CIGNA CORP
Form 10-Q/A
February 24, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A
(Amendment No. 1)

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

For the quarterly period ended **September 30, 2004**

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 1-8323

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.)

One Liberty Place, 1650 Market 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 x No _

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes x No _

As of September 30, 2004, 134,252,295 shares of the issuer's common stock were outstanding.

Explanatory Note

CIGNA is filing this Amendment to Form 10-Q to reflect the restatement of its financial statements of its unaudited consolidated financial statements for the periods covered by this report. Please see Note 3 to the Financial Statements for specific information related to the restatement.

CIGNA historically accounted for stock option grants as fixed awards under Accounting Principles Board (APB) No. 25 and disclosed in the footnotes to the financial statements the expense based on the fair value of stock options pursuant to Statement of Financial Accounting Standards (SFAS) No. 123. While reviewing changes to its equity compensation plans and during the normal 2004 year-end closing process, CIGNA determined that certain stock option grants under these plans required variable rather than fixed accounting treatment under APB No. 25. Variable accounting should have been used because participants were permitted to elect to pay the option exercise price using restricted stock. As a result, CIGNA determined on February 7, 2005 the need to restate its financial statements included in the Form 10-K for the year ended December 31, 2003 and in each of the Form 10-Q filings for the three quarters ended September 30, 2004. CIGNA's management and the Audit Committee of CIGNA's Board of Directors discussed the restatement with CIGNA's independent registered public accounting firm.

This amended Form 10-Q/A does not attempt to modify or update any other disclosures set forth in the original Form 10-Q, except as required to reflect the effects of the restatement as described in Note 3 to the Financial Statements included in the amended Form 10-Q/A. Additionally, this amended Form 10-Q/A does not purport to provide a general update or discussion of any other developments at CIGNA after the date of the original filing. All information contained in this amended Form 10-Q/A and the original Form 10-Q is subject to updating and supplementing as provided in the periodic reports that CIGNA has filed and will file after the original filing date with the Securities and Exchange Commission. In addition, the filing of this amended Form 10-Q/A shall not be deemed an admission that the original filing, when made, included any untrue statement of material fact or omitted to state a material fact necessary to make a statement made therein not misleading. This amended Form 10-Q/A does not include the items from the original Form 10-Q that are not being amended.

Financial information included in reports on Form 10-K, Form 10-Q and Form 8-K (except the Form 8-K with the date of earliest event reported February 7, 2005) previously filed by CIGNA should not be relied upon and are superseded by the information in this Quarterly Report on Form 10-Q/A. CIGNA will also file amended quarterly reports on Form 10-Q/A for each of the first and second quarters of 2004 and an amended annual report on Form 10-K/A for the year ended December 31, 2003.

CIGNA CORPORATION

INDEX

The following Items of the original filing on Form 10-Q are amended as indicated by this Amendment on Form 10-Q/A:

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

Part I. FINANCIAL INFORMATION

Please note that the information contained in this Amendment, including the Consolidated Financial Statements and the Notes to the Financial Statements, does not reflect events occurring after the date of the original filing. Such events include, among others, the events subsequently described in our current reports on Form 8-K. For a description of these events, please read our Exchange Act reports filed since the filing of the Original Form 10-Q.

Item 1. Financial Statements

CIGNA CORPORATION
CONSOLIDATED
STATEMENTS OF INCOME
(In millions, except per share amounts)

	Three Months Ended September 30, 2004 (As Restated, See Note 3)	Three Months Ended September 30, 2003	Nine Months Ended September 30, 2004 (As Restated, See Note 3)	Nine Months Ended September 30, 2003
REVENUES				
Premiums and fees	$ 3,615	$ 3,841	$ 10,746	$ 11,615
Net investment income	340	623	1,298	1,949
Other revenues	513	260	1,343	616
Realized investment gains	11	49	447	127
Total revenues	4,479	4,773	13,834	14,307
BENEFITS, LOSSES AND EXPENSES				
Benefits, losses and settlement expenses	2,617	3,020	8,066	9,599
Policy acquisition expenses	56	66	181	186
Other operating expenses	1,305	1,406	4,025	4,040
Total benefits, losses and expenses	3,978	4,492	12,272	13,825
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	501	281	1,562	482
Income taxes (benefits):				
Current	58	93	649	85
Deferred	131	(7)	(104)	70
Total taxes	189	86	545	155
INCOME FROM CONTINUING OPERATIONS	312	195	1,017	327
INCOME FROM DISCONTINUED OPERATIONS	-	-	-	48
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	312	195	1,017	375
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES	-	-	(139)	-

NET INCOME	$	312	$	195	$	878	$	375
EARNINGS PER SHARE - BASIC								
INCOME FROM CONTINUING OPERATIONS	$	2.31	$	1.40	$	7.38	$	2.34
INCOME FROM DISCONTINUED OPERATIONS		-		-		-		0.34
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		2.31		1.40		7.38		2.68
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES		-		-		(1.01)		-
NET INCOME	$	2.31	$	1.40	$	6.37	$	2.68
EARNINGS PER SHARE - DILUTED								
INCOME FROM CONTINUING OPERATIONS	$	2.29	$	1.39	$	7.29	$	2.33
INCOME FROM DISCONTINUED OPERATIONS		-		-		-		0.34
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		2.29		1.39		7.29		2.67
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES		-		-		(0.99)		-
NET INCOME	$	2.29	$	1.39	$	6.30	$	2.67
DIVIDENDS DECLARED PER SHARE	$	0.025	$	0.330	$	0.380	$	0.990

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

CIGNA CORPORATION
CONSOLIDATED BALANCE SHEETS
(In millions, except per share amounts)

	As of September 30, 2004	As of December 31, 2003
		(As Restated, See Note 3)
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, $15,499; $15,772)	$ 16,605	$ 17,121
Securities supporting experience-rated pension policyholder contracts, at fair value (amortized cost, $-; $10,558)	-	11,222
Equity securities, at fair value (cost, $80; $47)	114	78
Mortgage loans	3,627	8,655
Policy loans	1,589	1,572
Real estate	71	146
Other long-term investments	427	717
Short-term investments	112	147
Total investments	22,545	39,658
Cash and cash equivalents	2,925	1,392
Accrued investment income	295	468
Premiums, accounts and notes receivable	2,701	3,026
Reinsurance recoverables	19,650	6,395
Deferred policy acquisition costs	505	580
Property and equipment	816	973
Deferred income taxes	1,381	1,040
Goodwill	1,620	1,620
Other assets, including other intangibles	395	447
Separate account assets	36,040	35,393
Total assets	$ 88,873	$ 90,992
LIABILITIES		
Contactholder deposit funds	$ 24,052	$ 26,979
Unpaid claims and claim expenses	4,226	4,708
Future policy benefits	11,457	11,545
Unearned premiums	385	326
Total insurance and contractholder liabilities	40,120	43,558

