JEFFERSON PILOT CORP
Form 10-Q
August 13, 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 June 30, 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 incorporation or organization)	(I.R.S. Employer 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 June 30, 2002 147,800,551

JEFFERSON-PILOT CORPORATION

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JEFFERSON-PILOT CORPORATION AND SUBSIDIARIES
CONSOLIDATED UNAUDITED CONDENSED BALANCE SHEETS

	JUNE 200 ----- (S
ASSETS	
Investments:	
Debt securities available for sale, at fair value (amortized cost $14,715 and $13,904)	$15,2
Debt securities held to maturity, at amortized cost (fair value $3,231 and $3,378)	3,1
Equity securities available for sale, at fair value (cost $44 and $29)	4
Mortgage loans on real estate	3,1
Policy loans	9
Real estate	1
Other investments	

Total investments	23,0
Cash and cash equivalents	
Accrued investment income	2
Due from reinsurers	1,3
Deferred policy acquisition costs and value of business acquired	2,0
Goodwill	3
Assets held in separate accounts	1,9
Other assets	5

Total assets	$29,6
	=====
LIABILITIES AND STOCKHOLDERS' EQUITY	
Policy liabilities:	
Future policy benefits	$ 2,5
Policyholder contract deposits	18,7
Dividend accumulations and other policyholder funds on deposit	2
Policy and contract claims	1

Other	5
Total policy liabilities	22,2
Debt:	
Commercial paper and revolving credit borrowings	1
Exchangeable Securities	
Securities sold under repurchase agreements	5
Currently payable income taxes	
Deferred income tax liabilities	3
Liabilities related to separate accounts	1,9
Accounts payable, accruals and other liabilities	4
Total liabilities	25,8
Commitments and contingent liabilities	
Guaranteed preferred beneficial interest in subordinated debentures ("Capital Securities")	3
Stockholders' Equity:	
Common stock and paid in capital, par value $1.25 per share: authorized 350,000,000 shares; issued and outstanding 2002-147,800,551 shares; 2001-150,006,582 shares	1
Retained earnings	2,8
Accumulated other comprehensive income	5
	3,5
Total liabilities and stockholders' equity	$29,6

See Notes to Consolidated Unaudited Condensed Financial Statements

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JEFFERSON-PILOT CORPORATION
CONSOLIDATED UNAUDITED CONDENSED STATEMENTS OF INCOME
(DOLLAR AMOUNTS IN MILLIONS EXCEPT PER SHARE INFORMATION)

	THREE MONTHS ENDED JUNE 30	
	2002	2001
Revenue:		
Premiums and other considerations	$ 391	$ 349
Net investment income	403	372
Realized investment gains	4	30
Communications sales	50	48
Other	30	30
Total revenue	878	829
Benefits and Expenses:		
Insurance and annuity benefits	495	425
Insurance commissions, net of deferrals	32	35

General and administrative expenses, net of deferrals	56	65
Amortization of policy acquisition costs and value of business acquired	69	63
Communications operations	28	28
Total benefits and expenses	680	616
Income before income taxes	198	213
Income taxes	67	72
Net income before dividends on Capital Securities and cumulative effect of change in accounting principle	131	141
Dividends on Capital Securities	(6)	(6)
Cumulative effect of change in accounting for derivative instruments, net of income taxes	--	--
Net income available to common stockholders	$ 125	$ 135
Net income available to common stockholders, before dividends on Capital Securities	$ 131	$ 141
Other comprehensive income	191	(70)
Comprehensive income	$ 322	$ 71
Average number of shares outstanding	149.4	152.1
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	$0.82	$0.75
Realized investment gains, net of income taxes	0.02	0.13
Cumulative effect of change in accounting for derivative instruments, net of income taxes	--	--
Net income available to common stockholders	$0.84	$0.88
Net income available to common stockholders - assuming dilution	$0.83	$0.87
Dividends declared per common share	$0.303	$0.275

See Notes to Consolidated Condensed Financial Statements

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JEFFERSON-PILOT CORPORATION
CONSOLIDATED UNAUDITED CONDENSED
STATEMENTS OF CASH FLOWS
(IN MILLIONS)

