

CIGNA CORP
Form 10-Q
May 03, 2012

UNITED STATES
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 March 31, 2012

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

06-1059331

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

900 Cottage Grove Road

06002

Bloomfield, Connecticut

(Address of principal executive offices)

(Zip Code)

(860) 226-6000

(Registrant's telephone number, including area code)

(860) 226-6741

(Registrant's facsimile number, including area code)

NOT APPLICABLE

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark	YES	NO
•		

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<p>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.</p>			
<p>• whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).</p>			
<p>• 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.</p>			
Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller Reporting Company
<p>• whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)</p>			

As of April 16, 2012, 288,321,052 shares of the issuer’s common stock were outstanding.

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Cigna Corporation

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As used herein, “Cigna” for the “Company” refers to one or more of Cigna Corporation and its consolidated subsidiaries.

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ITEM 1 Financial Statements

Cigna Corporation

Consolidated Statements of Income

	Unaudited	
	Three Months Ended	
	March 31,	
<i>(In millions, except per share amounts)</i>	2012	2011
Revenues		
Premiums and fees	\$ 6,141	\$ 4,733
Net investment income	288	279
Mail order pharmacy revenues	386	339
Other revenues	(40)	34
Realized investment gains (losses):		
Other-than-temporary impairments on fixed maturities, net	(3)	-
Other realized investment gains	16	26
Total realized investment gains	13	26
TOTAL REVENUES	6,788	5,411
Benefits and Expenses		
Health Care medical claims expense	3,037	2,077
Other benefit expenses	1,104	994
Mail order pharmacy cost of goods sold	321	276
GMIB fair value (gain)	(67)	(16)
Other operating expenses	1,841	1,501
TOTAL BENEFITS AND EXPENSES	6,236	4,832
Income before Income Taxes	552	579
Income taxes:		
Current	135	22
Deferred	46	143
TOTAL TAXES	181	165
Net Income	371	414
Less: Net Income Attributable to Noncontrolling Interest	-	1

Shareholders' Net Income	\$	371	\$	413
Shareholders' Net Income Per Share:				
Basic	\$	1.30	\$	1.53
Diluted	\$	1.28	\$	1.51
Dividends Declared Per Share	\$	0.04	\$	0.04

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

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Cigna Corporation

Consolidated Statements of Comprehensive Income

	Unaudited	
	Three Months Ended	
	March 31,	
<i>(In millions, except per share amounts)</i>	2012	2011
Shareholders' net income	\$ 371	\$ 413
Shareholders' Other Comprehensive Income (Loss):		
Net unrealized appreciation (depreciation) on securities:		
Fixed maturities	23	(8)
Equity securities	1	2
Net unrealized appreciation (depreciation) on securities	24	(6)
Net unrealized depreciation, derivatives	(5)	(5)
Net translation of foreign currencies	35	48
Postretirement benefits liability adjustment	11	4
Shareholders' Other comprehensive income	65	41
Shareholders' comprehensive income	436	454
Comprehensive income attributable to noncontrolling interest:		
Net income attributable to noncontrolling interest	-	1
Total Comprehensive income	\$ 436	\$ 455

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

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Cigna Corporation

Consolidated Balance Sheets

	Unaudited	
	As of	As of
<i>(In millions, except per share amounts)</i>	March 31, 2012	December 31, 2011
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, \$15,170; \$14,257)	\$ 17,049	\$ 16,217
Equity securities, at fair value (cost, \$124; \$124)	107	100
Commercial mortgage loans	3,259	3,301
Policy loans	1,488	1,502
Real estate	79	87
Other long-term investments	1,095	1,058
Short-term investments	187	225
Total investments	23,264	22,490
Cash and cash equivalents	2,111	4,690
Accrued investment income	291	252
Premiums, accounts and notes receivable, net	1,897	1,358
Reinsurance recoverables	6,187	6,256
Deferred policy acquisition costs	884	817
Property and equipment	1,083	1,024
Deferred income taxes, net	533	803
Goodwill	5,726	3,164
Other assets, including other intangibles	2,328	1,750
Separate account assets	8,481	8,093
TOTAL ASSETS	\$ 52,785	\$ 50,697
LIABILITIES		
Contractholder deposit funds	\$ 8,566	\$ 8,553
Future policy benefits	8,404	8,593
Unpaid claims and claim expenses	4,176	4,146
Health Care medical claims payable	1,698	1,095