Accounts payable, accrued expenses and other liabilities				6,565				5,960
Long-term debt				1,438				1,500
Nonrecourse obligations				53				23
Separate account liabilities				36,040				35,393
Total liabilities				84,216				86,434
CONTINGENCIES - NOTE 13								
SHAREHOLDERS' EQUITY								
Common stock (par value per share, $0.25; shares issued, 276; 275)				69				69
Additional paid-in capital				3,698				3,597
Net unrealized appreciation, fixed maturities	$	417			$	610		
Net unrealized appreciation, equity securities		18				29		
Net unrealized depreciation, derivatives		(3)				(12)		
Net translation of foreign currencies		(13)				(14)		
Minimum pension liability adjustment		(798)				(667)		
Accumulated other comprehensive loss				(379)				(54)
Retained earnings				10,327				9,503
Less treasury stock, at cost				(9,058)				(8,557)
Total shareholders' equity				4,657				4,558
Total liabilities and shareholders' equity			$	88,873			$	90,992
SHAREHOLDERS' EQUITY PER SHARE			$	34.69			$	32.42

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

6

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME AND CHANGES IN SHAREHOLDERS' EQUITY
(In millions)

Three Months Ended September 30,	**2004**		**2003**	
	Compre-hensive Income	**Share-holders' Equity**	**Compre-hensive Income**	**Share-holders' Equity**
	(As Restated, See Note 3)		**(As Restated, See Note 3)**	
Common stock, July 1		$ 69		$ 68
Issuance of common stock for employee benefits plans		-		1
Common stock, September 30		69		69
Additional paid-in capital, July 1		3,687		3,541
Issuance of common stock for employee benefits plans		11		17
Additional paid-in capital, September 30		3,698		3,558
Accumulated other comprehensive income (loss), July 1		(597)		50
Net unrealized appreciation (depreciation), fixed maturities	$ 198	198	$ (99)	(99)
Net unrealized depreciation, equity securities	(7)	(7)	(20)	(20)
Net unrealized appreciation (depreciation) on securities	191		(119)	
Net unrealized appreciation (depreciation), derivatives	3	3	(4)	(4)
Net translation of foreign currencies	3	3	(4)	(4)
Minimum pension liability adjustment	21	21	-	-
Other comprehensive income (loss)	218		(127)	
Accumulated other comprehensive loss, September 30		(379)		(77)
Retained earnings, July 1		10,019		9,126
Net income	312	312	195	195
Common dividends declared		(4)		(47)
Retained earnings, September 30		10,327		9,274
Treasury stock, July 1		(8,856)		(8,543)
Repurchase of common stock		(210)		-
		8		(15)

Other treasury stock transactions, net				
Treasury stock, September 30		(9,058)		(8,558)
TOTAL COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY	$ 530	$ 4,657	$ 68	$ 4,266
Nine Months Ended September 30,				
Common stock, January 1		$ 69		$ 68
Issuance of common stock for employee benefits plans		-		1
Common stock, September 30		69		69
Additional paid-in capital, January 1		3,597		3,503
Issuance of common stock for employee benefits plans		101		55
Additional paid-in capital, September 30		3,698		3,558
Accumulated other comprehensive loss, January 1		(54)		(202)
Net unrealized appreciation (depreciation), fixed maturities	$ (193)	(193)	$ 155	155
Net unrealized depreciation, equity securities	(11)	(11)	(24)	(24)
Net unrealized appreciation (depreciation) on securities	(204)		131	
Net unrealized appreciation (depreciation), derivatives	9	9	(9)	(9)
Net translation of foreign currencies	1	1	16	16
Minimum pension liability adjustment	(131)	(131)	(13)	(13)
Other comprehensive income (loss)	(325)		125	
Accumulated other comprehensive loss, September 30		(379)		(77)
Retained earnings, January 1		9,503		9,038
Net income	878	878	375	375
Common dividends declared		(54)		(139)
Retained earnings, September 30		10,327		9,274
Treasury stock, January 1		(8,557)		(8,510)
Repurchase of common stock		(494)		-
Other treasury stock transactions, net		(7)		(48)
Treasury stock, September 30		(9,058)		(8,558)
TOTAL COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY	$ 553	$ 4,657	$ 500	$ 4,266

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

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Nine Months Ended September 30, 2004	2003 (As Restated, See Note 3)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations	$ 1,017	$ 327
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Insurance liabilities	(601)	13
Reinsurance recoverables	127	198
Deferred policy acquisition costs	(72)	(49)
Premiums, accounts and notes receivable	309	75
Accounts payable, accrued expenses and other liabilities	(203)	(346)
Current income taxes	98	405
Deferred income taxes	(104)	70
Realized investment (gains)	(447)	(127)
Depreciation and amortization	174	187
Gains on sales of businesses (excluding discontinued operations)	(239)	(57)
Proceeds from sales and maturities of securities supporting experience-rated pension policyholder contracts, net of purchases	1,039	-
Other, net	83	145
Net cash provided by operating activities of continuing operations	1,181	841
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments sold:		
Fixed maturities	2,245	5,815
Equity securities	62	282
Mortgage loans	64	641
Other (primarily short-term investments)	5,803	5,334
Investment maturities and repayments:		
Fixed maturities	655	1,915
Mortgage loans	662	922
Investments purchased:		
Fixed maturities	(3,624)	(8,516)
Equity securities	(14)	(54)
Mortgage loans	(668)	(1,442)
Other (primarily short-term investments)	(5,575)	(4,883)
Proceeds from sale of businesses	2,103	227
Property and equipment, net	(32)	(67)
Other, net	(24)	(16)
Net cash provided by investing activities of continuing operations	1,657	158
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits and interest credited to contractholder deposit funds	2,235	5,878
Withdrawals and benefit payments from contractholder deposit funds	(2,908)	(6,222)

Net change in short-term debt		-		(3)
Repayment of long-term debt		(76)		(127)
Repurchase common stock		(526)		-
Issuance of common stock		24		-
Common dividends paid		(54)		(139)
Net cash used in financing activities of continuing operations		(1,305)		(613)
Net increase in cash and cash equivalents		1,533		386
Cash and cash equivalents, beginning of period		1,392		1,575
Cash and cash equivalents, end of period	$	2,925	$	1,961
Supplemental Disclosure of Cash Information:				
Income taxes paid (received), net	$	543	$	(326)
Interest paid	$	79	$	83

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

CIGNA CORPORATION
NOTES TO THE FINANCIAL STATEMENTS

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 is the primary beneficiary, which are referred to collectively as "CIGNA." 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.

