

UNITEDHEALTH GROUP INC

Form 424B2

February 09, 2004

Table of ContentsFiled Pursuant to Rule 424(b)(2)
Registration No. 333-105875

Prospectus Supplement to Prospectus dated July 23, 2003

\$500,000,000**UnitedHealth Group Incorporated****3.75% Notes due February 10, 2009****4.75% Notes due February 10, 2014**

We are offering \$500,000,000 of fixed rate notes under this prospectus supplement. \$250,000,000 of these notes will be due February 10, 2009 (the 2009 notes) and \$250,000,000 of these notes will be due February 10, 2014 (the 2014 notes and together with the 2009 notes, the notes). We will pay interest on the 2009 notes semi-annually on February 10 and August 10 of each year, beginning August 10, 2004, at the rate of 3.75% per year. We will pay interest on the 2014 notes semi-annually on February 10 and August 10 of each year, beginning August 10, 2004, at the rate of 4.75% per year. The notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding. The notes will be issued in registered form only, without coupons, in denominations of \$1,000 and whole multiples of \$1,000.

At our option, we may redeem the notes in whole or in part at any time before their maturity date on not less than 30 nor more than 60 days notice by mail on the terms set forth herein beginning on page S-9.

See *Risk Factors* beginning on page S-2 to read about factors you should consider before buying the notes.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Public Offering Price(1)		Underwriting Discount		Proceeds to Us (before expenses)	
	Per Note	Total	Per Note	Total	Per Note	Total
2009 Notes	99.851%	\$249,627,500	0.600%	\$1,500,000	99.251%	\$248,127,500
2014 Notes	99.067%	\$247,667,500	0.650%	\$1,625,000	98.417%	\$246,042,500
Combined Total		\$497,295,000		\$3,125,000		\$494,170,000

(1) Plus accrued interest from February 10, 2004 if settlement occurs after that date.

The underwriters expect to deliver the notes in book-entry form only through the facilities of The Depository Trust Company against payment on February 10, 2004.

JPMorgan**Merrill Lynch & Co.****UBS Investment Bank****Banc of America Securities LLC**

Citigroup

Goldman, Sachs & Co.

Wachovia Securities

BNY Capital Markets, Inc.

Banc One Capital Markets, Inc.

BB&T Capital Markets

Deutsche Bank Securities

Morgan Stanley

Prospectus Supplement dated February 5, 2004.

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This prospectus supplement relates to a prospectus which is part of a registration statement that we have filed with the Securities and Exchange Commission (SEC) utilizing a shelf registration process. Under this shelf registration process, we may sell the securities described in the accompanying prospectus in one or more offerings up to a total amount of \$1.25 billion. The accompanying prospectus provides you with a general description of the securities we may offer. This prospectus supplement contains specific information about the terms of this offering. This prospectus supplement may therefore add, update or change information contained in the accompanying prospectus. Please carefully read both this prospectus supplement and the accompanying prospectus in addition to the information described in the accompanying prospectus in the section called Where You Can Find More Information.

FORWARD-LOOKING STATEMENTS

This prospectus supplement and the accompanying prospectus contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 (PSLRA). The words or phrases believes, anticipates, intends, will likely result, estimates, pro similar expressions identify such forward-looking statements. Although we believe that the expectations reflected in our forward-looking statements are reasonable, our business involves risks and uncertainties that may cause our actual results to differ significantly from the results discussed in the forward-looking statements. See Risk Factors.

The following text under the heading Risk Factors contains cautionary statements regarding our business and results of operations. These statements discuss matters which may in part be contained elsewhere in this prospectus supplement and the accompanying prospectus and which may have been contained in other documents prepared by us under federal or state securities laws. This discussion is intended to take advantage of the safe harbor provisions of the PSLRA. In making these cautionary statements, we do not undertake to address or update each factor in future filings with the SEC or communications regarding our business or results, and do not undertake to address how any of these factors may have caused results to differ from discussions or information contained in previous filings or communications. In addition, any of the matters discussed below may have affected our past, as well as current, forward-looking statements about future results, so that our actual results in the future may differ materially from those expressed in prior communications.

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RISK FACTORS

We must effectively manage our health care costs.

Under risk-based product arrangements, we assume the risk of both medical and administrative costs for our customers in return for a monthly premium. Premium revenues from risk-based products (excluding AARP) comprise approximately 75% of our total consolidated revenues. We use approximately 80% to 85% of our premium revenues to pay the costs of health care services delivered to our customers. The profitability of our risk-based products depends in large part on our ability to predict accurately, price for, and manage effectively health care costs. Total health care costs are affected by the number of individual services rendered and the cost of each service. Our premium revenue is typically fixed in price for a 12-month period and is generally priced one to four months before contract commencement. Services are delivered and related costs are incurred when the contract commences. Although we base the premiums we charge on our estimate of future health care costs over the fixed premium period, inflation, regulations and other factors may cause actual costs to exceed what was estimated and reflected in premiums. These factors may include increased use of services, increased cost of individual services, catastrophes, epidemics, the introduction of new or costly treatments, new mandated benefits or other regulatory changes, insured population characteristics and seasonal changes in the level of health care use. Relatively small differences between predicted and actual medical costs as a percentage of premium revenues can result in significant changes in our financial results. For example, if medical costs increased by an additional one percent for UnitedHealthcare's commercial insured products, our annual net earnings for 2003 would have been reduced by approximately \$75 million. In addition, the financial results we report for any particular period include estimates of costs incurred for which the underlying claims have not been received by us or for which the claims have been received but not processed. If these estimates prove too high or too low, the effect of the change will be included in future results.

We face intense competition in many of our markets and customers have flexibility in moving between competitors.

Our businesses compete throughout the United States and face significant competition in all of the geographic markets in which they operate. For our Uniprise and Health Care Services businesses, competitors include Aetna, Anthem, Cigna, Coventry, Humana, PacifiCare, Oxford, WellPoint, numerous for profit and not for profit organizations operating under licenses from the Blue Cross Blue Shield Association and other enterprises concentrated in more limited geographic areas. Our Specialized Care Services and Ingenix businesses also compete with a number of businesses. Moreover, we believe the barriers to entry in many markets are not substantial, so the addition of new competitors can occur relatively easily, and customers enjoy significant flexibility in moving to competitors. These competitors in particular markets may have capabilities that give them a competitive advantage. Greater market share, established reputation, superior supplier arrangements, existing business relationships, and other factors all can provide a competitive advantage. In addition, significant merger and acquisition activity has occurred in the industries in which we operate, both as to our competitors and suppliers to these industries. This level of consolidation makes it more difficult for us to retain or increase customers, to improve the terms on which we do business with our suppliers, and to maintain or advance our profitability.

