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JEFFERSON PILOT CORP
Form 10-Q
May 14, 2002

FORM 10-Q
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D. C. 20549

Quarterly Report Under Section 13 or 15(d)
of the Securities Exchange Act of 1934

For Quarter Ended March 31, 2002

Commission file number 1-5955

Jefferson-Pilot Corporation
(Exact name of registrant as specified in its charter)

North Carolina 56-0896180
(State or other jurisdiction of (I.R.S. Employer
incorporation or organization) Identification No.)

100 North Greene Street, Greensboro, North Carolina 27401
(Address of principal executive offices) (Zip Code)

(336) 691-3000
(Registrant's telephone number, including area code)

Indicate 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 and (2) has been subject to such filing requirements for
the past 90 days. Yes X No
-- --

Number of shares of common stock outstanding at March 31, 2002

150,213,779

JEFFERSON-PILOT CORPORATION

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JEFFERSON-PILOT CORPORATION AND SUBSIDIARIES
CONSOLIDATED UNAUDITED CONDENSED BALANCE SHEETS

| | MARCH 31 2002 |
|---|--------------------------|
| | (DOLLARS IN MILLIONS) |
| ASSETS | |
| Investments: | |
| Debt securities available for sale, at fair value (amortized cost \$14,543 and \$13,904) | \$14,566 |
| Debt securities held to maturity, at amortized cost (fair value \$3,243 and \$3,378) | 3,191 |
| Equity securities available for sale, at fair value (cost \$29 and \$29) | 498 |
| Mortgage loans on real estate | 3,109 |
| Policy loans | 892 |
| Real estate | 133 |
| Other investments | 20 |
| Total investments | 22,409 |
| Cash and cash equivalents | 60 |
| Accrued investment income | 290 |
| Due from reinsurers | 1,415 |
| Deferred policy acquisition costs and value of business acquired | 2,170 |
| Cost in excess of net assets acquired | 312 |
| Assets held in separate accounts | 2,188 |
| Other assets | 483 |
| Total assets | \$29,327 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | |
| Policy liabilities: | |
| Future policy benefits | \$ 2,562 |
| Policyholder contract deposits | 18,346 |
| Dividend accumulations and other policyholder funds on deposit | 250 |
| Policy and contract claims | 175 |
| Other | 509 |
| Total policy liabilities | 21,842 |
| Debt: | |
| Commercial paper and revolving credit borrowings | 227 |

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| | |
|--|----------|
| Exchangeable Securities | --- |
| Securities sold under repurchase agreements | 565 |
| Currently payable income taxes | 97 |
| Deferred income tax liabilities | 215 |
| Liabilities related to separate accounts | 2,188 |
| Accounts payable, accruals and other liabilities | 507 |
| | ----- |
| Total liabilities | 25,641 |
| | ----- |
| Commitments and contingent liabilities | |
| Guaranteed preferred beneficial interest in subordinated debentures ("Capital Securities") | 300 |
| Stockholders' Equity: | |
| Common stock and paid in capital, par value \$1.25 per share: authorized 350,000,000 shares; issued and outstanding 2002-150,213,779 shares; 2001-150,006,582 shares | 194 |
| Retained earnings | 2,883 |
| Accumulated other comprehensive income | 309 |
| | ----- |
| | 3,386 |
| | ----- |
| Total liabilities and stockholders' equity | \$29,327 |
| | ===== |

See Notes to Consolidated Unaudited Condensed Financial Statements.

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JEFFERSON-PILOT CORPORATION AND SUBSIDIARIES
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF INCOME

| | Three M 2002 ----- (DOLLAR MILL SHARE |
|---|---|
| REVENUE: | |
| Premiums and other considerations | \$ 372 |
| Net investment income | 404 |
| Realized investment gains | 34 |
| Communications sales | 48 |
| Other | 27 |
| | ----- |
| Total revenue | 885 |
| | ----- |
| BENEFITS AND EXPENSES: | |
| Insurance and annuity benefits | 486 |
| Insurance commissions, net of deferrals | 31 |
| General and administrative expenses, net of deferrals | 53 |
| Amortization of policy acquisition costs and value of business acquired | 63 |
| Communications operations | 34 |
| | ----- |
| Total benefits and expenses | 667 |

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| | |
|---|---------|
| | ----- |
| Income before income taxes | 218 |
| Income taxes | 72 |
| | ----- |
| Net income before dividends on Capital Securities and cumulative effect of change in accounting principle | 146 |
| Dividends on Capital Securities | (6) |
| Cumulative effect of change in accounting for derivative instruments, net of income taxes | -- |
| | ----- |
| Net income available to common stockholders | \$ 140 |
| | ===== |
| Net income available to common stockholders, before dividends on Capital Securities | 146 |
| Other comprehensive income | (105) |
| | ----- |
| Comprehensive income | \$ 41 |
| | ===== |
| Average number of shares outstanding | 150.1 |
| | ===== |
| Net Income Per Share of Common Stock: | |
| Net income available to common stockholders before realized investment gains and cumulative effect of change in accounting principle, net of income taxes | \$0.78 |
| Realized investment gains, net of income taxes | 0.15 |
| Cumulative effect of change in accounting for derivative instruments, net of income taxes | -- |
| | ----- |
| Net income available to common stockholders | \$0.93 |
| | ===== |
| Net income available to common stockholders before realized investment gains and cumulative effect of change in accounting principle, net of income taxes - assuming dilution | \$0.78 |
| Realized investment gains, net of income taxes | 0.14 |
| Cumulative effect of change in accounting for derivative instruments, net of income taxes | -- |
| | ----- |
| Net income available to common stockholders - assuming dilution | \$0.92 |
| | ===== |
| Dividends declared per common share | \$0.303 |
| | ===== |

See Notes to Consolidated Unaudited Condensed Financial Statements.

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| | THREE 2002 ----- |
|--|------------------------|
| Net cash provided by operations | \$ 68 ----- |
| Cash Flows from Investing Activities: | |
| Investments purchased, net | (455) |
| Other investing activities | (4) ----- |
| Net cash used in investing activities | (459) ----- |
| Cash Flows from Financing Activities: | |
| Policyholder contract deposits, net | 625 |
| Policyholder contract withdrawals, net | (325) |
| Net short-term borrowings | 54 |
| Repurchase of common shares, net | 3 |
| Cash dividends paid | (47) |
| Other financing activities | 2 ----- |
| Net cash provided by financing activities | 312 ----- |
| Increase (Decrease) in cash and cash equivalents | (79) |
| Cash and cash equivalents at beginning of period | 139 ----- |
| Cash and cash equivalents at end of period | \$ 60 ===== |
| Supplemental Cash Flow Information: | |
| Income taxes paid | \$ 19 ===== |
| Interest paid | \$ 9 ===== |

See Notes to Consolidated Unaudited Condensed Financial Statements.

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JEFFERSON-PILOT CORPORATION

NOTES TO CONSOLIDATED UNAUDITED CONDENSED FINANCIAL STATEMENTS
(Dollar amounts in millions)

1. Basis of Presentation

The accompanying consolidated unaudited condensed financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in

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consolidation. Operating results for the three month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ended December 31, 2002. Certain prior year amounts have been reclassified to conform with the current year presentation.