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Unearned premiums and fees	1,050	502
Total insurance and contractholder liabilities	23,894	22,889
Accounts payable, accrued expenses and other liabilities	6,632	6,627
Short-term debt	227	104
Long-term debt	4,990	4,990
Separate account liabilities	8,481	8,093
TOTAL LIABILITIES	44,224	42,703
Contingencies — Note 17		
SHAREHOLDERS' EQUITY		
Common stock (par value per share, \$0.25; shares issued, 366; authorized, 600)	92	92
Additional paid-in capital	3,268	3,188
Net unrealized appreciation, fixed maturities	\$ 762	\$ 739
Net unrealized appreciation, equity securities	2	1
Net unrealized depreciation, derivatives	(28)	(23)
Net translation of foreign currencies	38	3
Postretirement benefits liability adjustment	(1,496)	(1,507)
Accumulated other comprehensive loss	(722)	(787)
Retained earnings	11,123	10,787
Less treasury stock, at cost	(5,200)	(5,286)
Total shareholders' equity	8,561	7,994
Total liabilities and shareholders' equity	\$ 52,785	\$ 50,697
SHAREHOLDERS' EQUITY PER SHARE	\$ 29.69	\$ 28.00

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

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Cigna Corporation

Consolidated Statement of Changes in Total Equity

Unaudited**For the three months ended March 31, 2012**

<i>(In millions, except per share amounts)</i>	Common Stock	Accumulated		Retained Earnings	Treasury Stock	Share Reductions	Controlling Interest	Total Equity
		Additional Paid-in Capital	Other Comprehensive Loss					
Balance at January 1, 2012, as retrospectively adjusted	\$ 92	\$ 3,188	\$ (787)	\$ 10,787	\$ (5,286)	\$ 7,994	\$ -	\$ 7,994
Effect of issuing stock for employee benefit plans		80		(24)	86	142		142
Other comprehensive income			65			65		65
Net income				371		371	-	371
Common dividends declared (per share: \$0.04)				(11)		(11)		(11)
BALANCE AT MARCH 31, 2012	\$ 92	\$ 3,268	\$ (722)	\$ 11,123	\$ (5,200)	\$ 8,561	\$ -	\$ 8,561

For the three months ended March 31, 2011

<i>(In millions, except per share amounts)</i>	Common Stock	Accumulated		Retained Earnings	Treasury Stock	Share Reductions	Controlling Interest	Total Equity
		Additional Paid-in Capital	Other Comprehensive Loss					
Balance at January 1, 2011, as previously reported	\$ 88	\$ 2,534	\$ (614)	\$ 9,879	\$ (5,242)	\$ 6,645	\$ 18	\$ 6,663
Cumulative effect of amended accounting guidance for deferred policy acquisition costs				(289)		(289)		(289)

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Balance at January 1, 2011, as retrospectively adjusted	88	2,534	(614)	9,590	(5,242)	6,356	18	6,374
Effect of issuing stock for employee benefit plans		9		(27)	93	75		75
Effect of acquiring noncontrolling interest		4				4	(19)	(15)
Other comprehensive income			41			41		41
Net income				413		413	1	414
Common dividends declared (per share: \$0.04)				(11)		(11)		(11)
Repurchase of common stock					(163)	(163)		(163)
BALANCE AT MARCH 31, 2011	\$ 88	\$ 2,547	\$ (573)	\$ 9,965	\$ (5,312)	\$ 6,715	\$ -	\$ 6,715

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

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Cigna Corporation

Consolidated Statements of Cash Flows

<i>(In millions)</i>	Unaudited Three Months Ended March 31,	
	2012	2011
Cash Flows from Operating Activities		
Net income	\$ 371	\$ 414
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	126	83
Realized investment gains	(13)	(26)
Deferred income taxes	46	143
Gains on sale of businesses (excluding discontinued operations)	(5)	(5)
Net changes in assets and liabilities, net of non-operating effects:		
Premiums, accounts and notes receivable	(215)	(129)
Reinsurance recoverables	(30)	(2)
Deferred policy acquisition costs	(47)	(48)
Other assets	155	41
Insurance liabilities	637	77
Accounts payable, accrued expenses and other liabilities	(166)	(366)
Current income taxes	105	(87)
Other, net	(23)	(44)
NET CASH PROVIDED BY OPERATING ACTIVITIES	941	51
Cash Flows from Investing Activities		
Proceeds from investments sold:		
Fixed maturities	221	155
Commercial mortgage loans	165	28
Other (primarily short-term and other long-term investments)	300	221
Investment maturities and repayments:		
Fixed maturities	317	319
Commercial mortgage loans	36	75
Investments purchased:		

