waived notice of such meeting, except where the director objects at the beginning of the meeting to the transaction of business because the meeting is not lawfully called or convened and does not participate thereafter in the meeting.

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Section 3.09. *Quorum*. A majority of the directors holding office immediately prior to a meeting of the Board of Directors shall constitute a quorum for the transaction of business at such meeting.

Section 3.10. *Absent Directors*. A director may give advance written or authenticated electronic (as defined under Sections 302A.011(62) and 302A.011(60), respectively, of the Minnesota Statutes) consent or opposition to a proposal to be acted on at a meeting of the Board of Directors. If such director is not present at the meeting, consent or opposition to a proposal does not constitute presence for purposes of determining the existence of a quorum, but consent or opposition shall be counted as a vote in favor of or against the proposal and shall be entered in the minutes or other record of action at the meeting, if the proposal acted on at the meeting is substantially the same or has substantially the same effect as the proposal to which the director has consented or objected.

Section 3.11. *Remote Communication*. Any or all directors may participate in any meeting of the Board of Directors, or of any duly constituted committee thereof, by means of telephone conference or, if authorized by the Board, by such other means of Remote Communication through which the directors may simultaneously participate with each other during such meeting. For the purposes of establishing a quorum and taking any action at the meeting, such directors participating pursuant to this Section 3.11 shall be deemed present in person at the meeting.

Section 3.12. *Vacancies: Newly Created Directorships*. Vacancies in the Board of Directors of this corporation occurring by reason of death, resignation, removal or disqualification shall be filled for the unexpired term by a majority of the remaining directors of the Board although less than a quorum; newly created directorships resulting from an increase in the authorized number of directors by action of the Board of Directors as permitted by Section 3.02 may be filled by the affirmative vote of a majority of directors present at a duly held meeting at the time the action is taken.

Section 3.13. *Removal*. Any or all of the directors may be removed from office at any time, with or without cause, ~~by the affirmative vote of the holders of not less than 66-2/3 percent of the outstanding shares of Common Stock of the corporation or by the affirmative vote of 66-2/3 percent of the directors in office at the time the vote is taken. In the event that the entire Board or any one or more directors be so removed, new directors shall be elected at the same meeting~~ <u>in accordance with Section 302A.223 of the Minnesota Statutes.</u>

Section 3.14. *Committees*.

<u>(a)</u> A resolution approved by the affirmative vote of a majority of the Board of Directors may establish committees having the authority of the Board in the management of the business of the corporation to the extent provided in the resolution. A committee shall consist of one or more persons, who need not be directors, appointed by affirmative vote of a majority of the directors present. Committees are subject to the direction and control of the Board of Directors, except for special litigation committees, and vacancies in the membership thereof shall be filled by the Board of Directors.

<u>(b)</u> A majority of the members of the committee present at a meeting is a quorum for the transaction of business, unless a larger or smaller proportion or number is provided in a resolution approved by the affirmative vote of a majority of directors present.

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(c) Unless otherwise provided in the Articles of Incorporation or the resolution of the Board of Directors establishing the committee, a committee may create one or more subcommittees, each consisting of one or more members of the committee, and may delegate to a subcommittee any or all of the authority of the committee.

Section 3.15. *Written Action*. Any action which might be taken at a meeting of the Board of Directors, or any duly constituted committee thereof, may be taken without a meeting if done in writing and signed or consented to by authenticated electronic communication (as defined under Sections 302A.011(62) and 302A.011(60), respectively, of the Minnesota Statutes) by all of the directors or committee members, unless the Articles provide ~~otherwise and the action need not be approved by the shareholders.~~ for less than unanimous written action.

Section 3.16. *Compensation*. Directors who are not salaried officers of this corporation shall receive such fixed sum per meeting attended or such fixed annual sum as shall be determined, from time to time, by resolution of the Board of Directors. The Board of Directors may, by resolution, provide that all directors shall receive their expenses, if any, of attendance at meetings of the Board of Directors or any committee thereof. Nothing herein contained shall be construed to preclude any director from serving this corporation in any other capacity and receiving proper compensation therefor.

