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 **June 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 June 30, 2004, 137,526,222 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 third quarters of 2004 and an amended annual report on Form 10-K/A for the year ended December 31, 2003.

CIGNA CORPORATION

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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 described in our quarterly reports on Form 10-Q for the period ended September 30, 2004 and 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 June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
		(As Restated, see Note 3)		(As Restated, see Note 3)
REVENUES				
Premiums and fees	$ 3,507	$ 3,859	$ 7,131	$ 7,774
Net investment income	355	668	958	1,326
Other revenues	356	(2)	830	356
Realized investment gains	415	109	436	78
Total revenues	4,633	4,634	9,355	9,534
BENEFITS, LOSSES AND EXPENSES				
Benefits, losses and settlement expenses	2,485	3,330	5,449	6,579
Policy acquisition expenses	61	61	125	120
Other operating expenses	1,345	1,323	2,720	2,634
Total benefits, losses and expenses	3,891	4,714	8,294	9,333
INCOME (LOSS) FROM CONTINUING OPERATIONS BEFORE INCOME TAXES (BENEFITS)	742	(80)	1,061	201
Income taxes (benefits):				
Current	449	63	591	(8)
Deferred	(200)	(88)	(235)	77
Total taxes (benefits)	249	(25)	356	69
INCOME (LOSS) FROM CONTINUING OPERATIONS	493	(55)	705	132
INCOME FROM DISCONTINUED OPERATIONS	-	-	-	48
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	493	(55)	705	180
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES	-	-	(139)	-

NET INCOME (LOSS)	$	493	$	(55)	$	566	$	180
EARNINGS PER SHARE - BASIC								
INCOME (LOSS) FROM CONTINUING OPERATIONS	$	3.55	$	(0.39)	$	5.06	$	0.94
INCOME FROM DISCONTINUED OPERATIONS		-		-		-		0.35
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		3.55		(0.39)		5.06		1.29
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES		-		-		(1.00)		-
NET INCOME (LOSS)	$	3.55	$	(0.39)	$	4.06	$	1.29
EARNINGS PER SHARE - DILUTED								
INCOME (LOSS) FROM CONTINUING OPERATIONS	$	3.51	$	(0.39)	$	5.00	$	0.94
INCOME FROM DISCONTINUED OPERATIONS		-		-		-		0.34
INCOME (LOSS) BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE		3.51		(0.39)		5.00		1.28
CUMULATIVE EFFECT OF ACCOUNTING CHANGE, NET OF TAXES		-		-		(0.98)		-
NET INCOME (LOSS)	$	3.51	$	(0.39)	$	4.02	$	1.28
DIVIDENDS DECLARED PER SHARE	$	0.025	$	0.330	$	0.355	$	0.660

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 June 30, 2004	As of December 31, 2003
		(As Restated, see Note 3)
ASSETS		
Investments:		
Fixed maturities, at fair value (amortized cost, $15,776; $15,772)	$ 16,415	$ 17,121
Securities supporting experience-rated pension policyholder contracts, at fair value (amortized cost, $-; $10,558)	-	11,222
Equity securities, at fair value (cost, $111; $47)	155	78
Mortgage loans	3,707	8,655
Policy loans	1,585	1,572
Real estate	74	146
Other long-term investments	379	717
Short-term investments	284	147
Total investments	22,599	39,658
Cash and cash equivalents	3,033	1,392
Accrued investment income	275	468
Premiums, accounts and notes receivable	2,672	3,026
Reinsurance recoverables	21,759	6,395
Deferred policy acquisition costs	481	580
Property and equipment	868	973
Deferred income taxes	1,633	1,040
Goodwill	1,620	1,620
Other assets, including other intangibles	465	447
Separate account assets	36,658	35,393
Total assets	$ 92,063	$ 90,992
LIABILITIES		
Contractholder deposit funds	$ 26,339	$ 26,979
Unpaid claims and claim expenses	4,144	4,708
Future policy benefits	11,298	11,545
Unearned premiums	357	326
Total insurance and contractholder liabilities	42,138	43,558
	7,460	5,960

