Former UnitedHealth Group CEO/Chairman Settles Stock Options Backdating Case for $468 Million

Settlement Is Largest to Date in an Options Backdating Case

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Washington, D.C., Dec. 6, 2007 - The Securities and Exchange Commission today announced a record $468 million settled enforcement action in an options backdating case against William W. McGuire, M.D., the former Chief Executive Officer and Chairman of the Board of UnitedHealth Group Inc. The settlement is the first with an individual under the "clawback" provision (Section 304) of the Sarbanes-Oxley Act to deprive corporate executives of their stock sale profits and bonuses earned while their companies were misleading investors.

The Commission's complaint alleges that during a 12-year period, McGuire repeatedly caused the company to grant undisclosed, in-the-money stock options to himself and other UnitedHealth officers and employees without recording in the company's books and disclosing to shareholders material amounts of compensation expenses as required by applicable accounting rules. Without admitting or denying the SEC's charges, McGuire agreed to a $468 million settlement that includes a $7 million civil penalty and reimbursement to the Minneapolis-based health care company for all incentive- and equity-based compensation he received from 2003 through 2006.

"Whenever a corporate officer misleads investors about a company's performance by secretly backdating stock options, the integrity of our markets is undermined," said SEC Chairman Christopher Cox. "As demonstrated in this case, the SEC is committed to holding corporate officers accountable for illegally backdating stock options and will seek the return of undeserved compensation."

Linda Chatman Thomsen, Director of the SEC's Enforcement Division, said, "The $468 million settlement in this case, including the largest penalty assessed against an individual in an options backdating case, reflects the magnitude and scope of Dr. McGuire's misconduct."

The Commission's complaint alleges that from at least 1994 through 2005, McGuire looked back over a window of time and picked grant dates for UnitedHealth options that coincided with dates of historically low quarterly closing prices for the company's common stock, resulting in grants of in-the-money options. According to the complaint, McGuire signed and approved backdated documents falsely indicating that the options had actually been granted on these earlier dates when UnitedHealth's stock price was at or near these low points. These inaccurate documents caused the company to understate compensation expenses for stock options, and were routinely provided to the company's external auditors in connection with their audits and reviews of UnitedHealth's financial statements.

According to the SEC's complaint, UnitedHealth filed with the Commission quarterly and annual reports, proxy statements, and registration
statements that McGuire knew, or was reckless in not knowing, contained materially false and misleading statements concerning the true grant dates and proper exercise prices of stock options. Because of McGuire's misconduct, investors were misled to believe that stock options were granted with strike prices not less than the fair market value of UnitedHealth's stock on the date of grant and in accordance with the terms of the company's stock option plans. In March 2007, UnitedHealth restated its financial statements for each year from 1994 through 2005, and disclosed material cumulative pre-tax errors in stock-based compensation accounting that totaled $1.526 billion for that period.

The Commission's complaint further alleges that from 1994 through 2005, McGuire personally received more than 44 million split-adjusted UnitedHealth options, most or all of which were backdated. McGuire exercised and sold more than 11 million of these backdated options for an in-the-money gain of more than $6 million. McGuire also received nearly $5 million of incentive-based cash bonuses in 2005 and 2006 tied to earnings per share targets that UnitedHealth would not have achieved under financial statements restated due to errors in stock-based compensation accounting.

Without admitting or denying the allegations of the Commission's complaint, McGuire consented to the entry of an order permanently enjoining him from violating or aiding and abetting violations of the antifraud, reporting, record-keeping, internal controls, proxy statement, certification, and securities ownership reporting provisions of the federal securities laws, and barring him from serving as an officer or director of a public company for a period of 10 years. McGuire will (i) disgorge ill-gotten gains of $10,997,596 with $1,697,492 in prejudgment interest, (ii) pay a $7 million civil penalty, and (iii) pursuant to Section 304 of the Sarbanes-Oxley Act, reimburse UnitedHealth for all incentive- and equity-based compensation he received from 2003 through 2006, totaling approximately $448 million in cash bonuses, profits from the exercise and sale of UnitedHealth stock, and unexercised UnitedHealth options.

Under the terms of the settlement, McGuire's disgorgement plus prejudgment interest and his Section 304 reimbursement would be deemed satisfied by his return to UnitedHealth of approximately $600 million in cash and UnitedHealth options pursuant to the terms of his separate settlement with the company, also announced today, resolving employment claims and shareholder derivative lawsuits filed against McGuire in state and federal courts in Minnesota. McGuire's settlement with the SEC is subject to the approval of the U.S. District Court for the District of Minnesota.


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Additional materials: Litigation Release No. 20387