ARTICLE IV

OFFICERS

Section 4.01. *Number and Designation*. The corporation shall have one or more natural persons exercising the functions of the offices of Chief Executive Officer and Chief Financial Officer. The Board of Directors may elect or appoint such other officers or agents as it deems necessary for the operation and management of the corporation, with such powers, rights, duties, and responsibilities as may be determined by the Board of Directors, including, without limitation, a President, one or more Vice Presidents, a Secretary, a Treasurer, and such assistant officers or other officers as may from time to time be elected or appointed by the Board of Directors. Each such officer shall have the powers, rights, duties and responsibilities set forth in these Bylaws unless otherwise determined by the Board of Directors. Any number of offices may be held by the same person.

Section 4.02. *Chief Executive Officer*. Unless provided otherwise by a resolution adopted by the Board of Directors, the Chief Executive Officer: (a) shall have general active management of the business of the corporation; (b) shall, when present, preside at all meetings of the stockholders; (c) shall see that all orders and resolutions of the Board of Directors are carried into effect; (d) shall sign and deliver in the name of the corporation any deeds, mortgages, bonds, contracts or other instruments pertaining to the business of the corporation, except in cases in which the authority to sign and deliver is required by law to be exercised by another person or is expressly delegated by these Bylaws or the Board of Directors to some other officer or agent of the corporation; and (e) shall perform such other duties as from time to time may be assigned by the Board of Directors.

Section 4.03. *Chief Financial Officer*. Unless provided otherwise by a resolution adopted by the Board of Directors, the Chief Financial Officer: (a) shall cause to be kept accurate financial records for the corporation; (b) shall cause to be deposited all monies, drafts, and checks in the name of and to

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the credit of the corporation in such banks and depositories as the Board of Directors shall designate from time to time; (c) shall cause to be endorsed for deposit all notes, checks and drafts received by the corporation as ordered by the Board of Directors, making proper vouchers therefor; (d) shall cause to be disbursed corporate funds and shall cause to be issued checks and drafts in the name of the corporation, as ordered by the Board of Directors; (e) shall render to the Chief Executive Officer and the Board of Directors, whenever requested, an account of all the transactions as Chief Financial Officer and of the financial condition of the corporation; and (f) shall perform such other duties as may be prescribed by the Board of Directors or the Chief Executive Officer from time to time.

Section 4.04. *President*. Unless otherwise determined by the Board of Directors, the President shall be the Chief Executive Officer of the corporation. If an officer other than the President is designated Chief Executive Officer, the President shall perform such duties as may from time to time be assigned by the Board of Directors.

Section 4.05. *Vice President*. Each Vice President shall perform such duties as may be prescribed from time to time by these Bylaws or by the Board of Directors.

Section 4.06. *Secretary*. Unless provided otherwise by a resolution adopted by the Board of Directors, the Secretary: (a) shall attend all meetings of the stockholders and Board of Directors, and shall record all the proceedings of such meetings in the minute book of the corporation; (b) shall give proper notice of meetings of stockholders and Board of Directors and other notices required by law or these Bylaws; and (c) shall perform such other duties as from time to time may be assigned by the Board of Directors.

Section 4.07. *Treasurer*. The Treasurer shall perform such duties as may from time to time be assigned by the Chief Financial Officer or by the Board of Directors.

Section 4.08. *Authority and Duties*. In addition to the foregoing authority and duties, all officers of the corporation shall respectively have such authority and perform such duties in the management of the business of the corporation as may be determined from time to time by the Board of Directors. Unless prohibited by a resolution of the Board of Directors, an officer elected or appointed by the Board of Directors may, without specific approval of the Board of Directors, delegate some or all of the duties and powers of an office to other persons.

Section 4.09. *Removal and Vacancies*. The Board of Directors may remove any officer from office at any time, with or without cause, by a resolution approved by the affirmative vote of a majority of the directors present. Such removal, however, shall be without prejudice to the contract rights of the person so removed. A vacancy in an office of the corporation by reason of death, resignation, removal, disqualification, or otherwise may, or in the case of a vacancy in the office of the Chief Executive Officer or Chief Financial Officer shall, be filled for the unexpired term by the Board of Directors.

Section 4.10. *Compensation*. The officers of this corporation shall receive such compensation for their services as may be determined by or in accordance with resolutions of the Board of Directors or by one or more committees to the extent so authorized from time to time by the Board of Directors.