Accounts payable, accrued expenses and other liabilities				
Long-term debt		1,438		1,500
Nonrecourse obligations		47		23
Separate account liabilities		36,658		35,393
Total liabilities		87,741		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		3,687		3,597
Net unrealized appreciation, fixed maturities	$ 219		$ 610	
Net unrealized appreciation, equity securities	25		29	
Net unrealized depreciation, derivatives	(6)		(12)	
Net translation of foreign currencies	(16)		(14)	
Minimum pension liability adjustment	(819)		(667)	
Accumulated other comprehensive income (loss)		(597)		(54)
Retained earnings		10,019		9,503
Less treasury stock, at cost		(8,856)		(8,557)
Total shareholders' equity		4,322		4,558
Total liabilities and shareholders' equity		$ 92,063		$ 90,992
SHAREHOLDERS' EQUITY PER SHARE		$ 31.46		$ 32.42

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

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

Three Months Ended June 30,	**2004** Compre-hensive Income	**2004** Share-holders' Equity	**2003** Compre-hensive Income	**2003** Share-holders' Equity
	(As Restated, see Note 3)			
Common stock		$ 69		$ 68
Additional paid-in capital, April 1		3,646		3,533
Issuance of common stock for employee benefits plans		41		8
Additional paid-in capital, June 30		3,687		3,541
Accumulated other comprehensive loss, April 1		1		(125)
Net unrealized appreciation (depreciation), fixed maturities	$ (544)	(544)	$ 186	186
Net unrealized depreciation, equity securities	(3)	(3)	(1)	(1)
Net unrealized appreciation (depreciation) on securities	(547)		185	
Net unrealized depreciation, derivatives	(1)	(1)	(3)	(3)
Net translation of foreign currencies	(11)	(11)	6	6
Minimum pension liability adjustment	(39)	(39)	(13)	(13)
Other comprehensive income (loss)	(598)		175	
Accumulated other comprehensive income (loss), June 30		(597)		50
Retained earnings, April 1		9,529		9,227
Net income (loss)	493	493	(55)	(55)
Common dividends declared		(3)		(46)
Retained earnings, June 30		10,019		9,126
Treasury stock, April 1		(8,577)		(8,538)
Repurchase of common stock		(284)		-
Other treasury stock transactions, net		5		(5)
Treasury stock, June 30		(8,856)		(8,543)
	$ (105)	$ 4,322	$ 120	$ 4,242

TOTAL COMPREHENSIVE INCOME (LOSS) AND SHAREHOLDERS' EQUITY				
Six Months Ended June 30,				
Common stock		$ 69		$ 68
Issuance of common stock for employee benefits plans		-		-
Common stock, June 30		69		68
Additional paid-in capital, January 1		3,597		3,503
Issuance of common stock for employee benefits plans		90		38
Additional paid-in capital, June 30		3,687		3,541
Accumulated other comprehensive loss, January 1		(54)		(202)
Net unrealized appreciation (depreciation), fixed maturities	$ (391)	(391)	$ 254	254
Net unrealized depreciation, equity securities	(4)	(4)	(4)	(4)
Net unrealized appreciation (depreciation) on securities	(395)		250	
Net unrealized appreciation (depreciation), derivatives	6	6	(5)	(5)
Net translation of foreign currencies	(2)	(2)	20	20
Minimum pension liability adjustment	(152)	(152)	(13)	(13)
Other comprehensive income (loss)	(543)		252	
Accumulated other comprehensive income (loss), June 30		(597)		50
Retained earnings, January 1		9,503		9,038
Net income	566	566	180	180
Common dividends declared		(50)		(92)
Retained earnings, June 30		10,019		9,126
Treasury stock, January 1		(8,557)		(8,510)
Repurchase of common stock		(284)		-
Other treasury stock transactions, net		(15)		(33)
Treasury stock, June 30		(8,856)		(8,543)
TOTAL COMPREHENSIVE INCOME AND SHAREHOLDERS' EQUITY	$ 23	$ 4,322	$ 432	$ 4,242

