

UNITEDHEALTH GROUP INC

Form 424B5

March 01, 2006

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Filed pursuant to Rule 424(b)(5)

Registration No. 333-127610

**Prospectus Supplement to Prospectus dated October 13, 2005**

**\$3,000,000,000**

**UnitedHealth Group Incorporated**

\$650,000,000 Floating Rate Notes due March 2, 2009

\$750,000,000 5.250% Notes due March 15, 2011

\$750,000,000 5.375% Notes due March 15, 2016

\$850,000,000 5.800% Notes due March 15, 2036

We are offering \$650,000,000 of floating rate notes due March 2, 2009, \$750,000,000 of 5.250% notes due March 15, 2011, \$750,000,000 of 5.375% notes due March 15, 2016 and \$850,000,000 of 5.800% notes due March 15, 2036. We refer to the 2009 notes, the 2011 notes, the 2016 notes and the 2036 notes together as the notes, and we refer to the 2011 notes, the 2016 notes and the 2036 notes together as the fixed rate notes. 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.

We will pay interest on the 2009 notes quarterly on March 2, June 2, September 2 and December 2 of each year, beginning June 2, 2006. The interest rate on the 2009 notes will be a floating rate, subject to adjustment on a quarterly basis, equal to LIBOR for three-month U.S. dollar deposits plus 0.08%. We will pay interest on the fixed rate notes semi-annually on March 15 and September 15 of each year, beginning September 15, 2006, at the applicable rates set forth above.

At our option, we may redeem the fixed rate 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-10.

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.

	Proceeds to Us					
	Public Offering Price(1)		Underwriting Discount		(before expenses)	
	Per Note	Total	Per Note	Total	Per Note	Total
2009 Notes	100.00%	\$650,000,000	0.350%	\$2,275,000	99.650%	\$647,725,000
2011 Notes	99.840%	\$748,800,000	0.600%	\$4,500,000	99.240%	\$744,300,000
2016 Notes	99.622%	\$747,165,000	0.650%	\$4,875,000	98.972%	\$742,290,000
2036 Notes	99.279%	\$843,871,500	0.875%	\$7,437,500	98.404%	\$836,434,000
Combined Total		\$2,989,836,500		\$19,087,500		\$2,970,749,000

(1) Plus accrued interest from March 2, 2006 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 March 2, 2006.

(2009 Notes)

Joint Book-Running Managers

**Citigroup**

**JPMorgan**  
Co-Managers

**Deutsche Bank Securities**

Goldman, Sachs & Co.  
KeyBanc Capital Markets  
BB&T Capital Markets  
NatCity Investments, Inc.

Banc of America Securities LLC  
Lazard Capital Markets  
Fifth Third Securities, Inc.  
PNC Capital Markets LLC

Wachovia Securities  
Lehman Brothers  
LaSalle Capital Markets  
RBS Greenwich Capital

Wells Fargo Brokerage Services, LLC  
Merrill Lynch & Co.  
Mellon Financial Markets, LLC  
The Williams Capital Group, L.P.

BNY Capital Markets, Inc.  
Piper Jaffray  
Morgan Keegan & Company, Inc.

(2011 Notes)

Joint Book-Running Managers

**Citigroup**

**JPMorgan**  
Co-Managers

**Wachovia Securities**

Goldman, Sachs & Co.  
KeyBanc Capital Markets  
BB&T Capital Markets  
NatCity Investments, Inc.

Banc of America Securities LLC  
Lazard Capital Markets  
Fifth Third Securities, Inc.  
PNC Capital Markets LLC

Deutsche Bank Securities  
Lehman Brothers  
LaSalle Capital Markets  
RBS Greenwich Capital

Wells Fargo Brokerage Services, LLC  
Merrill Lynch & Co.  
Mellon Financial Markets, LLC  
The Williams Capital Group, L.P.

BNY Capital Markets, Inc.  
Piper Jaffray  
Morgan Keegan & Company, Inc.

(2016 Notes)

Joint Book-Running Managers

**Citigroup**

**JPMorgan**  
Co-Managers

**Goldman, Sachs & Co.**

Banc of America Securities LLC  
KeyBanc Capital Markets  
BB&T Capital Markets  
NatCity Investments, Inc.

Deutsche Bank Securities  
Lazard Capital Markets  
Fifth Third Securities, Inc.  
PNC Capital Markets LLC

Wachovia Securities  
Lehman Brothers  
LaSalle Capital Markets  
RBS Greenwich Capital

Wells Fargo Brokerage Services, LLC  
Merrill Lynch & Co.  
Mellon Financial Markets, LLC  
The Williams Capital Group, L.P.

BNY Capital Markets, Inc.  
Piper Jaffray  
Morgan Keegan & Company, Inc.

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(2036 Notes)

*Joint Book-Running Managers*

**Citigroup**

**JPMorgan**  
*Co-Managers*

**Banc of America Securities LLC**

Goldman, Sachs & Co.	Deutsche Bank Securities	Wachovia Securities	Wells Fargo Brokerage Services, LLC	BNY Capital Markets, Inc.
KeyBanc Capital Markets	Lazard Capital Markets	Lehman Brothers	Merrill Lynch & Co.	Piper Jaffray
BB&T Capital Markets	Fifth Third Securities, Inc.	LaSalle Capital Markets	Mellon Financial Markets, LLC	Morgan Keegan & Company, Inc.
NatCity Investments, Inc.	PNC Capital Markets LLC	RBS Greenwich Capital	The Williams Capital Group, L.P.	

Prospectus Supplement dated February 27, 2006

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No dealer, salesperson or other person is authorized to give any information or to represent anything not contained in this prospectus supplement or the accompanying prospectus. You must not rely on any unauthorized information or representations. This prospectus supplement and the accompanying prospectus is an offer to sell only the notes offered hereby, but only under circumstances and in jurisdictions where it is lawful to do so. The information contained in this prospectus supplement and the accompanying prospectus is current only as of its date.

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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 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 \$4.0 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 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 or incorporate by reference forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, or PSLRA. The words or phrases believes, anticipates, expects, plans, intends, will likely result, estimates, projects or similar expressions are intended to identify such forward-looking statements. These forward-looking statements involve risks and uncertainties that may cause our actual results to differ materially from the results discussed in the forward-looking statements. seeks

The following text under the heading Risk Factors contains certain cautionary statements regarding our business that investors and others should consider. 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. Except to the extent otherwise required by federal securities laws, we do not undertake to address or update forward-looking statements in future filings or communications regarding our business or operating 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 past, as well as current, forward-looking statements about future results. Any or all forward-looking statements in this prospectus supplement and the accompanying prospectus and in any other public filings or statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors discussed below will be important in determining future results. By their nature, forward-looking statements are not guarantees of future performance or results and are subject to risks, uncertainties and assumptions that are difficult to predict or quantify. Actual future results may vary materially from expectations expressed in our prior communications.

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**RISK FACTORS**

**We must effectively manage our health care costs.**

Under our risk-based product arrangements, we assume the risk of both medical and administrative costs for our customers in return for monthly premiums. Premium revenues from risk-based products (excluding AARP) have typically comprised approximately 75% to 80% of our total consolidated revenues. We generally use approximately 80% to 85% of our premium revenues to pay the costs of health care services delivered to these customers. The profitability of our risk-based products depends in large part on our ability to 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 one to four months before the contract commences. We base the premiums we charge on our estimate of future health care costs over the fixed premium period; however, 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 and technology, new mandated benefits or other regulatory changes, insured population characteristics and seasonal changes in the level of health care use. As a measure of the impact of medical cost on our financial results, 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 1% without a proportional change in related revenues for UnitedHealthcare's commercial insured products, our annual net earnings for 2005 would have been reduced by approximately \$130 million. In addition, the financial results we report for any particular period include estimates of costs that have been incurred for which claims are still outstanding. If these estimates prove too high or too low, the effect of the change in estimate will be included in future results. That change can be either positive or negative to our results.

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

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

**Our relationship with AARP is important.**

Under our 10-year contract with AARP, which commenced in 1998, we provide Medicare supplement and hospital indemnity health insurance and other products to AARP members. As of December 31, 2005, our portion of AARP's insurance program represented approximately \$4.9 billion in annual net premium revenue from approximately 3.8 million AARP members. The 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 competitively, and respond effectively to federal and state regulatory changes.



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### **Some of the favorable and unfavorable effects of changes in Medicare remain uncertain.**

The changes in Medicare as a result of the Medicare Modernization Act of 2003 (MMA) are complex and wide-ranging and continue to affect our businesses. We have taken advantage of new opportunities to partner with the federal government created by the MMA, including Medicare Part D prescription drug coverage, Medicare Advantage Regional PPOs, and Special Needs Plans for chronically ill Medicare beneficiaries. We have invested considerable resources in creating new Medicare product offerings for these initiatives and in analyzing how to best address uncertainties and risks associated with these new programs and other changes arising from the MMA. In particular, the Part D program presents challenges because of the size and scope of the new program. Our ability to successfully participate in the Part D program depends in part on coordination of information and information systems between us, the Centers for Medicare and Medicaid Services, or CMS, and state governments. We have been working with CMS to correct systems issues that they have experienced with respect to certain low income people eligible to participate in Part D. The inability to receive correct information due to systems issues by the federal government, the applicable state government or us could adversely affect our business. Additionally, our participation in the Part D program is based upon certain assumptions regarding enrollment, utilization, pharmaceutical costs and other factors. In the event any of these assumptions are materially incorrect, either as a result of unforeseen changes to the Part D program or otherwise, our results could be materially affected. Any positive or negative results of the Part D program are likely to have a significant impact on us as a result of the size of our enrollment in our Part D program.

### **We are subject to funding risks with respect to revenue received from participation in Medicare and Medicaid programs.**

We participate as a payer in Medicare Advantage, Part D, and Medicaid programs and receive revenues from the Medicare and Medicaid programs to provide benefits under these programs. Revenues for these programs are dependent upon annual funding from the federal government or applicable state governments. Funding for these programs is dependent upon many factors outside of our control including general economic conditions at the federal or applicable state level and general political issues and priorities. An unexpected reduction in government funding for these programs may adversely affect our revenues and financial results.

### **Our business is subject to routine 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 complete certain acquisitions and dispositions. Delays in obtaining approvals 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

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methods and payment rates; coverage determinations; claim payments and processing; drug utilization and patient safety efforts; use and maintenance

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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 loss of business.

We typically are involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments and state attorneys general, the Office of the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Department of Justice and U.S. Attorneys. Such government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including restrictions or changes in the way we conduct business, loss of licensure or exclusion from participation in government programs. In addition, public perception or publicity surrounding routine governmental investigations may adversely affect our stock price, damage our reputation in various markets or make it more difficult for us to sell products and services.

### **Relationships with physicians, hospitals and other health care providers are important to our business.**

We contract with physicians, hospitals, pharmaceutical benefit service providers, pharmaceutical manufacturers, and other health care providers for competitive prices. Our results of operations and prospects are substantially dependent on our continued ability to maintain these competitive 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 multispecialty physician groups, may have significant market positions or near monopolies that could result in diminished bargaining power on our part.

In addition, we have capitation arrangements with some physicians, hospitals and other health care providers. Under the typical arrangement, the provider receives a fixed percentage of premium to cover all the medical costs provided to the capitated member. Under some capitated arrangements, the provider may also receive additional compensation from risk sharing and other incentive arrangements. Capitation arrangements limit our exposure to the risk of increasing medical costs, but expose us to risk related to the adequacy of the financial and medical care resources of the provider. To the extent that a capitated provider organization faces financial difficulties or otherwise is unable to perform its obligations under the capitation arrangement, we may be held responsible for unpaid health care claims that are the responsibility of the capitated provider and for which we have already paid the provider under the capitation arrangement.

### **The nature of our business exposes us to litigation risks.**

Periodically, 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 and management of our service offerings. These matters include, among others, 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 UnitedHealthcare and PacifiCare Health Systems, Inc., or PacifiCare, and virtually all major entities in the health benefits business, although all claims against PacifiCare have been dismissed. The suits are purported class actions on behalf of physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974, or ERISA, and the Racketeer Influenced Corrupt Organization Act. In March 2000, the American Medical Association filed a lawsuit against us in connection with the calculation of reasonable and customary reimbursement rates for non-network providers. Although the expenses we have incurred to date in defending the 1999 class action lawsuits and the



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American Medical Association lawsuit have not been material to our business, we will continue to incur expenses in the defense of these lawsuits and other matters, even if they are without merit.