The interim 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 period reported. The interim consolidated financial statements and notes should be read in conjunction with the Consolidated Financial Statements and Notes in CIGNA's 2003 Annual Report to Shareholders and Form 10-K and as further amended on the Form 10-K/A filed for the year ended 2003.

The preparation of interim financial statements necessarily relies heavily on estimates. This and certain other factors, such as the seasonal nature of portions of the insurance business as well as competitive and other market conditions, call for caution in estimating full year results based on interim results of operations. In the second quarter of 2004, CIGNA sold its retirement benefits business. See Note 4 regarding this sale.

Certain reclassifications have been made to prior period amounts to conform to the 2004 presentation.

NOTE 2 - RECENT ACCOUNTING PRONOUNCEMENTS

Derivative Instruments. In April 2003, the Financial Accounting Standards Board (FASB) issued an amendment and finalized an implementation issue related to Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" (SFAS 133). Implementation of the SFAS 133 amendment and the implementation issue in the third quarter of 2003 had no material effect on CIGNA's financial statements.

As permitted by the implementation issue and the Statement of Position (SOP) described below, CIGNA reclassified securities supporting experience-rated pension policyholder contracts associated with its retirement benefits business to trading in the fourth quarter of 2003, and reported these securities in a separate balance sheet caption until the sale of the retirement benefits business on April 1, 2004. Under the experience-rating process, unrealized gains and losses recognized for these securities accrued to policyholders. Accordingly, the reclassification did not affect CIGNA's net income.

Long-Duration Contracts. Effective January 1, 2004, CIGNA implemented SOP 03-1, "Accounting and Reporting by Insurance Enterprises for Certain Nontraditional Long-Duration Contracts and for Separate Accounts."

The SOP addresses accounting for certain contractual features of investment-related and universal life contracts and for separate accounts. The cumulative effect of implementing the SOP in the first quarter of 2004 was a reduction to net income of $139 million, of which $136 million resulted from recording liabilities for certain experience-rated pension policyholder contracts based on the appreciated value of associated pools of investments, primarily mortgage loans and real estate. CIGNA recorded additional benefits expense of $17 million pre-tax ($11 million after-tax) in the first quarter of 2004 to reflect the post-implementation effect of this accounting requirement. The sale of CIGNA's retirement benefits business generally resulted in the transfer to the buyer of the pool of investments and securities supporting experience-rated pension policyholder contracts discussed above. See Note 4 for information about this sale.

The remaining cumulative effect resulted from implementing the SOP's requirements applicable to universal life contracts. CIGNA's accounting for reinsurance of guaranteed minimum death benefit contracts and guaranteed minimum income benefit contracts was not affected by the provisions of the SOP.

Consolidation. On March 31, 2004, CIGNA implemented FASB Interpretation No. 46, "Consolidation of Variable Interest Entities," as revised, that provides criteria for consolidating certain entities based on majority ownership of expected losses or residual returns. At implementation, CIGNA recorded additional assets and liabilities, primarily associated with real estate joint ventures, of $98 million each, including $83 million of nonrecourse liabilities.

At September 30, 2004, CIGNA had consolidated real estate joint venture assets of $74 million, primarily real estate investments and cash and cash equivalents, and liabilities of $52 million including: $13 million of variable rate debt due by 2008, $32 million of nonrecourse obligations and $7 million of other liabilities.

At September 30, 2004, CIGNA had consolidated amounts associated with certain variable interest entities that issue investment products secured by commercial loan pools as follows: investments of $145 million, primarily fixed maturities and other long-term investments, and nonrecourse liabilities of $37 million, including $21 million of nonrecourse obligations and $16 million of other nonrecourse liabilities.

At December 31, 2003, CIGNA had recorded variable interest entities as follows: real estate joint ventures with assets of $20 million and nonrecourse liabilities of $5 million and, for entities that issue investment products secured by commercial loan pools, assets of $215 million and nonrecourse liabilities of $40 million, including $23 million of nonrecourse obligations and $17 million of other nonrecourse liabilities.

Other Postretirement Benefits. See Note 7 for a discussion of the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003.

Other-Than-Temporary Impairment. In 2004, the FASB Emerging Issues Task Force provided guidance on evaluating fixed maturities and equity securities for other-than-temporary impairment, including the timing and measurement of impairment for interest-related declines in value. Because this guidance is subject to interpretation by the FASB, CIGNA is currently unable to estimate its implementation effect. Under the final interpretation of this guidance, CIGNA may recognize other-than-temporary impairments of fixed maturities and equity securities through realized investment losses that may be material to CIGNA's net income. CIGNA does not expect any such impairments to impact shareholders' equity because unrealized depreciation on fixed maturities and equity securities is included in shareholders' equity. See Note 8 for a review of declines in fair value of fixed maturities and equity securities.

NOTE 3 - RESTATEMENT - STOCK COMPENSATION

Restatement. During a review of CIGNA's equity compensation plans it was determined that certain stock option grants under these plans required variable accounting rather than fixed accounting treatment under Accounting Principles Board (APB) No. 25. CIGNA previously accounted for these stock option grants as fixed awards under APB No. 25. Variable accounting should have been used because participants were permitted to elect to pay the option exercise price using restricted stock. As a result, CIGNA recorded additional stock-based compensation under the variable method of accounting and associated income tax adjustments.