Our relationship with AARP is significant to our Ovation business.

Under our 10-year contract with AARP which we entered into in 1998, we provide Medicare Supplement and Hospital Indemnity health insurance and other products to AARP members. As of December 31, 2003, our portion of AARP's insurance program represented approximately \$4.1 billion in annual net premium revenue from approximately 3.8 million AARP members. Our AARP contract may be terminated early by us or AARP under certain circumstances, including a material breach by either party, insolvency of either party, a material adverse change in the financial condition of either party, and by mutual agreement. The success of our AARP arrangement depends, in part, on our ability to service AARP and its members, develop additional products and services, price the products and services

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competitively, and respond effectively to federal and state regulatory changes. Additionally, events that adversely affect AARP or one of its other business partners for its member insurance program could have an adverse effect on the success of our arrangement with AARP. For example, if consumers were dissatisfied with the products AARP offered or its reputation, if federal legislation limited opportunities in the Medicare market, or if the services provided by AARP's other business partners were unacceptable, our business could be adversely affected.

The effects of the new Medicare reform legislation on our business are uncertain.

Recently enacted Medicare reform legislation is complex and wide-ranging. There are numerous provisions in the legislation that will influence our business, although at this early stage, it is difficult to predict the extent to which our businesses will be affected. While uncertain as to impact, we believe the increased funding provided in the legislation will intensify competition in the seniors health services market.

Our business is subject to intense government scrutiny and we must respond quickly and appropriately to frequent changes in government regulations.

Our business is regulated at the federal, state, local and international levels. The laws and rules governing our business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability in federal and state courts for coverage determinations, contract interpretation and other actions. We must obtain and maintain regulatory approvals to market many of our products, to increase prices for certain regulated products and to consummate our acquisitions and dispositions. Delays in obtaining or our failure to obtain or maintain these approvals could reduce our revenues or increase our costs.

We participate in federal, state and local government health care coverage programs. These programs generally are subject to frequent change, including changes that may reduce the number of persons enrolled or eligible, reduce the amount of reimbursement or payment levels, or increase our administrative or health care costs under such programs. Such changes have adversely affected our financial results and willingness to participate in such programs in the past and may do so in the future.

State legislatures and Congress continue to focus on health care issues. Legislative and regulatory proposals at state and federal levels may affect certain aspects of our business, including contracting with physicians, hospitals and other health care professionals; physician reimbursement methods and payment rates; coverage determinations; claim payments and processing; use and maintenance of individually identifiable health information; medical malpractice litigation; and government-sponsored programs. We cannot predict if any of these initiatives will ultimately become binding law or regulation, or, if enacted, what their terms will be, but their enactment could increase our costs, expose us to expanded liability, require us to revise the ways in which we conduct business or put us at risk for a loss of business.

We are also subject to various governmental investigations, audits and reviews. Such oversight could result in our loss of licensure or our right to participate in certain programs, or the imposition of civil or criminal fines, penalties and other sanctions. In addition, disclosure of any adverse investigation or audit results or sanctions could damage our reputation in various markets and make it more difficult for us to sell our products and services. We are currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by the Centers for Medicare and Medicaid Services, state insurance and health and welfare departments, and state attorneys general, the Office of Personnel Management, the Office of the Inspector General and U.S. Attorney General. The results of pending matters are always uncertain.

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We are dependent on our relationships with physicians, hospitals and other health care providers.

We contract with physicians, hospitals, pharmaceutical benefit service providers and pharmaceutical manufacturers, and other health care providers for favorable prices. A number of organizations are advocating for legislation that would exempt certain of these physicians and health care professionals from federal and state antitrust laws. In any particular market, these physicians and health care professionals could refuse to contract, demand higher payments, or take other actions that could result in higher health care costs, less desirable products for customers or difficulty meeting regulatory or accreditation requirements. In some markets, certain health care providers, particularly hospitals, physician/hospital organizations or multi-specialty physician groups, may have significant market positions or near monopolies that could result in diminished bargaining power on our part.

The nature of our business exposes us to significant litigation risks and our insurance coverage may not be sufficient to cover some of the costs associated with litigation.

Sometimes we become a party to the types of legal actions that can affect any business, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims, shareholder suits, and intellectual property-related litigation. In addition, because of the nature of our business, we are routinely made party to a variety of legal actions related to the design, management and offerings of our services. These matters include, but are not limited to, claims related to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including ERISA and the Racketeer Influenced Corrupt Organization Act (RICO). Although the expenses which we have incurred to date in defending the 1999 class action lawsuits have not been material to our business, we will continue to incur expenses in the defense of the 1999 class action litigation and other matters, even if they are without merit.

Following the events of September 11, 2001, the cost of business insurance coverage has increased significantly. As a result, we have increased the amount of risk that we self-insure, particularly with respect to matters incidental to our business. We believe that we are adequately insured for claims in excess of our self-insurance. However, certain types of damages, such as punitive damages, are not covered by insurance. We record liabilities for our estimates of the probable costs resulting from self-insured matters. Although we believe the liabilities established for these risks are adequate, it is possible that the level of actual losses may exceed the liabilities recorded.

Our businesses depend significantly on effective information systems and the integrity of the data we use to run these businesses.

Our ability to adequately price our products and services, provide effective and efficient service to our customers, and to accurately report our financial results depends significantly on the integrity of the data in our information systems. As a result of our acquisition activities, we have acquired additional systems. We have been taking steps to reduce the number of systems we operate and have upgraded and expanded our information systems capabilities. If the information we rely upon to run our businesses was found to be inaccurate or unreliable or if we fail to maintain effectively our information systems and data integrity, we could lose existing customers, have difficulty in attracting new customers, have problems in determining medical cost estimates and establishing appropriate pricing, have customer and physician and other health care provider disputes, have regulatory problems, have increases in operating expenses or suffer other adverse consequences.

We depend on independent third parties, such as IBM and Medco Health Solutions, Inc., with whom we have entered into agreements, for significant portions of our data center operations and pharmacy benefits management and processing. Even though we have appropriate provisions in our agreements with IBM and Medco, including provisions with respect to specific performance standards, covenants,

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warranties, audit rights, indemnification, and other provisions, our dependence on these third parties makes our operations vulnerable to their failure to perform adequately under the contracts, due to internal or external factors. Although there are a limited number of service organizations with the size, scale and capabilities to effectively provide certain of these services, especially with regard to pharmacy benefits processing, we believe that other organizations could provide similar services on comparable terms. A change in service providers, however, could result in a decline in service quality and effectiveness or less favorable contract terms.