We are largely self-insured with regard to litigation risks; however, we maintain excess liability insurance with outside insurance carriers to minimize risks associated with catastrophic claims. Although we believe that we are adequately insured for claims in excess of our self-insurance, 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 providing pharmacy benefit management (PBM) services face regulatory and other risks associated with the pharmacy benefits management industry that may differ from the risks of providing managed care and health insurance products.**

In connection with our merger with PacifiCare, we acquired a pharmacy benefits management business, Prescription Solutions. We also provide pharmacy benefits management services through UnitedHealth Pharmaceutical Solutions. Prescription Solutions and UnitedHealth Pharmaceutical Solutions are subject to federal and state anti-remuneration and other laws that govern their relationships with pharmaceutical manufacturers, customers and consumers. Federal and state legislatures are considering new regulations for the industry that could adversely affect current industry practices, including the receipt of rebates from pharmaceutical companies. In addition, if a court were to determine that our PBM business acts as a fiduciary under ERISA, we could be subject to claims for alleged breaches of fiduciary obligations in implementation of formularies, preferred drug listings and therapeutic intervention programs, contracting network practices, speciality drug distribution and other transactions. Our PBM also conducts business as a mail order pharmacy, which subjects it to extensive federal, state and local laws and regulations, as well as risks inherent in the packaging and distribution of pharmaceuticals and other health care products. The failure to adhere to these laws and regulations could expose our PBM subsidiary to civil and criminal penalties. We also face potential claims in connection with purported errors by our mail order pharmacy.

### **Our businesses depend on effective information systems and the integrity of the data in our information systems.**

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 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 were found to be inaccurate or unreliable or if we fail to maintain our information systems and data integrity effectively, we could lose existing customers, have difficulty attracting new customers, have problems in determining medical cost estimates and establishing appropriate pricing, have disputes with customers, physicians and other health care providers have regulatory problems, have increases in operating expenses or suffer other adverse consequences.

### **The value of our intangible assets may become impaired.**

Due largely to our recent acquisitions, goodwill and other intangible assets represent a substantial portion of our assets. Goodwill and other intangible assets were approximately \$18.2 billion as of December 31, 2005, representing approximately 44% of our total assets. If we make additional acquisitions it is likely that we will record additional intangible assets on our books. We periodically evaluate our goodwill and other intangible assets to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to earnings may be necessary. Any future evaluations requiring an asset impairment of our goodwill and other intangible assets could materially affect our results of operations and shareholders' equity in the period in which the impairment occurs. A material decrease in shareholders' equity could, in

turn, negatively impact our debt ratings or potentially impact our compliance with existing debt covenants.

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### **Our knowledge and information-related businesses depend on our ability to maintain 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.

### **We must comply with restrictions on patient privacy and information security, including taking steps to ensure that our business associates who obtain access to sensitive patient information maintain its confidentiality.**

The use of individually identifiable data by our businesses is regulated at the international, federal and state levels. These laws and rules are changed frequently by legislation or administrative interpretation. Various state laws address the use and disclosure of individually identifiable health data. Most are derived from the privacy and security provisions in the federal Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act of 1996, or 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 these proposals, requirements, 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.

### **The anticipated benefits of acquiring PacifiCare may not be realized.**

We acquired PacifiCare with the expectation that the merger will result in various benefits including, among others, benefits relating to a stronger and more diverse network of doctors and other health care providers, expanded and enhanced affordable health care services, enhanced revenues, a strengthened market position for us in the Western United States, cross-selling opportunities, technology, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether we integrate PacifiCare in an efficient and effective manner and general competitive factors in the marketplace. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy, which could materially impact our business, financial condition and operating results.

### **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 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.

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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.

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We will receive net proceeds from this offering of approximately \$2.97 billion after deducting underwriting commissions and other expenses of the offering. We intend to use all of the net proceeds from this offering to repay commercial paper borrowings that were used in part to finance part of the cash component of the merger consideration paid by us in connection with our acquisition of PacifiCare. As of February 24, 2006, these commercial paper borrowings had a weighted average interest rate of 4.54% and a weighted average term of 14 days.

**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, including amounts capitalized, the interest factor in rental expenses, plus the amortization of debt discount and debt expense.

	<b>Year Ending December 31,</b>				
	<b>2005</b>	<b>2004</b>	<b>2003</b>	<b>2002</b>	<b>2001</b>
Ratio of Earnings to Fixed Charges	19.3x	24.7x	22.4x	17.7x	12.6x

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**BUSINESS**

UnitedHealth Group is a diversified health and well-being company, serving approximately 65 million Americans. We are focused on improving the American health care system and how it works for multiple, distinct constituencies. We provide individuals with access to quality, cost-effective health care services and resources through more than 500,000 physicians and other care providers and 4,600 hospitals across the United States. During 2005, we managed approximately \$68 billion in aggregate annual health care spending on behalf of the constituents and consumers we served. Our primary focus is on improving health care systems by simplifying the administrative components of health care delivery, promoting evidence-based medicine as the standard for care, and providing relevant, actionable data that physicians, health care providers, consumers, employers and other participants in health care can use to make better, more informed decisions. Through our diversified family of businesses, we leverage core competencies in advanced technology-based transactional capabilities; health care data, knowledge and information; and health care resource organization and care facilitation to improve access to health and well-being services, simplify the health care experience, promote quality and make health care more affordable.

Our revenues are derived from premium revenues on risk-based products; fees from management, administrative, technology and consulting services; sales of a wide variety of products and services related to the broad health and well-being industry; and, investment and other income. We conduct our business primarily through operating divisions in the following business segments:

Uniprise;

Health Care Services, which includes our UnitedHealthcare, Ovations and AmeriChoice businesses;

Specialized Care Services; and

Ingenix.

Uniprise delivers health care and well-being services nationwide to large national employers, individual consumers and other health care organizations through three related business units: Uniprise Strategic Solutions (USS), Definity Health and Exante Financial Services (Exante). Each business unit works with other UnitedHealth Group businesses to deliver a complementary and integrated array of services. USS delivers strategic health and well-being solutions to large national employers. Definity Health provides consumer-driven health plans and services to employers and their employees. As of December 31, 2005, USS and Definity Health served approximately 10.5 million individuals. Exante delivers health care-focused financial services for consumers, employers and providers. Most Uniprise products and services are delivered through its affiliates. Uniprise provides administrative and customer care services for certain other businesses of UnitedHealth Group. Uniprise also offers transactional processing services to various intermediaries and health care entities.

Our Health Care Services segment consists of our UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare offers a comprehensive array of consumer-oriented health benefit plans and services for small and mid-sized employers and individuals nationwide. Ovations provides health and well-being services for individuals age 50 and older, addressing their unique needs for preventative and acute health care services as well as for services dealing with chronic disease and other specialized issues for older individuals. Ovations is one of few enterprises fully dedicated to this market segment, providing products and services in all 50 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands, Guam and the Northern Mariana Islands through affiliates. Ovations' wide array of products and services includes Medicare Supplement and Medicare Advantage health benefit coverage, and stand-alone prescription drug coverage and prescription drug discount cards, as well as disease management and chronic care programs. AmeriChoice provides network-based health and well-being services to beneficiaries of state Medicaid, Children's Health Insurance Programs, and other government-sponsored health care programs through its affiliates.



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Our Specialized Care Services companies (SCS companies) offer a comprehensive platform of specialty health and wellness and ancillary benefits, services and resources to specific customer markets nationwide. These products and services include employee benefit offerings, provider networks and related resources focusing on behavioral health and substance abuse, dental, vision, disease management, complex and chronic illness and care facilitation. The SCS companies also offer solutions in the areas of complementary and alternative care, employee assistance, short-term and long-term disability, life insurance, work/life balance and health-related information. These services are designed to simplify the consumer health care experience and facilitate efficient health care delivery.

Ingenix offers database and data management services, software products, publications, consulting services, outsourced services and pharmaceutical development and consulting services on a nationwide and international basis. Ingenix's customers include more than 3,000 hospitals, 250,000 physicians, 2,000 payers and intermediaries, more than 150 *Fortune* 500 companies, and more than 180 pharmaceutical and biotechnology companies, as well as other UnitedHealth Group businesses. Ingenix is engaged in the simplification of health care administration by providing products and services that help customers accurately and efficiently document, code and bill for reimbursement for the delivery of care services. Ingenix is a leader in contract research services, medical education services, publications, and pharmacoeconomics, outcomes, safety and epidemiology research through its i3 businesses.

On December 20, 2005 we acquired PacifiCare Health Systems, Inc. PacifiCare offers managed care and other health insurance products to employer groups, individuals and Medicare beneficiaries, with approximately 3.1 million health plan members, including 2.4 million commercial members and 750,000 senior members, and approximately 12 million specialty plan members nationwide. PacifiCare's commercial and senior plans are primarily offered in the Western United States and are designed to deliver quality health care and customer service cost-effectively. PacifiCare operates one of the largest Medicare Advantage programs in the United States as measured by membership under its Secure Horizons brand. PacifiCare's specialty plan operations include behavioral health, dental, vision and complete pharmacy benefit management services, through its subsidiary Prescription Solutions.

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.

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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, the 2011 notes, the 2016 notes and the 2036 notes as separate series under such senior indenture. Each series of notes will also be issued under and be 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 floating rate notes due March 2, 2009, the 2011 notes are designated as our 5.250% notes due March 15, 2011, the 2016 notes are designated as our 5.375% notes due March 15, 2016 and the 2036 notes are designated as our 5.800% notes due March 15, 2036. The notes are initially limited in aggregate principal amount to \$650,000,000 for the 2009 notes, \$750,000,000 for the 2011 notes, \$750,000,000 for the 2016 notes and \$850,000,000 for the 2036 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 any 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 March 2, 2009. The 2011 notes will mature and become due and payable, together with any accrued and unpaid interest, on March 15, 2011. The 2016 notes will mature and become due and payable, together with any accrued and unpaid interest, on March 15, 2016. The 2036 notes will mature and become due and payable, together with any accrued and unpaid interest, on March 15, 2036. We may redeem any series of fixed rate notes at our option at any time, either in whole or in part, but we cannot redeem the 2009 notes before they mature. See "Redemption" below.

The interest payable by us on a note on any interest payment date, subject to certain exceptions, will be paid to the person in whose name the note is registered at the close of business on the applicable record date, whether or not a business day, immediately preceding the interest

payment date.

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The 2009 notes will bear interest at a rate per annum, reset quarterly, equal to LIBOR (as defined below) plus 0.08%, as determined by the calculation agent. The Bank of New York will initially act as the calculation agent for the 2009 notes. We will pay interest on the 2009 notes quarterly on each March 2, June 2, September 2 and December 2, and on the maturity date. The first interest payment date will be June 2, 2006. The regular record dates for payments of interest are the February 15, May 18, August 18 and November 17 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 for the actual number of days elapsed.

Interest on the 2009 notes will accrue from, and including, March 2, 2006, to, and excluding, the first interest payment date and then from, and including, the immediately preceding interest payment date to which interest has been paid or duly provided for to, but excluding, the next interest payment date. We will refer to each of these periods as an interest period. The amount of accrued interest that we will pay on a 2009 note for any interest period can be calculated by multiplying the face amount of the 2009 note by an accrued interest factor. This accrued interest factor is computed by adding the interest factor calculated for each day from March 2, 2006, or from the last date we paid interest to you, to the date for which accrued interest is being calculated. The interest factor for each day is computed by dividing the interest rate applicable to that day by 360.

All percentages resulting from any of the above calculations will be rounded, if necessary, to the nearest one hundred-thousandth of a percentage point, with five one-millionths of a percentage point rounded upwards (*e.g.*, 9.876545% (or .09876545) being rounded to 9.87655% (or .0987655)) and all dollar amounts used in or resulting from such calculations will be rounded to the nearest cent (with one-half cent being rounded upwards).