	SIX MONTHS ENDED JUNE 30	
	2002	2001
Net cash provided by operations	$ 113	$ 386
Cash Flows from Investing Activities:		
Investments purchased, net	(644)	(479)
Other investing activities	(15)	(28)
Net cash used in investing activities	(659)	(507)
Cash Flows from Financing Activities:		
Policyholder contract deposits, net	1,352	1,147
Policyholder contract withdrawals, net	(684)	(838)
Net short-term (repayments) borrowings	(19)	24
Repurchase of common shares, net	(112)	(94)
Cash dividends paid	(99)	(92)
Other financing activities	4	1
Net cash provided by financing activities	442	148
(Decrease) increase in cash and cash equivalents	(104)	27
Cash and cash equivalents at beginning of period	139	26
Cash and cash equivalents at end of period	$ 35	$ 53
Supplemental Cash Flow Information:		
Income taxes paid	$ 121	$ 138
Interest paid	$ 14	$ 31

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 considered necessary for a fair presentation have been included. All significant intercompany accounts and transactions have been eliminated in consolidation. Operating results for the six-month period ended June 30, 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 for 2001.

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

	June 30 2002	December 31 2001
ASSETS		
Individual Products	$16,319	$16,115
AIP	9,022	8,740
Benefit Partners	852	791
Communications	197	202
Corporate & other	3,268	3,148
Total assets	$29,658	$28,996

	Three Months Ended June 30 2002	Three Months Ended June 30 2001	Six Mon[ths Ended] Ju[ne 30] 2002
REVENUES			
Individual Products	$451	$ 426	$ 898
AIP	171	159	341
Benefit Partners	177	144	340
Communications	49	48	97
Corporate & Other	26	22	49
	874	799	1,725
Realized investment gains, before tax	4	30	38
Total revenues before cumulative effect of change in accounting principle	$878	$ 829	$1,763
REPORTABLE SEGMENTS RESULTS AND RECONCILIATION TO NET INCOME AVAILABLE TO COMMON STOCKHOLDERS			
Individual Products	$ 75	$ 76	$ 145
AIP	20	19	41
Benefit Partners	12	11	25
Communications	10	8	17

Corporate & Other	5	1	12
Total reportable segment results, before cumulative effect of change in accounting principle	122	115	240
Realized investment gains, net of tax	3	20	25
Net income available to common stockholders, before cumulative effect of change in accounting principle	125	135	265
Cumulative effect of change in accounting for derivative instruments, net of income taxes	--	--	--
Net income available to common stockholders	$125	$ 135	$ 265

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3. Income from Continuing Operations Per Share of Common Stock

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 Ended June 30 2002	2001
Numerator:		
Net income before dividends on Capital Securities and cumulative effect of change in accounting principle	$ 131	$ 141
Dividends on Capital Securities and preferred stock	(6)	(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	$ 125	$ 135
Denominator:		
Denominator for earnings per share - weighted-average shares outstanding	149,370,907	152,133,839
Effect of dilutive securities:		
Stock options	1,662,955	1,537,663
Denominator for earnings per share assuming dilution -		

adjusted weighted-average shares outstanding	151,033,862	153,671,502	
Earnings per share, before cumulative effect of change in accounting principle	$ 0.84	$ 0.88	$
Earnings per share - assuming dilution, before cumulative effect of change in accounting principle	$ 0.83	$ 0.87	$

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 parties to 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 specified 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), but rather tests these intangible assets for impairment at least on an annual basis. For the quarter and six months ending June 30, 2001, the Company recognized $3.2 and $6.3 of amortization expense related to these assets. The Company did not recognize any impairment losses upon adoption of SFAS 142. Further, the Company completed its annual test of impairment in the second quarter of 2002 and concluded that there had been no impairments.

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 when the obligations are incurred. The Company will adopt SFAS 143 on January 1, 2003, and

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does not believe that adoption will have a significant impact on its 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. The Company adopted SFAS 144 effective January 1, 2002 and the adoption had no impact on its financial position or results of operations.

In April 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 145, "Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections" (SFAS 145), which is effective for financial statements issued after May 15, 2002. SFAS 145 addresses certain technical issues such as the classification of debt extinguishments and sale-leaseback transactions, none of which are relevant to the Company.

In July 2002, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146), which is effective for exit or disposal activities that are initiated after December 31, 2002. The Company currently is not engaging in any exit or disposal activities.

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations analyzes the consolidated financial condition as of June 30, 2002, changes in financial position and changes in results of operations for the three month and six month periods ended June 30, 2002, 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 half of 2002 our revenues, excluding realized gains and losses, were derived 52% from Individual Products, 20% from AIP, 20% from Benefit Partners, 5% from Communications and 3% from Corporate and Other.

Our Premier Partnering strategy described in the Form 10-K continues to be the primary focus of our internal initiatives to grow our life sales over a long period of time. The Premier Partnering strategy continues to be well received in the marketplace. Life sales, agent recruitment and agent retention in 2002 indicate market acceptance of our Premier Partners initiative.