A summary of the significant effects of restatement is as follows:

Three Months Ended September 30	**2004**		2003	
(In millions)	As Reported	As Restated	As Reported	As Restated
Other Operating Expenses	**$ 1,292**	**$ 1,305**	$ 1,406	$ 1,406
Income from Continuing Operations	**$ 320**	**$ 312**	$ 195	$ 195
Net Income	**$ 320**	**$ 312**	$ 195	$ 195
Income from Continuing Operations per share				
Basic	**$ 2.37**	**$ 2.31**	$ 1.40	$ 1.40
Diluted	**$ 2.34**	**$ 2.29**	$ 1.39	$ 1.39
Net Income per share				
Basic	**$ 2.37**	$ **2.31**	$ 1.40	$ 1.40
Diluted	**$ 2.34**	**$ 2.29**	$ 1.39	$ 1.39

Nine Months Ended September 30	**2004**		2003	
(In millions)	As Reported	As Restated	As Reported	As Restated
Other Operating Expenses	**$ 3,970**	**$ 4,025**	$ 4,036	$ 4,040
Income from Continuing Operations	**$ 1,052**	**$ 1,017**	$ 330	$ 327
Net Income	**$ 913**	**$ 878**	$ 378	$ 375
Income from Continuing Operations per share				
Basic	**$ 7.63**	**$ 7.38**	$ 2.36	$ 2.34
Diluted	**$ 7.55**	**$ 7.29**	$ 2.35	$ 2.33
Net Income per share				

Basic	**$ 6.62**	**$ 6.37**	$ 2.71	$ 2.68
Diluted	**$ 6.55**	**$ 6.30**	$ 2.69	$ 2.67

	As of September 30, 2004		As of December 31, 2003	
(In millions)	As Reported	As Restated	As Reported	As Restated
Deferred Tax Asset	**$ 1,326**	**$ 1,381**	$ 1,001	$ 1,040
Shareholders' Equity	**$ 4,602**	**$ 4,657**	$ 4,519	$ 4,558

Stock compensation. CIGNA uses the intrinsic value method of accounting for stock options granted to employees. The following table illustrates the effect on CIGNA's reported net income and earnings per share (using the Black-Scholes option-pricing model for stock options) if compensation expense was based on the fair value method of accounting for all stock awards.

(In millions, except per share amounts)	Three Months Ended September 30, 2004	Three Months Ended September 30, 2003 (As Restated)	Nine Months Ended September 30, 2004	Nine Months Ended September 30, 2003 (As Restated)
Net income as reported	$ 312	$ 195	$ 878	$ 375
Compensation expense for restricted stock grants, net of taxes, included in net income as reported	2	4	3	8
Compensation expense for stock options, net of taxes, included in net income as reported	8	—	35	3
Total compensation expense for stock options and restricted stock grants under fair value method for all awards, net of taxes	(14)	(13)	(36)	(35)
Pro forma net income	$ 308	$ 186	$ 880	$ 351
Basic - as reported	$ 2.31	$ 1.40	$ 6.37	$ 2.68
Basic - pro forma	$ 2.28	$ 1.33	$ 6.38	$ 2.51
Diluted - as reported	$ 2.29	$ 1.39	$ 6.30	$ 2.67
Diluted - pro forma	$ 2.20	$ 1.32	$ 6.32	$ 2.50

NOTE 4 - ACQUISITIONS AND DISPOSITIONS

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

Sale of Retirement Benefits Business. On April 1, 2004, CIGNA sold its retirement benefits business, excluding the corporate life insurance business, for cash proceeds of $2.1 billion. The sale resulted in an after-tax gain of $809 million, of which $267 million after-tax was recognized immediately. Of this amount, $259 million after-tax was recorded in realized investment gains and $8 million after-tax was recorded in other revenues.

As this transaction was primarily in the form of a reinsurance arrangement, $542 million of the after-tax gain was deferred and will be amortized over future periods at the rate that earnings from the sold business would have been expected to emerge (primarily over 15 years on a declining basis). CIGNA recognized normal gain amortization of $28 million pre-tax ($18 million after-tax) for the third quarter and $57 million pre-tax ($37 million after-tax) for the nine months of 2004 in other revenues in the Run-off Retirement segment. The sales agreement provides for post-closing adjustments; however, any future adjustments are not expected to be material to CIGNA's consolidated results of operations, liquidity or financial condition.

During the second and third quarters of 2004, the buyer of the retirement benefits business entered into agreements with some of the insured parties, relieving CIGNA of any remaining contractual obligations to those parties. As such agreements were entered into, CIGNA accelerated recognition of the deferred gain in other revenues by $122 million pre-tax ($79 million after-tax) for the third quarter and $126 million pre-tax ($82 million after-tax) for the nine months of 2004. CIGNA also reduced reinsurance recoverables, contractholder deposit funds and separate account balances for these obligations.

Upon closing the sale, CIGNA reinsured $16.0 billion of contractholder liabilities under an indemnity reinsurance arrangement and $35.3 billion of insurance, contractholder and separate account liabilities under modified coinsurance arrangements, including $32.0 billion in separate account liabilities. CIGNA also transferred $17.3 billion of invested assets along with other assets and liabilities.

At September 30, 2004, CIGNA had approximately $3.2 billion of invested assets, primarily fixed maturities and mortgage loans, supporting certain modified coinsurance arrangements with the buyer, of which $2.0 billion was held in a business trust established by CIGNA. CIGNA pays or receives cash quarterly to settle the results of the reinsured business, including the investment results of the assets underlying modified coinsurance arrangements. As a result of these modified coinsurance arrangements, CIGNA has embedded derivatives that transfer to the buyer certain unrealized changes in fair value due to interest rate and credit risks of these assets. CIGNA records these effects in other liabilities and other revenues. Decreases or significant increases in interest rates or credit risks could result in material volatility in CIGNA's consolidated net income into 2006. In the third quarter of 2004, CIGNA recorded a pre-tax charge for these effects of $14 million in other revenues. For the nine months of 2004, other revenues included a pre-tax benefit of $27 million for these effects and a related pre-tax charge of $41 million reflecting the amortization for the period of the excess of the fair value of related assets over the liabilities under these arrangements.

The modified coinsurance arrangement supported by the $2.0 billion business trust provides for conversion to an indemnity reinsurance structure. The buyer will assume ownership of the trust assets in 2006 unless the buyer elects termination, in which case CIGNA would retain the trust assets and the insurance liabilities. In the second quarter of 2004, CIGNA reclassified unrealized appreciation of $166 million after-tax from shareholders' equity to other liabilities for this modified coinsurance arrangement.

See Note 11 for additional information.

Sale of investment advisory businesses. During the fourth quarter of 2004, CIGNA sold its fixed income investment advisory business and is expected to complete the sale of its equity investment advisory business. As a result in the fourth quarter of 2004, CIGNA expects to record an estimated after-tax gain of $15 million in the Other Operations segment.

Sale of Japanese pension operations. In the third quarter of 2003, CIGNA sold its interest in a Japanese pension operation for cash proceeds of $18 million and recognized an after-tax gain of $5 million. The gain was reported in the International segment in continuing operations since this operation was accounted for under the equity method of accounting.