2. Segment Reporting

The Company has five reportable segments that are defined based on the nature of the products and services offered: Individual Products, Annuity and Investment Products (AIP), Benefit Partners, Communications, and Corporate and Other. The segments remain as we described in our Form 10-K.

The following table summarizes certain financial information regarding the Company's reportable segments:

| | MARCH 31 2002 | DECEMBER 31 2001 |
|---------------------|------------------|---------------------|
| ----- | | |
| ASSETS | | |
| Individual Products | \$16,283 | \$16,115 |
| AIP | 8,904 | 8,740 |
| Benefit Partners | 824 | 791 |
| Communications | 197 | 202 |
| Corporate & Other | 3,119 | 3,148 |
| ----- | | |
| Total assets | \$29,327 | \$28,996 |
| ===== | | |

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| | THREE MONTHS ENDED MARCH 31 | |
|--|--------------------------------|------|
| | 2002 | 2001 |
| ----- | | |
| REVENUES | | |
| Individual Products | \$447 | \$42 |
| AIP | 170 | 15 |
| Benefit Partners | 163 | 14 |
| Communications | 48 | 4 |
| Corporate & Other | 23 | 2 |
| ----- | | |
| Realized investment gains, before tax | 851 | 79 |
| | 34 | 5 |
| ----- | | |
| Total revenues before cumulative effect of change in accounting principle | \$885 | \$85 |
| ===== | | |
| REPORTABLE SEGMENTS RESULTS AND RECONCILIATION TO NET INCOME AVAILABLE TO COMMON STOCKHOLDERS | | |
| Individual Products | \$ 70 | \$ 7 |
| AIP | 21 | 1 |
| Benefit Partners | 13 | 1 |

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| | | |
|---|-------|------|
| Communications | 7 | |
| Corporate & Other | 7 | |
| ----- | | |
| Total reportable segment results, before cumulative effect of change in accounting principle | 118 | 11 |
| Realized investment gains, net of tax | 22 | 3 |
| ----- | | |
| Net income available to common stockholders, before cumulative effect of change in accounting principle | 140 | 14 |
| Cumulative effect of change in accounting for derivative instruments, net of income taxes | -- | |
| ----- | | |
| Net income available to common stockholders | \$140 | \$14 |
| ===== | | |

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3. Income from Continuing Operations Per Share of Common Stock

On February 12, 2001, the Board authorized a 50% stock dividend distributed on April 19, 2001 to shareholders of record as of March 19, 2001. All share and per share amounts have been restated to give retroactive effect to the stock split. The following table sets forth the computation of earnings per share before cumulative effect of change in accounting principle and earnings per share assuming dilution before cumulative effect of change in accounting principle:

| | Three Months March |
|---|------------------------|
| | ----- 2002 ----- |
| Numerator: | |
| Net income before dividends on Capital Securities and cumulative effect of change in accounting principle | \$ 146 |
| Dividends on Capital Securities and preferred stock | 6 |
| ----- | |
| Numerator for earnings per share and earnings per share - assuming dilution - Net income available to common stockholders, before cumulative effect of change in accounting principle | \$ 140 |
| ===== | |
| Denominator: | |
| Denominator for earnings per share - weighted-average shares outstanding | 150,099,358 |
| Effect of dilutive securities: Employee stock options | 1,705,380 |
| ----- | |
| Denominator for earnings per share | |

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| | |
|--|----------------------|
| - assuming dilution - adjusted weighted-average shares outstanding | 151,804,738 ===== |
| Earnings per share, before cumulative effect of change in accounting principle | \$ 0.93 ===== |
| Earnings per share - assuming dilution, before cumulative effect of change in accounting principle | \$ 0.92 ===== |

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4. Contingent Liabilities

Jefferson-Pilot Life Insurance Company, a subsidiary of the Company, is a defendant in two separate proposed class action suits. The plaintiffs' fundamental claim in the first suit is that policy illustrations were misleading to consumers. Management believes that the policy illustrations made appropriate disclosures and were not misleading. The second suit alleges that a predecessor company, Pilot Life, decades ago unfairly discriminated in the sale of certain small face amount life insurance policies, and unreasonably priced these policies. In both cases, the plaintiffs seek unspecified compensatory and punitive damages, costs and equitable relief. While management is unable to estimate the probability or range of any possible loss in either or both of these cases, management believes that the subsidiary's practices have complied with state insurance laws and intends to vigorously defend the claims asserted. Accordingly, only the costs of defense have been recorded.

In the normal course of business, the Company and its subsidiaries are involved in various lawsuits, including several proposed class action suits in addition to those noted above. Because of the considerable uncertainties that exist, the Company cannot predict the outcome of pending or future litigation. However, management believes that the resolution of pending legal proceedings will not have a material adverse effect on the Company's financial position or liquidity, although it could have a material adverse effect on the results of operations for a specific period.

5. Accounting Pronouncements

Effective January 1, 2001, the Company adopted SFAS 133, "Accounting for Derivative Instruments and for Hedging Activities" and SFAS 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities" (collectively referred to as SFAS 133). See our Form 10-K for information regarding the cumulative effect of the accounting change in 2001.

Effective January 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 141, "Business Combinations" (SFAS 141) and Statement of Financial Accounting Standards No. 142, "Goodwill and Other Intangible Assets" (SFAS 142). SFAS 141 requires that all business combinations initiated after June 30, 2001, be accounted for under the purchase method of accounting and establishes specific criteria for the recognition of intangible assets separately from goodwill. SFAS 142 primarily addresses the accounting for goodwill and intangible assets subsequent to their acquisition. In accordance with the statements, the Company no longer amortizes goodwill or certain other intangible assets (primarily Federal Communication Commission Licenses). For

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the three months ending March 31, 2001, the Company recognized \$3.1 of amortization expense related to these assets. The Company is also required to evaluate all existing goodwill and intangible assets with indefinite lives for impairment at least annually at the reporting unit level. The Company did not incur any impairment losses upon adoption of this accounting standard.

In June 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 143, "Accounting for Asset Retirement Obligations" (SFAS 143) which is effective for fiscal years beginning after June 15, 2002. The Statement requires legal obligations associated with the retirement of long-lived assets to be recognized at their fair value at the time that the obligations are incurred. The Company will adopt SFAS 143 on January 1,

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2003, and does not believe that the impact of adoption will have a significant impact on the Company's financial position or results of operations.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144) which addresses financial accounting and reporting for the impairment or disposal of long-lived assets and supercedes SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of", and APB Opinion No. 30, "Reporting the Results of Operations" for a disposal of a segment of a business. SFAS 144 is effective for fiscal years beginning after December 15, 2001. The Company will adopt the Statement as of January 1, 2002 and it does not believe adoption of the Statement will have a significant impact on the Company's financial position or results of operations.

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JEFFERSON-PILOT CORPORATION MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the consolidated financial condition as of March 31, 2002, changes in financial position and changes in results of operations for the three months then ended as compared to the same period of 2001, of Jefferson-Pilot Corporation and consolidated subsidiaries. The discussion supplements Management's Discussion and Analysis in Form 10-K for the year ended December 31, 2001, and it should be read in conjunction with the interim financial statements and notes contained herein. All dollar amounts are in millions except per share amounts.

