

**REPORT OF WILMER CUTLER PICKERING HALE AND DORR LLP
TO THE SPECIAL COMMITTEE OF THE BOARD OF DIRECTORS
OF UNITEDHEALTH GROUP, INC.**

On March 18, 2006, the Wall Street Journal published an article entitled, “*The Perfect Payday*.” The article questioned whether several companies, including UnitedHealth Group, Inc. (“UnitedHealth” or the “Company”), had selected dates for stock option grants with the benefit of hindsight – in other words, whether the companies had “backdated” the option grants.¹ Shortly thereafter, UnitedHealth was notified that the Securities and Exchange Commission (“SEC”) had opened an informal inquiry into the Company’s practices concerning stock option grants. On April 4, 2006, UnitedHealth’s Board of Directors created a Special Committee composed of three disinterested Directors (Messrs. Richard Burke, James Johnson and Douglas Leatherdale)² to lead a thorough and independent review of the Company’s option grant practices over the period from 1994 through 2006. Also, on April 4, 2006, the Special Committee engaged the law firm of Wilmer Cutler Pickering Hale and Dorr LLP (“WilmerHale”) as its counsel for its independent review. WilmerHale, in turn, retained FTI Consulting, Inc. to provide expert accounting assistance.

WilmerHale identified officers and employees whose work at the Company involved in some way the stock option granting process. From each of those employees (and their assistants), we collected hardcopy and electronic documents, including documents stored in the Company’s offsite facility. In all, we collected and reviewed nearly 600 boxes of hardcopy materials, as well as substantial amounts of e-mail and other electronic files. In addition, we interviewed and collected documents from each member of the Board of Directors who served during the period from 1994 to 2006. From these efforts, we created a database of nearly 4 million documents, and we ultimately reviewed documents comprising more than 26 million pages of materials. Over the course of the investigation, we also conducted over 80 interviews of

¹ No commonly accepted definition of “backdating” has emerged nor has the SEC defined the precise contours of “backdating” for securities law (or other) purposes. According to accounting literature applicable to option grants during the relevant time period, issuers of options were supposed to compare the exercise price of an option to the quoted market price of the underlying stock on the “measurement date” – the first date on which both the number of shares that an individual employee is entitled to receive and the exercise price are both known – to determine whether any compensation expense was required to be recorded as a result of any “in the money” option grant. This report defines “backdating” as (i) selecting a grant date with the benefit of hindsight, (ii) using that grant date as the measurement date even though one or more of the number of shares, the identity of the employee receiving them, and/or the exercise price was not known as of the grant date, and (iii) recording a lower compensation expense than would have been recorded had the correct measurement date been used.

² Neither Mr. Leatherdale nor Mr. Burke served on the Compensation Committee when it approved any of the grants under review. Mr. Johnson joined the Compensation Committee after the Sarbanes-Oxley Act of 2002 (“SoX”) was passed. There is no indication that the option grants to Section 16 officers, the only grants that were required to be approved by the Compensation Committee, were backdated after the effective date of SoX. In addition, while UnitedHealth made substantial and valuable option grants over time to the members of the Special Committee specifically (and to the Company’s non-employee Directors generally), these grants were not backdated. Grants to Directors were governed by specific plan provisions that established annual grant dates (until 1999) and quarterly grant dates thereafter.

current and former UnitedHealth employees, present and former Directors, and former auditors. Some individuals were interviewed more than once.

As set forth below, we have examined in depth 29 distinct option grants made by the Company from 1994 through 2006. These grants account for approximately 85 percent of the total number of options issued by UnitedHealth during that twelve-year period.³ This report summarizes the facts developed and the conclusions reached in this independent review pertaining to UnitedHealth's option grants to officers and employees.

I. BACKGROUND

Stock options were a critical component of UnitedHealth's compensation philosophy. Management viewed options as a vital tool for recruiting, motivating, and retaining employees. Management believed that options were the best means of offsetting what it saw as the Company's below-market cash compensation. Consistent with the Company's compensation philosophy, Dr. William McGuire, UnitedHealth's CEO and Chairman, authorized, or sought the approval of the Compensation Committee of the Board of Directors for, option grants at opportune times when the Company's stock price was depressed.⁴

During the twelve-year period under review, UnitedHealth granted to thousands of employees options to acquire, in aggregate, nearly 450 million (split-adjusted) shares of Company common stock. The independent review focused on 29 distinct option grant events that comprised the largest grant events (*i.e.*, each involving more than 10 million split-adjusted shares) and, with two exceptions, all of the grant events in which Dr. McGuire or Mr. Hemsley, UnitedHealth's President and Chief Operating Officer, received options. These 29 grants each involved one or more of the following five types of grants: (i) grants to Section 16 officers; (ii) grants to employees; (iii) grants to new hires and those receiving promotions; (iv) grants associated with the 1999 employment agreements reached with Dr. McGuire and Mr. Hemsley; and (v) a one-time "supplemental" option grant to officers and employees made in October 1999.