We must comply with emerging restrictions on patient privacy, including taking steps to ensure compliance by our business associates who obtain access to sensitive patient information when providing services to us.

The use of individually identifiable data by our businesses is regulated at international, federal and state levels. These laws and rules are changed frequently by legislation or administrative interpretation. Varying state laws address the use and maintenance of individually identifiable health data. Most are derived from the privacy provisions in the federal Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act (HIPAA). HIPAA also imposes guidelines on our business associates (as this term is defined in the HIPAA regulations). Even though we provide for appropriate protections through our contracts with our business associates, we still have limited control over their actions and practices. Compliance with emerging proposals and new regulations may result in cost increases due to necessary systems changes, the development of new administrative processes, and the effects of potential noncompliance by our business associates. They also may impose further restrictions on our use of patient identifiable data that is housed in one or more of our administrative databases.

Our knowledge and information-related businesses depend significantly on maintaining proprietary rights to our databases and related products.

We rely on our agreements with customers, confidentiality agreements with employees, and our trade secrets, copyrights and patents to protect our proprietary rights. These legal protections and precautions may not prevent misappropriation of our proprietary information. In addition, substantial litigation regarding intellectual property rights exists in the software industry, and we expect software products to be increasingly subject to third-party infringement claims as the number of products and competitors in this industry segment grows. Such litigation and misappropriation of our proprietary information could hinder our ability to market and sell products and services.

The effects of the war on terror and future terrorist attacks could have a severe impact on the health care industry.

The terrorist attacks launched on September 11, 2001, the war on terrorism, the threat of future acts of terrorism and the related concerns of customers and providers have negatively affected, and may continue to negatively affect, the U.S. economy in general and our industry specifically. Depending on the government's actions and the responsiveness of public health agencies and insurance companies, future acts of terrorism and bio-terrorism could lead to, among other things, increased use of health care services including, without limitation, hospital and physician services; loss of membership in health plans we administer as a result of lay-offs or other reductions of employment; adverse effects upon the financial condition or business of employers who sponsor health care coverage for their employees; disruption of our information and payment systems; increased health care costs due to restrictions on our ability to carve out certain categories of risk, such as acts of terrorism; and disruption of the financial and insurance markets in general.

Absence of Public Market for the Notes

No public market exists for the notes and we cannot assure the liquidity of any market that may develop for the notes, the ability of the holders to sell their notes or the price at which holders will be able to sell their notes. We do not intend to apply for listing of the notes on any securities exchange or for

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quotation through the NASD Automated Quotation System. Future trading prices of the notes will depend on many factors including, among other things, prevailing interest rates, our operating results and the market for similar securities.

The underwriters have informed us that they intend to make a market in the notes. They are not, however, obligated to do so, and they may terminate any such market making activity at any time without notice to the holders of the notes.

USE OF PROCEEDS

We will receive net proceeds from this offering of approximately \$493,995,000 after deducting underwriting commissions and other expenses of the offering. We intend to use the net proceeds from this offering to pay for a portion of the cash component of the merger consideration payable by us in connection with our acquisition of Mid Atlantic Medical Services, Inc. (MAMSI). See Recent Developments. The remainder of the cash component will be funded out of our cash balances and commercial paper borrowings.

RATIOS OF EARNINGS TO FIXED CHARGES

The ratio of earnings to fixed charges for each of the periods indicated is set forth below. For purposes of computing these ratios, earnings represent income from continuing operations before extraordinary items. Fixed charges represent interest expense plus the interest factor in rental expense.

	Nine Months Ended September 30, 2003	Year Ended December 31,				
		2002	2001	2000	1999	1998
Ratio of Earnings to Fixed Charges	16.19x	13.10x	9.36x	8.36x	7.81x	NM*

* Not meaningful. For the year ended December 31, 1998, earnings were insufficient to cover fixed charges by \$42 million. Excluding operational realignment and other charges of \$725 million and charges related to contract losses associated with certain Medicare markets and other increases to commercial and Medicare medical costs payable estimates of \$175 million from earnings for the year ended December 31, 1998, the ratio of earnings to fixed charges would have been 11.01x.

BUSINESS

UnitedHealth Group is a leader in the health and well-being industry, serving more than 50 million Americans. Through our family of businesses, we combine clinical insight with consumer-friendly services and advanced technology to help people achieve optimal health and well-being through all stages of life. We conduct our business primarily through our operating divisions in four business segments.

Our Uniprise segment serves the employee benefit needs of large organizations by developing cost-effective health care access and benefit strategies and programs, technology and service-driven solutions tailored to the specific needs of each corporate customer. Uniprise offers consumers access to a wide spectrum of health and well-being products and services.

Our Health Care Services segment consists of our UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare coordinates health and well-being services on behalf of local employers and consumers nationwide. Ovations provides health and well-being services for Americans age 50 and older, addressing their unique needs for preventative and acute health care services, for services dealing with chronic disease and for responding to specialized issues relating to their overall well-being. AmeriChoice engages in facilitating health care benefits and services for state Medicaid programs and their beneficiaries.

Our Specialized Care Services segment is a portfolio of health and well-being companies, each serving a specific market need with unique benefit offerings, provider networks, services and resources. Specialized Care Services provides comprehensive products and services that are focused on highly specialized health

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care needs, such as mental health and chemical dependency, employee assistance, specialty networks, vision and dental services, chiropractic services, health-related information and other health and well-being services.

Our Ingenix segment is a leader in the field of health care data and information, research, analysis and application. Ingenix serves multiple health care markets on a business-to-business basis, including pharmaceutical companies, health insurers and other payers, physicians and other health care providers, large employers and government agencies.

Unless the context indicates otherwise, when used in this prospectus supplement and the accompanying prospectus, the words UnitedHealth Group, company, we, our and us refer to UnitedHealth Group Incorporated and its subsidiaries. However, when these terms are used in relation to the description of the notes or the senior debt securities, they only refer to UnitedHealth Group Incorporated. Our address is UnitedHealth Group Center, 9900 Bren Road East, Minnetonka, Minnesota 55343, and our telephone number is (952) 936-1300.