Sale of Lovelace Health Systems, Inc. In the first quarter of 2003, CIGNA sold the operations of Lovelace, an integrated health care system, for cash proceeds of $209 million and recognized an after-tax gain of $32 million, which is reported in discontinued operations.

Sale of Brazilian Health Care Operations. In the first quarter of 2003, CIGNA sold its Brazilian health care operations. The sale generated an after-tax gain of $18 million, primarily as a result of the disposition of the net liabilities associated with these operations. The gain is reported in discontinued operations.

Lovelace and Brazilian Health Care Discontinued Operations. Summarized financial data for discontinued operations (which includes Lovelace and the gain on the sale of the Brazilian health care operations) are outlined below:

FINANCIAL SUMMARY *(In millions)*		Nine Months Ended September 30, 2003
Income Statement Data		
Revenues	$	—
Loss before income tax benefits	$	(3)
Income tax benefits		(1)
Loss from operations		(2)
Gains on sales, net of taxes of $25		50
Income from discontinued operations	$	48

NOTE 5 - RESTRUCTURING PROGRAMS

Operational effectiveness review. In the first quarter of 2004, CIGNA adopted a restructuring program associated with planned organizational changes to streamline functional support resources and to adjust its operations to current business volumes. As a result, CIGNA recognized in other operating expenses a total after-tax charge of $49 million ($75 million pre-tax) primarily in the Health Care segment and Corporate, mostly for severance costs.

In the second and third quarters of 2004, CIGNA recorded additional charges under this review for severance costs and costs associated with vacating certain leased facilities (see table below).

The table below shows CIGNA’s restructuring activity (pre-tax) related to severance and real estate for this program:

(In millions)	Health Care/ Disability and Life*	Corporate	Total
First quarter 2004 charge:			
Severance	$ 39	$ 31	$ 70
Real estate and other	5	—	5
Total	44	31	75
First quarter 2004 payments:			
Severance	(2)	(4)	(6)
Balance as of March 31, 2004	42	27	69
Second quarter 2004 charge:			
Severance	—	4	4
Real estate and other	3	—	3
Total	3	4	7
Second quarter 2004 payments:			

Severance	(10)	(8)	(18)
Real estate and other	(1)	—	(1)
Balance as of June 30, 2004	34	23	57
Third quarter 2004 charge:			
Real estate and other	3	1	4
Third quarter 2004 payments:			
Severance	(7)	(8)	(15)
Real estate and other	(1)	—	(1)
Balance as of September 30, 2004	$ 29	$ 16	$ 45

Corporate effectiveness initiative. In the second quarter of 2003, CIGNA adopted a restructuring program to attain certain operational efficiencies in its corporate staff functions and to achieve additional cost savings. As a result, CIGNA recognized in other operating expenses an after-tax charge in Corporate of $9 million ($13 million pre-tax) for severance costs. As of June 30, 2004, this program was substantially completed.

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* Includes first quarter 2004 restructuring charges of $2 million pre-tax in the Disability and Life segment.

NOTE 6 - GUARANTEED MINIMUM DEATH BENEFIT AND INCOME BENEFIT CONTRACTS

CIGNA’s reinsurance operations, which were discontinued in 2000 and are now an inactive business in run-off mode, reinsured a guaranteed minimum death benefit under certain variable annuities issued by other insurance companies. These variable annuities are essentially investments in mutual funds combined with a death benefit. CIGNA has equity market exposures as a result of this product.

As a result of equity market declines and volatility early in the third quarter of 2002, CIGNA evaluated alternatives for addressing the exposures associated with these reinsurance contracts, considering the possibility of continued depressed equity market conditions, the potential effects of further equity market declines and the impact on future earnings and capital. As a result of this evaluation, CIGNA implemented a program to substantially reduce the equity market exposures of this business by selling exchange-traded futures contracts, which are expected to rise in value as the equity market declines and decline in value as the equity market rises. In the second quarter of 2003, CIGNA began using foreign-denominated, exchange-traded futures contracts and foreign currency forward contracts to reduce international equity market risks associated with this business.

CIGNA expects to adjust the futures and forward contract positions and may enter into other contract positions over time, to reflect changing equity market levels and changes in the investment mix of the underlying variable annuity investments. For further information and details on these contracts and the program adopted to reduce related equity market risk, refer to Note 5 of CIGNA's 2003 Annual Report to Shareholders.

The determination of reserves for guaranteed minimum death benefits requires CIGNA to make critical accounting estimates. CIGNA describes the assumptions used to develop the reserves for these death benefits, and provides the effects of hypothetical changes in those assumptions on page 13 of CIGNA’s 2003 Annual Report to Shareholders as restated. CIGNA regularly evaluates the assumptions used in establishing reserves and changes its estimates if actual experience or other evidence suggests that earlier assumptions should be revised. If actual experience differs from the assumptions and other considerations (including lapse, partial surrender, mortality, interest rates and volatility) used in estimating these reserves, the resulting change could have a material adverse effect on CIGNA’s consolidated results of operations, and in certain situations, could have a material adverse effect on CIGNA’s financial condition. During the third quarter of 2004, CIGNA completed its normal quarterly review of assumptions and emerging experience and recorded a net after-tax charge of $1 million.

In the second quarter of 2003, CIGNA recognized an after-tax charge to increase reserves related to these guaranteed minimum death benefit contracts of $286 million ($441 million pre-tax) following an analysis of experience and reserve assumptions relating to these reserves.

Prior to the second quarter of 2003, CIGNA's experience of partial surrenders under its guaranteed minimum death benefit contracts was not sufficient to support an explicit reserve assumption. Separately, from mid-2002 through the first quarter of 2003, CIGNA experienced continued adverse mortality development under these contracts. During the second quarter of 2003, CIGNA conducted a special review of the emerging partial surrender activity to determine if sufficient credible data existed for an explicit reserve assumption. The review also included a detailed study of other reserve assumptions, including mortality, to validate the cause of the adverse experience and to determine whether or not long-term mortality expectations should be changed.

As a result of the review, CIGNA recorded the after-tax charge of $286 million referenced above consisting of the following:

- $169 million for the addition of an explicit assumption for both actual and projected future partial surrenders. This estimate is based on annual election rates that vary depending on the net amount at risk for each policy (see below for more information);

- $56 million primarily reflecting refinements to assumptions relating to the timing of lapses, death benefits and premiums to better reflect CIGNA's experience;

- $39 million due to higher assumed mortality reflecting adverse experience based on annuitant deaths during the period from late 2000 into 2003; and
- $22 million resulting from a decrease in assumed mean investment performance reflecting experience and future expectations based on history for similar investments and considering CIGNA's program to reduce equity market exposures.