Grants to Section 16 Officers. Because of various tax and securities law provisions, and provisions of the stock option plans under which certain of these options were granted, option grants to Section 16 officers required approval by the Compensation Committee. During the entire review period, Dr. McGuire recommended to the Compensation Committee the number of options to be granted to Section 16 officers, excluding himself and, after late 1999, excluding Mr. Hemsley. The minimum size of the grants to Dr. McGuire (for the entire review period) and for Mr. Hemsley (after late 1999) were set by their respective employment agreements and any additional grants were awarded at the discretion of the Compensation Committee. For a few grants, Compensation Committee approval of the grants to Section 16 officers was accomplished through a resolution in the minutes of a Compensation Committee meeting. In most instances,

³ The remaining grants are composed primarily of new hire grants and option grants done in connection with various M&A transactions.

⁴ While the name of the Board committee responsible for compensation matters changed over time, this report uses the term "Compensation Committee" to refer to all such iterations. Between 1994 and 2006, the Compensation Committee comprised three to five Board members.

however, the approval was reflected in a unanimous written consent (a “Written Action”) signed by all of the members of the Compensation Committee.

Grants to Employees. The Company granted options to non-Section 16 employees in varying numbers and amounts. Dr. McGuire chose the dates and overall amounts for these grants. Approval of these grants by the Compensation Committee was not required because Dr. McGuire acted pursuant to authority delegated to him by the Committee. The process of determining which employees were to be included in this type of grant and how many options each would receive often took considerable time to complete. These grants often included hundreds, and sometimes thousands, of employees. For certain of the most senior employees in this group, Dr. McGuire also was involved in determining the amount of the grants to individual employees. He approved grants to non-Section 16 employees by executing a CEO certificate that either listed the grantee(s) and the number of options in the body of the certificate or referred to an exhibit that listed the grantees and the amount each was receiving. In a few cases, the Compensation Committee approved these grants itself, although it is unclear why the practice differed for these grants.

New Hire and Promotion Grants. Some of the 29 grants we examined included option grants to newly-hired employees and to employees receiving promotions. With the exception of a few very senior executives, options issued to newly-hired and promoted employees – including the setting of the grant date and the exercise price – were largely handled by the Human Resources Department (later called Human Capital, but collectively referred to herein as “HR”). HR determined the grant dates for the employees in these categories and prepared the paperwork for the grants (sometimes with input from the Legal Department). Like the awards to non-Section 16 employees, these awards required Dr. McGuire’s signature on a CEO certificate pursuant to delegated authority, but Dr. McGuire appeared to have no role in setting grant dates for most of the grants in this category.

Grants in Connection with 1999 Employment Agreements. In 1999, Dr. McGuire renewed his employment agreement and Mr. Hemsley executed his first written employment agreement. Those employment agreements, executed in December 1999 but dated effective October 13, 1999, each contained a right to obtain a one-time grant of options – 1,000,000 options for Dr. McGuire; 500,000 options for Mr. Hemsley. The terms of these agreements were negotiated with Dr. McGuire during 1999 by an Ad Hoc Committee (composed of Directors William Ballard, Thomas Kean, Mary Munding, Robert Ryan, and William Spears) established by the Board of the Directors.⁵ The Ad Hoc Committee focused on the size of Dr. McGuire’s and Mr. Hemsley’s overall compensation packages, including the number and price of the one-time grant of options to be made in connection with their respective agreements. In this endeavor the Ad Hoc Committee was advised by compensation consultants from Arthur Andersen LLP, which was also the Company’s outside auditor.

⁵ Mr. Hemsley had little or no role in the negotiation of, or the process leading up to, the agreement or the option award in connection with the agreement.

Supplemental Option Grant. In October 1999, UnitedHealth granted options to acquire over 2 million shares of Company common stock to a broad group of employees and management personnel, including Dr. McGuire and other Section 16 officers. This particular grant was made in connection with the suspension of the vesting and exercisability of a like number of options granted to the same individuals with exercise prices above \$46.50 per share issued during the preceding five years. The grant followed a decline in the price of UnitedHealth stock from \$60.50 on September 29, 1999 to \$41.125 on October 12, 1999.⁶

The purpose of the grant, according to an October 22, 1999 memorandum from Dr. McGuire to the Compensation Committee, was to address “employee morale and retention” by replacing “out of market options priced above \$46.50” with new options with an exercise price of \$40.00 per share. Although the memorandum does not specify the grant date, the formal documents for the supplemental grant reflect a grant date of October 13, 1999 and an exercise price of \$40.125 – which was the closing price on October 13 and the closest closing price in 1999 to the \$40.00 referred to in the October 22 memorandum. It was also the lowest closing price for UnitedHealth for all of 1999. The memorandum also advised the Compensation Committee that the suspended options could thereafter be cancelled or reinstated. Even though the memorandum referred only to suspending the vesting of the “out of market” options, it appears the Company’s intent was generally to suspend both the vesting of unvested “out of market” options and the exercise of “out of market” options that had previously vested.⁷ Approximately ten months later, the Compensation Committee reactivated vesting and exercisability of the suspended options and exercisability of vested options.