RECENT DEVELOPMENTS

We entered into an Agreement and Plan of Merger, by and among UnitedHealth Group, MU Acquisition LLC, a wholly owned subsidiary of UnitedHealth Group, and MAMSI, dated October 26, 2003, pursuant to which MAMSI will merge with and into MU Acquisition LLC, and MAMSI will become a wholly owned subsidiary of UnitedHealth Group. MAMSI is a publicly traded holding company for subsidiaries active in managed health care and other life and health insurance related activities. Each outstanding share of MAMSI common stock will be converted into the right to receive 0.82 shares of UnitedHealth Group common stock and \$18.00 in cash. The cash component of the merger consideration could be decreased and the stock component increased if required to preserve the intended tax treatment of the merger. The special meeting of stockholders of MAMSI to vote on the merger is scheduled for February 10, 2004. For unaudited pro forma condensed combined financial information that gives effect to the acquisition of MAMSI by us, see the information set forth under Unaudited Pro Forma Condensed Combined Financial Information in our Registration Statement on Form S-4, Registration No. 333-110356, as amended January 20, 2004. Such unaudited pro forma condensed combined financial information is incorporated by reference into this prospectus supplement. No other portions of the registration statement are incorporated into this prospectus supplement.

On January 22, 2004, we announced our results of operations for the fourth quarter and year ended December 31, 2003. Our revenues were \$7.5 billion for the fourth quarter and \$28.8 billion for the full year. Net earnings were \$507 million for the fourth quarter and \$1.8 billion for the full year, which resulted in diluted net earnings per common share of \$0.83 for the fourth quarter and \$2.96 for the full year. We have not filed our Annual Report on Form 10-K for the year ended December 31, 2003, and accordingly, these results are unaudited.

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DESCRIPTION OF NOTES

The notes will be senior debt securities as described in the section called "Description of Debt Securities" "Description of Senior Debt Securities" in the accompanying prospectus. The following information concerning the notes supplements the information set forth in that section of the accompanying prospectus. It should be read together with the description of senior debt securities in the accompanying prospectus and the terms of the notes in the senior indenture, dated as of November 15, 1998, as amended by an Amendment to Indenture dated as of November 6, 2000, between us and The Bank of New York, as trustee. A copy of the senior indenture is filed as an exhibit to the registration statement which includes the accompanying prospectus. We will offer the 2009 notes and the 2014 notes as separate series under such senior indenture. Each series of notes will also be issued under and subject to the terms of individual officers' certificate and company orders pursuant to the senior indenture, which is incorporated by reference into the accompanying prospectus.

If any of the information set forth below is inconsistent with information in the accompanying prospectus, the information set forth below replaces the information in the accompanying prospectus. If we use a term that is not defined in this prospectus supplement, you should refer to the definition that is provided in the accompanying prospectus.

Title, Principal Amount, Maturity and Interest

The 2009 notes are designated as our 3.75% notes due February 10, 2009 and the 2014 notes are designated as our 4.75% notes due February 10, 2014. The notes are initially limited in aggregate principal amount to \$250,000,000 for the 2009 notes and \$250,000,000 for the 2014 notes. We may at any time and from time to time, without the consent of the existing holders of the applicable series of notes, issue additional notes having the same ranking and same interest rate, maturity date, redemption terms and other terms as either series of notes being offered under this prospectus supplement. Any such additional notes, together with the notes having the same terms offered by this prospectus supplement, will constitute a single series of securities under the senior indenture. No additional notes may be issued if an event of default under the senior indenture has occurred with respect to the applicable series of notes. There is no limitation on the amount of other senior debt securities that we may issue under the senior indenture.

The notes are unsecured senior debt securities. Our assets consist primarily of equity in our subsidiaries. As a result, our ability to make payments on the notes depends on our receipt of dividends, loan payments and other funds from our subsidiaries. In addition, if any of our subsidiaries becomes insolvent, the direct creditors of that subsidiary will have a prior claim on its assets. Our rights and the rights of our creditors, including your rights as an owner of the notes, will be subject to that prior claim, unless we are also a direct creditor of that subsidiary. This subordination of creditors of a parent company to prior claims of creditors of its subsidiaries is commonly referred to as structural subordination.

The 2009 notes will mature and become due and payable, together with any accrued and unpaid interest, on February 10, 2009. The 2014 notes will mature and become due and payable, together with any accrued and unpaid interest, on February 10, 2014. We may redeem either series of notes at our option at any time, either in whole or in part. See "Redemption" below.

The 2009 notes will bear interest at the annual rate set forth in their title from February 10, 2004 or from the most recent interest payment date on which we paid or provided for interest on the 2009 notes until their principal is paid. We will pay interest on the 2009 notes semi-annually on each February 10 and August 10. The first interest payment date will be August 10, 2004. The regular record dates for payments of interest are the February 1 or August 1 immediately preceding the applicable interest payment date. Each payment of interest will include interest accrued through the day before the interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

The 2014 notes will bear interest at the annual rate set forth in their title from February 10, 2004 or from the most recent interest payment date on which we paid or provided for interest on the 2014 notes until their principal is paid. We will pay interest on the 2014 notes semi-annually on each February 10 and

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August 10. The first interest payment date will be August 10, 2004. The regular record dates for payments of interest are the February 1 or August 1 immediately preceding the applicable interest payment date. Each payment of interest will include interest accrued through the day before the interest payment date. Interest will be computed on the basis of a 360-day year of twelve 30-day months.

In the event that a payment of principal or interest is due on a date that is not a business day, we will make the payment on the next business day, but we will consider that payment as being made on the date that the payment was due to you, without any interest or other payment with respect to the delay. When we use the term business day we mean any day except a Saturday, a Sunday or a legal holiday in The City of New York on which banking institutions are authorized or required by law, regulation or executive order to close.

Form and Denominations

Notes will be issued in registered form only, without coupons, in denominations of \$1,000 and whole multiples of \$1,000.

Ranking

The notes are unsecured and rank equally with all of our other unsecured and unsubordinated indebtedness from time to time outstanding.

Book-Entry Issuance

DTC will act as securities depository for the notes. Both the 2009 notes and the 2014 notes will each be initially represented by a global note registered in the name of DTC or its nominee. For additional information concerning DTC and its procedures, see the section called "Book-Entry Issuance" in the accompanying prospectus.

Same-Day Settlement

Settlement for the notes will be made by the underwriters in immediately available funds. The notes will trade in DTC's system until maturity. As a result, DTC will require secondary trading activity in the notes to be settled in immediately available funds.