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

CIGNA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Six Months Ended June 30, 2004	2003
	(As Restated, see Note 3)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income from continuing operations	$ 705	$ 132
Adjustments to reconcile income from continuing operations to net cash provided by operating activities:		
Insurance liabilities	(699)	(19)
Reinsurance recoverables	155	128
Deferred policy acquisition costs	(49)	(33)
Premiums, accounts and notes receivable	341	69
Accounts payable, accrued expenses and other liabilities	(63)	(70)
Current income taxes	471	319
Deferred income taxes	(235)	77
Realized investment (gains)	(436)	(78)
Depreciation and amortization	113	117
Gains on sales of businesses (excluding discontinued operations)	(75)	(33)
Proceeds from sales and maturities of securities supporting experience-rated pension policyholder contracts, net of purchases	954	-
Other, net	81	31
Net cash provided by operating activities of continuing operations	1,263	640
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from investments sold:		
Fixed maturities	1,124	4,049
Equity securities	19	184
Mortgage loans	79	541
Other (primarily short-term investments)	4,474	3,090
Investment maturities and repayments:		
Fixed maturities	447	1,343
Mortgage loans	408	505
Investments purchased:		
Fixed maturities	(2,477)	(5,428)
Equity securities	(14)	(67)
Mortgage loans	(478)	(1,058)
Other (primarily short-term investments)	(4,344)	(3,221)
Proceeds from sale of business	2,103	209
Property and equipment, net	(32)	(46)
Other, net	(25)	-
Net cash provided by investing activities of continuing operations	1,284	101
CASH FLOWS FROM FINANCING ACTIVITIES		
Deposits and interest credited to contractholder deposit funds	2,045	3,242
Withdrawals and benefit payments from contractholder deposit funds	(2,577)	(3,561)
Net change in short-term debt	-	(3)

Repayment of long-term debt		(76)		(127)
Repurchase common stock		(272)		-
Issuance of common stock		24		-
Common dividends paid		(50)		(92)
Net cash used in financing activities of continuing operations		(906)		(541)
Net increase in cash and cash equivalents		1,641		200
Cash and cash equivalents, beginning of period		1,392		1,575
Cash and cash equivalents, end of period	$	3,033	$	1,775
Supplemental Disclosure of Cash Information:				
Income taxes paid (received), net	$	107	$	(327)
Interest paid	$	57	$	59

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 03-01, "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 June 30, 2004, CIGNA had consolidated real estate joint venture assets of $117 million, including $54 million of real estate investments and liabilities of $90 million, including $13 million of variable rate debt due by 2008, $25 million of nonrecourse obligations and $52 million of other liabilities.

At June 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 $143 million and nonrecourse liabilities of $37 million, including $22 million of nonrecourse obligations and $15 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.

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 June 30	**2004**		2003	
(In millions)	As Reported	As Restated	As Reported	As Restated
Other Operating Expenses	**$ 1,311**	**$ 1,345**	$ 1,320	$ 1,323
Income (loss) from Continuing Operations	**$ 515**	**$ 493**	$ (53)	$ (55)
Net Income (loss)	**$ 515**	**$ 493**	$ (53)	$ (55)
Income (loss) from Continuing Operations per share				

Basic	**$**	**3.71**	**$**	**3.55**	$	(0.38)	$	(0.39)
Diluted	**$**	**3.67**	**$**	**3.51**	$	(0.38)	$	(0.39)
Net Income (loss) per share								
Basic	**$**	**3.71**	**$**	**3.55**	$	(0.38)	$	(0.39)
Diluted	**$**	**3.67**	**$**	**3.51**	$	(0.38)	$	(0.39)

Six Months Ended June 30	**2004**		2003	
(In millions)	As Reported	As Restated	As Reported	As Restated
Other Operating Expenses	**$ 2,678**	**$ 2,720**	$ 2,630	$ 2,634
Income from Continuing Operations	**$ 732**	**$ 705**	$ 135	$ 132
Net Income	**$ 593**	**$ 566**	$ 183	$ 180
Income from Continuing Operations per share				
Basic	**$ 5.25**	**$ 5.06**	$ 0.97	$ 0.94
Diluted	**$ 5.19**	**$ 5.00**	$ 0.96	$ 0.94
Net Income per share				
Basic	**$ 4.25**	**$ 4.06**	$ 1.31	$ 1.29
Diluted	**$ 4.21**	**$ 4.02**	$ 1.30	$ 1.28

