AETNA INC /PA/
Form 10-Q
April 24, 2014

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2014
or

o 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: 1-16095

Aetna Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania	23-2229683
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
151 Farmington Avenue, Hartford, CT	06156
(Address of principal executive offices)	(Zip Code)
Registrant's telephone number, including area code:	(860) 273-0123

Former name, former address and former fiscal year, if changed since last report: N/A

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. þ Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter)
during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
þ Yes o No

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

Large accelerated filer þ Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

There were 357.4 million shares of the registrant's voting common stock with a par value of $.01 per share outstanding at March 31, 2014.

Aetna Inc.
Form 10-Q
For the Quarterly Period Ended March 31, 2014

Unless the context otherwise requires, references to the terms "we", "our" or "us" used throughout this Quarterly Report on Form 10-Q (except the Report of Independent Registered Public Accounting Firm on page 34), refer to Aetna Inc. (a Pennsylvania corporation) ("Aetna") and its subsidiaries (collectively, the "Company").

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Part I. Financial Information

Item 1. Financial Statements

Consolidated Statements of Income
(Unaudited)

(Millions, except per common share data)	For the Three Months Ended March 31, 2014	2013
Revenue:		
Health care premiums	$11,911.7	$7,785.8
Other premiums	561.6	521.3
Fees and other revenue [1]	1,248.8	966.4
Net investment income	244.2	235.1
Net realized capital gains	28.5	30.3
Total revenue	13,994.8	9,538.9
Benefits and expenses:		
Health care costs [2]	9,576.3	6,379.5
Current and future benefits	578.7	559.3
Operating expenses:		
Selling expenses	402.8	297.2
General and administrative expenses	2,047.6	1,442.0
Total operating expenses	2,450.4	1,739.2
Interest expense	85.6	77.8
Amortization of other acquired intangible assets	62.2	32.4
Loss on early extinguishment of long-term debt	91.9	—
Total benefits and expenses	12,845.1	8,788.2
Income before income taxes	1,149.7	750.7
Income taxes:		
Current	418.5	266.8
Deferred	61.8	(7.0)
Total income taxes	480.3	259.8
Net income including non-controlling interests	669.4	490.9
Less: Net income attributable to non-controlling interests	3.9	.8
Net income attributable to Aetna	$665.5	$490.1
Earnings per common share:		
Basic	$1.84	$1.50
Diluted	$1.82	$1.48

(1) Fees and other revenue include administrative services contract member co-payments and plan sponsor reimbursements related to our mail order and specialty pharmacy operations of $21.8 million and $22.3 million (net of pharmaceutical and processing costs of $275.4 million and $268.9 million) for the three months ended March 31, 2014 and 2013, respectively.

(2) Health care costs have been reduced by Insured member co-payments related to our mail order and specialty pharmacy operations of $30.6 million and $31.0 million for the three months ended March 31, 2014 and 2013, respectively.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Comprehensive Income
(Unaudited)

(Millions)	For the Three Months Ended March 31, 2014	2013
Net income including non-controlling interests	$669.4	$490.9
Other comprehensive income (loss), net of tax:		
Previously impaired debt securities: [1]		
Net unrealized gains (losses) ($1.7 and $(14.5) pretax)	1.1	(9.4)
Less: reclassification of gains (losses) to earnings ($.6 and $(5.7) pretax)	.4	(3.7)
Total previously impaired debt securities [1]	.7	(5.7)
All other securities:		
Net unrealized gains (losses) ($211.0 and $(120.7) pretax)	137.2	(78.5)
Less: reclassification of (losses) gains to earnings ($(5.0) and $25.1 pretax)	(3.3)	15.8
Total all other securities	140.5	(94.3)
Foreign currency and derivatives:		
Net unrealized (losses) gains ($(19.2) and $10.3 pretax)	(12.5)	6.7
Less: reclassification of gains (losses) to earnings ($15.6 and $(1.3) pretax)	10.1	(.8)
Total foreign currency and derivatives	(22.6)	7.5
Pension and other postretirement benefit (“OPEB”) plans:		
Amortization of net actuarial losses ($(11.9) and $(19.4) pretax)	7.7	12.6
Amortization of prior service credit ($1.0 and $1.0 pretax)	(.6)	(.6)
Total pension and OPEB plans	7.1	12.0
Other comprehensive income (loss)	125.7	(80.5)
Comprehensive income including non-controlling interests	795.1	410.4
Less: Comprehensive income attributable to non-controlling interests	3.9	.8
Comprehensive income attributable to Aetna	$791.2	$409.6

(1) Represents unrealized (losses) gains on the non-credit related component of impaired debt securities that we do not intend to sell and subsequent changes in the fair value of any previously impaired security.