Redemption

At our option, we may redeem either series of the notes in whole or in part at any time before their maturity date on not less than 30 nor more than 60 days notice by mail. If we redeem either series of the notes before their maturity date, the redemption price will be equal to the greater of (1) 100% of the principal amount of the notes to be redeemed and (2) the sum of the present values of the remaining scheduled payments of principal and interest on the notes to be redeemed (excluding the portion of any such interest accrued to the redemption date) discounted to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Treasury Yield (as defined below), plus 10 basis points for the 2009 notes or 15 basis points for the 2014 notes, plus, in each case, accrued and unpaid interest to the redemption date. For this purpose, the following terms have the following meanings:

Treasury Yield means, with respect to any redemption date, the rate per year equal to the semi-annual equivalent yield to maturity or interpolated (on a day count basis) yield to maturity of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

Comparable Treasury Issue means the United States Treasury security selected by an Independent Investment Banker appointed by the trustee under the senior indenture after consultation with us as having an actual or interpolated maturity comparable to the remaining term

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of the notes being redeemed, or such other maturity, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes being redeemed.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations for such redemption date, or (2) if the trustee under the senior indenture obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

Independent Investment Banker means any of J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated or UBS Securities LLC or their respective successors or, if such firms are unwilling or unable to select the Comparable Treasury Issue, one of the remaining Reference Treasury Dealers appointed by the trustee under the senior indenture after consultation with us.

Reference Treasury Dealer means (1) any of J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC or their affiliates and any other primary U.S. Government securities dealer in the United States (a **Primary Treasury Dealer**) designated by, and not affiliated with, any of J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated or UBS Securities LLC, provided, however, that if J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated or UBS Securities LLC or any of their respective affiliates shall cease to be a Primary Treasury Dealer, we will appoint another Primary Treasury Dealer as a substitute for such entity and (2) any other Primary Treasury Dealer selected by the trustee under the senior indenture.

Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the trustee under the senior indenture, of the bid and asked prices for the Comparable Treasury Issue (expressed, in each case, as a percentage of its principal amount) quoted in writing to the trustee under the senior indenture by such Reference Treasury Dealer at 5:00 p.m. on the third business day preceding such redemption date.

A notice of redemption may provide that it is subject to certain conditions that will be specified in the notice. If those conditions are not met, the redemption notice will be of no effect and we will not be obligated to redeem the notes.

If we redeem less than all of either series of the notes, we have been advised that it is DTC's practice to determine by lot the amount of the interest of each participant in the series of notes to be redeemed.

Neither series of the notes have the benefit of any sinking fund.

Trustee, Registrar and Paying Agent

The Bank of New York, 101 Barclay Street, New York, New York 10286, serves as trustee under the senior indenture and has been appointed registrar and paying agent for the notes. The Bank of New York is a member of the group of banks which provides us with credit facilities in support of our commercial paper program. The Bank of New York is also affiliated with BNY Capital Markets, Inc., one of the underwriters.

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Defeasance

The notes are subject to legal defeasance and covenant defeasance as described in the section called Description of Debt Securities Description of Senior Debt Securities Defeasance Provisions in the accompanying prospectus.

Governing Law

The senior indenture and the notes are governed by and will be construed in accordance with New York law.

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Table of Contents**UNDERWRITING**

UnitedHealth Group and the underwriters for the offering named below have entered into an underwriting agreement and a pricing agreement with respect to the notes. Subject to certain conditions, each underwriter has severally agreed to purchase the principal amount of notes indicated in the following table.

Underwriters	Principal Amount of 2009 Notes	Principal Amount of 2014 Notes
J.P. Morgan Securities Inc.	\$ 62,500,000	\$ 62,500,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$ 42,500,000	\$ 42,500,000
UBS Securities LLC	\$ 42,500,000	\$ 42,500,000
Banc of America Securities LLC	\$ 20,000,000	\$ 20,000,000
Citigroup Global Markets Inc.	\$ 20,000,000	\$ 20,000,000
Goldman, Sachs & Co.	\$ 20,000,000	\$ 20,000,000
Wachovia Capital Markets, LLC	\$ 12,500,000	\$ 12,500,000
BNY Capital Markets, Inc.	\$ 10,000,000	\$ 10,000,000
Banc One Capital Markets, Inc.	\$ 5,000,000	\$ 5,000,000
BB&T Capital Markets, a division of Scott & Stringfellow Inc.	\$ 5,000,000	\$ 5,000,000
Deutsche Bank Securities Inc.	\$ 5,000,000	\$ 5,000,000
Morgan Stanley & Co. Incorporated	\$ 5,000,000	\$ 5,000,000
Total	\$250,000,000	\$250,000,000

Notes sold by the underwriters to the public will initially be offered at the initial public offering prices set forth on the cover of this prospectus supplement. Any notes sold by the underwriters to securities dealers may be sold at a discount from the initial public offering price of up to 0.35% of the principal amount of each 2009 note and 0.40% of the principal amount of each 2014 note. Any such securities dealers may resell any notes purchased from the underwriters to certain other brokers or dealers at a discount from the initial public offering prices of up to 0.25% of the principal amount of the notes. After the initial offering of the notes, the underwriters may change the offering prices.

Both series of notes are a new issue of securities with no established trading market. We have been advised by the underwriters that the underwriters intend to make a market in both series of the notes but are not obligated to do so and may discontinue market making at any time without notice. No assurance can be given as to the liquidity or development of the trading market for either series of the notes.

In connection with this offering, the underwriters may purchase and sell either series of the notes in the open market. These transactions may include short sales, stabilizing transactions and purchases to cover positions created by short sales. Short sales involve the sale by the underwriters of a greater number of notes than they are required to purchase in this offering. Stabilizing transactions consist of certain bids or purchases made for the purpose of preventing or retarding a decline in the market price of the notes while this offering is in progress.

The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the underwriters a portion of the underwriting discount received by it because the representatives have repurchased notes sold by or for the account of such underwriter in stabilizing or short covering transactions.

These activities by the underwriters may stabilize, maintain or otherwise affect the market price of either series of the notes. As a result, the price of either series of the notes may be higher than the price that otherwise might exist in the open market. If these activities are commenced, they may be

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discontinued by the underwriters at any time. These transactions may be effected in the over-the-counter market or otherwise.

We estimate that our share of the total expenses of this offering, excluding underwriting discounts and commissions, will be approximately \$175,000.