COMPANY PROFILE

As detailed in our Form 10-K, we have five reportable segments: Individual Products, Annuity and Investment Products (AIP), Benefit Partners, Communications, and Corporate and Other.

In the first quarter 2002 our revenues, excluding realized gains and losses, were derived 52.5% from Individual Products, 19.9% from AIP, 19.2% from Benefit Partners, 5.6% from Communications, and 2.8% from Corporate and Other.

Our Premier Partnering strategy described in the Form 10-K continues to be the

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primary focus in our internal initiatives to grow our life sales. In the first quarter 2002, we had independent consultants perform a check-up of our progress in implementing the goals of this strategy. The performance metrics tested indicated that our lean manufacturing process, which focuses on improving quality in our operations, had reduced turnaround time for new business underwriting and processing and in getting new products to market. We also learned through surveys of our sales force that over 75% of the respondents saw significant improvement in the overall quality of our products and the Premier Partnering program. Furthermore, we learned that we can benefit from further improving our marketing focus through a functional orientation emphasizing case support capabilities.

UPDATE ON CRITICAL ACCOUNTING POLICIES

Our Form 10-K described our four critical accounting policies that involve the more significant judgments and estimates. They relate to:

- deferred acquisition costs (DAC) and value of business acquired (VOBA);
- assumptions utilized in the test for goodwill impairment as required by FAS 142;
- valuation methods for infrequently traded securities and private placements; and
- accruals relating to legal and administrative proceedings.

We believe that these continued to be applied in a consistent manner during this quarter.

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RESULTS OF OPERATIONS

In the following discussion, "reportable segment results" and "total reportable segment results" include all elements of net income available to common stockholders except realized investment gains. Realized investment gains are gains and losses on sales and writedowns of investments, net of related income taxes. We include realized investment gains in the Corporate and Other segment. We use reportable segment results in assessing the performance of our business segments and believe that reportable segment results are relevant and useful information. We may realize investment gains in our sole discretion from our Available for Sale equity and bond portfolios. Reportable segment results as described above may not be comparable to similarly titled measures reported by other companies.

The following tables illustrate our results before and after including realized investment gains:

Three

2002

Consolidated Summary of Income

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| | |
|--|----------|
| Total reportable segment results | \$ 117.7 |
| Realized investment gains (net of applicable income taxes) | 21.9 |
| | ----- |
| Net income available to common stockholders | \$ 139.6 |
| | ===== |

Consolidated Earnings Per Share

Basic:

| | |
|--|---------|
| Total reportable segment results | \$ 0.78 |
| Realized investment gains (net of applicable income taxes) | 0.15 |
| | ----- |
| Net income available to common stockholders | \$ 0.93 |
| | ===== |

Fully-diluted:

| | |
|--|---------|
| Total reportable segment results | \$ 0.78 |
| Realized investment gains (net of applicable income taxes) | 0.14 |
| | ----- |
| Net income available to common stockholders | \$ 0.92 |
| | ===== |

- (a) Includes \$1.5 in 2001 relating to the cumulative effect of change in accounting for derivatives.
- (b) Includes \$0.01 per share of income in 2001 relating to cumulative effect of change in accounting for derivatives.

| | |
|--|---------|
| | ----- |
| | 2002 |
| | ----- |
| Average number of shares outstanding | 150,099 |
| | ===== |
| Average number of shares outstanding - assuming dilution | 151,804 |
| | ===== |

Compared to first quarter 2001, net income available to common stockholders declined 6.0% due to lower realized investment gains. Total reportable segment results increased 5.1% due to increased

profitability in the AIP, Benefit Partners and Corporate and Other segments. Individual Products results were essentially flat. Communications segment results decreased 4.4% due to a weak sports advertising market. Net realized investment gains declined 40.0% due to gains from sales of equities being partially offset by bond losses and writedowns.

Earnings per share amounts for both total reportable segment results and net income increased at greater percentages due to share repurchases in 2001, net

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of stock plan issuances. The average number of diluted shares outstanding decreased 2.1% from the first quarter 2001.

RESULTS BY BUSINESS SEGMENT

We assess profitability by business segment and measure other operating statistics as detailed in the separate segment discussions that follow. Sales are one of the statistics we use to track performance. Because of the nature of our sales, which are primarily long-duration contracts in the Individual Products and AIP segments, sales in a given quarter do not have a material impact on operating results and therefore we do not consider sales volumes to be material financial information. However, trends relating to new product sales over a longer period of time may be an indicator of future growth and profitability.

We determine reportable segments in a manner consistent with the way we organize for purposes of making operating decisions and assessing performance. We assign invested assets backing insurance liabilities to segments in relation to policyholder funds and reserves. We assign net DAC and VOBA, reinsurance receivables and communications assets to the respective segments where those assets originate. We also assign invested assets to back capital allocated to each segment in relation to our philosophy for managing business risks, reflecting appropriate conservatism. We assign the remainder of invested and other assets to the Corporate and Other segment.

Results by Reportable Segment

| | Three Months Ended March 31 | |
|---|--------------------------------|----------|
| | 2002 | 2001 |
| Individual Products | \$ 69.7 | \$ 69.5 |
| AIP | 21.4 | 20.7 (a) |
| Benefit Partners | 12.9 | 10.4 |
| Communications | 6.5 | 6.8 |
| Corporate and Other | 7.2 | 4.6 |
| | | |
| Total reportable segment results | 117.7 | 112.0 |
| Net realized investment gains | 21.9 | 36.5 |
| | | |
| Net income available to common stockholders | \$139.6 | \$148.5 |
| | | |

(a) Includes \$1.5 in 2001 relating to the cumulative effect of change in accounting for derivatives.

Segment Assets

Three Months Ended
March 31

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| | 2002 | 2001 |
|---------------------|----------|----------|
| | ----- | |
| Individual Products | \$16,283 | \$15,201 |
| AIP | 8,904 | 7,860 |
| Benefit Partners | 824 | 729 |
| Communications | 197 | 206 |
| Corporate and Other | 3,119 | 3,598 |
| | ----- | |
| Total assets | \$29,327 | \$27,594 |
| | ===== | |

INDIVIDUAL PRODUCTS

The Individual Products segment markets individual life insurance policies through independent general agents, independent national account marketing firms, agency building general agents, home service agents, broker/dealers, banks and strategic alliances.

Individual Products include universal life (UL) and variable universal life (VUL), together referred to as UL-type products, as well as traditional life products. The operating cycle for life insurance products is long term in nature; therefore, actuarial assumptions and the judgments utilized in those assumptions are important to financial reporting for these products. Traditional products require the policyholder to pay scheduled premiums over the life of the coverage. We recognize traditional premium receipts as revenues and profits are expected to emerge in relation thereto. UL-type product premiums may vary over the life of the policy at the discretion of the policyholder so we do not recognize them as revenues when received. Revenues and reportable segment results on these products arise over time from mortality, expense and surrender charges to policyholder fund balances (policy charges). Additionally, we earn interest spreads on all UL-type and traditional products. Policy benefits include interest credited to policyholder fund balances and claim related costs. Reportable segment results for both traditional and UL-type products also include earnings on required capital.