	As of June 30, 2004		As of December 31, 2003	
(In millions)	As Reported	As Restated	As Reported	As Restated
Deferred Tax Asset	**$ 1,583**	**$ 1,633**	$ 1,001	$ 1,040
Shareholders' Equity	**$ 4,272**	**$ 4,322**	$ 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 (loss) and earnings (loss) 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 June 30,		Six Months Ended June 30,	
	2004	2003 **(As Restated)**	2004	2003
Net income (loss) as reported	$ 493	$ (55)	$ 566	$ 180
Compensation expense (recovery) for restricted stock grants, net of taxes	(3)	—	1	4

(benefits), included in net income (loss) as reported								
Compensation expense for stock options, net of taxes, included in net income(loss) as reported		22		2		27		3
Total compensation expense for stock options and restricted stock grants under fair value method for all awards, net of taxes		(8)		(9)		(22)		(22)
Pro forma net income (loss)	$	504	$	(62)	$	572	$	165
Basic - as reported	$	3.55	$	(0.39)	$	4.06	$	1.29
Basic - pro forma	$	3.63	$	(0.44)	$	4.10	$	1.18
Diluted - as reported	$	3.51	$	(0.39)	$	4.02	$	1.28
Diluted - pro forma	$	3.59	$	(0.44)	$	4.07	$	1.18

Recovery of compensation costs for restricted stock grants is due to increased forfeitures resulting from attrition, restructuring activities and the sale of the retirement benefits business. See Notes 4 and 5 for additional information.

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). The gain amortization is subject to acceleration as the reinsured liabilities are directly assumed by the buyer. In the second quarter of 2004, CIGNA recognized $33 million pre-tax ($22 million after-tax) in other revenues in the Run-off Retirement segment for gain amortization. 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.

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 June 30, 2004, CIGNA had approximately $3.3 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 second quarter of 2004, CIGNA recorded $41 million pre-tax in other revenues for these effects. These effects were offset by a 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 Lovelace Health Systems, Inc. In January 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 January 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	Six Months Ended
(In millions)	June 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.

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

In the second quarter of 2004, CIGNA approved the outsourcing of certain staff functions and recorded a pre-tax charge of $4 million for severance costs. CIGNA also vacated certain leased facilities during the quarter and recorded a pre-tax charge of $3 million.

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.

* Includes restructuring charges of $2 million pre-tax for the six months of 2004 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.

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.

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.

CIGNA had future policy benefit reserves for these guaranteed minimum death benefit contracts of approximately $1.1 billion as of June 30, 2004 and $1.2 billion as of December 31, 2003. Benefits incurred, net of ceded amounts, were $4 million for the second quarter and $16 million for the six months of 2004 compared with $176 million for the second quarter and $265 million for the six months of 2003. Benefits paid, net of ceded amounts, were $37 million for the second quarter and $79 million for the six months of 2004, compared with $85 million for the second quarter and $174 million for the six months of 2003.

CIGNA recorded in other revenues pre-tax losses of $29 million for the second quarter and $60 million for the six months of 2004, and pre-tax losses of $312 million for the second quarter and $256 million for the six 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 June 30, 2004, was $1.7 billion.

As of June 30, 2004, the aggregate fair value of the underlying mutual fund investments was approximately $46.7 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 $11.2 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 03-01, described in Note 2, which was effective in the first quarter of 2004.

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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 0-10% 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 16-31%, varying by equity fund type; 4-8%, 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 June 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 June 30, 2004	December 31, 2003
Highest annuity value		
Account value	$ 39,241	$ 41,497
Net amount at risk	$ 9,658	$ 10,951
Average attained age of contractholders	65	65
Anniversary value reset		
Account value	$ 3,122	$ 4,474
Net amount at risk	$ 260	$ 309
Average attained age of contractholders	59	59
Other		
Account value	$ 4,347	$ 6,530
Net amount at risk	$ 1,258	$ 1,660
Average attained age of contractholders	63	64
Total		
Account value	$ 46,710	$ 52,501
Net amount at risk	$ 11,176	$ 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.

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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). As a result of recent changes in minimum funding requirements, CIGNA expects to make total domestic pension plan contributions of approximately $175 million in 2004.