In the third quarter of 2002, CIGNA recognized an after-tax charge of $720 million ($1.1 billion pre-tax) to strengthen reserves related to these guaranteed minimum death benefit contracts and to adopt the program described above to substantially reduce equity market risks related to these contracts.

The $720 million after-tax charge consisted of:

- $580 million, reflecting the reduction in assumed future equity market returns as a result of implementing the program. CIGNA determines liabilities under the reinsurance contracts using an assumption for expected future performance of equity markets. A consequence of implementing the program is, effectively, a reduction in the assumption for expected future performance of equity markets, as the futures contracts essentially eliminate the opportunity to achieve previously expected market returns;

- $100 million, reflecting deterioration in equity markets that occurred in the third quarter of 2002 (prior to implementation of the program); and

- $40 million, driven by changes for the following:
- lower assumed lapse rates based on expectations that lower surrenders will occur due to increased death benefits resulting from stock market declines;
- higher assumed mortality based on experience since mid-2001;
- higher assumed market volatility, based on recent experience and expected higher S&P 500 volatility; and
- a lower assumed discount rate to reflect anticipated funding of the reserve increase at yields lower than the existing assumption.

CIGNA had future policy benefit reserves for these guaranteed minimum death benefit contracts of approximately $1.1 billion as of September 30, 2004 and $1.2 billion as of December 31, 2003. Benefits incurred, net of ceded amounts, were $62 million for the third quarter and $78 million for the nine months of 2004 compared with $(24) million for the third quarter and $241 million for the nine months of 2003. Benefits paid, net of ceded amounts, were $40 million for the third quarter and $119 million for the nine months of 2004, compared with $67 million for the third quarter and $241 million for the nine months of 2003.

CIGNA recorded in other revenues a pre-tax gain of $33 million for the third quarter and pre-tax losses of $27 million for the nine months of 2004, and pre-tax losses of $70 million for the third quarter and $326 million for the nine months of 2003 from the futures and forward contracts. Expense offsets reflecting corresponding changes in liabilities for these guaranteed minimum death benefit contracts were included in benefits, losses and settlement expenses. The notional or face amount of the futures and forward contract positions held by CIGNA at September 30, 2004, was $1.6 billion.

As of September 30, 2004, the aggregate fair value of the underlying mutual fund investments was approximately $44.3 billion. The death benefit coverage in force as of that date (representing the amount that CIGNA would have to pay if all 1.2 million contractholders had died on that date) was approximately $11.6 billion. The death benefit coverage in force represents the excess of the guaranteed benefit amount over the fair value of the underlying mutual fund investments.

CIGNA is providing the following information about its reserving methodology and assumptions for guaranteed minimum death benefits in response to SOP 03-1, described in Note 2, which was effective in the first quarter of 2004.

- The reserves represent estimates of the present value of net amounts expected to be paid, less the present value of net future premiums. Included in net amounts expected to be paid is the excess of the guaranteed death benefits over the values of the contractholders' accounts (based on underlying equity and bond mutual fund investments).
- The reserves include an estimate for partial surrenders that essentially lock in the death benefit for a particular policy based on annual election rates that vary from 0-14% depending on the net amount at risk for each policy.
- The mean investment performance assumption is 5% considering CIGNA's program to reduce equity market exposures using futures and forward contracts (described above).
- The volatility assumption is 15-30%, varying by equity fund type; 3-7%, varying by bond fund type; and 1% for money market funds.
- The mortality assumption is 70-75% of the 1994 Group Annuity Mortality table, with 1% annual improvement beginning January 1, 2000.
- The lapse rate assumption is 0-15%, depending on contract type, policy duration and the ratio of the net amount at risk to account value.
- The discount rate is 5.75%.

The table below presents the account value, net amount at risk and average attained age of underlying contractholders for guarantees in the event of death, by type of benefit as of September 30, 2004 and December 31, 2003. The net amount at risk is the death benefit coverage in force or the amount that CIGNA would have to pay if all contractholders had died as of the specified date, and represents the excess of the guaranteed benefit amount over the fair value of the underlying mutual fund investments.

(Dollars in millions)	As of September 30, 2004	As of December 31, 2003
Highest annuity value		
Account value	$ 37,095	$ 41,497
Net amount at risk	$ 9,980	$ 10,951
Average attained age of contractholders	65	65
Anniversary value reset		
Account value	$ 3,021	$ 4,474
Net amount at risk	$ 266	$ 309
Average attained age of contractholders	59	59
Other		
Account value	$ 4,147	$ 6,530
Net amount at risk	$ 1,316	$ 1,660
Average attained age of contractholders	63	64
Total		
Account value	$ 44,263	$ 52,501
Net amount at risk	$ 11,563	$ 12,920
Average attained age of contractholders (weighted by exposure)	65	64
Number of contractholders	1.2 million	1.4 million

CIGNA has also written reinsurance contracts with issuers of variable annuity contracts that provide annuitants with certain guarantees related to minimum income benefits. See Note 13 for further information.

NOTE 7 - PENSION AND OTHER POSTRETIREMENT BENEFIT PLANS

Pension benefits. CIGNA funds its qualified pension plans at least at the minimum amount required by the Employee Retirement Income Security Act of 1974 (ERISA). In accordance with minimum funding requirements, CIGNA has made total domestic pension plan contributions of approximately $145 million and expects to make no additional contributions in 2004.

Components of net pension cost were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Service cost	$ 18	$ 20	$ 56	$ 60
Interest cost	55	55	165	166
Expected return on plan assets	(47)	(50)	(143)	(150)
Amortization of:				
Net loss from past experience	28	6	76	17
Prior service cost	(1)	—	(1)	—
Net pension cost	$ 53	$ 31	$ 153	$ 93

In connection with the sale of the retirement benefits business and the operational effectiveness review, CIGNA had a pension curtailment event. In addition, CIGNA completed the annual update of plan participant data in the second quarter of 2004 and a plan amendment in the third quarter of 2004.

As a result of the action taken in the third quarter of 2004, CIGNA remeasured the assets and obligations of its domestic qualified plan and increased equity by $21 million after-tax as compared to June 30, 2004. This change was primarily due to an increase in long-term interest rates (from 5.75% to 6.00%) used to determine the accumulated benefit obligation, partially offset by the effect of stock market depreciation on plan assets.