J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC will make the securities available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by Market Axess Inc., an Internet-based communications technology provider. Market Axess Inc. is providing the system as a conduit for communications between J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC and their customers and is not a party to any transactions. Market Axess Inc., a registered broker-dealer, will receive compensation from J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC based on transactions J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC conduct through the system. J.P. Morgan Securities Inc., Merrill Lynch, Pierce, Fenner & Smith Incorporated and UBS Securities LLC will make the securities available to their customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

We have agreed to indemnify the several underwriters against certain liabilities, including liabilities under the Securities Act of 1933, as amended, or to contribute to payments the underwriters may be required to make in respect of these liabilities.

Certain of the underwriters and their affiliates have from time to time provided investment banking, financial advisory, commercial banking and other services to us, for which they have received customary compensation, and they may continue to do so in the future. Affiliates of Citigroup Global Markets Inc., Banc of America Securities LLC, Banc One Capital Markets, Inc., BNY Capital Markets, Inc., J.P. Morgan Securities Inc., UBS Securities LLC, Wachovia Capital Markets, LLC, BB&T Capital Markets, a division of Scott & Stringfellow Inc. and Deutsche Bank Securities Inc. are lenders under our revolving credit facility. Each of these parties has received and will receive customary fees under the revolving credit facility.

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LEGAL MATTERS

The validity of the notes will be passed upon for us by Dorsey & Whitney LLP, Minneapolis, Minnesota. Certain legal matters in connection with the notes will be passed upon for the underwriters by Faegre & Benson LLP, Minneapolis, Minnesota.

EXPERTS

The consolidated financial statements as of and for the year ended December 31, 2002 incorporated in this prospectus supplement and elsewhere in the registration statement by reference from the UnitedHealth Group Inc. Annual Report on Form 10-K for the year ended December 31, 2002 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes explanatory paragraphs relating to (i) the adoption of a new accounting principle and (ii) the application of procedures relating to certain other disclosures and reclassifications of financial statement amounts related to the 2001 and 2000 consolidated financial statements that were audited by other auditors who have ceased operations and for which they have expressed no opinion or other form of assurance other than with respect to such disclosures and reclassifications) which is incorporated by reference, and have been so incorporated in reliance upon the report of such firm given their authority as experts in accounting and auditing.

With respect to our unaudited interim financial information for the periods ended September 30, 2003 and 2002, which is incorporated herein by reference, Deloitte & Touche LLP have applied limited procedures in accordance with professional standards for a review of such information. However, as stated in their report included in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2003 incorporated by reference herein, they did not audit and they do not express an opinion on that interim financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied. Deloitte & Touche LLP are not subject to the liability provisions of Section 11 of the Securities Act of 1933 for their reports on the unaudited interim financial information because those reports are not reports or a part of the registration statement prepared or certified by an accountant within the meaning of Sections 7 and 11 of the Act.

On May 15, 2002, our Board of Directors and Audit Committee dismissed Arthur Andersen LLP as our independent public accountants, effective May 15, 2002, and engaged Deloitte & Touche LLP, effective May 16, 2002, to serve as our independent auditors for fiscal year 2002. Arthur Andersen LLP has informed us that it will no longer be able to issue written consents to the inclusion of its reports in our registration statements and has not consented to the incorporation by reference of its reports on our financial statements for the fiscal years ended December 31, 2001 and December 31, 2000 in this prospectus supplement. Rule 437a of the Securities Act of 1933, as amended, permits us to include these reports on the financial statements incorporated by reference in this prospectus supplement without the consent of Arthur Andersen LLP. Because Arthur Andersen LLP has not consented to the incorporation by reference of its reports in this prospectus supplement, your ability to recover for claims against Arthur Andersen LLP will be limited. In particular, you may not be able to recover against Arthur Andersen LLP under Section 11 of the Securities Act of 1933, as amended, for any untrue statements of material fact contained in the financial statements audited by Arthur Andersen LLP or any omission to state a material fact required to be stated therein.

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PROSPECTUS

UNITEDHEALTH GROUP INCORPORATED

**UnitedHealth Group Center
9900 Bren Road East
Minnetonka, Minnesota 55343
(952) 936-1300**

\$1,250,000,000

UnitedHealth Group Incorporated

Debt Securities

Preferred Stock

Common Stock

Depository Shares

Securities Warrants

Purchase Contracts

Purchase Units

UHC CAPITAL I

UHC CAPITAL II

UHC CAPITAL III

UHC CAPITAL IV

Preferred Securities

Fully and unconditionally guaranteed, as described in this prospectus, by

UnitedHealth Group Incorporated

We will provide the specific terms of these securities in supplements to this prospectus.

You should read this prospectus and the applicable prospectus supplement carefully before you invest.

The common stock of UnitedHealth Group Incorporated is listed on the New York Stock Exchange under the symbol UNH.

See Risk Factors beginning on Page 3 for a discussion of certain risks that you should consider before buying our securities.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The date of this prospectus is July 23, 2003.

ABOUT THIS PROSPECTUS

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This prospectus is part of a registration statement that UnitedHealth Group and the trusts (namely, UHC Capital I, UHC Capital II, UHC Capital III and UHC Capital IV) filed with the SEC using a shelf registration process. Under this shelf process, UnitedHealth Group may sell:

debt securities;

preferred stock;

common stock;

purchase contracts and purchase units;

depository shares; and

securities warrants

and the trusts may sell:

preferred securities (representing undivided beneficial interests in the trusts) to the public; and

common securities to UnitedHealth Group in one or more offerings.

The trusts will use the proceeds from sales of securities to buy series of junior subordinated debt securities from UnitedHealth Group with terms that correspond to the preferred securities.

In the event that a trust sells preferred securities under this prospectus and uses the proceeds from the sale to buy junior subordinated debt securities from UnitedHealth Group, UnitedHealth Group:

will pay principal and interest on the junior subordinated debt securities, subject to the payment of its more senior debt;

may choose to distribute the junior subordinated debt securities pro-rata to the holders of the related preferred securities and common securities if it terminates a trust; and

will fully and unconditionally guarantee the preferred securities based on:

its obligations to make payments on the junior subordinated debt securities;

its obligations under the guarantees (its payment obligations are subject to payment on all of its general liabilities); and

its obligations under the applicable trust agreements.

This prospectus provides you with a general description of the securities. Each time we sell securities, we will provide a prospectus supplement that will contain specific information about the terms of that offering. The prospectus supplement may also add, update or change information contained in this prospectus. You should read this prospectus and the applicable prospectus supplement together with the additional information described under the heading **Where You Can Find More Information**.