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Balance Sheets

(Millions)	(Unaudited) At March 31, 2014	At December 31, 2013
Assets:		
Current assets:		
Cash and cash equivalents	$2,074.1	$1,412.3
Investments	2,209.8	2,063.8
Premiums receivable, net	1,700.2	1,331.2
Other receivables, net	1,809.0	1,780.8
Accrued investment income	212.6	211.1
Collateral received under securities loan agreements	720.7	792.6
Income taxes receivable	—	69.2
Deferred income taxes	449.8	521.5
Other current assets	2,238.6	1,536.4
Total current assets	11,414.8	9,718.9
Long-term investments	21,290.4	20,935.0
Reinsurance recoverables	776.5	782.7
Goodwill	10,227.5	10,227.5
Other acquired intangible assets, net	2,031.9	2,094.1
Property and equipment, net	704.1	721.9
Other long-term assets	1,494.1	1,419.2
Separate Accounts assets	4,179.7	3,972.5
Total assets	$52,119.0	$49,871.8
Liabilities and shareholders' equity:		
Current liabilities:		
Health care costs payable	$5,007.2	$4,547.4
Future policy benefits	729.4	734.4
Unpaid claims	726.1	705.4
Unearned premiums	573.3	458.7
Policyholders' funds	1,925.7	1,727.3
Collateral payable under securities loan and repurchase agreements	877.0	792.6
Current portion of long-term debt	620.2	387.3
Income taxes payable	286.6	—
Accrued expenses and other current liabilities	3,835.7	3,226.9
Total current liabilities	14,581.2	12,580.0
Future policy benefits	6,609.0	6,656.8
Unpaid claims	1,630.3	1,619.3
Policyholders' funds	1,184.1	1,188.0
Long-term debt, less current portion	7,618.4	7,865.3
Deferred income taxes	940.9	864.2
Other long-term liabilities	1,014.4	1,047.5
Separate Accounts liabilities	4,179.7	3,972.5
Total liabilities	37,758.0	35,793.6
Commitments and contingencies (Note 13)		
Shareholders' equity:		

Common stock ($.01 par value; 2.6 billion shares authorized and 357.4 million shares issued and outstanding in 2014; 2.6 billion shares authorized and 362.2 million shares issued and outstanding in 2013) and additional paid-in capital	4,414.5	4,382.2
Retained earnings	10,675.5	10,555.4
Accumulated other comprehensive loss	(786.4)	(912.1)
Total Aetna shareholders' equity	14,303.6	14,025.5
Non-controlling interests	57.4	52.7
Total equity	14,361.0	14,078.2
Total liabilities and equity	$52,119.0	$49,871.8

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

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Consolidated Statements of Shareholders’ Equity
(Unaudited)

(Millions)	Number of Common Shares Outstanding	Attributable to Aetna Common Stock and Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total Aetna Shareholders' Equity	Non-Controlling Interests	Total Equity
Three Months Ended March 31, 2014							
Balance at December 31, 2013	362.2	$4,382.2	$10,555.4	$ (912.1)	$14,025.5	$ 52.7	$14,078.2
Net income	—	—	665.5	—	665.5	3.9	669.4
Other increases in non-controlling interest	—	—	—	—	—	.8	.8
Other comprehensive income (Note 7)	—	—	—	125.7	125.7	—	125.7
Common shares issued for benefit plans, including tax benefits	1.7	32.4	—	—	32.4	—	32.4
Repurchases of common shares	(6.5)	(.1)	(464.9)	—	(465.0)	—	(465.0)
Dividends declared	—	—	(80.5)	—	(80.5)	—	(80.5)
Balance at March 31, 2014	357.4	$4,414.5	$10,675.5	$ (786.4)	$14,303.6	$ 57.4	$14,361.0
Three Months Ended March 31, 2013							
Balance at December 31, 2012	327.6	$1,095.3	$10,343.9	$ (1,033.4)	$10,405.8	$ 23.4	$10,429.2
Net income	—	—	490.1	—	490.1	.8	490.9
Other increases in non-controlling interest	—	—	—	—	—	21.7	21.7
Other comprehensive loss (Note 7)	—	—	—	(80.5)	(80.5)	—	(80.5)
Common shares issued for benefit plans, including tax benefits	2.0	114.8	—	—	114.8	—	114.8
Repurchases of common shares	(3.7)	—	(184.1)	—	(184.1)	—	(184.1)
Dividends declared	—	—	(65.2)	—	(65.2)	—	(65.2)
Balance at March 31, 2013	325.9	$1,210.1	$10,584.7	$ (1,113.9)	$10,680.9	$ 45.9	$10,726.8