Segment results were:

| | Three Months Ended March 31 | |
|--|--------------------------------|---------|
| | 2002 | 2001 |
| | ----- | |
| Traditional premiums and other considerations | \$ 47.2 | \$ 49.2 |
| UL and investment product charges | 168.2 | 159.4 |
| Net investment income | 229.9 | 214.6 |
| Other income | 1.8 | 2.0 |
| | ----- | |
| Total revenues | 447.1 | 425.2 |
| | ----- | |
| Policy benefits | 271.3 | 242.3 |
| Expenses | 68.6 | 76.2 |
| | ----- | |
| Total benefits and expenses | 339.9 | 318.5 |
| | ----- | |
| Reportable segment results before income taxes | 107.2 | 106.7 |
| Provision for income taxes | 37.5 | 37.2 |
| | ----- | |

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| | | |
|----------------------------|---------|---------|
| Reportable segment results | \$ 69.7 | \$ 69.5 |
| | ===== | |

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Individual Products reportable segment results were essentially flat over first quarter 2001 due to higher mortality which offset the 5.2% growth in revenues.

The following table summarizes key data for Individual Products which we believe are our important drivers and indicators of future profitability:

| | Three Months Ended March 31 | |
|--|--------------------------------|-------------|
| | 2002 | 2001 |
| | ----- | ----- |
| Annualized life insurance premium sales: | | |
| Sales excluding large case BOLI | \$ 61.4 | \$ 36.2 |
| Large case BOLI | \$ 0 | \$ 0.4 |
| Individual traditional insurance premiums | \$ 44.2 | \$ 49.1 |
| Average UL policyholder fund balances | \$ 9,558.9 | \$ 8,971.7 |
| Average VUL separate account assets | 1,331.9 | 1,276.0 |
| | ----- | ----- |
| | \$ 10,890.8 | \$ 10,247.7 |
| | ===== | |
| Average face amount of insurance in force: | | |
| Total | \$160,061.0 | \$156,456.0 |
| UL-type policies | \$118,577.0 | \$113,886.0 |
| Average assets | \$ 16,219.0 | \$ 15,220.2 |

Annualized life insurance premium sales grew 35.5% in our core agency channels over first quarter 2001, reflecting increased sales as a result of our Premier Partnering initiative and the introduction of several new UL products. Total sales, excluding large case BOLI, increased 69.6% over first quarter 2001. Agency channels provided 63.2% of these sales. The remaining 36.8% was primarily single premium products targeted to smaller banks and sold through our target marketing channel; we do not expect these sales levels to be sustainable for the rest of the year. For large case BOLI, our business strategy is to respond to individual sales opportunities when the market accommodates our required returns. Thus, BOLI sales will vary widely between periods.

Revenues include traditional insurance premiums, policy charges and net investment income. Individual traditional premiums decreased 10.0% from first quarter 2001 due to the continuing decline in our traditional business in force since whole life insurance is no longer as popular with consumers and we reinsure most of our term insurance. UL and investment product charges increased 5.5% over first quarter 2001 due to growth in average UL policyholder fund balances of 6.5% over first quarter 2001. Average VUL separate account assets increased 4.4% over first quarter 2001. Adjusting for the decrease in

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fair market value, net of dividends, separate account balances would have increased by approximately 12.0% in first quarter 2002.

Net investment income increased 7.1% over first quarter 2001, reflecting the growth in average policyholder funds and changes in investment yields. The average investment spread on UL-type products (calculated as the difference between portfolio yields earned on invested assets less interest credited to policyholder funds, assuming the same level of invested assets) increased 3 basis points to 1.99%. Interest spreads are affected by portfolio yields and crediting rates, and also may vary over time due to our competitive strategies and changes in product design.

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Total policy benefits increased 12.0% over first quarter 2001 due to increases in mortality and interest credited. The increase in interest credited is consistent with the growth in business. We expect and plan for seasonal mortality increases during the first quarter; however, the 11.7% increase over first quarter 2001 exceeded our expectations. Information from the National Vital Statistics Report confirms the recurring seasonality of first quarter mortality rates and the unusually large up-turn in mortality across the country in this quarter. We examined death claims associated with more recently issued policies. This review did not suggest a deficiency in our current underwriting practices. Policy benefits on UL-type products (annualized) increased to 7.7% of average policyholder funds and separate accounts versus 7.3% in first quarter 2001. Policy benefits include interest credited to policyholder accounts on UL-type products as well as death benefits in excess of fund balances.

Total expenses (including the net deferral and amortization of DAC and VOBA) decreased 10.0% from first quarter 2001. The expense details are as follows:

| | Three Months Ended March 31 | |
|--|--------------------------------|---------|
| | 2002 | 2001 |
| Commissions | \$ 63.1 | \$ 53.6 |
| General and administrative - acquisition related | 19.3 | 19.1 |
| General and administrative - maintenance related | 11.1 | 13.3 |
| Taxes, licenses and fees | 14.7 | 11.2 |
| | | |
| Total commissions and expenses incurred | 108.2 | 97.2 |
| Less commissions and expenses capitalized | (75.2) | (58.4) |
| Amortization of DAC and VOBA | 35.6 | 37.4 |
| | | |
| Total expenses | \$ 68.6 | \$ 76.2 |

The decrease reflects (1) continued expense management, (2) increased acquisition cost capitalization, as more issuance costs are deferred in line with higher sales, thus reducing expenses not covered by pricing allowables at lower sales levels, and (3) reduced DAC and VOBA amortization due to higher mortality, which more than offset the increase in amortization that arises over the first few years after UL-type products are sold. Amortization of DAC and VOBA on UL-type products may decline when mortality increases, while our longer-term assumptions remain consistent.

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Average Individual Products assets grew 6.6% over first quarter 2001, primarily due to sales of UL-type products and growth in existing policyholder funds and separate accounts.

We discussed our financial and operating risks for this segment in the Individual Products, Financial Position, Capital Resources and Liquidity, and Market Risk Exposures sections of our Form 10-K.

ANNUITY AND INVESTMENT PRODUCTS

Annuity and Investment Products are marketed through most distribution channels discussed in the Individual Products segment as well as through financial institutions, investment professionals and annuity marketing organizations. JPSC markets variable life insurance and variable annuities

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written by our insurance subsidiaries and other carriers, and also sells other securities and mutual funds.

Reportable segment results were:

| | Three Months Ended March 31 | |
|---|--------------------------------|-------------|
| | 2002 | 2001 |
| Policy charges, premiums and other considerations | \$ 3.6 | \$ 4.4 |
| Net investment income | 140.6 | 130.4 |
| Concession and other income | 25.4 | 25.7 |
| Total revenues | 169.6 | 160.5 |
| Policy benefits | 100.4 | 90.9 |
| Expenses | 36.4 | 37.7 |
| Total benefits and expenses | 136.8 | 128.6 |
| Reportable segment results before income taxes | 32.8 | 31.9 |
| Provision for income taxes | 11.4 | 11.2 |
| Reportable segment results | \$ 21.4 | \$ 20.7 (a) |
| | | |

(a) Includes \$1.5 in 2001 relating to the cumulative effect of change in accounting for derivatives.