As a result of the actions taken through September 30, 2004, CIGNA decreased equity by $131 million after-tax as compared to December 31, 2003. This charge was primarily due to a reduction in long-term interest rates (from 6.25% to 6.00%), as well as the annual update of plan participant data, partially offset by the effect of stock market appreciation on plan assets.

Other postretirement benefits. In the second quarter of 2004, CIGNA recognized the effects of the Medicare Prescription Drug Improvement and Modernization Act of 2003, retroactive to January 1, 2004 in determining its accumulated other postretirement benefit obligation and net other postretirement benefit cost. The effects of retroactive application were to reduce the accumulated other postretirement benefit obligation as of January 1, 2004, by approximately $20 million pre-tax and to reduce the net other postretirement benefit cost by less than $1 million pre-tax. In addition, in the second quarter of 2004, CIGNA amended its postretirement medical benefits plan to integrate pharmacy benefits with the 2003 Act and reduced its accumulated other postretirement benefit obligation by $29 million pre-tax.

18

Components of net other postretirement benefit cost were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Service cost	$ 1	$ 1	$ 2	$ 2
Interest cost	7	9	24	27
Expected return on plan assets	(1)	(1)	(2)	(2)
Amortization of prior service cost	(4)	(5)	(12)	(13)
Net other postretirement benefit cost	$ 3	$ 4	$ 12	$ 14

CIGNA also recognized pre-tax curtailment gains for other postretirement benefits as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Operational effectiveness review and sale of the retirement benefits business	$ 5	$ —	$ 19	$ —
2002 Health Care restructuring	—	1	—	10
Total curtailment gains	$ 5	$ 1	$ 19	$ 10

NOTE 8 - INVESTMENTS

Realized Investment Gains and Losses

The following realized gains and losses on investments exclude amounts required to adjust future policy benefits and amounts that were attributable to experience-rated pension policyholder contracts prior to the reclassification of securities to trading in the fourth quarter of 2003.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Fixed maturities	$ 3	$ (37)	$ 119	$ (20)
Equity securities	7	37	19	73
Mortgage loans	(4)	—	215	(1)
Real estate	(1)	—	51	(1)
Derivatives and other	6	49	43	76

Realized investment gains, before income taxes	11	49	447	127
Less income taxes	3	17	156	44
Net realized investment gains	$ 8	$ 32	$ 291	$ 83

19

Fixed Maturities and Equity Securities

The following sales of available-for-sale fixed maturities and equity securities include amounts required to adjust future policy benefits and amounts that were attributable to experience-rated pension policyholder contracts prior to the reclassification of securities to trading in the fourth quarter of 2003.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Proceeds from sales	$ 1,164	$ 1,864	$ 2,307	$ 6,097
Gross gains on sales	$ 26	$ 114	$ 236	$ 303
Gross losses on sales	$ (7)	$ (15)	$ (41)	$ (59)

As of September 30, 2004, fixed maturities include $70 million of securities classified as trading and carried at fair value with changes in fair value reported in other revenues. The change in fair value of these securities was $4 million pre-tax for the nine months of 2004.

Review of Declines in Fair Value. Management reviews fixed maturities and equity securities for impairment based on criteria that include:

· length of time and severity of decline;
· financial health and specific near term prospects of the issuer; and
· changes in the regulatory, economic or general market environment of the issuer's industry or geographic region.

As of September 30, 2004, fixed maturities with a decline in fair value from cost (primarily investment grade corporate bonds) were as follows, including the length of time of such decline:

(In millions)	Fair Value	Amortized Cost	Unrealized Depreciation
One year or less:			
Investment grade	$ 1,505	$ 1,528	$ (23)
Below investment grade	$ 72	$ 74	$ (2)
More than one year:			
Investment grade	$ 495	$ 508	$ (13)
Below investment grade	$ 30	$ 31	$ (1)

There were no equity securities with a material decline in fair value from cost at September 30, 2004.

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (loss) excludes:

· amounts required to adjust future policy benefits;
· amounts that were attributable to experience-rated pension policyholder contracts prior to the reclassification of securities to trading in the fourth quarter of 2003; and
·

amounts required to adjust other liabilities after the initial reclassification of unrealized appreciation under a modified coinsurance arrangement.

Changes in accumulated other comprehensive income (loss) as of the third quarter and nine months ended are as follows:

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Three Months Ended September 30, 2004			
Net unrealized appreciation, securities:			
Unrealized appreciation on securities held	$ 303	$ (106)	$ 197
Gains realized on securities	(10)	4	(6)
Net unrealized appreciation, securities	$ 293	$ (102)	$ 191
Net unrealized appreciation, derivatives	$ 6	$ (3)	$ 3
Net translation of foreign currencies	$ 5	$ (2)	$ 3
Minimum pension liability adjustment	$ 32	$ (11)	$ 21
2003			
Net unrealized depreciation, securities:			
Unrealized depreciation on securities held	$ (183)	$ 64	$ (119)
Gains realized on securities	—	—	—
Net unrealized depreciation, securities	$ (183)	$ 64	$ (119)
Net unrealized depreciation, derivatives	$ (6)	$ 2	$ (4)
Net translation of foreign currencies:			
Net translation of foreign currencies held	$ (9)	$ 3	$ (6)
Foreign currency translation losses realized on sale of business	3	(1)	2
Net translation of foreign currencies	$ (6)	$ 2	$ (4)
Nine Months Ended September 30, 2004			
Net unrealized depreciation, securities:			

Unrealized appreciation on securities held	$	85	$	(34)	$	51
Gains realized on securities		(138)		49		(89)
Reclassification to other liabilities for modified coinsurance arrangement		(256)		90		(166)
Net unrealized depreciation, securities	$	(309)	$	105	$	(204)
Net unrealized appreciation, derivatives	$	14	$	(5)	$	9
Net translation of foreign currencies	$	1	$	—	$	1
Minimum pension liability adjustment	$	(202)	$	71	$	(131)
2003						
Net unrealized appreciation, securities:						
Unrealized appreciation on securities held	$	254	$	(89)	$	165
Gains realized on securities		(53)		19		(34)
Net unrealized appreciation, securities	$	201	$	(70)	$	131
Net unrealized depreciation, derivatives	$	(13)	$	4	$	(9)
Net translation of foreign currencies:						
Net translation on foreign currencies held	$	5	$	(2)	$	3
Foreign currency translation losses realized on sales of businesses		20		(7)		13
Net translation of foreign currencies	$	25	$	(9)	$	16
Minimum pension liability adjustment	$	(21)	$	8	$	(13)