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended March 31,	
(Millions)	2014	2013
Cash flows from operating activities:		
Net income including non-controlling interests	$669.4	$490.9
Adjustments to reconcile net income to net cash provided by operating activities:		
Net realized capital gains	(28.5)	(30.3)
Depreciation and amortization	154.7	108.6
Debt fair value amortization	(15.1)	—
Equity in earnings of affiliates, net	(20.6)	(18.3)
Stock-based compensation expense	38.8	24.5
Amortization of net investment premium	18.3	9.5
Loss on early extinguishment of long-term debt	91.9	—
Changes in assets and liabilities:		
Accrued investment income	(1.5)	2.9
Premiums due and other receivables	(337.0)	(413.5)
Income taxes	420.3	189.9
Other assets and other liabilities	(70.6)	(103.5)
Health care and insurance liabilities	501.4	280.2
Other, net	.7	2.9
Net cash provided by operating activities	1,422.2	543.8
Cash flows from investing activities:		
Proceeds from sales and maturities of investments	2,219.6	2,711.0
Cost of investments	(2,379.6)	(2,493.6)
Additions to property, equipment and software	(93.8)	(86.1)
Other, net	—	2.5
Net cash (used for) provided by investing activities	(253.8)	133.8
Cash flows from financing activities:		
Repayment of long-term debt	(839.7)	—
Issuance of long-term debt	741.9	—
Net issuance of short-term debt	—	99.9
Deposits and interest credited for investment contracts	1.1	1.2
Withdrawals of investment contracts	(1.0)	(4.1)
Common shares issued under benefit plans, net	(17.0)	37.8
Stock-based compensation tax benefits	13.9	55.0
Proceeds from repurchase agreements	156.2	—
Common shares repurchased	(465.0)	(184.1)
Dividends paid to shareholders	(81.6)	(65.5)
Collateral on interest rate swaps	(16.7)	9.2
Contributions, non-controlling interests	1.3	21.7
Net cash used for financing activities	(506.6)	(28.9)
Net increase in cash and cash equivalents	661.8	648.7
Cash and cash equivalents, beginning of period	1,412.3	2,579.2
Cash and cash equivalents, end of period	$2,074.1	$3,227.9
Supplemental cash flow information:		
Interest paid	$72.9	$32.4
Income taxes paid	46.2	13.4

Refer to accompanying Condensed Notes to Consolidated Financial Statements (Unaudited).

Condensed Notes to Consolidated Financial Statements
(Unaudited)

1. Organization

We conduct our operations in three business segments:

- Health Care consists of medical, pharmacy benefit management services, dental, behavioral health and vision plans offered on both an Insured basis (where we assume all or a majority of the risk for medical and dental care costs) and an employer-funded basis (where the plan sponsor under an administrative services contract ("ASC") assumes all or a majority of this risk) and emerging businesses products and services, such as Accountable Care Solutions ("ACS"), that complement and enhance our medical products. Medical products include point-of-service ("POS"), preferred provider organization ("PPO"), health maintenance organization ("HMO") and indemnity benefit plans. Medical products also include health savings accounts ("HSAs") and Aetna HealthFund®, consumer-directed health plans that combine traditional POS or PPO and/or dental coverage, subject to a deductible, with an accumulating benefit account (which may be funded by the plan sponsor and/or the member in the case of HSAs). We also offer Medicare and Medicaid products and services and other medical products, such as medical management and data analytics services, medical stop loss insurance, workers' compensation administrative services and products that provide access to our provider network in select geographies.