AIP reportable segment results increased 3.4% over first quarter 2001. Excluding the \$1.5 one time effect from first quarter 2001 results, AIP results increased 11.5%. The following table summarizes key information for AIP:

Three Months Ended
March 31

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| | 2002 | 2001 |
|---|------------|------------|
| Fixed annuity premium sales | \$ 186.4 | \$ 267.0 |
| Variable annuity premium sales | 5.1 | 10.3 |
| | \$ 191.5 | \$ 277.3 |
| Investment product sales | \$ 743.9 | \$ 731.1 |
| Average policyholder fund balances | \$ 7,532.4 | \$ 6,545.6 |
| Average separate account policyholder fund balances | 492.9 | 658.9 |
| | \$ 8,025.3 | \$ 7,204.5 |
| Effective investment spreads for fixed annuities | 1.84% | 2.10% |
| Fixed annuity surrenders as a percentage of beginning fund balances | 9.2% | 16.8% |
| Average assets | \$ 8,834.6 | \$ 7,821.8 |

We derive annuity revenues from investment income on segment assets, policy charges, and concession income earned on investment product sales by JPSC. AIP revenues increased 5.7% over first quarter 2001, due to growth in policyholder fund balances, offset by lower surrender charge income (included in policy charges) and lower JPSC concession income. Fixed annuity premium sales decreased 30.2% from first quarter 2001, reflecting competition from providers of fixed annuities. Our credited interest rates are closely tied to our ability to acquire attractive assets at

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acceptable yields based upon our investment criteria. During the first quarter, such assets did not support competitive crediting rates in the marketplace. JPSC's concession and other income decreased 1.2% from the first quarter 2001, due to lower volumes of equity market purchase/sale transactions.

Fixed annuity surrenders as a percentage of beginning fund balances decreased to 9.2% versus 16.8% in first quarter 2001. The lower lapse rates reflect the combined effects of increased surrender charge protection on our in-force block of business and internal conservation initiatives. The surrender rate in the AIP segment is influenced by many factors such as: (1) the portion of the business that has low or no remaining surrender charges; (2) competition from annuity products including those which pay upfront interest rate bonuses or higher market rates and (3) rising interest rates that may make returns available on new annuities or investment products more attractive than our older annuities. Fund balances with 5% or more surrender charges, including payout annuities, increased to 43.9% from 40.6% in first quarter 2001.

Total AIP benefits and expenses increased 6.4% over first quarter 2001. Policy benefits, which are mainly comprised of interest credited to policyholder accounts, as a percentage of average policyholder fund balances were 1.3% versus 1.4% in first quarter 2001. Total AIP expenses decreased 3.4% from the first three months of 2001, due primarily to the lower commission expenses of JPSC. Effective spreads on fixed annuities declined to 1.84% in first quarter 2002 from 2.10% in first quarter 2001, primarily due to sales over the past year of our lower commission products which require less spread to achieve

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pricing objectives. Of the 26 basis point spread compression from first quarter 2001, approximately 8 basis points represents economic spread contraction that occurs in declining interest rate environments and affects earnings (by \$1 this quarter), while the remainder reflects lower commission products and does not affect earnings.

JPSC earnings included in the segment results were \$1.0 for first quarter 2002 and 2001.

See our Form 10-K for risks associated with this segment.

BENEFIT PARTNERS

The Benefit Partners segment offers group non-medical products such as term life, disability and dental insurance to the employer marketplace. These products are marketed primarily through a national distribution system of regional group offices. These offices develop business through employee benefit brokers, third party administrators and other employee benefit firms.

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Reportable segment results were:

| | Three Months Ended March 31 | |
|--|--------------------------------|----------|
| | 2002 | 2001 |
| Premiums and other considerations | \$ 148.4 | \$ 129.3 |
| Investment income, net of expenses | 15.0 | 13.3 |
| | | |
| Total revenues | 163.4 | 142.6 |
| | | |
| Policy benefits | 109.2 | 95.7 |
| Expenses | 34.3 | 31.0 |
| | | |
| Total benefits and expenses | 143.5 | 126.7 |
| | | |
| Reportable segment results before income taxes | 19.9 | 15.9 |
| Provision for income taxes | 7.0 | 5.5 |
| | | |
| Reportable segment results | \$ 12.9 | \$ 10.4 |

Benefit Partners reportable segment results increased 24.0% over first quarter 2001, primarily due to the growth in this business. The following table summarizes key information for Benefit Partners:

| | Three Months Ended March 31 | |
|--|--------------------------------|------|
| | 2002 | 2001 |

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| | | |
|-------------------------------------|---------|---------|
| Life, Disability, and Dental: | | |
| Annualized sales | \$ 56.1 | \$ 46.5 |
| Loss ratio | 71.7% | 73.0% |
| | | |
| Total expenses, % of premium income | 23.1% | 24.1% |
| | | |
| Average assets | \$807.1 | \$734.0 |
| | | |
| Premium income | \$148.6 | \$128.5 |

Benefit Partners revenues increased 14.6% over 2001. Annualized sales for the core life, disability and dental lines of business grew 20.6% over first quarter 2001. The revenue growth resulted from both sales growth and satisfactory persistency in our non-medical business. These results reflect the success of our technologically based approach to selling, underwriting and administering group insurance products.

Policy benefits increased 14.1% over first quarter 2001, consistent with the growth of business in force. Our life, disability and dental incurred loss ratio declined to 71.7% versus 73.0% in first quarter 2001, reflecting continued claims management efforts coupled with favorable morbidity and mortality.

Our catastrophe reinsurance agreement that expired in April 2002 covered extraordinary life claims arising from catastrophic events in the group life line. Because this catastrophe reinsurance agreement could not be replaced except with a much higher premium and deductible and with a terrorism exclusion, we did not purchase catastrophic coverage and instead are relying on case by case management to mitigate over time our concentration exposures. We continue to monitor reinsurance market developments and to actively pursue reasonable alternatives to traditional catastrophic reinsurance arrangements which may further mitigate our concentration risks. See our Form 10-K for additional risks beyond normal competition that may impact this segment.

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Total expenses (including the net deferral and amortization of policy acquisition costs) increased 10.6% over first quarter 2001 which represents a smaller increase than the growth in premiums. As a percentage of premium income, total expenses were 23.1% versus 24.1% for first quarter 2001.

COMMUNICATIONS

JPCC operates radio and television broadcast properties and produces syndicated sports and entertainment programming. Reportable segment results were:

| | Three Months Ended March 31 | |
|-------------------------------|--------------------------------|---------------|
| | ----- 2002 | 2001 ----- |
| Communications revenues (net) | \$ 48.6 | \$ 50.6 |
| Operating costs and expenses | 33.7 | 33.8 |
| | ----- | |
| Broadcast cash flow | 14.9 | 16.8 |
| Depreciation and amortization | 1.9 | 2.8 |

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| | | |
|---|--------|--------|
| Corporate general and administrative expenses | 1.3 | 1.3 |
| Net interest expense | 0.8 | 1.1 |
| | ----- | ----- |
| Operating revenue before income taxes | 10.9 | 11.6 |
| Provision for income taxes | 4.4 | 4.8 |
| | ----- | ----- |
| Reportable segment results | \$ 6.5 | \$ 6.8 |
| | ===== | ===== |

Reportable segment results decreased 4.4% from first quarter 2001, primarily due to lower basketball sales in the Sports operation. Combined revenues for Radio and Television increased 2.8% over first quarter 2001.