The calculation agent will set the initial interest rate for the 2009 notes on March 2, 2006, and will reset the interest rate on each interest payment date, each of which we will refer to as an interest reset date. The second London business day preceding an interest reset date will be the interest determination date for that interest reset date. The interest rate in effect on each day that is not an interest reset date will be the interest rate determined as of the interest determination date pertaining to the immediately preceding interest reset date. The interest rate in effect on any day that is an interest reset date will be the interest rate determined as of the interest determination date pertaining to that interest reset date.

LIBOR, with respect to an interest period, will be the rate (expressed as a percentage per annum) for deposits in U.S. dollars having a three-month maturity that appears on Telerate Page 3750 at approximately 11:00 a.m., London time, on the interest determination date. If on an interest determination date, such rate does not appear on Telerate Page 3750 at such time, or if the Telerate Page 3750 is not available on such date, the calculation agent will obtain such rate from Bloomberg's page BBAM. If such rate does not appear on Telerate Page 3750 or Bloomberg L.P. page BBAM on an interest determination date at approximately 11:00 a.m., London time, then the calculation agent will request the principal London office of each of four major banks in the London interbank market, as selected by the calculation agent, to provide a quotation of the rate (expressed as a percentage per annum) offered by it to prime banks in the London interbank market for three month deposits in U.S. dollars in a principal amount of at least \$1,000,000 at approximately 11:00 a.m., London time, on such interest determination date. If at least two such offered quotations are so provided, the rate for the interest period will be arithmetic mean of such quotations. If fewer than two such quotations are so provided, the calculation agent will request each of three major banks in New York City, as selected by the calculation agent, to provide a quotation of the rate (expressed as a percentage per annum), offered by it for loans in U.S. dollars to leading European banks having a three-month maturity in a principal amount of at least \$1,000,000 at approximately 11:00 a.m., New York City time, on such interest determination date. If at least two such rates are so provided, the rate for the interest period will be the arithmetic mean of such rates. If fewer than two such rates are so provided, then the rate for the interest period will be the rate in effect with respect to the immediately preceding interest period.

London business day means any day on which dealings in United States dollars are transacted in the London interbank market.



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Telerate Page 3750 means the display designated as Page 3750 on the Moneyline Telerate service, or any successor service (or such other page as may replace Page 3750 on that service), for the purpose of displaying the London interbank rates of major banks for United States dollars.

The interest rate on the 2009 notes will in no event be higher than the maximum rate permitted by New York law as the same may be modified by United States law of general application.

The calculation agent will, upon the request of any holder of 2009 notes, provide the interest rate then in effect with respect to the floating rate notes. All calculations of the calculation agent, in the absence of manifest error, will be conclusive for all purposes and binding on us and the holders of the 2009 notes. We may appoint a successor calculation agent with the written consent of the trustee under the senior indenture, which consent shall not be unreasonably withheld.

The 2011 notes will bear interest at the annual rate set forth in their title from March 2, 2006 or from the most recent interest payment date on which we paid or provided for interest on the 2011 notes until their principal is paid. We will pay interest on the 2011 notes semi-annually on each March 15 and September 15. The first interest payment date will be September 15, 2006. The regular record dates for payments of interest are the March 1 or September 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 2016 notes will bear interest at the annual rate set forth in their title from March 2, 2006 or from the most recent interest payment date on which we paid or provided for interest on the 2016 notes until their principal is paid. We will pay interest on the 2016 notes semi-annually on each March 15 and September 15. The first interest payment date will be September 15, 2006. The regular record dates for payments of interest are the March 1 or September 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 2036 notes will bear interest at the annual rate set forth in their title from March 2, 2006 or from the most recent interest payment date on which we paid or provided for interest on the 2036 notes until their principal is paid. We will pay interest on the 2036 notes semi-annually on each March 15 and September 15. The first interest payment date will be September 15, 2006. The regular record dates for payments of interest are the March 1 or September 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, provided that, with respect to the 2009 notes, the day is also a London business day.

## **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.

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### **Book-Entry Issuance**

DTC will act as securities depository for the notes. The 2009 notes, the 2011 notes, the 2016 notes and the 2036 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**

We cannot redeem the 2009 notes before they mature.

At our option, we may redeem any series of fixed rate 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 any series of fixed rate 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 15 basis points for the 2011 notes, 15 basis points for the 2016 notes or 25 basis points for the 2036 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 semiannual 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 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.

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Independent Investment Banker means either of J.P. Morgan Securities Inc. or Citigroup Global Markets Inc. 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) either of J.P. Morgan Securities Inc. or Citigroup Global Markets Inc. 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, either of J.P. Morgan

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Securities Inc. or Citigroup Global Markets Inc. , provided, however, that if J.P. Morgan Securities Inc. or Citigroup Global Markets Inc. 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 any 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.

No 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.

## **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.

**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 the notes indicated in the following table.

<b>Underwriters</b>	<b>Principal Amount of 2009 Notes</b>	<b>Principal Amount of 2011 Notes</b>	<b>Principal Amount of 2016 Notes</b>	<b>Principal Amount of 2036 Notes</b>
Citigroup Global Markets Inc.	\$ 162,500,000	\$ 187,500,000	\$ 187,500,000	\$ 212,500,000
J.P. Morgan Securities Inc.	\$ 162,500,000	\$ 187,500,000	\$ 187,500,000	\$ 212,500,000
Goldman, Sachs & Co.	\$ 70,850,000	\$ 81,750,000	\$ 81,750,000	\$ 92,650,000
Banc of America Securities LLC	\$ 35,555,000	\$ 41,025,000	\$ 41,025,000	\$ 46,495,000
Deutsche Bank Securities Inc.	\$ 35,555,000	\$ 41,025,000	\$ 41,025,000	\$ 46,495,000
Wachovia Capital Markets, LLC	\$ 35,555,000	\$ 41,025,000	\$ 41,025,000	\$ 46,495,000
Wells Fargo Brokerage Services, LLC	\$ 35,555,000	\$ 41,025,000	\$ 41,025,000	\$ 46,495,000
BNY Capital Markets, Inc.	\$ 13,000,000	\$ 15,000,000	\$ 15,000,000	\$ 17,000,000
KeyBanc Capital Markets, A Division of McDonald Investment Inc.	\$	\$	\$ 15,000,000	\$ 17,000,000
	13,000,000	15,000,000		
Lazard Capital Markets LLC	\$ 13,000,000	\$ 15,000,000	\$ 15,000,000	\$ 17,000,000
Lehman Brothers Inc.	\$ 13,000,000	\$ 15,000,000	\$ 15,000,000	\$ 17,000,000
Merrill Lynch, Pierce, Fenner & Smith Incorporated	\$ 13,000,000	\$ 15,000,000	\$ 15,000,000	\$ 17,000,000
Piper Jaffray & Co.	\$ 13,000,000	\$ 15,000,000	\$ 15,000,000	\$ 17,000,000
BB&T Capital Markets, a division of Scott and Stringfellow, Inc.	\$	\$	\$ 4,350,000	\$ 4,930,000
	3,770,000	4,350,000		
Fifth Third Securities, Inc.	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
Greenwich Capital Markets, Inc.	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
LaSalle Financial Services, Inc.	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
Mellon Financial Markets, LLC	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
Morgan Keegan & Company, Inc.	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
NatCity Investments, Inc.	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
PNC Capital Markets LLC	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
The Williams Capital Group, L.P.	\$ 3,770,000	\$ 4,350,000	\$ 4,350,000	\$ 4,930,000
<b>Total</b>	<b>\$ 650,000,000</b>	<b>\$ 750,000,000</b>	<b>\$ 750,000,000</b>	<b>\$ 850,000,000</b>

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 0.200% of the principal amount of each 2009 note, 0.350% of the principal amount of each 2011 note, 0.400% of the principal amount of each 2016 note, and 0.500% of the principal amount of each 2036 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 0.025%, 0.225%, 0.250% or 0.250%, respectively of the principal amount of the notes. After the initial offering of the notes, the underwriters may change the offering prices.

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Each series of notes is 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 all 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 any series of the notes.

In connection with this offering, the underwriters may purchase and sell any 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.

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The underwriters also may impose a penalty bid. This occurs when a particular underwriter repays to the other underwriters a portion of the underwriting discount received by it because the other underwriters 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 any series of the notes. As a result, the price of any 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 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 \$1.3 million.

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., J.P.Morgan Securities Inc., Banc of America Securities LLC, BB&T Capital Markets, a division of Scott and Stringfellow, Inc., BNY Capital Markets, Inc., Deutsche Bank Securities Inc., Fifth Third Securities, Inc., Goldman, Sachs & Co., Greenwich Capital Markets, Inc., KeyBanc Capital Markets, A Division of McDonald Investment Inc., LaSalle Financial Services, Inc., Lehman Brothers Inc., Mellon Financial Markets, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, Morgan Keegan & Company, Inc., NatCity Investments, Inc., PNC Capital Markets LLC, Wachovia Capital Markets, LLC and Wells Fargo Brokerage Services, LLC are lenders under our revolving credit facilities. Each of these parties has received and will receive customary fees under the revolving credit facilities. In addition, each of Lazard Capital Markets LLC, Piper Jaffray & Co. and The Williams Capital Group, L.P. have agreements with lenders (or an affiliate of a lender) under our revolving credit facilities for the provision of advisory and/or other services, including services with respect to this offering, in exchange for a mutually agreed-upon fee payable to these lenders (or their affiliates). These lenders have also received and will receive customary fees under our revolving credit facilities.

## **LEGAL MATTERS**

The validity of the notes will be passed upon by UnitedHealth Group Incorporated's General Counsel, David J. Lubben. Certain legal matters in connection with the notes will be passed upon for the underwriters by Simpson Thacher & Bartlett LLP, New York, New York.

## **EXPERTS**

The consolidated financial statements and management's report on the effectiveness of internal control over financial reporting incorporated in this prospectus supplement by reference to our Annual Report on Form 10-K for the year ended December 31, 2005 have been audited by Deloitte & Touche LLP, an independent registered public accounting firm, as stated in their reports, which are incorporated herein by reference, and have been so incorporated in reliance upon the reports of such firm given upon their authority as experts in accounting and auditing.



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PROSPECTUS

**UNITEDHEALTH GROUP INCORPORATED**

**UnitedHealth Group Center**

**9900 Bren Road East**

**Minnetonka, Minnesota 55343**

**(952) 936-1300**

**\$4,000,000,000**

**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**

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

**UnitedHealth Group Incorporated**

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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.

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See **Risk Factors** beginning on page 5 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 October 13, 2005.

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**ABOUT THIS PROSPECTUS**

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

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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, 2004;

Quarterly reports on Form 10-Q for the quarters ended March 31, 2005 and June 30, 2005;

Current Reports on Form 8-K dated February 2, 2005, March 2, 2005, May 24, 2005 and July 6, 2005; 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 and 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 are included in this prospectus and 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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**UNITEDHEALTH GROUP**

We are a diversified health and well-being company, serving more than 55 million Americans. We are focused on improving the health care system and how it works for multiple, distinct constituencies. We provide individuals with access to quality, cost-effective health care services and resources through more than 460,000 physicians and other care providers, and 4,200 hospitals across the United States. We manage approximately \$60 billion in aggregate annual health care spending on behalf of more than 250,000 employer-customers and the consumers we serve. Our primary focus is on improving health care systems by simplifying the administrative components of health care delivery, promoting evidence-based medicine as the standard for care, and providing relevant, actionable data that physicians, health care providers, consumers, employers and other participants in health care can use to make better, more informed decisions. We have developed our business around the principles of physician-centered health care that is supported by data-driven care facilitation and management resources. This approach works to ensure access through all clinical situations, improve outcomes and enhance affordability.

Our revenues are derived from premium revenues on risk-based products, fees from management, administrative, technology, and consulting services, sales of a wide variety of products and services related to the broad health and well-being industry and investment and other income. We conduct our business primarily through operating divisions in the following business segments:

Uniprise;

Health Care Services, which includes our UnitedHealthcare, Ovations and AmeriChoice businesses;

Specialized Care Services; and

Ingenix.