- Group Insurance primarily includes group life insurance and group disability products. Group life insurance products are offered on an Insured basis, and include basic and supplemental group term life, group universal life, supplemental or voluntary programs and accidental death and dismemberment coverage. Group disability products consist primarily of short-term and long-term disability products (and products which combine both), which are offered to employers on both an Insured and an ASC basis, and absence management services offered to employers, which include short-term and long-term disability administration and leave management. Group Insurance also includes long-term care products that were offered primarily on an Insured basis, which provide benefits covering the cost of care in private home settings, adult day care, assisted living or nursing facilities. We no longer solicit or accept new long-term care customers.

- Large Case Pensions manages a variety of retirement products (including pension and annuity products) primarily for tax-qualified pension plans. These products provide a variety of funding and benefit payment distribution options and other services. Large Case Pensions also includes certain discontinued products (refer to Note 16 beginning on page 32 for additional information).

On May 7, 2013 (the "Effective Date"), we completed the acquisition of Coventry Health Care, Inc. ("Coventry") in a transaction valued at approximately $8.7 billion, including the fair value of Coventry's outstanding debt. Refer to Note 3 beginning on page 8 for additional information.

2. Summary of Significant Accounting Policies

Interim Financial Statements
These interim financial statements necessarily rely on estimates, including assumptions as to annualized tax rates. In the opinion of management, all adjustments necessary for a fair statement of results for the interim periods have been made. All such adjustments are of a normal, recurring nature. The accompanying unaudited consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and related notes presented in our 2013 Annual Report on Form 10-K (our "2013 Annual Report"). Certain financial information that is normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles ("GAAP"), but that is not required for interim reporting purposes, has been condensed or omitted. We have

omitted certain footnote disclosures that would substantially duplicate the disclosures in our 2013 Annual Report, unless the information contained in those disclosures materially changed and is required by GAAP. We evaluated subsequent events that occurred after March 31, 2014 through the date the financial statements were issued and determined there were no other items to disclose other than those disclosed in Notes 3 and 10 beginning on pages 8 and 25, respectively.

Reclassifications
Certain reclassifications were made to 2013 financial information to conform with the 2014 presentation.

Principles of Consolidation
The accompanying unaudited consolidated financial statements have been prepared in accordance with GAAP and include the accounts of Aetna and the subsidiaries we control. All significant intercompany balances have been eliminated in consolidation.

Accounting for certain provisions of the Patient Protection and Affordable Care Act and the Health Care and Education Reconciliation Act of 2010 (collectively, “Health Care Reform” or “ACA”)
We are participating in certain public health insurance exchanges established pursuant Health Care Reform. Under regulations established by the U.S. Department of Health and Human Services (“HHS”), HHS pays us a portion of the premium (“Premium Subsidy”) and/or a portion of the health care costs (“Cost Sharing Subsidy”) for low-income individual members. In addition, HHS administers certain risk management programs as described below.

We recognize monthly premiums received from members and the Premium Subsidy as premium revenue ratably over the contract period. The Cost Sharing Subsidy offsets health care costs when incurred. We record a liability if the Cost Sharing Subsidy is paid in advance or a receivable if incurred health care costs exceed the Cost Sharing Subsidy received to date.

Accounting for Health Care Reform's Reinsurance, Risk Adjustment and Risk Corridor (the “3Rs”)
Reinsurance
Health Care Reform established a temporary three-year reinsurance program, whereby all issuers of major medical commercial insurance products and self-insured plan sponsors are required to contribute funding in amounts set by HHS. Funds collected will be utilized to reimburse issuers' high claims costs incurred for qualified individual members. The expense related to this required funding is reflected in general and administrative expenses for all of our insurance products with the exception of products associated with qualified individual members; this expense for qualified individual members is reflected as a reduction of premium revenue. When annual claim costs incurred by our qualified individual members exceed a specified attachment point, we are entitled to certain reimbursements from this program. We record a receivable and offset health care costs to reflect our estimate of these recoveries.

Risk Adjustment
Health Care Reform established a permanent risk adjustment program to transfer funds from qualified individual and small group insurance plans with below average risk scores to those respective plans with above average risk scores. Based on the risk of our qualified plan members compared to the risk of members of other qualified plans in comparable markets, we estimate our ultimate 2014 risk adjustment receivable or payable and reflect the pro-rata year-to-date impact as an adjustment to our premium revenue.