Revenues from Sports operations decreased 26.5% from first quarter 2001, reflecting the impact of weak demand for advertising due to the slowing economic conditions. Sports advertising is typically sold with three to six month lead times and economic activity was slowing during the prime fall Sports selling season. See our Form 10-K for a description of our contractual commitments related to Sports operations.

Broadcast cash flow declined 11.3% from first quarter 2001 due to the decline in Sports.

Total expenses, excluding interest expense, decreased \$1.0 or 2.6% from first quarter 2001, but since revenues were down, these expenses as a percent of communication revenues were 75.9% versus 74.9% in first quarter 2001. We reviewed JPCC's current intangible assets and found no cause to record impairment losses. FCC license and goodwill amortization expense was \$0.8 in first quarter 2001.

CORPORATE AND OTHER

The Corporate and Other segment includes the excess capital of the insurance subsidiaries, other corporate investments including impaired securities, benefit plan net assets, goodwill related to insurance acquisitions, and corporate debt. The reportable segment results primarily contain the earnings on the invested excess capital, interest expense related to the corporate debt, and operating expenses that are corporate in nature (i.e. advertising, charitable and civic contributions, etc.). All net capital gains and losses, which include impairments of securities, are reported in this segment.

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The following table summarizes results for this segment:

| | Three Months End March 31 | |
|--|------------------------------|---------|
| | 2002 | 2001 |
| Earnings on investments | \$21.0 | \$ 21.0 |
| Interest expense on debt and Exchangeable Securities | 2.4 | 2.4 |
| Operating expenses | 4.9 | 4.9 |
| Provision for income tax expense (benefit) | 0.4 | 0.4 |
| | ----- | ----- |

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| | | |
|--|--------|----|
| Total expenses | 7.7 | |
| Reportable segment results before dividends on Capital Securities and mandatorily redeemable preferred stock | 13.3 | |
| Dividends on Capital Securities and mandatorily redeemable preferred stock | (6.1) | |
| Reportable segment results | 7.2 | |
| Realized investment gains, net | 21.9 | |
| Reportable segment results, including realized gains | \$29.1 | \$ |

Reportable segment results excluding realized gains increased 56.5% over first quarter 2001.

The decrease in investment earnings in first quarter 2002 is due to a decrease in invested assets, resulting from stock buybacks during 2001 and debt repayments, and to reduced assets arising from bond credit losses that are reflected in this segment. Earnings on investments in this segment can fluctuate based upon opportunistic repurchases of common stock, the amount of excess capital generated by the operating segments and lost investment income on impaired securities.

Interest expense on debt and Exchangeable Securities decreased \$6.1 from first quarter 2001 primarily due to lower average interest rates, including the replacement of the MEDS securities with short term borrowings in January 2002 and overall lower amounts outstanding. Operating expenses vary with the level of corporate activities and strategies. Goodwill amortization of \$2.4, excluding JPCC, was included in operating expenses for the first quarter of 2001. We did not record any goodwill impairment during the 2002 quarter. The provision for income tax expense includes the tax benefit of preferred dividends on Capital Securities, which we record gross of related tax effects. Income taxes increased \$2.5 over first quarter 2001 which had reflected implementation of strategies that reduced federal income taxes on investment earnings and the resolution of certain tax issues for which we had previously established reserves.

Realized investment gains and losses for first quarter 2002 include a net after tax \$8.7 loss on our bond portfolio, including both writedowns and actual sales in the normal course of business, which were offset by gains in equities, resulting in a net gain of \$21.9. The portfolio loss was driven primarily by recent economic events.

The following table summarizes assets assigned to this segment.

| | March 31 | |
|--|----------|----|
| | 2002 | |
| Parent company, passive investment companies and Corporate line assets of insurance subsidiaries | \$1,080 | \$ |
| Unrealized gain on fixed interest investments | 15 | |
| Co-insurance receivables on acquired blocks | 1,076 | |

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| | |
|--|---------|
| Employee benefit plan assets | 368 |
| Goodwill arising from insurance acquisitions | 270 |
| Other | 310 |
| Total | \$3,119 |

Total assets for the Corporate and Other segment decreased 13.3% from first quarter 2001 due primarily to writedowns of impaired securities, stock buybacks in 2001 and the reduction of co-insurance receivables as this closed block slowly diminishes. Unrealized gains and losses on all Available for Sale fixed income securities are assigned to this segment, and decreased \$148 from first quarter 2001 as interest rates increased.

FINANCIAL POSITION

Our primary resources are investments related to our Individual Products, AIP and Benefit Partners segments, properties and other assets utilized in all segments and investments backing corporate capital. This section identifies several items on our balance sheet that are important to understanding our financial position. The Investments section reviews our investment portfolio and key strategies.

Total assets increased \$331 from year end 2001 due to growth in income and net policyholder contract deposits, despite a decrease in the valuation of Available for Sale securities.

The Individual Products, AIP and Benefit Partners segments defer the costs of acquiring new business, including first year commissions, first year bonus interest, certain costs of underwriting and issuing policies plus agency office expenses (referred to as DAC). We capitalize actual acquisition costs only up to the amounts we use in the specific product pricing models, and we expense any excess acquisition costs above the pricing allowable. When we acquire new business through an acquisition, we allocate a portion of the purchase price to a separately identifiable intangible asset, referred to as VOBA. We initially establish VOBA as the actuarially determined present value of future gross profits of each business acquired.

We amortize DAC and VOBA on traditional products in proportion to premium revenue recognized. We amortize DAC and VOBA on UL-type products relative to the future estimated gross profits (EGP) from those products. The EGP for UL-type products include the following components: (1) estimates of fees charged to policyholders to cover mortality, surrenders and maintenance costs; (2) estimated mortality in excess of fund balances accumulated; (3) expected interest rate spreads between income earned and amounts credited to policyholder accounts; and (4) estimated cost of policy administration (maintenance). EGP is also reduced by our estimate of future losses due to defaults in fixed interest investments. DAC and VOBA related to UL-type products are sensitive to a change in our assumptions regarding EGP components, and any change in such an assumption will immediately impact the current DAC and VOBA balances with the

change reflected through the income statement. At March 31, 2002, the DAC and VOBA related to Individual UL-type products amounted to 72.7% of the \$2,170 on the balance sheet compared to 71.6% at December 31, 2001.

We provided a sensitivity analysis of changes in significant assumptions to DAC

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and VOBA in our 2001 10-K. In the first quarter, nothing came to our attention that would have caused us to change any of the three assumptions: estimated mortality, estimated interest spread and estimated future policy lapses. While we experienced adverse mortality in the first quarter, we believe this was a random fluctuation and we would not change our assumptions utilized in the amortization models unless these exceptionally high rates continue over time. The actual interest spreads and policy lapses are in line with our assumptions.

We also adjust the carrying value of DAC and VOBA to reflect changes in the unrealized gains and losses in Available for Sale securities since this impacts EGP.