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ARTICLE V

SHARES AND THEIR TRANSFER

Section 5.01. *Certificates for Shares*. The ~~Board of Directors may authorize the issuance of~~ corporation may issue stock either in certificated or uncertificated form. If shares are issued in uncertificated form, each stockholder shall be entitled upon written request to a stock certificate or certificates, representing and certifying the number and kind of full shares held, signed as provided in this Section 5.01. Certificates for shares of stock shall be in such form as the Board of Directors may from time to time prescribe. The certificates for such shares shall be numbered in the order in which they shall be issued and shall be signed, in the name of the corporation, by the Chief Executive Officer or the President and by the Secretary or an Assistant Secretary or by such officers as the Board of Directors may designate. If the certificate is signed by a transfer agent or registrar, such signatures of the corporate officers may be by facsimile if authorized by the Board of Directors. A certificate representing shares of this corporation shall contain on its face the information required by Minnesota Statutes, Section 302A.417, Subd. 4. A certificate representing shares issued by this corporation, if it is authorized to issue shares of more than one class or series, shall set forth upon the face or back of the certificate, or shall state that the corporation will furnish to any shareholder upon request and without charge, a full statement of the designations, preferences, limitations, and relative rights of the shares of each class or series authorized to be issued so far as they have been determined, and the authority of the Board of Directors to determine relative rights and preferences of subsequent classes or series. Every certificate surrendered to the corporation for exchange or transfer shall be canceled, and no new certificate or certificates shall be issued in exchange for any existing certificate until such existing certificate shall have been so canceled, except in cases provided for in Section 5.04.

Section 5.02. *Issuance of Shares*. The Board of Directors is authorized to cause to be issued shares of the corporation up to the full amount authorized by the Articles of Incorporation in such amounts as may be determined by the Board of Directors and as may be permitted by law. No shares shall be allotted except in consideration of cash or other property, tangible or intangible, received or to be received by the corporation under a written agreement, of services rendered or to be rendered to the corporation under a written agreement, or of an amount transferred from surplus to stated capital upon a share dividend. At the time of such allotment of shares, the Board of Directors making such allotments shall state, by resolution, their determination of the fair value to the corporation in monetary terms of any consideration other than cash for which shares are allotted.

Section 5.03. *Transfer of Shares*. The shares of stock of the corporation shall be transferable on the books of the corporation by the holder thereof in person or by his or her attorney upon surrender for cancellation of a certificate or certificates for the same number of shares, or other evidence of ownership if no certificates shall have been issued, with an assignment and power of transfer endorsed thereon or attached thereto, duly executed, and with such proof of the validity of the signature as the corporation or its agents may reasonably require. The corporation may treat as the absolute owner of shares of the corporation, the person or persons in whose name shares are registered on the books of the corporation. The Board of Directors may appoint one or more transfer agents and registrars to maintain the share records of the corporation and to effect share transfers on its behalf.

Section 5.04. *Loss of Certificates*. Except as otherwise provided by Minnesota Statutes, Section 302A.419, any shareholder claiming a certificate for shares to be lost, stolen or destroyed shall make an affidavit of that fact in such form as the Board of Directors shall require and shall, if the Board of Directors so requires, give the corporation a bond of indemnity in form, in an amount, and with one or more sureties satisfactory to the Board of Directors, to indemnify the corporation against any claim which may be made against it on account of the reissue of such certificate, whereupon a new certificate may be issued in the same tenor and for the same number of shares as the one alleged to have been lost, stolen or destroyed.

ARTICLE VI

DIVIDENDS, RECORD DATE

Section 6.01. *Dividends*. Subject to the provisions of the Articles of Incorporation, of these Bylaws, and of law, the Board of Directors may declare dividends whenever, and in such amounts as, in its opinion, are deemed advisable.

Section 6.02. *Record Date*. Subject to any provisions of the Articles of Incorporation, the Board of Directors may fix a date not exceeding 120 days preceding the date fixed for the payment of any dividend as the record date for the determination of the shareholders entitled to receive payment of the dividend and, in such case, only shareholders of record on the date so fixed shall be entitled to receive payment of such dividend notwithstanding any transfer of shares on the books of the corporation after the record date. If no record date is fixed, the record date shall be at the close of business on the day on which the Board of Directors adopts the resolution authorizing the payment of such dividend.