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 we use 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 policies continued to be applied in a consistent manner during the second quarter. We completed our annual test of impairment of goodwill during the quarter, and our work indicated that the fair value of the reporting units exceeded the carrying value, including goodwill, by a substantial margin. While we will continue to monitor goodwill for impairment, we do not anticipate this being an ongoing critical accounting policy. Legal proceedings are discussed in Note 4 to the Consolidated Condensed Financial Statements.

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

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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 Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001

Consolidated Summary of Income				
Total reportable segment results	$ 122.4	$ 114.7	$ 240.1	$ 226.7(
Realized investment gains (net of applicable income taxes)	2.8	19.5	24.7	56.0
Net income available to common stockholders	$ 125.2	$ 134.2	$ 264.8	$ 282.7
Consolidated Earnings Per Share				
Basic:				
Total reportable segment results	$ 0.82	$ 0.75	$ 1.60	$ 1.48(
Realized investment gains (net of applicable income taxes)	0.02	0.13	0.17	0.37
Net income available to common stockholders	$ 0.84	$ 0.88	$ 1.77	$ 1.85
Fully-diluted:				
Total reportable segment results	$ 0.81	$ 0.75	$ 1.59	$ 1.47
Realized investment gains (net of applicable income taxes)	0.02	0.12	0.16	0.36
Net income available to common stockholders	$ 0.83	$ 0.87	$ 1.75	$ 1.83

(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.

	Three Months Ended June 30		Six Months Ende June 30	
	2002	2001	2002	2
Average number of shares outstanding	149,370,907	152,133,839	149,733,120	152,8
Average number of shares outstanding - assuming dilution	151,033,862	153,671,502	151,417,288	154,3

Compared to the second quarter and first six months of 2001, net income available to common stockholders declined 6.7% and 6.3% due to lower net realized investment gains. Net realized investment gains declined 85.6% and 55.9% due primarily to impaired bond writedowns. Total reportable segment results increased 6.7% and 5.9% in the second quarter and first six months due to increased profitability primarily in the Benefit Partners, Communications, and Corporate and Other segments and the absence of goodwill amortization, as further discussed below.

Earnings per share amounts increased at greater percentages than the absolute earnings amounts due to share repurchases in 2001 and the second quarter of 2002, net of stock plan issuances. The average number of diluted shares outstanding decreased 1.7% and 1.9% from the second quarter and first six months of 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. We determine reportable segments in a manner consistent with the way we organize for purposes of making operating decisions and assessing performance. 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 with little immediate impact on revenues, sales in a given quarter do not have a material impact on current operating results.

Results by Reportable Segment

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Individual Products	$ 74.8	$ 76.5	$ 144.5	$ 146.0
AIP	19.3	19.1	40.7	39.8(a)
Benefit Partners	12.5	10.5	25.4	20.9
Communications	10.6	8.7	17.1	15.5
Corporate and Other	5.2	(0.1)	12.4	4.5
Total reportable segment results	122.4	114.7	240.1	226.7
Net realized investment gains	2.8	19.5	24.7	56.0
Net income available to common stockholders	$125.2	$134.2	$264.8	$282.7

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

We assign invested assets backing insurance liabilities to our 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.

Segment Assets

	June 30 2002	June 30 2001
Individual Products	$16,319	$15,535
AIP	9,022	7,949
Benefit Partners	852	744
Communications	197	200
Corporate and Other	3,268	3,480
Total assets	$29,658	$27,908

INDIVIDUAL PRODUCTS

The Individual Products segment markets individual life insurance policies through independent general agents, independent national account marketing firms and agency building general agents, together referred to as our core agency channels. We also sell products through home service agents, broker/dealers, banks and other 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 the 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, although they increase assets and liabilities. We recognize revenues on these products 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 as well as claim related costs. Reportable segment results also include earnings on required capital for both traditional and UL-type products.

Segment results were:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Traditional premiums and other considerations	$ 45.6	$ 50.3	$ 92.8	$ 99.5

UL and investment product charges	174.4	156.8	342.6	316.2
Net investment income	229.3	216.9	459.2	431.5
Other income	1.8	1.9	3.6	3.9
Total revenues	451.1	425.9	898.2	851.1
Policy benefits	264.9	232.4	536.2	474.7
Expenses	71.1	75.8	139.7	152.0
Total benefits and expenses	336.0	308.2	675.9	626.7
Reportable segment results before income taxes	115.1	117.7	222.3	224.4
Provision for income taxes	40.3	41.2	77.8	78.4
Reportable segment results	$ 74.8	$ 76.5	$144.5	$146.0

Individual Products reportable segment results decreased 2.2% and 1.0% from the second quarter and first half of 2001 due primarily to higher mortality for both the second quarter and six months. Our mortality experience in 2002 adjusted for DAC net of tax was higher by $4.7 for the second quarter and $13.3 for the first six months than the average for the last four sequential quarters. Total revenues grew 5.9% and 5.5% over the second quarter and first half of 2001.