You should rely only on the information incorporated by reference or provided in this prospectus or any prospectus supplement. We have not authorized anyone else to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information in this prospectus or any prospectus supplement is accurate as of any date other than the date on the front of those documents.

The registration statement that contains this prospectus (including the exhibits filed with and incorporated by reference to the registration statement) contains additional information about UnitedHealth Group, the trusts and the securities offered under this prospectus. That registration statement can be read at the SEC web site or at the SEC offices mentioned under the heading **Where You Can Find More Information**.

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WHERE YOU CAN FIND MORE INFORMATION

UnitedHealth Group files annual, quarterly and periodic reports, proxy statements and other information with the SEC. You may read and copy any document UnitedHealth Group files at the SEC's public reference rooms in Washington, D.C., New York, New York and Chicago, Illinois. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. UnitedHealth Group's SEC filings are also available to the public from the SEC's web site at <http://www.sec.gov>. UnitedHealth Group's SEC filings are also available at the offices of the NYSE. For further information on obtaining copies of UnitedHealth Group's public filings at the NYSE, you should call (212) 656-5060.

The SEC allows UnitedHealth Group to incorporate by reference the information UnitedHealth Group files with the SEC, which means that UnitedHealth Group can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that UnitedHealth Group files with the SEC will automatically update this prospectus. UnitedHealth Group incorporates by reference the following documents listed below and any future filings made with the SEC under Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act, until UnitedHealth Group or any underwriters sell all of the securities:

Annual Report on Form 10-K for the year ended December 31, 2002;

Quarterly Report on Form 10-Q for the quarter ended March 31, 2003;

Current Reports on Form 8-K filed on March 25, 2003 and May 8, 2003; and

the description of our common stock contained in any registration statement on Form 8-A filed by us under the Securities Exchange Act of 1934, and any amendment or report filed for the purpose of updating any such description.

You may request a copy of these filings at no cost, by writing to or telephoning UnitedHealth Group at the following address:

UnitedHealth Group Incorporated
UnitedHealth Group Center
9900 Bren Road East
Minnetonka, Minnesota 55343
Attn: Legal Department
(952) 936-1300

The trusts have no separate financial statements. The statements would not be material to holders of the preferred securities because the trusts have no independent operations.

CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This prospectus contains and the applicable prospectus supplement will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases believes, anticipates, intends, will likely result, estimates, projects, similar expressions identify these forward-looking statements. Although UnitedHealth Group and the trusts believe that the expectations reflected in these forward-looking statements are reasonable, our business involves risks and uncertainties that may cause our actual results to differ significantly from the results discussed in the forward-looking statements.

You should read the text under the heading Risk Factors that will be included in the applicable prospectus supplement for cautionary statements regarding our business and results of operations. These statements will take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

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RISK FACTORS

Health Care Costs

We use a large portion of our premium revenues to pay the costs of health care services delivered to our customers. Accordingly, the profitability of our risk-based products depends in large part on our ability to accurately predict, price for, and effectively manage health care costs. Total health care costs are affected by the number of individual services rendered and the cost of each service. Our premium revenue is typically fixed in price for a 12-month period and is generally priced three months before contract commencement. Services are delivered and related costs are incurred when the contract commences. Although we base the premiums we charge on our estimate of future health care costs over the fixed premium period, inflation, regulations and other factors may cause actual health care costs to exceed what was estimated and reflected in premiums. These factors may include increased use of services, increased cost of individual services, catastrophes, epidemics, the introduction of new or costly treatments, new mandated benefits or other regulatory changes, insured population characteristics and seasonal changes in the level of health care use. Relatively small differences between predicted and actual medical costs as a percentage of premium revenues can result in significant changes in our financial results because of the relatively narrow operating margins of our risk-based arrangements. In addition, the financial results we report for any particular period include estimates of costs incurred for which the underlying claims have not been received by us or for which the claims have been received but not processed. If these estimates prove too high or too low, our earnings may be adjusted later based on actual costs.

Industry Factors

The health and well-being industries receive significant negative publicity and have been the subject of large jury verdicts. This publicity has been accompanied by litigation, legislative activity, regulation and governmental review of industry practices. These factors may adversely affect our ability to market our products or services, may require us to change our products and services, and may increase the regulatory burdens under which we operate, further increasing our costs of doing business and adversely affecting our profitability.

Competition

In many of our geographic or product markets, we compete with a number of other entities, some of which may have certain characteristics or capabilities that give them a competitive advantage. We believe the barriers to entry in certain markets are not substantial, so the addition of new competitors can occur relatively easily, and consumers enjoy significant flexibility in moving to competitors. Some of our customers may decide to perform for themselves functions or services we provide, which would decrease our revenues. Some of our contracted physicians and other health care providers may decide to market products and services to our customers in competition with us. In addition, significant merger and acquisition activity has occurred in the industry in which we operate as well as in industries that act as suppliers to us, such as the hospital, physician, pharmaceutical, medical device and health information systems industries. To the extent that there is strong competition or that competition intensifies in any market, our ability to retain or increase customers or contracted physicians and other health care providers, or maintain or increase our revenue growth, pricing flexibility, control over medical cost trends and marketing expenses may be adversely affected.

AARP Contract

Under our long-term contract with AARP, we provide Medicare Supplement and Hospital Indemnity health insurance and other products to AARP members. As of March 31, 2003, the AARP supplemental health care insurance program represented approximately \$3.8 billion in annual net premium revenue from approximately 3.6 million AARP members. The success of our AARP arrangement depends, in part, on our ability to service these customers, develop additional products and services, price the products and services competitively, and respond effectively to federal and state regulatory changes. Additionally, events

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that adversely affect AARP or one of its other business partners for its member insurance program could have an adverse effect on the success of our arrangement with AARP.

Government Programs

In response to medical cost increases that exceeded Medicare program reimbursement rate growth, we have withdrawn our Medicare+Choice product offerings from a number of counties and filed significant benefit adjustments in other counties. These and other actions have reduced Medicare+Choice enrollment and may result in further or complete withdrawal of Medicare+Choice product offerings, when and as permitted by our contracts with the Centers for Medicare and Medicaid Services (CMS). Under current regulations, we are precluded from re-entering the counties from which we have withdrawn our Medicare+Choice product offerings until two years after the effective date of withdrawal.

The financial results of our Medicare+Choice, Medicaid and State Children's Health Insurance Program (SCHIP) operations depend on a number of factors, including program reimbursement increases, government regulations, benefit design, physician and other health care provider contracting, state budgetary pressures (Medicaid and SCHIP) and other factors. There can be no assurance that any or all of our government program operations will be profitable in future periods.