Uniprise delivers health care and well-being services nationwide to large national employers, individual consumers and other health care organizations through three related business units: Uniprise Strategic Solutions, which is referred to as USS, Definity Health and Exante Financial Services. Each business unit works with our other businesses to deliver a complementary and integrated array of services. USS delivers strategic health and well-being solutions to large national employers. Definity Health provides consumer-driven health plans and services to employers and their employees. Exante delivers health care focused financial services for consumers, employers and providers. Most Uniprise products and services are delivered through its licensed affiliates. Uniprise provides administrative and customer care services for certain of our other businesses. Uniprise also offers transactional processing services to various intermediaries and health care entities.

Our Health Care Services segment consists of the UnitedHealthcare, Ovations and AmeriChoice businesses. UnitedHealthcare offers a comprehensive array of consumer-oriented health benefit plans and services for local, small and mid-sized employers and individuals nationwide. Ovations provides health and well-being services for individuals age 50 and older, addressing their unique needs for preventative and acute health care services, as well as for services dealing with chronic disease and other specialized issues for older individuals. Ovations wide array of offerings and products includes Medicare Supplement and Medicare Advantage coverage and prescription discount cards, as well as disease management and chronic care capabilities. AmeriChoice provides network-based health and well-being services to state Medicaid, Children's Health Insurance Program, and other government-sponsored health care programs and the beneficiaries of those programs.

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The Specialized Care Services companies, which are referred to as SCS companies, offer a comprehensive platform of specialty health and wellness and ancillary benefits, services and resources to specific customer markets nationwide. These products and services include employee benefit offerings, provider networks and related resources focusing on behavioral health and substance abuse, dental, vision, disease management, complex and chronic illness and care facilitation. The SCS companies also offer solutions in the areas of

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complementary and alternative care, employee assistance, short-term disability, life insurance, work life balance and health-related information. These services are designed to simplify the consumer health care experience and facilitate efficient health care delivery.

Ingenix offers database and data management services, software products, publications, consulting services, outsourced services and pharmaceutical services on a nationwide and international basis. Ingenix is engaged in the simplification of health care administration by providing products and services that help customers correctly and efficiently document, code and bill for reimbursement for the delivery of care services. Ingenix is a leader in clinical research, health education services, publications, and pharmacoconomics, outcomes, safety and epidemiology research through its i3 Research and i3 Magnifi businesses.

On July 6, 2005, we, Point Acquisition LLC, a Delaware limited liability company and our direct wholly owned subsidiary, and PacifiCare Health Systems, Inc., a Delaware corporation, entered into an Agreement and Plan of Merger, referred to as the merger agreement. The merger agreement provides that, upon the terms and subject to the conditions set forth in the merger agreement, PacifiCare will merge with and into Point Acquisition, with Point Acquisition continuing as the surviving entity in the merger.

At the effective time of the merger, each issued and outstanding share of PacifiCare common stock (other than shares owned by PacifiCare (as treasury stock or otherwise), which shares will be cancelled, and other than shares with respect to which appraisal rights under Delaware law have been perfected) will be converted into the right to receive (i) 1.1 shares of UnitedHealth Group common stock, and (ii) \$21.50 in cash, on the terms specified in the merger agreement.

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**RISK FACTORS**

**Risk Related to Our Business**

**We must effectively manage our health care costs.**

Under our risk-based product arrangements, we assume the risk of both medical and administrative costs for our customers in return for monthly premiums. Premium revenues from risk-based products (excluding AARP) have typically comprised approximately 75% to 80% of our total consolidated revenues. We generally use approximately 80% to 85% of our premium revenues to pay the costs of health care services delivered to these customers. 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 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 and technology, new mandated benefits or other regulatory changes, insured population characteristics and seasonal changes in the level of health care use. As a measure of the impact of medical cost on our financial results, 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 1 percent without a proportional change in related revenues for our commercial insured products, our annual net earnings for 2004 would have been reduced by approximately \$105 million. In addition, the financial results we report for any particular period include estimates of costs that have been incurred for which we have not received the underlying claims or for which we have received the claims but not yet processed them. If these estimates prove too high or too low, the effect of the change in estimate will be included in future results. That change can be either positive or negative to our results.

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

Our businesses compete throughout the United States and face competition in all of the geographic markets in which they operate. For our Uniprise and Health Care Services segments, competitors include Aetna Inc., Cigna Corporation, Coventry Health Care, Inc., Humana Inc., WellChoice, Inc., and WellPoint, Inc., 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 segments also compete with a number of businesses. The addition of new competitors for at least the short-term can occur relatively easily, and customers enjoy significant flexibility in moving between competitors. In particular markets, competitors 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 to our businesses or to their competitors. In addition, significant merger and acquisition activity has occurred in the industries in which we operate, both as to our competitors and suppliers in these industries. Consolidation may make it more difficult for us to retain or increase customers, to improve the terms on which we do business with our suppliers, or to maintain or advance profitability.

**Our relationship with AARP is important.**

Under our 10-year contract with AARP, which commenced in 1998, we provide Medicare supplement and hospital indemnity health insurance and other products to AARP members. As of June 30, 2005, our portion of AARP's insurance program represented approximately \$4.7 billion in

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annual net premium revenue from approximately 3.8 million AARP members. The AARP contract may be terminated early by us or AARP under

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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 competitively, and respond effectively to federal and state regulatory changes.

### **The favorable and unfavorable effects of changes in Medicare are uncertain.**

The Medicare changes being implemented as a result of the Medicare Modernization Act of 2003 are complex and wide-ranging. There are numerous changes that will influence our business. We have invested considerable resources analyzing how to best address uncertainties and risks associated with the changes that may arise. In January 2005, the Centers for Medicare and Medicaid Services (CMS) released detailed regulations on major aspects of the legislation, however, some important requirements related to the implementation of the new product offerings, including the Part D prescription drug benefit and the regional Medicare Advantage Preferred Provider Organizations, have not yet been released by the federal government, thus creating challenges for planning and implementation. We believe the increased funding provided in the legislation will increase the number of competitors in the seniors health services market.

### **Our business is subject to routine 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 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; drug utilization and patient safety efforts; 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 loss of business.

We typically have and are currently involved in various governmental investigations, audits and reviews. These include routine, regular and special investigations, audits and reviews by CMS, state insurance and health and welfare departments and state attorneys general, the Office of

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the Inspector General, the Office of Personnel Management, the Office of Civil Rights, the Department of Justice and U.S. attorneys. Such government actions can result in assessment of damages, civil or criminal fines or penalties, or other sanctions, including restrictions or changes in the way we conduct business, loss of licensure or exclusion from participation in government

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programs. In addition, public perception or publicity surrounding routine governmental investigations may adversely affect our stock price, damage our reputation in various markets or make it difficult for us to sell products and services.

### **Relationships with physicians, hospitals and other health care providers are important to our business.**

We contract with physicians, hospitals, pharmaceutical benefit service providers, pharmaceutical manufacturers, and other health care providers for competitive prices. Our results of operations and prospects are substantially dependent on our continued ability to maintain these competitive 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 litigation risks.**

Periodically, 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 physicians for alleged breaches of federal statutes, including the Employee Retirement Income Security Act of 1974 and the Racketeer Influenced Corrupt Organization Act. In March 2000, the American Medical Association filed a lawsuit against us in connection with the calculation of reasonable and customary reimbursement rates for non-network providers. Although the expenses which we have incurred to date in defending the 1999 class action lawsuits and the American Medical Association lawsuit have not been material to our business, we will continue to incur expenses in the defense of these lawsuits and other matters, even if they are without merit.

The Company is largely self-insured with regard to litigation risks, however, we do maintain excess liability insurance with outside insurance carriers to minimize risks associated with catastrophic claims. Although we believe that we are adequately insured for claims in excess of our self-insurance, 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 on effective information systems and the integrity of the data in our information systems.**

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 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 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.

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### **We have intangible assets, whose values may become impaired.**

Due largely to our recent acquisitions, goodwill and other intangible assets represent a substantial portion of our assets. Goodwill and other intangible assets were approximately \$10.7 billion as of June 30, 2005, representing approximately 38% of our total assets. If we make additional acquisitions, such as our pending acquisitions of PacifiCare and Neighborhood Health Partnership, it is likely that we will record additional intangible assets on our books. We periodically evaluate our goodwill and other intangible assets to determine whether all or a portion of their carrying values may no longer be recoverable, in which case a charge to earnings may be necessary. Any future evaluations requiring an asset impairment of our goodwill and other intangible assets could materially affect our results of operations and shareholders' equity in the period in which the impairment occurs. A material decrease in shareholders' equity could, in turn, negatively impact our debt ratings or potentially impact our compliance with existing debt covenants.

### **We must comply with emerging restrictions on patient privacy and information security, 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 the international, federal and state levels. These laws and rules are changed frequently by legislation or administrative interpretation. Various state laws address the use and disclosure of individually identifiable health data. Most are derived from the privacy and security provisions in the federal Gramm-Leach-Bliley Act and the Health Insurance Portability and Accountability Act of 1996 (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 these proposals, requirements, 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 on our ability to maintain 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 impact 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 benefit programs 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.

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**Risks Associated with the Merger of PacifiCare Health Systems, Inc. (PacifiCare)**

**We and PacifiCare must obtain several governmental consents to complete the merger, which, if delayed, not granted or granted with conditions may jeopardize or postpone the merger, result in additional expense or reduce the anticipated benefits of the transaction.**

We and PacifiCare must obtain specified approvals and consents in a timely manner from federal and state agencies prior to the completion of the merger. We, or the applicable subsidiary of PacifiCare, as the case may be, have filed acquisition of control and other transaction-related filings for approval with California's Department of Managed Health Care and the Insurance Departments of the States of Arizona, California, Colorado, Indiana, Nevada, Oklahoma, Oregon, Texas, Washington, and Wisconsin. If such approvals are not obtained, neither we nor PacifiCare will be obligated to complete the merger. If the parties do not receive these approvals on terms that satisfy the merger agreement, then we will not be obligated to complete the merger. The governmental agencies from which the parties seek approvals have broad discretion in administering relevant laws and regulations. As a condition to approval of the merger, agencies may impose conditions, restrictions, qualifications, requirements or limitations that could negatively affect the way the combined company conducts business or impair the benefits we anticipate the merger will create. We are not obligated to complete the merger if a governmental agency or agencies impose a condition, restriction, qualification, requirement or limitation when it grants the specified approvals and consents which (if implemented) would constitute, or would be reasonably likely to constitute, individually or in the aggregate, a Negative Regulatory Action, as such term is defined in the merger agreement. Any such conditions, restrictions, qualifications, requirements or limitations imposed by one or more agencies could adversely affect our ability to integrate the business of PacifiCare or reduce the anticipated benefits of the merger. The merger also is subject to the requirements of the Hart Scott Rodino Act, which prevents certain acquisitions from being completed until required information and materials are furnished to the Antitrust Division of the Department of Justice and the U.S. Federal Trade Commission and certain waiting periods are terminated or expire.

**The anticipated benefits of acquiring PacifiCare may not be realized.**

We and PacifiCare entered into the merger agreement with the expectation that the merger will result in various benefits including, among others, benefits relating to a stronger and more diverse network of doctors and other health care providers, expanded and enhanced affordable health care services that address the needs of older Americans, enhanced revenues, a strengthened market position for us across the United States, cross selling opportunities, technology, cost savings and operating efficiencies. Achieving the anticipated benefits of the merger is subject to a number of uncertainties, including whether we integrate PacifiCare in an efficient and effective manner, and general competitive factors in the marketplace. Failure to achieve these anticipated benefits could result in increased costs, decreases in the amount of expected revenues and diversion of management's time and energy and could materially impact our business, financial condition and operating results.

**We may have difficulty integrating PacifiCare and may incur substantial costs in connection with the integration.**

Integrating PacifiCare's operations into our operating platform will be a complex, time-consuming and expensive process. Before the merger, we and PacifiCare operated independently, each with our own business, products, customers, employees, culture and systems. We may experience material unanticipated difficulties or expenses in connection with the integration of PacifiCare, especially given the relatively large size of PacifiCare's operations. The time and expense associated with converting the businesses of the combined company to a common platform and negotiating amended or new contracts with physicians, other health care professionals and facilities, as well as other service providers may exceed management's expectations and limit or delay the intended benefits of the transaction. Similarly, the process of combining sales and marketing and network management forces, consolidating administrative functions, and coordinating product and service offerings can take longer, cost more, and provide fewer benefits than initially projected. To the extent any of these events occurs, the benefits of the transaction may be reduced, at least for a period of time.