At March 31, 2002 and December 31, 2001, we had reinsurance receivables of \$915 and \$914 and policy loans of \$138 and \$153 which are related to the businesses of JP Financial that are coinsured with Household International (HI) affiliates. HI has provided payment, performance and capital maintenance guarantees with respect to the balances receivable. We regularly evaluate the financial condition of our reinsurers and monitor concentrations of credit risk related to reinsurance activities. We have not suffered any significant credit losses from reinsurance activities in the last three years.

CAPITAL RESOURCES

Stockholders' Equity

The following table shows our capital adequacy:

| | March 31 2002 | December 31 2001 |
|---|------------------|---------------------|
| | ----- | ----- |
| Total assets less separate accounts | \$27,139 | \$26,848 |
| Total stockholders' equity | 3,386 | 3,391 |
| Ratio of stockholders' equity to assets less separate accounts | 12.5% | 12.6% |

The ratio of equity to assets less separate accounts has remained relatively constant. Unrealized gains on Available for Sale securities, which are included as a component of stockholders' equity, decreased \$105 from December 31, 2001. We have share repurchase authorization for 5 million shares of common stock, and we intend to continue to make opportunistic repurchases although we made none in the first quarter 2002.

We consider existing capital resources to be more than adequate to support the current level of our business activities. Our business plan places priority on redirecting certain capital resources invested in bonds and stocks into our core businesses, which should produce higher returns over time.

The Individual Products, AIP and Benefit Partners segments are subject to regulatory constraints. Our insurance subsidiaries have statutory surplus and risk based capital levels well above required levels. These capital levels together with the rating agencies' assessments of our business strategies have enabled our major life insurance affiliates to retain the highest available ratings by A.M. Best,

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Standard & Poor's and Fitch as detailed in our Form 10-K. A very significant drop in these ratings, while not anticipated, could potentially impact future sales and/or accelerate surrenders on our business in force.

Short-Term Borrowings and Debt

We have bank credit agreements for unsecured revolving credit, under which we have the option to borrow at various interest rates. In May 2002, we replaced an expiring \$375 bank credit agreement with new unsecured revolving credit agreements currently aggregating \$400, half available for five years and half available for 364 days. The credit agreements principally support our issuance of commercial paper. As of March 31, 2002, outstanding commercial paper had various maturities, with none in excess of 90 days, although maturities can be up to 270 days. If we cannot remarket commercial paper at maturity, we have sufficient liquidity, consisting of the bank credit agreements, liquid assets, such as equity securities, and other resources to retire these obligations. The weighted-average interest rates for commercial paper borrowings outstanding of \$227 and \$297 at March 31, 2002 and December 31, 2001 were 2.75% and 3.72%. The maximum amount outstanding during the first quarter 2002 was \$330.

Our commercial paper has retained the highest ratings by both Standard & Poor's and Fitch as detailed in our Form 10-K. A significant drop in these ratings, while not anticipated, could cause us to pay higher rates in commercial paper borrowings or lose access to the commercial paper markets.

Our insurance subsidiaries have sold U. S. Treasury obligations and collateralized mortgages under repurchase agreements involving various counterparties, accounted for as financing arrangements. Proceeds are used to purchase securities with longer durations as an asset/liability management strategy. We also may use repurchase agreements from time to time in lieu of commercial paper borrowings. At March 31, 2002 and December 31, 2001, repurchase agreements, including accrued interest, were \$565 and \$292. The securities involved had a fair value and amortized cost of \$583 and \$570 at March 31, 2002 versus \$306 and \$289 at the end of 2001. The maximum principal amounts outstanding were \$562 and \$457 during first quarter 2002 and 2001.

At March 31, 2002 and December 31, 2001, net advances from subsidiaries were \$440 and \$417, all of which are eliminated in consolidation.

LIQUIDITY

We meet liquidity requirements primarily by positive cash flows from the operations of subsidiaries. We have sufficient overall sources of liquidity to satisfy operating requirements. Primary sources of cash from our insurance operations are premiums, other insurance considerations, receipts for policyholder accounts, investment sales and maturities and investment income. Primary uses of cash for our insurance operations include purchases of investments, payment of insurance benefits, operating expenses, withdrawals from policyholder accounts, costs related to acquiring new business, dividends and income taxes. Primary sources of cash from the Communications operations are revenues from advertising, and primary uses include payments for commissions, compensation (and compensation-related costs), sports rights, interest, income taxes and purchases of fixed assets.

Cash provided by operations in first quarter 2002 and 2001 was \$68 and \$188.

Net cash used in investing activities was \$459 and \$258 for first quarter 2002 and 2001.

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Net cash provided by financing activities was \$312 and \$101 for first quarter 2002 and 2001. Cash inflows from policyholder contract deposits net of withdrawals were \$300 and \$150 for first quarter 2002 and 2001.

In order to meet the parent company's dividend payments, debt servicing obligations and other expenses, we received internal dividends from subsidiaries. Total cash dividends paid by subsidiaries during the first quarter were \$94 versus \$80 in 2001. Our life insurance subsidiaries are subject to laws in the states of domicile that limit the amount of dividends that can be paid without the prior approval of the respective State's Insurance Commissioner. The limits are based in part on the prior year's statutory income, and approvals are based in part on statutory RBC, both of which are negatively impacted by bond losses and writedowns. We have no reason to believe that such approval will be withheld, if required.

Cash and cash equivalents were \$60 and \$139 at March 31, 2002 and December 31, 2001. Additionally, fixed income and equity securities held by the parent company and non-regulated subsidiaries were \$509 and \$542 at these dates. These securities are considered to be sources of liquidity to support our strategies.

Total debt and equity securities Available for Sale at March 31, 2002 and December 31, 2001 were \$15,064 and \$14,639.

INVESTMENTS

Our strategy for managing the insurance investment portfolio is to consistently meet pricing assumptions while achieving the highest possible after-tax yields over the long term. We invest cash flows primarily in fixed income securities. The nature and quality of investments held by insurance subsidiaries must comply with state regulatory requirements. We have established a formal investment policy that we use to achieve overall quality and diversification objectives.

We held the following carrying amounts of investments:

| | March 31, 2002 | | December 31, 2001 | |
|---------------------------------|----------------|--------|-------------------|--------|
| Publicly-issued bonds | \$13,780 | 61.3% | \$13,312 | 59.8% |
| Privately-placed bonds | 3,952 | 17.6 | 4,125 | 18.5 |
| Mortgage loans on real property | 3,109 | 13.8 | 3,094 | 13.9 |
| Common stock | 496 | 2.2 | 509 | 2.3 |
| Policy loans | 892 | 4.0 | 911 | 4.1 |
| Preferred stock | 27 | 0.1 | 32 | 0.1 |
| Real estate | 133 | 0.6 | 132 | 0.6 |
| Other | 20 | 0.1 | 20 | 0.1 |
| Cash and equivalents | 60 | 0.3 | 139 | 0.6 |
| | | | | |
| Total | \$22,469 | 100.0% | \$22,274 | 100.0% |
| | | | | |

Our internal guidelines require an average quality fixed income portfolio (excluding mortgage loans) of "A" or higher. Currently, the average quality is "A1". Our guidelines also limit the amount of lower quality investments and require diversification by issuer and asset type. We

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monitor "higher risk" investments in order to determine if the securities have experienced an other than temporary decline in value. We adjust securities that experience other than temporary declines in value to fair values through a charge to earnings. We recognized gross impairment losses before taxes of \$13.4 and none in the first quarter 2002 and 2001.

