

CIGNA CORP
Form 10-Q
October 30, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934

for the transition period from _____ to _____

Commission file number 1-08323

CIGNA Corporation
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction
of incorporation or organization)

06-1059331
(I.R.S. Employer
Identification No.)

Two Liberty Place, 1601 Chestnut Street
Philadelphia, Pennsylvania 19192
(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code (215) 761-1000

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer", and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller Reporting Company

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

As of October 17, 2008, 271,723,618 shares of the issuer's common stock were outstanding.

CIGNA CORPORATION

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As used herein, "CIGNA" or the "Company" refers to one or more of CIGNA Corporation and its consolidated subsidiaries.

Part I. FINANCIAL INFORMATION

Item 1. Financial Statements

CIGNA Corporation
Consolidated Statements of Income

(In millions, except per share amounts)	Unaudited Three Months Ended September 30,		Unaudited Nine Months Ended September 30,	
	2008	2007	2008	2007
Revenues				
Premiums and fees	\$ 4,112	\$ 3,744	\$ 12,165	\$ 11,209
Net investment income	272	281	802	840
Mail order pharmacy revenues	300	278	882	826
Other revenues	191	83	463	256
Realized investment gains (losses)	(23)	27	(28)	37
Total revenues	4,852	4,413	14,284	13,168
Benefits and Expenses				
Health Care medical claims expense	1,806	1,659	5,450	5,107
Other benefit expenses	1,062	837	2,907	2,507
Mail order pharmacy cost of goods sold	238	225	704	669
Guaranteed minimum income benefits expense	98	-	353	120
Other operating expenses	1,416	1,190	4,152	3,522
Total benefits and expenses	4,620	3,911	13,566	11,925
Income from Continuing Operations before Income Taxes	232	502	718	1,243
Income taxes (benefits):				
Current	65	125	274	420
Deferred	(3)	14	(54)	(34)
Total taxes	62	139	220	386
Income from Continuing Operations	170	363	498	857
Income (Loss) from Discontinued Operations, Net of Taxes	1	2	3	(5)
Net Income	\$ 171	\$ 365	\$ 501	\$ 852
Earnings Per Share - Basic:				
Income from continuing operations	\$ 0.62	\$ 1.30	\$ 1.80	\$ 3.01
Income (loss) from discontinued operations	0.01	-	0.01	(0.02)
Net income	\$ 0.63	\$ 1.30	\$ 1.81	\$ 2.99
Earnings Per Share - Diluted:				
Income from continuing operations	\$ 0.62	\$ 1.28	\$ 1.78	\$ 2.95
Income (loss) from discontinued operations	-	-	0.02	(0.01)
Net income	\$ 0.62	\$ 1.28	\$ 1.80	\$ 2.94
Dividends Declared Per Share	\$ -	\$ 0.010	\$ 0.040	\$ 0.028

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CIGNA Corporation
Consolidated Balance Sheets

	Unaudited As of September 30, 2008	As of December 31, 2007
(In millions, except per share amounts)		
Assets		
Investments:		
Fixed maturities, at fair value (amortized cost, \$11,777; \$11,409)	\$ 11,892	\$ 12,081
Equity securities, at fair value (cost, \$140; \$127)	127	132
Commercial mortgage loans	3,558	3,277
Policy loans	1,553	1,450
Real estate	51	49
Other long-term investments	576	520
Short-term investments	64	21
Total investments	17,821	17,530
Cash and cash equivalents	1,078	1,970
Accrued investment income	251	233
Premiums, accounts and notes receivable	1,627	1,405
Reinsurance recoverables	7,048	7,331
Deferred policy acquisition costs	816	816
Property and equipment	791	625
Deferred income taxes, net	1,010	794
Goodwill	2,859	1,783
Other assets, including other intangibles	1,089	536
Separate account assets	6,386	7,042
Total assets	\$ 40,776	\$ 40,065
Liabilities		
Contractholder deposit funds	\$ 8,555	\$ 8,594
Future policy benefits	8,069	8,147
Unpaid claims and claim expenses	4,089	4,127
Health Care medical claims payable	1,054	975
Unearned premiums and fees	457	496
Total insurance and contractholder liabilities	22,224	22,339
Accounts payable, accrued expenses and other liabilities	5,105	4,127
Short-term debt	315	3
Long-term debt	2,090	1,790
Nonrecourse obligations	14	16
Separate account liabilities	6,386	7,042
Total liabilities	36,134	35,317
Contingencies — <u>Note 15</u>		
Shareholders' Equity		
Common stock (par value per share, \$0.25; shares issued, 351)	88	88
Additional paid-in capital	2,498	2,474
Net unrealized appreciation (depreciation), fixed maturities	\$ (107)	\$ 140
Net unrealized appreciation, equity securities	9	7
Net unrealized depreciation, derivatives	(16)	(19)