ARTICLE VII

BOOKS AND RECORDS, FISCAL YEAR

Section 7.01. *Share Register*. The Board of Directors of the corporation shall cause to be kept at its principal executive office, or at another place or places within the United States determined by the board:

(1) a share register not more than one year old, containing the names and addresses of the shareholders and the number and classes of shares held by each shareholder; and

(2) a record of the dates on which certificates or transaction statements representing shares were issued.

Section 7.02. *Other Books and Records*. The Board of Directors shall cause to be kept at its principal executive office, or, if its principal executive office is not in Minnesota, shall make available at its registered office within ten days after receipt by an officer of the corporation of a written demand for them made by a shareholder or other person authorized by Minnesota Statutes Section 302A.461, originals or copies of:

(1) records of all proceedings of shareholders for the last three years;

(2) records of all proceedings of the board for the last three years;

(3) its articles and all amendments currently in effect;

(4) its bylaws and all amendments currently in effect;

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(5) financial statements required by Minnesota Statutes, Section 302A.463, and the financial statement for the most recent interim period prepared in the course of the operation of the corporation for distribution to the shareholders or to a governmental agency as a matter of public record;

(6) reports made to shareholders generally within the last three years;

(7) a statement of the names and usual business addresses of its directors and principal officers;

(8) voting trust agreements described in Section 302A.453; ~~and~~

(9) shareholder control agreements described in Section 302A.~~457.~~ 457; and

(10) agreements, contracts, or other arrangements or portions of them incorporated by reference under Section 302A.111, Subd. 7.

Section 7.03. *Fiscal Year.* The fiscal year of the corporation shall be determined by the Board of Directors.

ARTICLE VIII

LOANS, GUARANTEES, SURETYSHIP

Section 8.01.

(a) The corporation may lend money to, guarantee an obligation of, become a surety for, or otherwise financially assist a person if the transaction, or a class of transactions to which the transaction belongs, is approved by the affirmative vote of a majority of the directors present and:

(1) is in the usual and regular course of business of the corporation;

(2) is with, or for the benefit of, a related corporation, an organization in which the corporation has a financial interest, an organization with which the corporation has a business relationship, or an organization to which the corporation has the power to make donations;

(3) is with, or for the benefit of, an officer or other employee of the corporation or a subsidiary, including an officer or employee who is a director of the corporation or a subsidiary, and may reasonably be expected, in the ~~judgement~~ judgment of the board, to benefit the corporation; or

(4) whether or not any separate consideration has been paid or promised to the corporation, has been approved by (a) the holders of two-thirds of the voting power of the shares entitled to vote that are owned by persons other than the interested person or persons, or (b) the unanimous affirmative vote of the holders of all outstanding shares, whether or not entitled to vote.

(b) The loan, guarantee, surety contract or other financial assistance may be with or without interest, and may be unsecured, or may be secured in the manner as a majority of the directors approve, including, without limitation, a pledge of or other security interest in shares of the corporation. Nothing in this ~~section~~ Section 8.01 shall be deemed to deny, limit, or restrict the powers of guaranty or warranty of the corporation at common law or under a statute of the State of Minnesota.

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ARTICLE IX

INDEMNIFICATION OF CERTAIN PERSONS

Section 9.01. The corporation shall indemnify such persons, for such expenses and liabilities, in such manner, under such circumstances, and to such extent as permitted by Minnesota Statutes, Section 302A.521, as now enacted or hereafter amended.

ARTICLE X

AMENDMENTS

Section 10.01. These Bylaws may be amended or altered by the affirmative vote of a majority of directors present at a duly held meeting provided that notice of such proposed amendment shall have been given in the notice given to the directors of such meeting. Such authority in the Board of Directors is subject to the power of the shareholders to change or repeal such Bylaws by the affirmative vote of the holders of a majority of the voting power of the shares present and entitled to vote at any regular or special meeting of shareholders called for such purpose, and the Board of Directors shall not make or alter any Bylaws fixing a quorum for meetings of shareholders, prescribing procedures for removing directors or filling vacancies in the Board of Directors, or fixing the number of directors or their classifications, qualifications, or terms of office, except that the Board of Directors may adopt or amend any Bylaw to increase their number.