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Fixed maturities	(831)	(790)
Equity securities	-	(8)
Commercial mortgage loans	(180)	(18)
Other (primarily short-term and other long-term investments)	(167)	(213)
Property and equipment purchases	(81)	(73)
Acquisitions, net of cash acquired	(3,199)	(12)
NET CASH USED IN INVESTING ACTIVITIES	(3,419)	(316)
Cash Flows from Financing Activities		
Deposits and interest credited to contractholder deposit funds	261	321
Withdrawals and benefit payments from contractholder deposit funds	(231)	(303)
Change in cash overdraft position	22	6
Net change in short-term debt	123	(222)
Issuance of long-term debt	-	591
Repayment of long-term debt	(326)	(2)
Repurchase of common stock	-	(152)
Issuance of common stock	45	66
NET CASH (USED IN) / PROVIDED BY FINANCING ACTIVITIES	(106)	305
Effect of foreign currency rate changes on cash and cash equivalents	5	11
Net (decrease) / increase in cash and cash equivalents	(2,579)	51
Cash and cash equivalents, January 1,	4,690	1,605
Cash and cash equivalents, March 31,	\$ 2,111	\$ 1,656
Supplemental Disclosure of Cash Information:		
Income taxes paid, net of refunds	\$ 22	\$ 106
Interest paid	\$ 54	\$ 27

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

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Cigna Corporation

Notes to the Consolidated Financial Statements (Unaudited)

NOTE 1 Basis of Presentation

Cigna Corporation is a holding company and is not an insurance company. Its subsidiaries conduct various businesses, that are described in its Annual Report on Form 10-K for the year ended December 31, 2011 (“2011 Form 10-K”). As used in this document, “Cigna” or “the Company” may refer to Cigna Corporation itself, one or more of its subsidiaries, or Cigna Corporation and its consolidated subsidiaries. The Consolidated Financial Statements include the accounts of Cigna Corporation and its significant subsidiaries. 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 Company is a global health services organization with insurance subsidiaries that are major providers of medical, dental, disability, life and accident insurance and related products and services. In the U.S., the majority of these products and services are offered through employers and other groups (e.g. unions and associations) and, in selected international markets, Cigna offers supplemental health, life and accident insurance products and international health care coverage and services to businesses, governmental and non governmental organizations and individuals. In addition to its ongoing operations described above, the Company also has certain run off operations, including a Run off Reinsurance segment.

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 2011 Form 10-K.

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 current presentation.

As explained further in Note 3, on January 31, 2012, the Company acquired HealthSpring, Inc. for approximately \$3.8 billion.

NOTE 2 Recent Accounting Pronouncements

Deferred policy acquisition costs. Effective January 1, 2012, the Company adopted the Financial Accounting Standards Board’s (“FASB”) amended guidance (ASU 2010-26) on accounting for costs to acquire or renew insurance contracts. This guidance requires certain sales compensation and telemarketing costs related to unsuccessful efforts and any indirect costs to be expensed as incurred. The Company’s deferred acquisition costs arise from sales and renewal activities primarily in its International segment. This amended guidance was implemented through retrospective adjustment of comparative prior periods. As reported in the Consolidated Statement of Equity, the cumulative effect of adopting the amended accounting guidance as of January 1, 2011 was a reduction in Total Shareholders’ Equity of \$289 million. Full-year 2011 shareholders’ net income on a retrospectively adjusted basis was reduced by \$67 million, partially offset by increased foreign currency translation of \$6 million, resulting in a

cumulative impact on Total Shareholders' Equity as of December 31, 2011 of \$350 million. Summarized below are the effects of the amended guidance on previously reported amounts for the three months ended March 31, 2011.

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<i>(in millions)</i>	As previously reported	Effect of amended accounting guidance	As retrospectively adjusted
Revenues, excluding other revenues	\$ 5,377	\$ -	\$ 5,377
Other revenues	36	(2)	34