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Net translation of foreign currencies	(18)	61	
Postretirement benefits liability adjustment	(122)	(138)	
Accumulated other comprehensive income (loss)		(254)	51
Retained earnings		7,582	7,113
Less treasury stock, at cost		(5,272)	(4,978)
Total shareholders' equity		4,642	4,748
Total liabilities and shareholders' equity	\$	40,776	\$ 40,065
Shareholders' Equity Per Share	\$	17.05	\$ 16.98

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CIGNA Corporation
Consolidated Statements of Comprehensive Income and Changes in Shareholders'
Equity
(In millions)

Three Months Ended September 30,	Unaudited			
	2008	2008	2007	2007
	Compre- hensive Income	Share- holders' Equity	Compre- hensive Income	Share- holders' Equity
Common Stock, September 30		\$ 88		\$ 88
Additional Paid-In Capital, July 1		2,493		2,460
Effect of issuance of stock for employee benefit plans		5		5
Additional Paid-In Capital, September 30		2,498		2,465
Accumulated Other Comprehensive Loss, July 1		(84)		(257)
Net unrealized appreciation (depreciation), fixed maturities	\$ (133)	(133)	\$ 51	51
Net unrealized appreciation (depreciation), equity securities	2	2	(3)	(3)
Net unrealized appreciation (depreciation) on securities	(131)		48	
Net unrealized appreciation (depreciation), derivatives	14	14	(1)	(1)
Net translation of foreign currencies	(56)	(56)	18	18
Postretirement benefits liability adjustment	3	3	16	16
Other comprehensive income (loss)	(170)		81	
Accumulated Other Comprehensive Loss, September 30		(254)		(176)
Retained Earnings, July 1		7,412		6,513
Net income	171	171	365	365
Effects of issuance of stock for employee benefit plans		(1)		(10)
Common dividends declared		-		(3)
Retained Earnings, September 30		7,582		6,865
Treasury Stock, July 1		(5,155)		(4,795)
Repurchase of common stock		(125)		(236)
Other, primarily issuance of treasury stock for employee benefit plans		8		25
Treasury Stock, September 30		(5,272)		(5,006)
Total Comprehensive Income and Shareholders' Equity	\$ 1	\$ 4,642	\$ 446	\$ 4,236

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CIGNA Corporation
Consolidated Statements of Comprehensive Income and Changes in Shareholders'
Equity
(In millions)