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We may face substantial difficulties, costs and delays in integrating PacifiCare. These factors may include:

retaining and integrating management and other key employees of the combined company;

costs and delays in implementing common systems and procedures;

perceived adverse changes in product offerings available to customers or customer service standards, whether or not these changes do, in fact, occur;

potential charges to earnings resulting from the application of purchase accounting to the transaction;

difficulty comparing financial reports due to differing management systems;

diversion of management resources from the business of the combined company;

retention of PacifiCare's provider networks;

difficulty in retaining existing customers of each company; and

reduction or loss of customer sales due to the potential for market confusion, hesitation and delay.

After the merger, we may seek to combine certain operations and functions using common information and communication systems, operating procedures, financial controls and human resource practices, including training, professional development and benefit programs. We may be unsuccessful in implementing the integration of these systems and processes. Any one or all of these factors may cause increased operating costs, worse than anticipated financial performance or the loss of customers and employees. Many of these factors are also outside the control of either company.

### **Risks Related to Our Securities**

**Our board of directors has the power to issue series of preferred stock and to designate the rights and preferences of those series, which could adversely affect the voting power, dividend, liquidation and other rights of holders of our common stock.**

Under our certificate of incorporation, our board of directors has the power to issue series of preferred stock and to designate the rights and preferences of those series. Therefore, our board of directors may designate a new series of preferred stock with the rights, preferences and privileges that the board of directors deems appropriate, including special dividend, liquidation and voting rights. The creation and designation of a new series of preferred stock could adversely affect the voting power, dividend, liquidation and other rights of holders of our common stock and, possibly, any other class or series of stock that is then in existence.

**Except for our common stock, there is no public market for the securities that we may offer using this prospectus.**

Except for our common stock, no public market exists for the securities that we may offer using this prospectus, and we cannot assure the liquidity of any market that may develop, the ability of the holders of the securities to sell their securities or the price at which the securities may be sold. Our common stock is traded on the New York Stock Exchange. We do not intend to apply for listing of any other securities that we may offer using this prospectus on any securities exchange or for quotation through the NASDAQ system. Future trading prices of the securities will depend on many factors including, among others, prevailing interests rates, our operating results and the market for similar securities.

**Table of Contents****SELECTED CONSOLIDATED FINANCIAL DATA**

The following table summarizes selected historical consolidated financial data of UnitedHealth Group which should be read in conjunction with the consolidated financial statements of UnitedHealth Group, and the notes thereto, included as part of our Annual Report on Form 10-K for the fiscal year ended December 31, 2004 incorporated by reference into this Prospectus. The financial data for the five years ended December 31, 2004 has been derived from our audited consolidated financial statements. The financial data as of and for the six months ended June 30, 2005 and 2004 has been derived from the unaudited condensed consolidated financial statements of UnitedHealth Group included as part of our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2005 incorporated by reference into this Prospectus. In the opinion of our management, all adjustments, consisting of only normal recurring adjustments, necessary for a fair presentation of the financial data for the six months ended June 30, 2005 and 2004 have been reflected therein. Operating results for the six months ended June 30, 2005 are not necessarily indicative of the results that may be expected for the full year. A two-for-one split of UnitedHealth Group's common stock was effective as of May 27, 2005. All per share calculations reflect the two-for-one common stock split.

(In millions, except per share data)	For the Six Months Ended June 30, (unaudited)		For the Year Ended December 31,				
	2005	2004 <sup>(1)</sup>	2004 <sup>(1)</sup>	2003	2002	2001	2000
<b>Consolidated Operating Results:</b>							
Revenues	\$ 21,998	\$ 16,848	\$ 37,218	\$ 28,823	\$ 25,020	\$ 23,454	\$ 21,122
Earnings From Operations	\$ 2,566	\$ 1,821	\$ 4,101	\$ 2,935	\$ 2,186	\$ 1,566	\$ 1,200
Net Earnings	\$ 1,588	\$ 1,150	\$				(In Thousands)

**Derivatives designated as hedging instruments under Statement 133**

March 31, 2009			Other liabilities	\$			
December 31, 2008			Other liabilities	\$	2		

**Derivatives not designated as hedging instruments under Statement 133**

March 31, 2009	Other assets	\$2,487	Other liabilities	\$2,487			
December 31, 2008	Other assets	\$1,797	Other liabilities	\$1,797			

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The location and amount of gains and losses reported in the consolidated statements of income for the three months ended March 31, 2009 and 2008 are as follows:

For the three months ended March 31, 2009					
Instrument	Amount Recognized in		Amount reclassified from		Amount of Gain/(Loss) Recorded
	Other Comprehensive Income on Derivative Gain/(Loss) <i>Effective Portion</i>	Income Statement Location <i>Effective Portion</i>	Other Comprehensive Income <i>Effective Portion</i>	Income Statement Location <i>Ineffective Portion</i>	
			(In Thousands)		
Interest rate swaps -133	\$(1)	Interest expense	\$ (3)	N/A	\$
Interest rate swaps	\$	N/A	\$	Other noninterest income	\$ 690
Interest rate swaps	\$	N/A	\$	Other noninterest income	\$ (467)

For the three months ended March 31, 2008					
Instrument	Amount Recognized in		Amount reclassified from		Amount of Gain/(Loss) Recorded
	Other Comprehensive Income on Derivative Gain/(Loss) <i>Effective Portion</i>	Income Statement Location <i>Effective Portion</i>	Other Comprehensive Income <i>Effective Portion</i>	Income Statement Location <i>Ineffective Portion</i>	
			(In Thousands)		
Interest rate swaps -133		Interest expense		N/A	\$

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

### General

You should read the following discussion together with the Corporation's unaudited consolidated financial statements and related notes to unaudited consolidated financial statements, which are included elsewhere in this Report. The following discussion contains forward-looking statements that reflect plans, estimates and beliefs. When used in written documents or oral statements, the words anticipate, believe, estimate, expect, objective and similar expressions and verbs in the future tense are intended to identify forward-looking statements. The statements contained herein and such future statements involve or may involve certain assumptions, risks, and uncertainties, many of which are beyond the Corporation's control, which could cause actual results to differ materially from those discussed in the forward-looking statements. The forward-looking statements included in this Report are only made as of the date of its

filing, and the Corporation undertakes no obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

Forward-looking statements may also be made by the Corporation from time to time in other reports and documents as well as oral presentations. In addition to the assumptions and other factors referenced specifically in connection with such statements, the following factors could impact the business and financial prospects of the Corporation: general economic conditions; legislative and regulatory initiatives;

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increased competition and other effects of deregulation and consolidation of the financial services industry; monetary and fiscal policies of the federal government; deposit flows; disintermediation; the cost and availability of funds; general market rates of interest; interest rates or investment returns on competing investments; demand for loan products; demand for financial services; changes in accounting policies or guidelines; acts of terrorism and developments in the war on terrorism; and changes in the quality or composition of loan and investment portfolios. See also **Item 1A. Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2008 and factors regarding future operations listed below.

Unless otherwise indicated or unless the context requires otherwise, all references in this Report to First Business Financial Services, the Corporation, FBFS, we, us, our, or similar references mean First Business Financial Services, Inc. together with our subsidiaries. First Business Bank or First Business Bank Milwaukee or the Banks are used to refer to our subsidiaries, First Business Bank and First Business Bank Milwaukee, alone.

**Overview**

FBFS is a registered bank holding company incorporated under the laws of the State of Wisconsin and is engaged in the commercial banking business through its wholly-owned banking subsidiaries, First Business Bank and First Business Bank Milwaukee. All of the operations of FBFS are conducted through the Banks and certain subsidiaries of First Business Bank. The Corporation operates as a business bank focusing on delivering a full line of commercial banking products and services tailored to meet the specific needs of small and medium sized businesses, business owners, executives, professionals and high net worth individuals. The Corporation does not utilize its locations to attract retail customers.

**General Overview**

Total assets were \$1.03 billion as of March 31, 2009 compared to \$1.01 billion as of December 31, 2008.

Net loss for the three months ended March 31, 2009 was \$193,000 compared to net income of \$770,000 for the three months ended March 31, 2008.

Net interest margin decreased slightly to 2.65% for the three months ended March 31, 2009 from 2.67% for the three months ended March 31, 2008.

Top line revenue increased 12.5% to \$8.1 million for the three months ended March 31, 2009 compared to \$7.2 million for the comparable period of the prior year.

Loan and lease loss provision was \$2.2 million for the three months ended March 31, 2009 compared to \$553,000 for same time period in the prior year. Allowance for loan and lease loss as a percentage of total loans was 1.50% at March 31, 2009 compared to 1.39% at December 31, 2008.

Diluted losses per share were \$0.08 compared to diluted earnings per share of \$0.31 for the three months ended March 31, 2008.

Annualized return on average equity and return on average assets was (1.43)% and (0.08)%, respectively for the three month period ended March 31, 2009, compared to 6.17% and 0.33%, respectively, for the same time period in 2008.

We elected not to participate in the U.S. Troubled Asset Relief Program Capital Purchase Program.

**Results of Operations****Top Line Revenue**

Top line revenue is comprised of net interest income and non-interest income. This measurement is also commonly referred to as operating revenue. Top line revenue grew 12.5% for the three months ended March 31, 2009 over the same period in the prior year. The components of top line revenue were as follows:



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	For the Three Months Ended March 31,		
	2009	2008	Change
	(Dollars In Thousands)		
Net interest income	\$ 6,488	\$ 6,062	7.0%
Non-interest income	1,562	1,092	43.0
Total top line revenue	\$ 8,050	\$ 7,154	12.5

**Adjusted Net Income**

Adjusted net income is comprised of our net income (loss) as presented under generally accepted accounting principles (GAAP) adjusted for the after tax effects of the provision for loan and lease losses and actual net charge-offs incurred during the year. Historically, we have experienced significant organic growth in our loan and lease portfolio. As a result of this organic growth and the need for an additional provision for loan and lease losses required to support the increased inherent risk associated with a growing portfolio, we adjust our GAAP net income by adding back the after tax effects of the provision for loan and lease losses and reducing GAAP net income (loss) by the related after tax net charge-off activities to allow our management to better analyze the growth of our earnings, including a comparison to our benchmark peers. Institutions with different loan and lease growth rates may not have comparable provisions for loan and lease loss amounts and net charge-off activity. Due to increased loan charge-off activity in the first three months of 2009, our adjusted net income has declined by 51.9% for the three months ended March 31, 2009 compared to the comparable period of the prior year. In our judgment, presenting net income excluding the after tax effects of the provision for loan and lease losses and actual net charge-offs allows investors to trend, analyze and benchmark our results of operations in a more meaningful manner. Adjusted net income is a non-GAAP financial measure that does not represent and should not be considered as an alternative to net income derived in accordance with GAAP.

A reconciliation of net income to adjusted net income is as follows:

	For the Three Months Ended March 31,		
	2009	2008	Change
	(Dollars In Thousands)		
Net income (loss), presented under US GAAP	\$ (193)	\$ 770	(125.1)%
Add back:			
Provision for loan and lease losses, after tax	1,335	336	297.3
Less:			
Net charge-offs, after tax	674	133	406.7
Adjusted net income	\$ 468	\$ 973	(51.9)

**Return on Equity**

We view return on equity to be an important measurement to monitor profitability and we are continuing to focus on improving our return on equity throughout 2009 by enhancing the overall profitability of our client relationships, controlling our expenses and minimizing our costs of credit. Return on equity for the three months ended March 31, 2009 was (1.43)%, compared to 6.17% for the three months ended March 31, 2008. The decrease in return on equity from the comparable periods of the prior year is primarily attributable to the decrease in net income which was caused by increased costs of credit including provision for loan and lease losses and collateral liquidation costs among other factors discussed in the Quarterly Report on Form 10-Q.

**Net Interest Income.** Net interest income depends on the amounts of and yields on interest-earning assets as compared to the amounts of and rates on interest-bearing liabilities. Net interest income is sensitive to

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changes in market rates of interest and the asset/liability management procedures used by management in responding to such changes.