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

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Annualized life insurance premium sales:				
Sales excluding large case BOLI	$ 71.2	$ 43.1	$ 132.6	$ 79.3
Large case BOLI	$ --	$ 8.3	$ --	$ 8.6
Individual traditional insurance premiums	$ 45.3	$ 49.9	$ 89.5	$ 99.0
Average UL policyholder fund balances	$ 9,778.9	$ 9,083.3	$ 9,644.7	$ 9,002.1
Average VUL separate account assets	1,289.8	1,269.7	1,310.9	1,325.8
	$ 11,068.7	$ 10,353.0	$ 10,955.6	$ 10,327.9
Average face amount of insurance in force:				
Total	$160,749.0	$156,435.0	$160,129.0	$156,543.0
UL-type policies	$119,174.0	$114,531.0	$118,684.0	$114,246.0

Average assets	$ 16,301.0	$ 15,367.9	$ 16,260.0	$ 15,294.1

Annualized life insurance premium sales grew 63.7% and 50.3% in our core agency channels over the second quarter and first half of 2001, reflecting increased sales as a result of our Premier Partnering initiative and the introduction of several new UL products in 2001. Total sales excluding large case BOLI increased 65.2% and 67.2% over the second quarter and first six months of 2001. Annualized life insurance premium sales include $2.7 and $5.3 for the second quarter and six months of 2002 of term life insurance premiums that are 90% reinsured and thus have little impact on net reportable segment results. Single premium products targeted to smaller banks and sold through our target marketing channel provided 27.5% and 31.8% of life sales in the second quarter and first half of 2002. We do not expect these sales levels to be sustainable for the remainder 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, net of reinsurance, policy charges and net investment income. Individual traditional premiums decreased 9.2% and 9.6% from the second quarter and first half of 2001 due to the continuing decline in our traditional business in force, since whole life insurance comprises a smaller portion of current life insurance in force, and due to the reinsurance effect on our term product. UL and investment product charges increased 11.2% and 8.3% over the second quarter and first six months of 2001, growing faster than the average UL policyholder fund balances due to the introduction of a UL product in the second half of 2001 that had larger up-front expense charges. The increase in up-front product charges is offset by an increase in unearned revenue reserves accounted for in policy benefits. Average VUL separate account assets increased 1.6% over the second quarter of 2001 and decreased 1.1% from the first six

months of 2001. Adjusting for the decrease in market value, net of dividends, year over year, separate account balances would have increased by approximately 9.8% and total fund balances would have grown by 7.5%.

Net investment income increased 5.7% and 6.4% over the second quarter and first six months of 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) decreased 13 basis points to 1.88% and 7 basis points to 1.91% from the second quarter and first six months of 2001. 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.

Total policy benefits increased 14.0% and 13.0% over the second quarter and first six months of 2001 due primarily to increases in mortality, interest credited, and the increase in unearned revenue reserves due to the higher up-front product charges on the new UL products. Mortality experience, net of reinsurance, for the second quarter of 2002 exceeded the average of the last four sequential quarters including the higher third quarter of 2001 (which had the September 11th impact) by $6.4. We historically see an increase in mortality in the first quarter, usually followed by a decrease in the second quarter. The reduction in mortality from the first to second quarter of 2002 was only $5.0 whereas the reduction in 2001 was $12.8. We have reviewed our mortality statistics for the past two years, looking specifically at duration, cause of death, size and number of claims, and the effect of reinsurance on reported mortality. The increase in claims for the first two quarters of 2002 occurred in both early duration and older policies. Approximately one-third of the increased mortality experience on a year-to-date basis related to a small number of high face amount early duration claims. We reviewed these claims, as well as all contestable period claims paid during the first two quarters of 2002, and have not discovered any underwriting deficiencies. We analyzed the attributes of our in force exposures through mortality studies to understand the effects of the growth in face amount, changes in attained ages, and secular mortality trends. None of the items including cause of death, size and number of claims, or the effect of reinsurance have identified a cause, other than a periodic fluctuation, for the recent level of mortality. The increase in interest credited is consistent with the growth in business. Policy benefits on UL-type products (annualized) increased to 7.6% and 7.7% of average policyholder funds and separate accounts versus 6.9% and 7.1% in the second quarter and first six months of 2001 due primarily to the increase in mortality. Policy benefits include interest credited to policyholder accounts on UL-type products as well as death benefits in excess of fund balances.