Risk Corridor
Health Care Reform established a temporary three-year risk sharing program. Under this program we make (or receive) a payment to (or from) HHS based on the ratio of allowable costs to target costs (as defined by Health Care Reform). Risk corridor payments from HHS will be limited to the extent of the risk corridor collections received by HHS over the duration of the program. We record a risk corridor receivable or payable as an adjustment to premium revenue on a pro-rata year-to-date basis based on our estimate of the ultimate 2014 risk sharing amount.

We will perform a final reconciliation and settlement with HHS of the 2014 Cost Sharing Subsidy and 3Rs in 2015.

New Accounting Standards

Fees Paid to the Federal Government by Health Insurers

Effective January 1, 2014, we adopted new accounting guidance relating to the recognition and income statement reporting of the mandated fee to be paid to the federal government by health insurers. This guidance applies to the new health insurer fee (“HIF”) included in Health Care Reform. This new accounting guidance resulted in the establishment on January 1, 2014, of a liability for our portion of the entire estimated 2014 annual HIF. This amount is reflected in accrued expenses and other liabilities with a corresponding amount reflected in other current assets. The pro-rata year-to-date portion of the annual HIF is reflected on a straight-line basis in general and administrative expenses with a corresponding reduction in other current assets. The HIF for 2014 is expected to be paid no later than September 30, 2014 and is not tax deductible.

Amendments to the Scope, Measurement and Disclosure Requirements of Investment Companies

Effective January 1, 2014, we adopted new accounting guidance relating to the approach for determining whether an entity is considered an investment company for accounting purposes. This guidance clarified the characteristics and set measurement and disclosure requirements for an investment company for accounting purposes. The adoption of this new guidance did not have an impact on our financial position or operating results.

Future Application of Accounting Standards

Accounting for Investments in Qualified Affordable Housing Projects

Effective January 1, 2015, we will be permitted to make an accounting policy election to adopt new accounting guidance relating to the recognition of amortization of investments in qualified affordable housing projects. The guidance sets forth a new method of measurement, referred to as the proportional amortization method, under which income and expense items related to qualified affordable housing projects would be allocated to the income taxes line item. If we elect to adopt this new guidance, such adoption is not expected to have a material impact on our financial position or operating results.

Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

Effective January 1, 2015, we will adopt amended accounting guidance related to when an entity reports a discontinued operation in its financial position and operating results. The guidance clarifies that a discontinued operation is required to be reported if the disposal represents a significant shift that has (or will have) a major effect on an entity’s major operations and financial results when a component of an entity or a group of components of an entity are either classified as held for sale or are disposed of by sale. The amendments also require additional disclosures about discontinued operations. If we have a discontinued operation after the effective date, these changes could result in increased reporting and disclosure requirements in our financial statements.

3. Acquisitions; Completed Disposition

Acquisition of the InterGlobal Group

In April 2014, we acquired the InterGlobal group, a company that specializes in international private medical insurance for groups and individuals in the Middle East, Asia, Africa and Europe. The goodwill related to this acquisition will be assigned to our Health Care segment. The purchase price was not material. The transaction closed after March 31, 2014, and therefore has not been reflected in these financial statements.

Acquisition of Coventry

On August 19, 2012, we entered into a definitive agreement (as amended, the “Merger Agreement”) to acquire Coventry. On the Effective Date, we acquired Coventry in a transaction valued at approximately $8.7 billion, including the $1.8 billion fair value of Coventry's outstanding long-term debt.

Pursuant to the terms of the Merger Agreement, an Aetna subsidiary merged with and into Coventry (the "Merger"), with Coventry continuing as the surviving corporation and a wholly-owned subsidiary of Aetna. Under the terms of the Merger Agreement, Coventry stockholders received $27.30 in cash and 0.3885 of an Aetna common share for each share of Coventry common stock (including restricted shares but excluding shares held by Coventry as treasury stock) outstanding at the effective time of the Merger. As a result, on the Effective Date, we issued approximately 52.2 million Aetna common shares, with a fair value of approximately $3.1 billion and paid approximately $3.8 billion in cash in exchange for all of the outstanding shares of Coventry common stock and outstanding awards. Substantially all of Coventry's outstanding equity awards vested and were paid out in cash and canceled in connection with the Merger. An insignificant amount of outstanding Coventry equity awards that pursuant to their terms did not vest at the effective time of the Merger were converted into cash-settled Aetna restricted stock units in connection with the Merger. We funded the cash portion of the purchase price with a combination of proceeds from the issuance of long-term debt, commercial paper and available cash on hand.