Net interest income was \$6.5 million for the three months ended March 31, 2009, an increase of 7.0% from the same period in 2008. The increase in net interest income was primarily caused by the increased interest rate spread on our interest earning asset and interest bearing liability portfolios and an increase in interest earning assets of 7.9%. The net interest spread for the three months ended March 31, 2009 was 2.41% compared to 2.33% for the three months ended March 31, 2008. We have been successful in increasing the spread of our rate sensitive portfolio through implementation and utilization of interest rate floors on our variable rate loan products and through managed pricing on our deposit products.

The table below provides information with respect to (1) the effect on interest income attributable to changes in rate (changes in rate multiplied by prior volume), (2) the effect on interest income attributable to changes in volume (changes in volume multiplied by prior rate) and (3) the changes in rate/volume (changes in rate multiplied by changes in volume) for the three months ended March 31, 2009, compared to the same period of 2008.

	Rate	Volume (In Thousands)	Rate/ Volume	Net
<b>Interest-Earning Assets</b>				
Commercial real estate and other mortgage loans	\$(1,630)	\$ 714	\$ (130)	\$(1,046)
Commercial and industrial loans	(571)	197	(26)	(400)
Leases	(5)	27		22
Consumer loans	(22)	6		(16)
Total loans and leases receivable	(2,228)	944	(156)	(1,440)
Mortgage-related securities	(6)	138		132
Investment securities		(9)		(9)
Federal Home Loan Bank Stock				
Fed funds sold	(21)	(2)	2	(21)
Short-term investments	(16)	44	(38)	(10)
Total net change in income on interest-earning assets	(2,271)	1,115	(192)	(1,348)
<b>Interest-Bearing Liabilities</b>				
NOW accounts	(364)	(99)	83	(380)
Money market	(607)	123	(71)	(555)
Certificates of deposit	(275)	469	(163)	31
Brokered certificates of deposit	(964)	369	(62)	(657)
Total deposits	(2,210)	862	(213)	(1,561)
Junior subordinated notes	274	274	(274)	274
FHLB advances	(37)	(200)	17	(220)
Other borrowings	(269)	4	(2)	(267)
Total net change in expense on interest-bearing liabilities	(2,242)	940	(472)	(1,774)
Net change in net interest income	\$ (29)	\$ 175	\$ 280	\$ 426

The yield on earning assets was 5.65% for the three months ended March 31, 2009, a decline of 104 basis points from 6.69% for the three months ended March 31, 2008. The decline in the yield on earning assets is attributable to the loan

and lease portfolio as the yield on our mortgage related securities portfolio is substantially unchanged. Loan yields have been primarily impacted by the declining interest rate environment and the repricing of adjustable rate loans mitigated by the existence of interest rate floors within the terms of the contracts. As of March 31, 2009, approximately 58% of the average loan and lease portfolio had a fixed rate yield while 22% of our loan and lease portfolio contains interest rate floors that will influence the overall yield of the portfolio in a declining rate environment. The existence of the interest rate floors and fixed rate loans provide opportunity to protect the interest income in a falling rate environment. The average prime rate for the three months ended March 31, 2009 was 3.25% compared to 6.21% for the same three month period of 2008.

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The rate on interest-bearing liabilities was 3.24% for the three months ended March 31, 2009, a decrease of 112 basis points from 4.36% for the comparable period of the prior year. Rates on interest-bearing deposits was 3.13% for the three months ended March 31, 2009, a decrease of 114 basis points from 4.27% for the comparable period of the prior year primarily due to the overall declining rate environment although influenced by competitive pricing necessary to retain balances and the impacts of implicit floors on interest-bearing transaction accounts.

The net interest margin decreased slightly to 2.65% for the three months ended March 31, 2009 from 2.67% for the three months ended March 31, 2008. As interest rates decline the contribution of net free funds also declines. The improvement in our net interest spread was offset by the declining value of the net free funds resulting in minimal changes in our net interest margin when comparing the three months ended March 31, 2009 and 2008. Net free funds are non-interest bearing liabilities plus stockholders' equity less non-interest earning assets. Our net free funds are principally non-interest bearing demand deposit accounts and stockholders' equity. We continue to manage the composition and duration of interest-bearing liabilities to limit our exposure to changing interest rates.

Average earning assets increased 7.9% to \$977.7 million for the three months ended March 31, 2009 from \$906.5 million for the three months ended March 31, 2008, with the growth occurring primarily in the loan and lease portfolios. We experienced a strong level of growth in the loan and lease portfolios during the first half of 2008, but have experienced limited growth in the loan and lease portfolios in the first quarter of 2009 as we continue to experience competition for the highest quality loans.

Average interest bearing liabilities increased 8.2% to \$903.2 million for the three months ended March 31, 2009 from \$834.5 million for the comparable period of the prior year, with the growth occurring primarily in our certificates of deposit. Brokered certificates of deposit continued to be a principal source of our funding.

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**Average Interest-Earning Assets, Average Interest-Bearing Liabilities and Interest Rate Spread.** The table below shows our average balances, interest, average rates, net interest margin and the spread between the combined average rates earned on interest-earning assets and average cost of interest-bearing liabilities for the periods indicated. The average balances are derived from average daily balances.

	For the Three Months Ended March 31,					
	Average balance	2009 Interest	Average yield/cost (Dollars In Thousands)	Average balance	2008 Interest	Average yield/cost
<b>Interest-Earning Assets</b>						
Commercial real estate and other mortgage loans <sup>(1)</sup>	\$ 575,359	\$ 7,888	5.48%	\$ 532,771	\$ 8,934	6.71%
Commercial and industrial loans <sup>(1)</sup>	227,716	3,920	6.89	217,807	4,320	7.93
Leases <sup>(1)</sup>	30,457	478	6.29	28,740	456	6.36
Consumer loans	22,225	269	4.84	21,764	285	5.24
Total loans and leases receivable <sup>(1)</sup>	855,757	12,555	5.87	801,082	13,995	6.99
Mortgage-related securities <sup>(2)</sup>	108,290	1,239	4.58	96,255	1,107	4.60
Investment securities <sup>(2)</sup>				991	9	3.63
Federal Home Loan Bank stock	2,367			2,367		
Fed funds sold and other	3,038	2	0.26	3,302	23	2.79
Short-term investments	8,258	9	0.44	2,480	19	3.06
Total interest-earning assets	977,710	13,805	5.65	906,477	15,153	6.69
Non-interest-earning assets	37,577			32,184		
Total assets	\$ 1,015,287			\$ 938,661		
<b>Interest-Bearing Liabilities</b>						
NOW accounts	\$ 53,844	54	0.40	\$ 69,668	434	2.49
Money market	176,812	497	1.12	158,316	1,052	2.66
Certificates of deposits	116,479	823	2.83	73,160	792	4.33
Brokered certificates of deposit	479,905	5,091	4.24	450,967	5,748	5.10
Total deposits	827,040	6,465	3.13	752,111	8,026	4.27
Junior subordinated notes	10,315	274	10.63			
FHLB advances	19,987	218	4.36	36,793	438	4.76
Other borrowings	45,904	360	3.14	45,592	627	5.50
	903,246	7,317	3.24	834,496	9,091	4.36

Total interest-bearing liabilities					
Non-interest-bearing liabilities	58,236		54,240		
Total liabilities	961,482		888,736		
Stockholders' equity	53,805		49,925		
Total liabilities and stockholders' equity	\$ 1,015,287		\$ 938,661		
Net interest income/interest rate spread		\$ 6,488	2.41	\$ 6,062	2.33
Net interest-earning assets	\$ 74,464		\$ 71,981		
Net interest margin			2.65		2.67
Average interest-earning assets to average interest-bearing liabilities	108.24%		108.63%		
Return on average assets	(0.08)		0.33		
Return on average equity	(1.43)		6.17		
Average equity to average assets	5.30		5.32		
Non-interest expense to average assets	2.43		2.28		

(1) The average balances of loans and leases include non-performing loans and leases. Interest income related to non-performing loans and leases is recognized when collected.

(2) Includes amortized cost basis of assets available for sale.

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**Provision for Loan and Lease Losses.** The provision for loan and lease losses totaled \$2.2 million and \$553,000 for the three months ended March 31, 2009 and 2008, respectively. The increase in the provision for loan and lease losses recorded in the three months ended March 31, 2009 and 2008 is related to the changes of inherent risks within our portfolio. Our required provision for loan and lease losses is determined based upon credit risk and other subjective factors pursuant to our allowance for loan and lease loss methodology, the magnitude of net charge-offs recorded in the period and the required amount of reserves established for impaired loans that present potential collateral shortfall positions. During the three months ended March 31, 2009, the significant factors influencing the provision for loan and lease losses were: establishing specific reserves of approximately \$434,000 on impaired loans and leases with estimated collateral shortfalls, re-establishing the reserve by approximately \$1.1 million for charge-offs recorded during the current quarter, increasing the amount of the required allowance for loan and lease losses by approximately \$663,000 to reflect the increased inherent risk within our portfolio as evaluated by the factors prescribed by our loan and lease loss methodology. Refer to **Asset Quality** for further information.

**Non-Interest Income.** Non-interest income, consisting primarily of fees earned for trust and investment services, service charges on deposits, income from bank-owned life insurance and loan fees, increased \$470,000 or 43.0%, to \$1.6 million for the three months ended March 31, 2009 from \$1.1 million for the same period in 2008. Trust and investment services fee income decreased \$48,000, or 9.9%, to \$434,000 for the three months ended March 31, 2009, from \$482,000 for the same period in 2008. Trust and investment services fee income can be broken into two components: trust fee income and brokerage income. Trust fee income was \$353,000 for the three months ended March 31, 2009 compared to \$392,000 for the three months ended March 31, 2008. Trust fee income is driven by the market values of assets under management. As clients add or withdraw assets and market values fluctuate, so does trust fee income. At March 31, 2009, we had \$238.3 million of trust assets under management. This is a \$44.7 million, or 15.8%, decrease from assets under management of \$283.0 million at March 31, 2008. The decrease in trust assets under management is a result of the overall decline in equity market values of such assets since March 31, 2008. The second component of trust and investment services fee income relates to brokerage income. Brokerage income is comprised of commissions on trading activity and 12b-1 fees on mutual fund positions. At March 31, 2009, brokerage assets under administration decreased by \$35.9 million, 25.8%, to \$102.9 million from \$138.8 million at March 31, 2008. As a result of decreased client activity and declining equity markets, brokerage income decreased by \$9,000, or 10.0%, to \$81,000 for the three months ended March 31, 2009, from \$90,000 for the three months ended March 31, 2008.

Service charges on deposits increased \$124,000, or 59.0%, to \$334,000 for the three months ended March 31, 2009 from \$210,000 for the same period in 2008. The increase in service charge income is in direct correlation to the declining interest rate environment. We give each of our demand deposit clients an earnings credit based upon current market rates and the balances the clients keep within our Banks. The client uses these earnings credits to offset the service charges incurred on its deposit accounts. As the interest rate index utilized to calculate the earnings credit has fallen substantially over the measurement period, the majority of our clients do not have sufficient earnings credits to fully eliminate the service charges on their accounts, resulting in increased service charge income.

Loan fees increased \$137,000, or 100.7%, to \$273,000 for the three months ended March 31, 2009 from \$136,000 for the same period in 2008. Loan fees represent non-deferrable fees earned on loan activity and the revenue generated through the collateral audit process we perform to ensure the integrity of the collateral associated with our asset based commercial loans. The increase in loan fees was directly related to increased audit fee revenue recognized on audits substantially completed.

Since the third quarter of 2008, we offer interest rate swap products directly to our qualified commercial borrowers. We economically hedged these client derivative transactions by simultaneously entering into offsetting interest rate swap contracts with dealer counterparties. Derivative transactions executed as part

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of this program are not designated as SFAS 133 hedge relationships and are marked-to-market through earnings each period. We recognized in the consolidated income statements the initial fair value recognition for the swaps which for the three months ended March 31, 2009 totaled \$232,000. Changes in fair value of non-hedge derivative contracts are included in other income in the consolidated statements of income. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value primarily offsetting through earnings each period. Each of the swap contracts include a credit valuation which was not a significant component of the fair value of the interest rate swap contracts for the three months ended March 31, 2009.