ARTICLE XI

SECURITIES OF OTHER CORPORATIONS

Section 11.01. *Voting Securities Held by the Corporation*. Unless otherwise ordered by the Board of Directors, the Chief Executive Officer shall have full power and authority on behalf of the corporation (a) to attend any meeting of security holders of other corporations in which the corporation may hold securities and to vote such securities on behalf of this corporation; (b) to execute any proxy for such meeting on behalf of the corporation; or (c) to execute a written action in lieu of a meeting of such other corporation on behalf of this corporation. At such meeting, the Chief Executive officer shall possess and may exercise any and all rights and powers incident to the ownership of such securities that the corporation possesses. The Board of Directors or the Chief Executive Officer may, from time to time, grant such power and authority to one or more other persons.

Section 11.02. *Purchase and Sale of Securities*. Unless otherwise ordered by the Board of Directors, the Chief Executive Officer shall have full power and authority on behalf of the corporation to purchase, sell, transfer or encumber any and all securities of any other corporation owned by the corporation, and may execute and deliver such documents as may be necessary to effectuate such purchase, sale, transfer or encumbrance. The Board of Directors or the Chief Executive Officer may, from time to time, confer like powers upon any other person or persons.

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ARTICLE XII

CERTAIN BUSINESS COMBINATIONS WITH INTERESTED SHAREHOLDERS

Section 12.01. Pursuant to the authority provided by Section 302A.673, Subd. 3(b)(2), of the Minnesota Business Corporation Act, this corporation elects not to be subject to Section 302A.673 of said Act.

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ADMISSION CARD

UNITEDHEALTH GROUP INCORPORATED

2007 Annual Meeting of Shareholders

Tuesday, May 29, 2007

10:00 A.M., Central Time

Minneapolis Convention Center

1301 Second Avenue South, Room 208C

Minneapolis, Minnesota

PLEASE ADMIT **NON-TRANSFERABLE**

If you plan to attend the 2007 Annual Meeting of Shareholders, please write your name and address in the space provided below and present this admission card and photo identification at the registration desk.

Name:

Address:

PROXY

UNITEDHEALTH GROUP INCORPORATED

THIS PROXY IS SOLICITED BY THE BOARD OF DIRECTORS

FOR USE AT THE ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON

TUESDAY, MAY 29, 2007

By signing the proxy, you revoke all prior proxies and appoint each of George L. Mikan III, Richard H. Anderson and Forrest G. Burke, with full power of substitution, to vote all shares you are entitled to vote on the matters shown on the reverse side and any other matters which may properly come before the Annual Meeting and all adjournments thereof. These shares of stock will be voted as you specify on the reverse side. **If no choice is specified, this proxy will be voted FOR Proposals 1 through 7, AGAINST Proposals 8 through 11, and in the discretion of the named proxies on all other matters that may properly come before the meeting.**

If you are a current or former employee of UnitedHealth Group and own shares of common stock through the UnitedHealth Group 401(k) Savings Plan, your completion and execution of this proxy card or your submission of an Internet or telephone vote will provide voting instructions to the trustee of the plan. If no direction is made, if your proxy card is not signed, or if your vote by proxy card, Internet or telephone is not received **by 11:59 p.m. Eastern Time on May 24, 2007**, the plan shares credited to this 401(k) account will be voted by the plan trustee in the same proportions as the proxy votes which were timely and properly submitted by other plan participants.

IF YOU DO NOT VOTE BY INTERNET OR TELEPHONE, PLEASE MARK, SIGN AND DATE THIS PROXY CARD ON THE REVERSE SIDE AND RETURN IT PROMPTLY USING THE ENCLOSED ENVELOPE

Address Changes/Comments: ____

____

(If you noted any Address Changes/Comments above, please mark corresponding box on the reverse side.)

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

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9900 BREN ROAD EAST

MINNETONKA, MN 55343

VOTE BY INTERNET - www.proxyvote.com

Use the Internet to transmit your voting instructions and for electronic delivery of information up until 11:59 p.m. Eastern Time the day before the meeting date*. Have your proxy card in hand when you access the website and follow the instructions to obtain your records and to create an electronic voting instruction form.