The transaction has been accounted for using the acquisition method of accounting which requires, among other things, the assets acquired and liabilities assumed to be recognized at their fair values at the Effective Date. The amounts recognized for certain assets acquired and liabilities assumed are preliminary until the initial accounting for the acquisition is complete. The following items, among others, are considered preliminary until we gather sufficient information for the initial accounting to be complete:

- the nature and amounts recognized for current and deferred income tax assets and liabilities;
- the nature, amounts recognized and measurement basis of certain liabilities, including liabilities arising from contingencies recognized at acquisition; and
- quantitative information related to goodwill recorded at acquisition.

Pro Forma Impact of Acquisition

The following table presents supplemental pro forma information for the three months ended March 31, 2013, as if the Merger had occurred on January 1, 2012. The unaudited pro forma consolidated results are not necessarily indicative of what our consolidated results would have been had the Merger been completed on January 1, 2012. In addition, the unaudited pro forma consolidated results do not purport to project the future results of the combined company nor do they reflect the expected realization of any cost savings associated with the Merger.

(Millions, except per common share data)	Three Months Ended March 31, 2013
Total revenue	$12,939.4
Net income attributable to Aetna	638.6
Earnings per share:	
Basic	$1.69
Diluted	1.67

The unaudited pro forma consolidated results for the three months ended March 31, 2013 reflect the following pro forma adjustments:

- Elimination of intercompany transactions between Aetna and Coventry, primarily related to network rental fees.
- Foregone interest income associated with cash and cash equivalents and investments assumed to have been used to partially fund the Merger.
- Foregone interest income associated with adjusting the amortized cost of Coventry's investment portfolio to fair value as of the completion of the Merger.
- Elimination of historical Coventry intangible asset amortization expense and capitalized internal-use software amortization expense and addition of intangible asset amortization expense relating to intangibles valued as part of the acquisition.
- Interest expense was reduced for the amortization of the fair value adjustment to long-term debt.
- Elimination of transaction-related costs incurred by Aetna and Coventry during 2013.
- Adjustment of the above pro forma adjustments for the applicable tax impact.
- Conforming adjustments to align Coventry's presentation to Aetna's accounting policies.

Elimination of revenue and directly identifiable costs related to the sale of Aetna's Missouri Medicaid business, Missouri Care, Incorporated (“Missouri Care”), to WellCare Health Plans, Inc. on March 31, 2013.

Completed Disposition

In connection with the acquisition of Coventry, on March 31, 2013, we completed the sale of Missouri Care to WellCare Health Plans, Inc. The sale price was not material, and the transaction did not have a material impact on our financial position or operating results.

4. Earnings Per Common Share

Basic earnings per share ("EPS") is computed by dividing net income attributable to Aetna by the weighted average number of common shares outstanding during the reporting period. Diluted EPS is computed in a similar manner, except that the weighted average number of common shares outstanding is adjusted for the dilutive effects of our outstanding stock-based compensation awards, but only if the effect is dilutive.

The computations of basic and diluted EPS for the three months ended March 31, 2014 and 2013 are as follows:

(Millions, except per common share data)	2014	2013
Net income attributable to Aetna	$665.5	$490.1
Weighted average shares used to compute basic EPS	361.6	327.6
Dilutive effect of outstanding stock-based compensation awards	3.4	3.1
Weighted average shares used to compute diluted EPS	365.0	330.7
Basic EPS	$1.84	$1.50
Diluted EPS	$1.82	$1.48

The stock-based compensation awards excluded from the calculation of diluted EPS for the three months ended March 31, 2014 and 2013 are as follows:

(Millions)	2014	2013
Stock appreciation rights ("SARs") (1)	1.3	6.7
Market stock units ("MSUs") (2)	.4	.4
Performance stock units ("PSUs") (2)	.7	.8
Performance stock appreciation rights ("PSARs") (2)	.2	