**Non-Interest Expense.** Non-interest expense increased by \$815,000, or 15.2%, to \$6.2 million for the three months ended March 31, 2009 from \$5.3 million for the comparable period of 2008, primarily due to an increase in collateral liquidation costs (\$562,000 increase), FDIC insurance (\$179,000 increase), and professional fees (\$138,000 increase), partially offset by a decrease in compensation expenses (\$186,000 decrease).

Collateral liquidation costs associated with certain of our problem commercial loans for the three months ended March 31, 2009 were \$562,000. We did not incur any of these expenses in the comparable period of the prior year. These expenses represent costs incurred in the process of liquidating collateral assets. Collateral liquidation costs include legal expenses, rent expenses, shipping costs, warranty expenses, taxes incurred by the client and other necessary expenses required to protect our security interest. We are in the final stages of liquidating these collateral assets and we do not expect that there will be a significant increase in these costs for the remainder of 2009. At this time, we are doubtful that we will recoup these expenses and have expensed them through our consolidated results of operations as incurred.

FDIC insurance expense was \$335,000 for the three months ended March 31, 2009, an increase of \$179,000, or 115%, from \$156,000 for the three months ended March 31, 2008. FDIC insurance premium rates were increased beginning in 2009 to reflect our participation in the temporary liquidity guaranty program as well as a general overall increase in the rate charged by the FDIC. We expect an additional rate increase as well as a special assessment during the second quarter of 2009 although such costs will be accrued as incurred and assessed.

Professional fees increased by \$138,000, or 36.8%, to \$513,000 for the three months ended March 31, 2009 from \$375,000 for the comparable period of the prior year. The increase in professional fees was caused by additional contracts with third party vendors for various services and the related timing of the completion of those services. Compensation expense decreased by \$186,000, or 5.5%, to \$3.2 million for the three months ended March 31, 2009 from \$3.4 million for the three months ended March 31, 2008. The overall decrease in compensation expense relates to the level of the non-equity incentive compensation accrual recorded. Based upon the performance in the first quarter of 2009, we do not expect to reach the same level of performance as prior year and as a result, we have reduced our accruals associated with this program.

**Income Taxes.** Income tax benefit was \$115,000 for the three months ended March 31, 2009, with an effective rate of 37.3%, compared to income tax expense of \$485,000 with an effective rate of 38.6% for the three months ended March 31, 2008. The effective tax rate also includes additional interest expense, net of federal benefit, accrued on our uncertain tax positions. Interest, net of federal benefit, recognized on these uncertain tax positions was \$33,000 and \$19,000 for the three months ended March 31, 2009 and 2008, respectively. Excluding the interest expense related to the uncertain tax position, our effective tax rate would have been 48.0% and 37.2%. Due to our accounting policy to include interest expense related to uncertain tax positions as a component of income tax expense, our effective tax rate will continue to increase as the interest on the uncertain position compounds each year the position is outstanding. Therefore, we believe presenting the effective tax rate excluding the interest expense related to uncertain tax positions provides greater comparability of the effective tax rates in the periods presented. The difference in the effective tax rate primarily reflects the significant difference in income before income tax expense/benefit, and the relationship of tax-exempt income (i.e. increase in cash surrender value of life insurance) to income (loss) before income tax expense/benefit.

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In February 2009, the State of Wisconsin enacted unitary combined reporting effective January 1, 2009. Due to the new tax law, we have included the income generated by our investment subsidiaries, domiciled in Nevada, into our calculation to determine our expected Wisconsin income tax liability. As a result of the new law, 2009 and future tax losses generated by our holding company will be recognized and offset against Wisconsin income generated by other members of the combined group. The deferred tax asset related to existing Wisconsin holding company state tax net operating losses, from years prior to 2009, will continue to maintain a 100% valuation allowance since we have determined that it is more likely than not the deferred tax asset will not be realized. The Wisconsin Department of Revenue is auditing our treatment of our Nevada investment subsidiaries within First Business Bank's tax returns for the periods from 1999-2005, and First Business Capital Corp's tax returns for the period from 2001-2005. We had previously recorded an uncertain tax position reserve related to the treatment of the income generated by the Nevada investment subsidiaries in our separate company tax returns. Due to the change in the tax law, additional reserves relating to this uncertain tax position are no longer necessary since the investment subsidiary income will be taxed in Wisconsin beginning in 2009. The amount of the additional tax we incurred approximates the amount of the uncertain tax position reserve we have previously recorded and therefore the change in the Wisconsin tax law did not have a significant impact to our overall tax position for the three months ended March 31, 2009 when compared to the same time period of the prior year.

**Financial Condition**

**General.** The Corporation's total assets increased \$15.2 million, or 1.5%, to \$1.03 billion at March 31, 2009 from \$1.01 billion at December 31, 2008, primarily due to increases in the loan and lease portfolio and short-term investments. The allowance for loan and lease losses was 1.50% and 1.39% of gross loans and leases at March 31, 2009 and December 31, 2008, respectively.

**Securities.** Securities available-for-sale decreased \$744,000, or 0.7% to \$108.3 million at March 31, 2009 from \$109.1 million at December 31, 2008, primarily due to principal pay-downs on the collateralized mortgage obligations, partially offset by a \$985,000 appreciation in the overall market value of the investment portfolio. Our available-for-sale investment portfolio primarily consists of collateralized mortgage obligations and is used to provide a source of liquidity, including the ability to pledge securities, while maximizing the earnings potential of our assets. The estimated prepayment streams associated with this portfolio also allow us to better match our short-term liabilities. We purchase investment securities intended to protect our net interest margin while maintaining an acceptable risk profile. While collateralized mortgage obligations present prepayment risk and extension risk, we believe the overall credit risk associated with these investments is minimal as approximately 76.0% of the obligations we hold were issued by the Government National Mortgage Association (GNMA), a government agency. The remaining 24.0% of the obligations we hold were issued by government-sponsored enterprises Fannie Mae and Freddie Mac. We do not hold any Fannie Mae or Freddie Mac preferred stock. In addition, our credit risk is further mitigated by the fact that the securities within our portfolio are not collateralized by subprime mortgages. We did not sell any available-for-sale securities during the three months ended March 31, 2009 or 2008. During the three months ended March 31, 2009, we recognized unrealized holding gains of approximately \$985,000. All of the securities we hold have active trading markets and we are not currently experiencing difficulties in pricing our securities.

Unrealized holding gains on available-for-sale securities are recognized in accumulated other comprehensive income. Our portfolio is sensitive to fluctuations in the interest rate environment and has limited sensitivity to credit risk due to the nature of the issuers of our securities as previously discussed. If interest rates decline and the credit quality of the securities remain positive, the market value of our debt securities portfolio will increase. If interest rates increase and the credit quality of the securities remain positive, the market value of our debt securities portfolio will decline.

**Loans and Leases Receivable.** Loans and leases receivable, net of allowance for loan and lease losses, increased \$8.0 million, or 0.9%, to \$848.5 million at March 31, 2009 from \$840.5 million at December 31, 2008. We principally originate commercial business loans and commercial real estate loans. The overall mix of the loan and lease portfolio at March 31, 2009 remained generally consistent with the mix at December 31, 2008, continuing to have a concentration in commercial real estate mortgage loans at

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approximately 67.9% of our total loan portfolio. Economic conditions continue to deteriorate in the three months ended March 31, 2009 and the demand for new loans within our markets also declined. We are competing with our peers for fewer high quality loan opportunities which is putting pressure on our ability to grow our loan and lease portfolio at growth rates we experienced in recent years. We remain committed to our underwriting standards and continue to seek high quality assets to continue our growth plan.

The allowance for loan and lease losses as a percentage of gross loans and leases was 1.50% and 1.39% as of March 31, 2009 and December 31, 2008, respectively. Non-accrual loans and leases as a percentage of total loans and leases increased to 2.19% at March 31, 2009 compared from 1.91% at December 31, 2008. As we continued to receive updated financial information from our borrowers, we identified additional borrowers that we believe do not have adequate liquidity to make their payments in accordance with the terms of the contractual arrangements. Thus we have considered these assets impaired and have placed them on non-accrual. During the three months ended March 31, 2009, we recorded a charge-off of approximately \$1.1 million. Based upon a routine collateral audit conducted during the fourth quarter of 2008, we identified a commercial loan borrower that reported inaccurate levels of allowable collateral. After completion of additional confirmation procedures, we determined that there was not sufficient collateral to be able to repay the loan and we recorded a partial charge-off in 2008. Beginning in 2009 we implemented an exit strategy of this relationship through a planned, orderly liquidation of the remaining collateral assets. As a result of the liquidation and overall declines in market values of the identified equipment collateral, we recorded an additional charge-off of \$1.1 million. The total charge-off that we have recorded related to this borrower since the financial reporting errors were detected is \$2.1 million. During the three months ended March 31, 2008, we recorded a charge-off of \$222,000 on one of our commercial real estate loans. We recognized recoveries of \$2,000 and \$89,000 during the three months ended March 31, 2009 and 2008, respectively. Given continued charge-offs and increased indicators of impairment of loans and leases, we recorded a \$2.2 million provision for loan and lease losses in the three months ended March 31, 2009. Taking into consideration the magnitude of charge-offs recorded and the need for additional specific reserves on impaired loans with estimated collateral shortfalls, we concluded that an appropriate allowance for loan and lease losses as of March 31, 2009 is \$12.5 million or 1.50% of gross loans and leases. Refer to the **Asset Quality** section for more information.

**Deposits.** As of March 31, 2009, deposits increased \$51.5 million to \$890.4 million from \$838.9 million at December 31, 2008. The increase was primarily attributable to an increase in money market accounts and in-market certificates of deposit, partially offset by a decline in demand deposit account balances. We have continued our focus on gathering local deposits through a variety of methods including offering competitive rates and targeted treasury management initiatives. Additional deposits were used to pay down our short-term borrowings. Brokered certificates continue to be a significant source of our funding and totaled \$471.4 million at March 31, 2009 compared to \$477.7 million at December 31, 2008. Brokered deposits are generally a lower cost source of funds when compared to deposits with similar terms that would need to be offered in the local markets to generate an equivalent level of funds. See **Liquidity and Capital Resources**.

**Borrowings.** We had borrowings, including junior subordinated notes, of \$57.5 million as of March 31, 2009 compared to \$94.5 million as of December 31, 2008, a decrease of \$37.0 million, or 39.1%. We use borrowings to offset variability of deposit flows and as an additional funding source for asset growth. Given the success in raising deposits, we repaid our short-term borrowings to ensure that our Banks remain within approved internal liquidity policies.

### **Asset Quality**

**Non-performing Assets.** Non-performing assets consisted of non-accrual loans and leases and foreclosed properties totaling \$21.8 million, or 2.13% of total assets, as of March 31, 2009, an increase of approximately 13.2% from December 31, 2008. Non-performing assets were \$19.3 million, or 1.91% of total assets, at December 31, 2008. The increase in non-performing assets was the result of deterioration in our loan portfolio. For the three months ended March 31, 2009, we recorded net charge-offs of approximately \$1.1 million. The charge-off was directly related to a commercial loan borrower whose collateral assets are currently being liquidated where the remaining value of the assets of the client are not sufficient to pay off the outstanding principal of the loan. We continue to proactively monitor our loan and lease portfolio for further deterioration and apply our prescribed allowance for loan and lease

loss reserve methodology. As a result of current economic conditions, we are experiencing increases in impaired loans within our loan and lease portfolios. Based upon the most recent financial results presented to us by our clients, it is evident that the current economic conditions have had a significant impact on most industries.

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There are an increased number of borrowers that will not have the ability to make their principal and interest payments in accordance with their contracts. As a result we have more impaired loans based upon this new information. We believe that our loan and lease portfolio was recorded at the appropriate value at March 31, 2009; however, given ongoing complexities with legal actions on certain of our large impaired loans and the continued decline in economic conditions further charge-offs could be recorded if additional facts and circumstances lead us to a different conclusion. Our non-accrual loans and leases consisted of the following at March 31, 2009 and December 31, 2008, respectively.