Nine Months Ended September 30,	Unaudited			
	2008	Share-	2007	Share-
	Compre-	holders'	Compre-	holders'
	hensive	Equity	hensive	Equity
	Income		Income	
Common Stock, January 1		\$ 88		\$ 40
Effect of issuance of stock for stock split		-		48
Common Stock, September 30		88		88
Additional Paid-In Capital, January 1		2,474		2,451
Effect of issuance of stock for employee benefit plans		24		62
Effect of issuance of stock for stock split		-		(48)
Additional Paid-In Capital, September 30		2,498		2,465
Accumulated Other Comprehensive Income (Loss), January 1 prior to implementation effect		51		(169)
Implementation effect of SFAS No.155		-		(12)
Accumulated Other Comprehensive Income (Loss), January 1 as adjusted		51		(181)
Net unrealized depreciation, fixed maturities	\$ (247)	(247)	\$ (73)	(73)
Net unrealized appreciation (depreciation), equity securities	2	2	(3)	(3)
Net unrealized depreciation on securities	(245)		(76)	
Net unrealized appreciation (depreciation), derivatives	3	3	(11)	(11)
Net translation of foreign currencies	(79)	(79)	23	23
Postretirement benefits liability adjustment	16	16	69	69
Other comprehensive income (loss)	(305)		5	
Accumulated Other Comprehensive Loss, September 30		(254)		(176)
Retained Earnings, January 1 prior to implementation effects		7,113		6,177
Implementation effect of SFAS No. 155		-		12
Implementation effect of FIN 48		-		(29)
Retained Earnings, January 1 as adjusted		7,113		6,160
Net income	501	501	852	852
Effects of issuance of stock for employee benefit plans		(21)		(139)
Common dividends declared		(11)		(8)
Retained Earnings, September 30		7,582		6,865
Treasury Stock, January 1		(4,978)		(4,169)
Repurchase of common stock		(347)		(1,158)
Other, primarily issuance of treasury stock for employee benefit plans		53		321
Treasury Stock, September 30		(5,272)		(5,006)
Total Comprehensive Income and Shareholders' Equity	\$ 196	\$ 4,642	\$ 857	\$ 4,236

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CIGNA Corporation
Consolidated Statements of Cash Flows

(In millions)	Unaudited Nine Months Ended September 30,	
	2008	2007
Cash Flows from Operating Activities		
Net income	\$ 501	\$ 852
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from discontinued operations	(3)	5
Insurance liabilities	185	17
Reinsurance recoverables	47	59
Deferred policy acquisition costs	(74)	(79)
Premiums, accounts and notes receivable	16	(120)
Other assets	(425)	(125)
Accounts payable, accrued expenses and other liabilities	717	76
Current income taxes	(5)	54
Deferred income taxes	(54)	(34)
Realized investment (gains) losses	28	(37)
Depreciation and amortization	181	147
Gains on sales of businesses (excluding discontinued operations)	(28)	(36)
Mortgage loans originated and held for sale	-	(4)
Other, net	(36)	(9)
Net cash provided by operating activities	1,050	766
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	1,123	657
Equity securities	5	25
Commercial mortgage loans	48	1,219
Other (primarily short-term and other long-term investments)	279	166
Investment maturities and repayments:		
Fixed maturities	660	662
Commercial mortgage loans	31	96
Investments purchased:		
Fixed maturities	(2,237)	(1,711)
Equity securities	(18)	(13)
Commercial mortgage loans	(359)	(608)
Other (primarily short-term and other long-term investments)	(344)	(311)
Property and equipment sales	-	74
Property and equipment purchases	(179)	(183)
Acquisition of Great-West Healthcare, net of cash acquired	(1,301)	-
Cash provided by investing activities of discontinued operations	-	65
Other (primarily other acquisitions/dispositions)	(12)	(45)
Net cash provided by (used in) investing activities	(2,304)	93
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	989	893
Withdrawals and benefit payments from contractholder deposit funds	(901)	(920)
Change in cash overdraft position	(3)	36
Net change in short-term debt	312	-
Net proceeds on issuance of long-term debt	297	498

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Repayment of long-term debt	-	(378)
Repurchase of common stock	(340)	(1,185)
Issuance of common stock	37	231
Common dividends paid	(14)	(8)
Net cash provided by (used in) financing activities	377	(833)
Effect of foreign currency rate changes on cash and cash equivalents	(15)	3
Net increase (decrease) in cash and cash equivalents	(892)	29
Cash and cash equivalents, beginning of period	1,970	1,392
Cash and cash equivalents, end of period	\$ 1,078	\$ 1,421
Supplemental Disclosure of Cash Information:		
Income taxes paid, net of refunds	\$ 267	\$ 327
Interest paid	\$ 96	\$ 83

The accompanying Notes to the Consolidated Financial Statements are an integral part of these statements.