We state mortgage loans on real property net of an allowance for credit losses. We determine this allowance for specific impaired loans by calculating the fair value of each loan, utilizing estimated future cash flows of the impaired loan, discounted at the loan's effective interest rate. We also set aside an additional allowance based on aggregate loans with similar risk characteristics utilizing historical statistics. At March 31, 2002 and December 31, 2001, our allowances for mortgage loan credit losses were \$29.2 and \$28.6.

Carrying amounts of investments categorized as "higher risk" assets were:

| | March 31, 2002 | | December 31, 2001 | |
|---|----------------|--------|-------------------|--------|
| | ----- | ----- | ----- | ----- |
| Bonds near or in default | \$ 74 | 0.3% | \$ 60 | 0.3% |
| Bonds below investment grade | 979 | 4.4 | 1,005 | 4.5 |
| Mortgage loans 60 days delinquent or in foreclosure | 4 | -- | -- | -- |
| Mortgage loans restructured | 8 | -- | 9 | -- |
| Foreclosed properties | -- | -- | -- | -- |
| | ----- | ----- | ----- | ----- |
| Subtotal, "higher risk assets" | 1,065 | 4.7 | 1,074 | 4.8 |
| All other investments | 21,404 | 95.3 | 21,200 | 95.2 |
| | ----- | ----- | ----- | ----- |
| Total cash and investments | \$22,469 | 100.0% | \$22,274 | 100.0% |
| | ===== | ===== | ===== | ===== |

A weak economy or a more pronounced downturn, or events which affect one or more companies, industries, or countries, could lead to further credit related portfolio losses in "higher risk" and other investments.

Our guidelines permit use of derivative financial instruments such as futures contracts and interest rate swaps in conjunction with specific direct investments. Our actual use of derivatives has been limited to managing well-defined interest rate risks. Interest rate swaps with a current notional value of \$131 and \$132 were open as of March 31, 2002 and December 31, 2001.

Mortgage backed securities (including Collateralized Mortgage Obligations) at March 31, 2002 and December 31, 2001, which are included in debt securities Available for Sale, were as follows:

| | March 31 | December 31 |
|--|----------|-------------|
| | ----- | ----- |
| | 2002 | 2001 |
| | ----- | ----- |
| Federal agency issued mortgage backed securities | \$3,277 | \$3,277 |
| Corporate private-labeled mortgage backed securities | 2,268 | 2,268 |
| | ----- | ----- |
| Total | \$5,545 | \$5,545 |
| | ----- | ----- |

=====

Our investment strategy with respect to mortgage backed securities (MBS) focuses on actively traded, less volatile issues that produce relatively stable cash flows. The majority of MBS holdings are sequential and planned amortization class tranches of federal agency issuers. The MBS portfolio has been constructed with underlying mortgage collateral characteristics and structure in order to lower cash flow volatility over a range of interest rate levels.

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MARKET RISK EXPOSURES

We believe that the amounts shown in Form 10-K with respect to our exposure to market risks, and relating to the incremental income (loss) deriving primarily from differences in the yield curve, continue to be representative. The 10-year U.S. Treasury rates have risen slightly this year. The unsteady equity markets in 2002 indicate that the potential decrease of 20% remains viable in the short term.

EXTERNAL TRENDS AND FORWARD LOOKING INFORMATION

With respect to external trends, inflation and interest rate risks, environmental liabilities and the regulatory and legal environment, see management's comments in the 2001 Form 10-K.

Forward Looking Information

You should note that this document and our other SEC filings reflect information that we believe was accurate as of the date the respective materials were made publicly available. Thus they do not reflect later developments.

As a matter of policy, we do not normally make projections or forecasts of future events or our performance. When we do, we rely on a safe harbor provided by the Private Securities Litigation Reform Act of 1995 for statements that are not historical facts, called forward looking statements. These may include statements relating to our future actions, sales and product development efforts, expenses, the outcome of contingencies such as legal proceedings, or financial performance.

Certain information in our SEC filings and in any other written or oral statements made by us or on our behalf, involves forward looking statements. We have used appropriate care in developing this information, but any forward looking statements may turn out to be wrong. They can be affected by inaccurate assumptions or by known or unknown risks and uncertainties that could significantly affect our actual results. These risks and uncertainties include among others, the risk that we might fail to successfully complete our strategy for substantially increasing life insurance sales; general economic conditions (including the uncertainty as to the depth and duration of the current economic slowdown and the rate at which the economy recovers), the impact on the economy from any further terrorist activities, and interest rate changes and fluctuations, all of which can impact our sales, investment portfolios, and earnings; competitive factors, including pricing pressures, technological developments, new product offerings and the emergence of new competitors; changes in federal and state taxes (including estate taxes); changes in the regulation of the financial services industry; or changes in other laws and regulations and their impact.

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We undertake no obligation to publicly correct or update any forward looking statements, whether as a result of new information, future developments or otherwise. You are advised, however, to consult any further disclosures we make on related subjects in our press releases and filings with the SEC. In particular, you should read the discussion in the section entitled "External Trends and Forward Looking Information," and other sections it may reference, in our most recent 10-K report as it may be updated in our subsequent 10-Q and 8-K reports. This discussion covers certain risks, uncertainties and possibly inaccurate assumptions that could cause our actual results to differ materially from expected and historical results. Other factors besides those listed there could also adversely affect our performance.

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PART II. OTHER INFORMATION JEFFERSON-PILOT CORPORATION

Item 1. Legal Proceedings

The registrant is involved in various claims and lawsuits incidental to and in the ordinary course of its business. In the opinion of management, the ultimate liability will not have a material effect on the financial condition or liquidity of the Company, but could have a material adverse effect on the results of operations for a specified period.

Item 4. Submission of Matters to a Vote of Security Holders

Election of Directors at the May 6, 2002 annual meeting of shareholders:

| Class I ----- | Term ---- | Votes For ----- | Withheld ----- |
|----------------------|--------------|--------------------|-------------------|
| Elizabeth Valk Long | 3 years | 124,561,492 | 2,032,271 |
| William Porter Payne | 3 years | 121,379,381 | 5,214,382 |
| David A. Stonecipher | 3 years | 125,422,354 | 1,171,409 |

| Class III ----- | Term ---- | Votes For ----- | Withheld ----- |
|--------------------|--------------|--------------------|-------------------|
| Kenneth C. Mlekush | 2 years | 125,415,902 | 1,177,861 |

Item 6. Exhibits and Reports on Form 8-K

(a) Reports on Form 8-K

There were none filed during the first quarter of 2002.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the

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registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JEFFERSON-PILOT CORPORATION

By (Signature) /s/Theresa M. Stone
(Name and Title) Theresa M. Stone, Executive Vice President,
Chief Financial Officer and Treasurer

Date May 14, 2002

By (Signature) /s/Reggie D. Adamson
(Name and Title) Reggie D. Adamson, Senior Vice President - Finance
(Principal Accounting Officer)

Date May 14, 2002