	March 31, 2009	December 31, 2008
	(Dollars In Thousands)	
Non-accrual loans and leases		
First mortgage loans:		
Commercial real estate	\$ 4,391	\$ 2,979
Construction and land development	5,588	5,279
Multi-family		
1-4 family	3,652	2,082
Total first mortgage loans	13,631	10,340
Commercial and industrial	4,168	5,412
Direct financing leases, net	254	24
Consumer	783	509
Total non-accrual loans and leases	18,836	16,285
Foreclosed properties	3,011	3,011
Total non-performing assets	\$ 21,847	\$ 19,296
Performing troubled debt restructurings	\$	\$
Total non-accrual loans and leases to total loans and leases	2.19%	1.91%
Total non-performing assets to total assets	2.13	1.91
Allowance for loan and lease losses to total loans and leases	1.50	1.39
Allowance for loan and lease losses to non-accrual loans and leases	68.67	72.74
The following represents information regarding our impaired loans:		
	As of and for the Three Months Ended March 31, 2009	As of and for the Year Ended December 31, 2008
	(In Thousands)	
Impaired loans and leases with no impairment reserves required	\$ 12,038	\$ 9,986
Impaired loans and leases with impairment reserves required	6,798	6,299

Total impaired loans and leases	18,836	16,285
Less:		
Impairment reserve (included in allowance for loan and lease losses)	1,851	1,417
Net impaired loans and leases	\$ 16,997	\$ 14,868
Average impaired loans and leases	\$ 16,390	\$ 8,375
Foregone interest income attributable to impaired loans and leases	\$ 337	\$ 752
Interest income recognized on impaired loans and leases		(49)
Net foregone interest income on impaired loans and leases	\$ 337	\$ 703

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Net foregone interest income on impaired loans and leases for the three months ended March 31, 2008 was \$167,000. A summary of the activity in the allowance for loan and lease losses follows:

	For the Three Months Ended March 31,	
	2009	2008
	(Dollars In Thousands)	
Allowance at beginning of period	\$ 11,846	\$ 9,854
Charge-offs:		
Mortgage		(222)
Commercial	(1,110)	
Lease		
Consumer		
Total charge-offs	(1,110)	(222)
Recoveries:		
Mortgage	2	3
Commercial		
Lease		
Consumer		
Total recoveries	2	3
Net charge-offs	(1,108)	(219)
Provision for loan and lease losses	2,197	553
Allowance at end of period	\$ 12,935	\$ 10,188
Allowance to gross loans and leases	1.50%	1.24%

**Liquidity and Capital Resources**

During the three months ended March 31, 2009 and the year ended December 31, 2008, the Banks did not make any dividend payments to the Corporation. The Banks are subject to certain regulatory limitations regarding their ability to pay dividends to the Corporation. Management believes that the Corporation will not be adversely affected by these dividend limitations. The Corporation's principal liquidity requirements at March 31, 2009 are the repayment of interest payments due on subordinated and junior subordinated notes. The Corporation expects to meet its liquidity needs through existing cash flow sources, its line of credit in the amount of \$10.5 million of which \$10,000 is outstanding on March 31, 2009 and through any future dividends received from the Banks. The Corporation and its subsidiaries continue to have a strong capital base and the Corporation's regulatory capital ratios continue to be above the defined minimum regulatory ratios.

On March 12, 2009, we received preliminary approval from the U.S. Treasury to issue up to \$27 million of preferred stock under the U.S. Treasury Troubled Asset Relief Program Capital Purchase Program (CPP). Subsequently, our Board of Directors elected not to participate in the CPP after fully evaluating the related costs and benefits, as well as the potential impact on the long-term value of the Corporation's common stock outstanding.

We manage our liquidity to ensure that funds are available to each of our Banks to satisfy the cash flow requirements of depositors and borrowers and to ensure the Corporation's own cash requirements are met. The Banks maintain liquidity by obtaining funds from several sources.

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The Banks' primary sources of funds are principal and interest payments on loans receivable and mortgage-related securities, deposits and other borrowings such as federal funds and Federal Home Loan Bank advances. The scheduled payments of loans and mortgage-related securities are generally a predictable source of funds. Deposit flows and loan prepayments, however, are greatly influenced by general interest rates, economic conditions and competition. Brokered deposits are a significant source of funding for the Banks and allow them to gather funds across a larger geographic base at price levels that are more attractive than single service deposits. Access to such deposits allows us the flexibility to decline pursuing single service deposit relationships in markets that have experienced some unfavorable pricing levels. We had \$471.4 million of outstanding brokered deposits at March 31, 2009, compared to \$477.7 million of brokered deposits as of December 31, 2008. In addition, the administrative costs associated with brokered deposits are considerably lower than those that would be incurred to administer a similar level of local deposits. Although local market deposits are expected to increase as new client relationships are established and as marketing efforts are made to increase the balances in existing clients' deposit accounts, we will likely continue to use brokered deposits. In order to provide for ongoing liquidity and funding, all of the brokered deposits are certificates of deposit that do not allow for withdrawal, at the option of the depositor, before the stated maturity. In the event that there is a disruption in the availability of brokered deposits at maturity, the Banks have managed the maturity structure so that at least 90 days of maturities could be funded through borrowings with the Federal Home Loan Bank or Federal Discount Window utilizing currently unencumbered securities as additional collateral. The Banks also have access to the unused federal funds lines, cash flows from borrower repayments, cash flows from security maturities and the ability to raise local market deposits by offering attractive rates to generate the level required to fulfill the liquidity need.

The Banks are required by federal regulation to maintain sufficient liquidity to ensure safe and sound operations. We believe that the Banks have sufficient liquidity to match the balance of net withdrawable deposits and short-term borrowings in light of present economic conditions and deposit flows.

Under Federal law and regulation, the Corporation and the Banks are required to meet certain Tier 1 and risk-based capital requirements. Tier 1 capital generally consists of stockholders' equity plus certain qualifying debentures and other specified items less intangible assets such as goodwill. Risk-based capital requirements presently address credit risk related to both recorded and off-balance sheet commitments and obligations.

As of March 31, 2009, the most recent notification from the Federal Deposit Insurance Corporation and the State of Wisconsin Department of Financial Institutions categorized the Banks as well capitalized under the regulatory framework for prompt corrective action.

In addition, the Banks exceeded the minimum net worth requirement of 6.0% required by the State of Wisconsin at December 31, 2008, the latest evaluation date.

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The following table summarizes the Corporation's and Banks' capital ratios and the ratios required by their federal regulators at March 31, 2009 and December 31, 2008, respectively:

	Actual		Minimum Required for Capital Adequacy Purposes		Minimum Required to be Well Capitalized Under Prompt Corrective Action Requirements	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of March 31, 2009						
Total capital (to risk-weighted assets)						
Consolidated	\$ 109,621	11.78%	\$ 74,448	8.00%	N/A	N/A
First Business Bank	91,549	11.01	66,527	8.00	\$ 83,159	10.00%
First Business Bank Milwaukee	14,704	14.31	8,223	8.00	10,279	10.00
Tier 1 capital (to risk-weighted assets)						
Consolidated	\$ 58,972	6.34%	\$ 37,224	4.00%	N/A	N/A
First Business Bank	81,145	9.76	33,263	4.00	\$ 49,895	6.00%
First Business Bank Milwaukee	13,413	13.05	4,111	4.00	6,167	6.00
Tier 1 capital (to average assets)						
Consolidated	\$ 58,972	5.84%	\$ 40,410	4.00%	N/A	N/A
First Business Bank	81,145	9.13	35,569	4.00	\$ 44,462	5.00%
First Business Bank Milwaukee	13,413	9.58	5,602	4.00	7,002	5.00
As of December 31, 2008						
Total capital (to risk-weighted assets)						
Consolidated	\$ 110,005	12.00%	\$ 73,088	8.00%	N/A	N/A
First Business Bank	91,062	11.13	65,448	8.00	\$ 81,810	10.00%

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First Business Bank Milwaukee	14,590	15.13	7,714	8.00	9,642	10.00
Tier 1 capital (to risk-weighted assets)						
Consolidated	\$ 59,178	6.48%	\$36,544	4.00%	N/A	N/A
First Business Bank	80,880	9.89	32,724	4.00	\$49,086	6.00%
First Business Bank Milwaukee	13,375	13.87	3,857	4.00	5,785	6.00
Tier 1 capital (to average assets)						
Consolidated	\$ 59,178	5.94%	\$39,819	4.00%	N/A	N/A
First Business Bank	80,880	9.23	35,064	4.00	\$43,830	5.00%
First Business Bank Milwaukee	13,375	10.61	5,042	4.00	6,302	5.00

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**Contractual Obligations and Off-balance Sheet Arrangements**

There have been no significant changes to the Corporation's contractual obligations and off-balance arrangements disclosed in our Form 10-K for the year ended December 31, 2008. We continue to believe that we have adequate capital and liquidity available from various sources to fund projected contractual obligations and commitments.

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

Interest rate risk, or market risk, arises from exposure of our financial position to changes in interest rates. It is our strategy to reduce the impact of interest rate risk on net interest margin by maintaining a favorable match between the maturities and repricing dates of interest-earning assets and interest-bearing liabilities. This strategy is monitored by the Banks' respective Asset/Liability Management Committees, in accordance with policies approved by the Banks' respective Board of Directors. These committees meet regularly to review the sensitivity of each Bank's assets and liabilities to changes in interest rates, liquidity needs and sources, and pricing and funding strategies.

We use two techniques to measure interest rate risk. The first is simulation of earnings. The balance sheet is modeled as an ongoing entity whereby future growth, pricing, and funding assumptions are implemented. These assumptions are modeled under different rate scenarios.

The second measurement technique used is static gap analysis. Gap analysis involves measurement of the difference in asset and liability repricing on a cumulative basis within a specified time frame. A positive gap indicates that more interest-earning assets than interest-bearing liabilities reprice/mature in a time frame and a negative gap indicates the opposite. In addition to the gap position, other determinants of net interest income are the shape of the yield curve, general rate levels, reinvestment spreads, balance sheet growth and mix, and interest rate spreads. We manage the structure of interest-earning assets and interest-bearing liabilities by adjusting their mix, yield, maturity and/or repricing characteristics based on market conditions.

The process of asset and liability management requires management to make a number of assumptions as to when an asset or liability will reprice or mature. Management believes that its assumptions approximate actual experience and considers them reasonable, although the actual amortization and repayment of assets and liabilities may vary substantially. Our economic sensitivity to change in rates at March 31, 2009 has not changed materially since December 31, 2008.

**Item 4T. Controls and Procedures**

The Corporation's management, with the participation of the Corporation's Chief Executive Officer and Chief Financial Officer, has evaluated the Corporation's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based upon that evaluation, the Corporation's Chief Executive Officer and Chief Financial Officer have concluded that the Corporation's disclosure controls and procedures were effective as of March 31, 2009.

There was no change in the Corporation's internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during the quarter ended March 31, 2009 that has materially affected, or is reasonably likely to materially affect, the Corporation's internal control over financial reporting.

**Part II. Other Information**

**Item 1. Legal Proceedings**

From time to time, the Corporation and its subsidiaries are engaged in legal proceedings in the ordinary course of their respective businesses. Management believes that any liability arising from any such

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proceedings currently existing or threatened will not have a material adverse effect on the Corporation's financial position, results of operations, or cash flows.

**Item 1A. Risk Factors**

There have been no material changes to risk factors as previously disclosed in Item 1a. to Part I of the Corporation's Form 10-K for the year ended December 31, 2008.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

(a) None.

(b) None.

(c) Issuer Purchases of Equity Securities

Period		Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
January 1	January 31, 2009	99	\$ 12.60		\$ 177,150
February 1	February 28, 2009	928	12.40		177,150
March 1	March 31, 2009				177,150

For the three months ended March 31, 2009, 1,027 shares were surrendered to us to satisfy income tax withholding obligations in connection with the vesting of restricted shares.

**Item 3. Defaults Upon Senior Securities**

Not applicable.

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

None.

**Item 5. Other Information.**

None.

**Item 6. Exhibits.**

(10.1) First Business Financial Services, Inc. Annual Incentive Bonus Plan, as amended (incorporated by reference to Exhibit 10.1 to our Current Report on Form 8-K dated April 10, 2009)

(31.1) Certification of the Chief Executive Officer.

(31.2) Certification of the Chief Financial Officer.

(32) Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. paragraph 1350.

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**Signatures**

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**FIRST BUSINESS FINANCIAL  
SERVICES, INC.**

/s/ Corey A. Chambas

Corey A. Chambas  
Chief Executive Officer

May 1, 2009

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