Components of net pension cost were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2004	2003	2004	2003
Service cost	$ 16	$ 20	$ 38	$ 40
Interest cost	55	56	110	111
Expected return on plan assets	(48)	(50)	(96)	(100)
Amortization of net loss from past experience	30	5	48	11
Net pension cost	$ 53	$ 31	$ 100	$ 62

In connection with the sale of the retirement benefits business and the operational effectiveness review, CIGNA had a pension curtailment event, which required CIGNA to remeasure the assets and obligations of its domestic qualified plan as of March 31, 2004. In addition, CIGNA completed the annual update of plan participant data in the second quarter of 2004. As a result, CIGNA increased plan obligations, which decreased equity by $39 million after-tax for the second quarter and $152 million after-tax for the six months of 2004. These charges were primarily due to a reduction in long-term interest rates (from 6.25% to 5.75%) used to determine the accumulated benefit obligation, 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 $18 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. This amendment reduced the accumulated other postretirement benefit obligation as of June 30, 2004 by $29 million pre-tax.

Components of net other postretirement benefit cost were as follows:

(In millions)	Three Months Ended June 30, 2004	Three Months Ended June 30, 2003	Six Months Ended June 30, 2004	Six Months Ended June 30, 2003
Service cost	$ —	$ —	$ 1	$ 1
Interest cost	8	7	17	18
Expected return on plan assets	—	—	(1)	(1)
Amortization of prior service cost	(4)	(3)	(8)	(8)
Net other postretirement benefit cost	$ 4	$ 4	$ 9	$ 10

CIGNA also recognized gains of $9 million after-tax ($14 million pre-tax) for the second quarter and six months of 2004 for other postretirement benefits in connection with the 2004 operational effectiveness review and the sale of the retirement benefits business.

CIGNA recognized gains of $2 million after-tax ($3 million pre-tax) for the second quarter and $6 million after-tax ($9 million pre-tax) for the six months of 2003 for other postretirement benefits in connection with the 2002 health care restructuring program.

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 June 30,		Six Months Ended June 30,	
(In millions)	2004	2003	2004	2003
Fixed maturities	$ 107	$ 40	$ 116	$ 17
Equity securities	10	52	12	36
Mortgage loans	219	—	219	(1)
Real estate	54	—	52	(1)
Derivatives and other	25	17	37	27
Realized investment gains, before income taxes	415	109	436	78
Less income taxes	146	37	153	27
Net realized investment gains	$ 269	$ 72	$ 283	$ 51

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 June 30,		Six Months Ended June 30,	
(In millions)	2004	2003	2004	2003
Proceeds from sales	$ 490	$ 2,610	$ 1,143	$ 4,233
Gross gains on sales	$ 176	$ 134	$ 210	$ 189
Gross losses on sales	$ (31)	$ (5)	$ (34)	$ (44)

As of June 30, 2004, fixed maturities include $196 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 second quarter and six 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 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 June 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	$ 4,226	$ 4,365	$ (139)
Below investment grade	$ 349	$ 375	$ (26)
More than one year:			
Investment grade	$ 181	$ 187	$ (6)
Below investment grade	$ 52	$ 55	$ (3)

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

NOTE 9 - ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following changes in accumulated other comprehensive income (loss) 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.

(In millions)	Pre-Tax	Tax (Expense) Benefit	After-Tax
Three Months Ended June 30, 2004			
Net unrealized depreciation, securities:			
Unrealized depreciation on securities held	$ (462)	$ 157	$ (305)
Gains realized on securities	(117)	41	(76)
Reclassification to other liabilities for modified coinsurance	(256)	90	(166)
Net unrealized depreciation, securities	$ (835)	$ 288	$ (547)
Net unrealized depreciation, derivatives	$ (3)	$ 2	$ (1)
Net translation of foreign currencies	$ (17)	$ 6	$ (11)
Minimum pension liability adjustment	$ (60)	$ 21	$ (39)
2003			
Net unrealized appreciation, securities:			
Unrealized appreciation on securities held	$ 377	$ (133)	$ 244
Gains realized on securities	(92)	33	(59)
Net unrealized appreciation, securities	$ 285	$ (100)	$ 185
Net unrealized depreciation, derivatives	$ (5)	$ 2	$ (3)
Net translation of foreign currencies	$ 9	$ (3)	$ 6
Minimum pension liability adjustment	$ (21)	$ 8	$ (13)
Six Months Ended June 30,			