ELECTRONIC DELIVERY OF SHAREHOLDER COMMUNICATIONS

If you consented to access your proxy information electronically, or if you are a current employee of UnitedHealth Group and hold UnitedHealth Group shares in our 401(k) savings plan or Employee Stock Purchase Plan account, you may view the documents related to the 2007 Annual Meeting of Shareholders by visiting our website at www.unitedhealthgroup.com. If you would like to reduce the costs incurred by UnitedHealth Group Incorporated in mailing proxy materials, you can consent to receiving all future proxy statements, proxy cards and annual reports electronically via e-mail or the Internet. To sign up for electronic delivery, please follow the instructions above to vote using the Internet and, when prompted, indicate that you agree to receive or access shareholder communications electronically in future years.

VOTE BY PHONE - 1-800-690-6903

Use any touch-tone telephone to transmit your voting instructions up until 11:59 p.m. Eastern Time the day before the meeting date*. Have your proxy card in hand when you call and follow the instructions.

VOTE BY MAIL

Mark, sign and date your proxy card and return it in the postage-paid envelope we have provided or return it to UnitedHealth Group Incorporated, c/o Broadridge, 51 Mercedes Way, Edgewood, NY 11717. **Proxy cards sent by mail must be received no later than May 26, 2007*.**

*Cut-off date for UnitedHealth Group Plan Participants is May 24, 2007 at 11:59 p.m. Eastern Time to allow time for plan administrators to vote on your behalf.

IF YOU VOTE BY INTERNET OR TELEPHONE, PLEASE

DO NOT MAIL YOUR PROXY CARD

TO VOTE, MARK BLOCKS BELOW IN BLUE OR BLACK INK AS FOLLOWS: UNIHG1 KEEP THIS PORTION FOR YOUR RECORDS

DETACH AND RETURN THIS PORTION ONLY

THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

UNITEDHEALTH GROUP INCORPORATED

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR PROPOSALS 1 THROUGH 7 AND AGAINST PROPOSALS 8 THROUGH 11

Vote on Directors

	For All	Withhold All	For All Except	To withhold authority to vote for any individual nominee(s), mark For All Except and write the number(s) of the nominee(s) on the line below.
1. ELECTION OF DIRECTORS: 01) William C. Ballard, Jr. 03) Stephen J. Hemsley 02) Richard T. Burke 04) Robert J. Darretta	¨	¨	¨	

Vote on Other Proposals

		For	Against	Abstain
2.	Amendment to Articles of Incorporation requiring a majority vote for election of directors	¨	¨	¨
3.	Amendment to Articles of Incorporation and Bylaws providing for the annual election of all members of the Board of Directors	¨	¨	¨
4.	Amendment to Articles of Incorporation and Bylaws to eliminate supermajority provisions for the removal of directors	¨	¨	¨
5.	Amendment to Articles of Incorporation to eliminate supermajority provisions relating to certain business combinations	¨	¨	¨
6.	Adoption of Restated Articles of Incorporation	¨	¨	¨
7.	Ratification of Deloitte & Touche LLP as independent registered public accounting firm for fiscal year ending December 31, 2007	¨	¨	¨
8.	Shareholder proposal concerning performance-vesting shares	¨	¨	¨
9.	Shareholder proposal concerning supplemental executive retirement plan	¨	¨	¨
10.	Shareholder proposal concerning an advisory resolution on compensation of named executive officers	¨	¨	¨
11.	Shareholder proposal relating to shareholder nominees for election to UnitedHealth Group s Board of Directors	¨	¨	¨

For address changes and/or comments, please check this box and write them on the back where indicated. ¨

	Yes	**No**
Please indicate if you plan to attend this meeting.	¨	¨

Please sign your name exactly as it appears herein. When signing as attorney, executor, administrator, trustee or guardian, please add your title as such. When signing as joint tenants, all parties in the joint tenancy must sign. If a signer is a corporation, please sign in full corporate name by duly authorized officer.

Signature [PLEASE SIGN WITHIN BOX]	Date	Signature (Joint Owners)	Date