II. ANALYSIS

We set forth below our analysis of the backdating, internal controls, governance and disclosure issues raised in the investigation.

Option Grants

Grants to Section 16 Officers and Non-Section 16 Employees

The measurement dates used by the Company for most of the option grants issued to Section 16 Officers and non-section 16 employees under review were incorrect, and many of the option grants were likely backdated.

⁶ The cause of the decline in the stock price seems to have been an announcement on September 29, 1999 by certain prominent class action law firms of their intent to bring lawsuits against the health insurance industry.

⁷ It is unclear whether any of Dr. McGuire’s and one other officer’s options with exercise prices above \$46.50 were in fact suspended. Dr. McGuire believes that his options were intended to be suspended. However, the Company’s 2000 proxy indicates that Dr. McGuire’s February 1999 option grant (which have an exercise price above \$46.50) continued to vest on schedule. The employment agreements of Dr. McGuire (and the other officer whose options may not have been suspended) provided that the options granted under those agreements would vest on a fixed schedule. It is possible that someone at the Company concluded, based on the language in the employment agreements, that the vesting of these options could not be suspended.

Stock option grants to Section 16 officers were regularly approved by Written Actions. Sometimes, these Written Actions bear the typewritten word “Date” or “Dated” and a date that matches the measurement date used by the Company for such grant. At other times, the Written Actions bear the typewritten word “Effective” and a date that similarly matches such measurement date. For a substantial number of grants, we have determined that the Written Actions that were “Date[d]” on a specific date were executed subsequently.⁸ As commonly understood, the term “Effective” means that the document was executed on one date with an intended and different effective date.⁹ We have concluded that Written Actions that contain the word “Effective,” were executed on another, later date. A substantial proportion of the Written Actions for the 29 grants we reviewed were signed later than the date indicated on the document. These lags could have been weeks, and in some cases months, later than the date shown on the Written Action. While it is possible a measurement date could be earlier than the date the Written Actions were finally signed,¹⁰ it is likely that a substantial number of the measurement dates used by the Company for these grants are incorrect: either the number of shares granted to individual recipients and/or the exercise price was not known on the dates recited in the Written Actions.

CEO certificates were used to approve grants to non-Section 16 officer employees. The CEO certificates for the grants we reviewed bear the typewritten word “Date” or “Dated” and a particular date. In many instances, the date matches the measurement date used by the Company for such grant. We have determined that these CEO certificates were typically executed subsequent to the date on the certificate. Starting in mid-2000, the dates shown on the CEO certificates is later than the dates that the Company used for the measurement dates, but not necessarily the dates the certificates were actually signed. While it is possible that a measurement date could be earlier than the date the CEO certificate was signed, we believe that the measurement dates used by the Company for most of these grants are incorrect. In addition, employees were sometimes added to a grant, or allocations were adjusted, after Dr. McGuire signed the certificate.

Dr. McGuire maintains that he did not select the dates for option grants to Section 16 officers and to non-Section 16 employees with the benefit of hindsight. His recollections are important: he was central to the option grant process at the Company for Section 16 officers and for certain other executives and determined the broad parameters for the grants for other groups of employees. Mr. Hemsley played a more limited role in the option granting process. His focus

⁸ Our conclusion is drawn from information collected from company personnel, including the metadata from their electronic files. Metadata is “information about a particular data set which may describe, for example, how, when, and by whom it was received, created, accessed, and/or modified and how it is formatted ... it describes the content, quality, condition, history, and other characteristics of the data.” We have placed limited reliance on metadata. Where metadata and other relevant information about a document exist, the metadata tends to be corroborated by other evidence, such as contemporaneous e-mails and witness interviews on the timing of certain actions.

⁹ UnitedHealth is a corporation organized under the laws of the State of Minnesota. Under Minnesota corporate law, it is permissible to make a Written Action effective as of a date other than the date on which the last of the required signers affixes his or her signature, even if that effective date is before the last signature is affixed.

¹⁰ See Letter from Conrad Hewitt, Chief Accountant, Securities and Exchange Commission, to Lawrence Salva, dated September 19, 2006 (hereinafter, “OCA Letter”) at p. 10.