CIGNA CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

NOTE 1 – BASIS OF PRESENTATION

The consolidated financial statements include the accounts of CIGNA Corporation, its significant subsidiaries, and variable interest entities of which CIGNA Corporation is the primary beneficiary, which are referred to collectively as “the Company.” Intercompany transactions and accounts have been eliminated in consolidation. These consolidated financial statements were prepared in conformity with accounting principles generally accepted in the United States of America (GAAP).

The interim consolidated financial statements are unaudited but include all adjustments (including normal recurring adjustments) necessary, in the opinion of management, for a fair statement of financial position and results of operations for the periods reported. The interim consolidated financial statements and notes should be read in conjunction with the Consolidated Financial Statements and Notes in the Company’s Form 10-K for the year ended December 31, 2007.

The preparation of interim consolidated financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the health care and related benefits business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations.

Certain reclassifications have been made to prior period amounts to conform to the presentation of 2008 amounts.

Discontinued operations for the third quarter of 2008 included a gain of \$1 million after-tax from the settlement of certain issues related to a past divestiture. Discontinued operations for the nine months ended September 30, 2008 included a gain of \$3 million after-tax from the settlement of certain issues related to a past divestiture.

Discontinued operations for the third quarter and nine months ended September 30, 2007 reflected a tax benefit associated with the disposition of Lovelace Health Systems, Inc. in 2003, an impairment loss associated with the sale of the Chilean insurance operations, and realized gains from the disposition of certain directly-owned real estate investments.

Unless otherwise indicated, amounts in these Notes exclude the effects of discontinued operations.

NOTE 2 – ACQUISITIONS AND DISPOSITIONS

The Company may from time to time acquire or dispose of assets, subsidiaries or lines of business. Significant transactions are described below.

Great-West Healthcare Acquisition. On April 1, 2008, the Company acquired the Healthcare division of Great-West Life and Annuity, Inc. (“Great-West Healthcare” or the “acquired business”) through 100% indemnity reinsurance agreements and the acquisition of certain affiliates and other assets and liabilities of Great-West Healthcare for a purchase price of approximately \$1.5 billion, principally cash. Great-West Healthcare primarily sells medical plans on a self-funded basis with stop loss coverage to small and mid-size employer groups. Great-West Healthcare’s offerings also include the following specialty products: stop loss, life, disability, medical, dental, vision, prescription drug coverage, and accidental death and dismemberment insurance. The acquisition, which was accounted for as a purchase, was financed through a combination of cash and the issuance of both short and long-term debt.

In accordance with Statement of Financial Accounting Standards (SFAS) No. 141, "Business Combinations", the total purchase price has been allocated to the tangible and intangible net assets acquired based on management's estimates of their fair values and may change as additional information becomes available. Accordingly, approximately \$290 million was allocated to intangible assets, primarily customer relationships and internal-use software. The weighted average amortization period for these intangible assets is currently estimated at eight years. The remainder, net of tangible net assets acquired, is goodwill which is currently estimated at \$1.1 billion. Substantially all of the goodwill is tax deductible and will be amortized over the next 15 years for federal income tax purposes.

During the next several months, the Company will complete its fair value analysis of Great-West Healthcare's tangible and intangible net assets and finalize integration plans. The effect on tangible and intangible net assets and net income from these initiatives will continue to be refined and updated through March 31, 2009.

The results of Great-West Healthcare are included in the Company's Consolidated Financial Statements from the date of acquisition.

The following supplemental information presents selected unaudited pro forma information for the Company assuming the acquisition had occurred as of January 1, 2007. The pro forma information does not purport to represent what the Company's actual results would have been if the acquisition had occurred as of the date indicated or what such results would be for any future periods.

	Three Months		Nine Months Ended	
	Ended September 30, 2007		September 30, 2008	
(In millions, except per share amounts)			2007	2007
Total revenues	\$ 4,801	\$	14,652	\$ 14,345
Income from continuing operations	\$ 385	\$	526	\$ 937
Net income	\$ 387	\$	529	\$ 932
Earnings per share:				
Income from continuing operations				
Basic	\$ 1.38	\$	1.90	\$ 3.29
Diluted	\$ 1.35	\$	1.88	\$ 3.23
Net income				
Basic	\$ 1.38	\$	1.91	\$ 3.27
&#				