2004						
Net unrealized depreciation, securities:						
Unrealized depreciation on securities held	$	(218)	$	72	$	(146)
Gains realized on securities		(128)		45		(83)
Reclassification to other liabilities for modified coinsurance		(256)		90		(166)
Net unrealized depreciation, securities	$	(602)	$	207	$	(395)
Net unrealized appreciation, derivatives	$	8	$	(2)	$	6
Net translation of foreign currencies	$	(4)	$	2	$	(2)
Minimum pension liability adjustment	$	(234)	$	82	$	(152)
2003						
Net unrealized appreciation, securities:						
Unrealized appreciation on securities held	$	437	$	(153)	$	284
Gains realized on securities		(53)		19		(34)
Net unrealized appreciation, securities	$	384	$	(134)	$	250
Net unrealized depreciation, derivatives	$	(8)	$	3	$	(5)
Net translation of foreign currencies:						
Net translation on foreign currencies held	$	14	$	(5)	$	9
Foreign currency translation losses realized on sale of business		17		(6)		11
Net translation of foreign currencies	$	31	$	(11)	$	20
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 June 30,			
2004			
Income from continuing operations	$ 493	$ —	$ 493
Shares *(in thousands)*:			
Weighted average	138,801	—	138,801
Options and restricted stock grants		1,701	1,701
Total shares	138,801	1,701	140,502
EPS	$ 3.55	$ (0.04)	$ 3.51
2003			
Loss from continuing operations	$ (55)	$ —	$ (55)
Shares *(in thousands)*:			
Weighted average	139,735	—	139,735
Options and restricted stock grants*		—	—
Total shares	139,735	—	139,735
EPS	$ (0.39)	—	$ (0.39)
Six Months Ended June 30,			
2004			
Income from continuing operations	$ 705	$ —	$ 705
Shares *(in thousands)*:			
Weighted average	139,402	—	139,402
Options and restricted stock grants		1,503	1,503
Total shares	139,402	1,503	140,905
EPS	$ 5.06	$ (0.06)	$ 5.00
2003			
Income from continuing operations	$ 132	$ —	$ 132
Shares *(in thousands)*:			
Weighted average	139,712	—	139,712
Options and restricted stock grants		695	695
Total shares	139,712	695	140,407
EPS	$ 0.94	—	$ 0.94

Common shares held as Treasury shares were 138,583,374 as of June 30, 2004, and 133,835,494 as of June 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 $15.6 billion at June 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 directly assumed by the reinsurer.

Individual life and annuity reinsurance. CIGNA had a reinsurance recoverable of $5.3 billion at June 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.

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[*] Because of the loss from continuing operations for the second quarter of 2003, the number of shares used to compute loss per share does not reflect the dilution caused by stock options and restricted stock grants of approximately 1.0 million.

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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 June 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 June 30,		Six Months Ended June 30,	
(In millions)	2004	2003	2004	2003
Premiums and fees				
Individual life insurance and annuity business sold	$ 74	$ 81	$ 147	$ 159
Other	39	40	77	85
Total	$ 113	$ 121	$ 224	$ 244
Reinsurance recoveries				
Individual life insurance and annuity business sold	$ 70	$ 74	$ 149	$ 149
Other	15	53	52	85
Total	$ 85	$ 127	$ 201	$ 234

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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 now reported in the Run-off Retirement segment;
- the corporate life insurance business (previously reported in the Retirement segment) was retained and is now reported in Other Operations; and
- results from the disability and workers’ compensation case management activities (previously reported in the Health Care segment) are now 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 now reported in Corporate.

In the third quarter of 2003, CIGNA changed its segment presentation to report its health care operations (Health Care segment) and its separately managed group disability and life insurance operations (Disability and Life segment) as two discrete segments. Previously, results from both of these operations were combined as a single segment.

Disability and life insurance products which were historically sold in connection with certain experience-rated medical accounts continue to be managed by CIGNA's health care business and are reported in the Health Care segment.

Summarized segment financial information was as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In millions)	2004	2003	2004	2003
Premiums and fees and other revenues				
Health Care	$ 2,944	$ 3,325	$ 5,987	$ 6,690
Disability and Life	519	483	1,046	956
International	255	208	496	422
Run-off Retirement	94	63	328	135
Run-off Reinsurance	(9)	(297)	(18)	(218)
Other Operations				