NOTE 10 - EARNINGS PER SHARE

Basic and diluted earnings per share (as restated) were computed as follows:

(Dollars in millions, except per share amounts)	Basic	Effect of Dilution	Diluted
Three Months Ended September 30, 2004			
Income from continuing operations	$ 312	$ —	$ 312
Shares *(in thousands)*:			
Weighted average	134,910	—	134,910
Options and restricted stock grants		1,565	1,565
Total shares	134,910	1,565	136,475
EPS	$ 2.31	$ (0.02)	$ 2.29
2003			
Income from continuing operations	$ 195	$ —	$ 195
Shares *(in thousands)*:			
Weighted average	139,740	—	139,740
Options and restricted stock grants		800	800
Total shares	139,740	800	140,540
EPS	$ 1.40	$ (0.01)	$ 1.39
Nine Months Ended September 30, 2004			
Income from continuing operations	$ 1,017	$ —	$ 1,017
Shares *(in thousands)*:			
Weighted average	137,893	—	137,893
Options and restricted stock grants		1,524	1,524
Total shares	137,893	1,524	139,417
EPS	$ 7.38	$ (0.09)	$ 7.29
2003			
Income from continuing operations	$ 327	$ —	$ 327
Shares *(in thousands)*:			
Weighted average	139,725	—	139,725
Options and restricted stock grants		730	730
Total shares	139,725	730	140,455
EPS	$ 2.34	$ (0.01)	$ 2.33

Common shares held as Treasury shares were 141,718,172 as of September 30, 2004, and 133,913,353 as of September 30, 2003.

NOTE 11 - REINSURANCE

In the normal course of business, CIGNA’s insurance subsidiaries enter into agreements with other insurance companies to assume and cede reinsurance. Reinsurance is ceded primarily to limit losses from large exposures and to permit recovery of a portion of direct losses. Reinsurance does not relieve the originating insurer of liability. CIGNA evaluates the financial condition of its reinsurers and monitors their concentrations of credit risk.

Retirement benefits business. CIGNA had a reinsurance recoverable of $13.5 billion at September 30, 2004 from Prudential Retirement Insurance and Annuity Company resulting from the sale of the retirement benefits business, which was primarily in the form of a reinsurance arrangement. The reinsurance recoverable is secured primarily by fixed maturities and mortgage loans held in a business trust established by the reinsurer. This recoverable is reduced as CIGNA's reinsured liabilities are paid or directly assumed by the reinsurer.

Individual life and annuity reinsurance. CIGNA had a reinsurance recoverable of $5.2 billion at September 30, 2004, and $5.4 billion at December 31, 2003, from Lincoln National Corporation that arose from the 1998 sale of CIGNA’s individual life insurance and annuity business through an indemnity reinsurance arrangement.

Unicover and other run-off reinsurance. The Run-off Reinsurance operations participate in a workers’ compensation reinsurance pool, which ceased accepting new risks in early 1999. This pool was formerly managed by Unicover Managers, Inc. Although an arbitration over the most significant reinsurance (retrocessional) contracts for the pool was completed in 2002, some disputes over collection of amounts due CIGNA from the retrocessionaires continue and may require further arbitration actions to resolve. Also, disputes and arbitrations regarding other reinsurance (retrocessional) contracts for the pool remain and may not be resolved for some time.

Run-off Reinsurance also includes other workers' compensation reinsurance contracts, as well as personal accident reinsurance contracts, including contracts assumed in the London market. CIGNA obtained retrocessional reinsurance coverage for a significant portion of its liabilities under these contracts. Some of these retrocessionaires have disputed the validity of their contracts with CIGNA and arbitration over some of these disputes has commenced.

The retrocessional disputes are not expected to be resolved for some time. In addition, unfavorable claims experience related to workers' compensation and personal accident exposures is possible and could result in future losses, including losses attributable to the inability to recover amounts from retrocessionaires (either due to disputes with the retrocessionaires or their financial condition).

CIGNA's reserves for amounts recoverable from retrocessionaires, as well as for reserves for liabilities associated with underlying reinsurance exposures assumed by CIGNA, are considered appropriate as of September 30, 2004, based on current information. However, it is possible that future developments could have a material adverse effect on CIGNA's consolidated results of operations, and, in certain situations, could have a material adverse effect on CIGNA's financial condition.

Other reinsurance. CIGNA could have losses if reinsurers fail to indemnify CIGNA on other reinsurance arrangements, either because of reinsurer insolvencies or contract disputes. However, management does not expect charges for other unrecoverable reinsurance to have a material adverse effect on CIGNA's consolidated results of operations, liquidity or financial condition.

Effects of reinsurance. In CIGNA's consolidated income statements, premiums and fees were net of ceded premiums, and benefits, losses and settlement expenses were net of reinsurance recoveries, in the following amounts:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003
Premiums and fees				
Individual life insurance and annuity business sold	$ 72	$ 71	$ 219	$ 230
Other	34	50	111	135
Total	$ 106	$ 121	$ 330	$ 365
Reinsurance recoveries				
Individual life insurance and annuity business sold	$ 75	$ 50	$ 224	$ 199
Other	56	29	108	114
Total	$ 131	$ 79	$ 332	$ 313

NOTE 12 - SEGMENT INFORMATION

Operating segments generally reflect groups of related products, but the International segment is based on geography. CIGNA measures the financial results of its segments using "segment earnings" which is defined as income (loss) from continuing operations before realized investment gains (losses).

The impact of the restatement as discussed in Note 3, is included in Corporate and is not allocated to the operating segments.

In the second quarter of 2004, CIGNA completed the sale of its retirement benefits business and also realigned management responsibility for operations that provide case management and related services to workers' compensation insurers and employers who self-fund workers' compensation and disability benefits. To appropriately reflect the impact of these actions, CIGNA has changed its segment reporting, and prior periods have been reclassified to conform to this presentation:

- the sold retirement benefits business is reported in the Run-off Retirement segment;
- the corporate life insurance business (previously reported in the Retirement segment) was retained and is reported in Other Operations; and
- results from the disability and workers' compensation case management activities (previously reported in the Health Care segment) are included in the Disability and Life segment.

Beginning in the second quarter of 2004, corporate overhead previously allocated to the sold retirement benefits business is reported in Corporate.

Summarized segment financial information was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In millions)	2004	2003	2004	2003