Government Regulation

Our business is regulated at the federal, state, local and international levels. The laws and rules governing our business and interpretations of those laws and rules are subject to frequent change. Broad latitude is given to the agencies administering those regulations. Existing or future laws and rules could force us to change how we do business, restrict revenue and enrollment growth, increase our health care and administrative costs and capital requirements, and increase our liability in federal and state courts for coverage determinations, contract interpretation and other actions. We must obtain and maintain regulatory approvals to market many of our products, to increase prices for certain regulated products and to consummate our acquisitions and dispositions. Delays in obtaining or our failure to obtain or maintain these approvals could reduce our revenue or increase our costs.

We participate in federal, state and local government health care coverage programs. These programs generally are subject to frequent change, including changes that may reduce the number of persons enrolled or eligible, reduce the amount of reimbursement or payment levels, or increase our administrative or health care costs under such programs. Such changes have adversely affected our financial results and willingness to participate in such programs in the past and may do so in the future.

State legislatures and Congress continue to focus on health care issues. Legislative and regulatory proposals at state and federal levels may affect certain aspects of our business, including contracting with physicians, hospitals and other health care professionals; physician reimbursement methods and payment rates; coverage determinations; claim payments and processing; use and maintenance of individually identifiable health information; medical malpractice litigation reform; and government-sponsored programs. We cannot predict if any of these initiatives will ultimately become binding law or regulation, or, if enacted, what their terms will be, but their enactment could increase our costs, expose us to expanded liability, require us to revise the ways in which we conduct business or put us at risk for a loss of business to new health care funding arrangements.

We are also subject to various governmental investigations, audits and reviews. Such oversight could result in our loss of licensure or our right to participate in certain programs, or the imposition of civil or criminal fines, penalties and other sanctions. In addition, disclosure of any adverse investigation or audit results or sanctions could damage our reputation in various markets and make it more difficult for us to sell our products and services. We are currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by the CMS, state and health insurance departments and state attorneys general, the Office of Personnel Management, the Office of the Inspector General and U.S. Attorneys. Although the results of pending matters are always uncertain, we do not believe the results of any of the current investigations, audits or reviews, individually

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or in the aggregate, will have a material adverse effect on our consolidated financial position or results of operations.

Our operations are conducted through our subsidiaries. These companies are subject to state regulations that, among other things, may require the maintenance of minimum levels of statutory capital, as defined by each state, and may restrict the timing and amount of dividends and other distributions that may be paid to their respective parent companies. Generally, the amount of dividend distributions that may be paid by our regulated subsidiaries, without prior approval by state regulatory authorities, is limited based on the subsidiary's level of statutory net income, statutory capital and surplus. We use cash generated from operations, commercial paper and debt to maintain adequate operating and financial flexibility. The agencies that assess our creditworthiness also consider statutory capital levels when establishing our debt ratings. We maintain an aggregate statutory capital level for our regulated subsidiaries that is significantly higher than the minimum level regulators require.

Physician, Hospital and Other Health Care Provider Relations

One of the significant techniques we use to contain health care costs and facilitate care delivery is to contract with physicians, hospitals, pharmaceutical benefit managers and pharmaceutical manufacturers, and other health care providers for favorable prices. A number of organizations are advocating for legislation that would exempt certain of these physicians and health care professionals from federal and state antitrust laws. In any particular market, these physicians and health care professionals could refuse to contract, demand higher payments, or take other actions that could result in higher health care costs, less desirable products for customers or difficulty meeting regulatory or accreditation requirements. In some markets, certain health care providers, particularly hospitals, physician/hospital organizations or multi-specialty physician groups, may have significant market positions or near monopolies that could result in diminished bargaining power on our part.

Litigation and Insurance

Sometimes we become a party to the types of legal actions that can affect any business, such as employment and employment discrimination-related suits, employee benefit claims, breach of contract actions, tort claims, shareholder suits, and intellectual property-related litigation. In addition, because of the nature of our businesses, we are routinely made party to a variety of legal actions related to the design, management and offerings of our services. These matters include, but are not limited to, claims related to health care benefits coverage, medical malpractice actions, contract disputes and claims related to disclosure of certain business practices. In 1999, a number of class action lawsuits were filed against us and virtually all major entities in the health benefits business. The suits are purported class actions on behalf of certain customers and physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, as amended (ERISA), and the Racketeer Influenced Corrupt Organization Act. We will incur expenses in the defense of these matters, even if they are without merit.

Recent court decisions and legislative activity may increase our exposure for any of these types of claims. In some cases, substantial non-economic, treble or punitive damages may be sought. We currently have insurance coverage for some of these potential liabilities. Other potential liabilities may not be covered by insurance, insurers may dispute coverage, or the amount of insurance may not be enough to cover the damages awarded. In addition, certain types of damages, such as punitive damages, may not be covered by insurance. The cost of general business insurance coverage has increased significantly following the events of September 11, 2001. As a result, we have increased the amount of risk that we self-insure, particularly with respect to routine matters incidental to our business. We record liabilities for our estimates of the probable costs resulting from self-insured matters. Although we believe the liabilities established for these risks are adequate, there can be no assurance that the level of actual losses will not exceed the liabilities recorded.

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Data Integrity and Information Systems

Our businesses depend significantly on effective information systems and the integrity of the data we use to run these businesses. Our ability to adequately price our products and services, provide effective and efficient service to our customers, and to accurately report our financial results depends significantly on the integrity of the data in our information systems. As a result of our acquisition activities, we have acquired additional systems. We have been taking steps to reduce the number of systems we operate and have upgraded and expanded our information systems capabilities. If the information we rely upon to run our businesses was found to be inaccurate or unreliable or if we fail to maintain effectively our information systems and data integrity, we could lose existing customers, have difficulty in attracting new customers, have problems in determining medical cost estimates and establishing appropriate pricing, have customer and physician and other health care provider disputes, have regulatory problems, have increases in operating expenses or suffer other adverse consequences. Our information systems require an ongoing commitment of significant resources to maintain and enhance existing systems and develop new systems to keep pace with continuing changes in information processing technology, evolving industry and regulatory standards, and changing customer preferences. For example, the administrative simplification provisions of the Health Insurance Portability and Accountability Act of 1996 (HIPAA) and the Department of Labor s ERISA claim processing regulations require changes to our current systems.

We depend on independent third parties for significant portions of our systems-related support, equipment, facilities, and certain data, including data center operations, data network, voice communication services and pharmacy data proces