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Total expenses (including the net deferral and amortization of DAC and VOBA) decreased 6.2% and 8.1% from the second quarter and first half of 2001. The expense details are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Commissions	$ 67.4	$ 48.6	$130.5	$102.2
General and administrative - acquisition related	20.7	21.1	41.9	40.7
General and administrative - maintenance related	11.7	13.6	20.9	26.5
Taxes, licenses and fees	13.9	11.4	28.6	22.6
Total commissions and expenses incurred	113.7	94.7	221.9	192.0
Less commissions and expenses capitalized	(81.2)	(58.6)	(156.4)	(117.0)
Amortization of DAC and VOBA	38.6	39.7	74.2	77.0
Total expense	$ 71.1	$ 75.8	$139.7	$152.0

The decrease in total expense reflects (1) continued expense management, especially in our maintenance expenses, (2) increased acquisition cost capitalization consistent with the growth in sales, and (3) reduced DAC and VOBA amortization due to higher mortality. The amounts we capitalize include first year commissions, as well as deferrable acquisition expenses. We limit our capitalization of deferrable acquisition expenses to the lower of product specific pricing allowables or our actual deferrable acquisition costs. As our sales have increased, pricing allowables have covered a greater amount of capitalizable acquisition expenses. For the second quarter of 2002, we capitalized $20.3 utilizing pricing allowables as compared to $21.1 actual deferrable acquisition costs. In the second quarter of 2001, we capitalized $15.4 as compared to $18.6 of actual deferrable costs. For the six months of 2002, we capitalized $37.9 utilizing pricing allowables compared to $40.1 of actual deferrable acquisition costs. Those amounts for the six months of 2001 were $27.1 capitalized versus $35.9 of actual deferrable acquisition costs incurred. We are approaching the limitation where the pricing allowables generated from our strong sales will exceed our actual deferrable costs other than commissions, because our expenses are tightly controlled. Amortization of DAC and VOBA on UL-type products may decline when mortality increases, while our longer-term assumptions remain consistent.

Average Individual Products assets grew 6.1% and 6.3% over the second quarter and first half of 2001, primarily due to sales of UL-type products and growth in existing policyholder funds and separate accounts.

Our financial and operating risks for this segment include, among others, asset/liability management, interest rate risks, changes in the underlying assumptions of DAC and VOBA and the effects of unresolved litigation. We discussed these risks in more detail in the Individual Products, Financial Position, Capital Resources and Liquidity, and Market Risk Exposures sections of our Form 10-K.

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

Reportable segment results were:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Policy charges, premiums and other considerations	$ 3.0	$ 4.1	$ 6.6	$ 8.5
Net investment income	140.9	127.4	281.5	257.8
Concession and other income	27.2	27.9	52.6	53.6
Total revenues	171.1	159.4	340.7	319.9
Policy benefits	103.1	90.2	203.5	181.1
Expenses	38.2	39.7	74.6	77.4
Total benefits and expenses	141.3	129.9	278.1	258.5
Reportable segment results before income taxes	29.8	29.5	62.6	61.4
Provision for income taxes	10.5	10.4	21.9	21.6
Reportable segment results	$ 19.3	$ 19.1	$ 40.7	$ 39.8(a)

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

AIP reportable segment results increased 1.0% and 2.3% over the second quarter and first half of 2001. The following table summarizes key information for AIP:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	20
Fixed annuity premium sales	$ 255.3	$ 226.4	$ 441.7	$ 4
Variable annuity premium sales	1.9	6.6	7.0	
	$ 257.2	$ 233.0	$ 448.7	$ 5
Investment product sales	$ 773.0	$ 733.5	$ 1,516.9	$ 1,4
Average policyholder fund balances	$ 7,674.1	$ 6,651.9	$ 7,603.3	$ 6,6
Average separate account policyholder fund balances	454.8	552.6	473.8	5
	$ 8,128.9	$ 7,204.5	$ 8,077.1	$ 7,1
Effective investment spreads for fixed annuities	1.82%	1.94%	1.83%	
Fixed annuity surrenders as a percentage of beginning fund balances	10.2%	14.2%	9.8%	
Average assets	$ 8,962.9	$ 7,904.1	$ 8,898.8	$ 7,8

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 7.3% and 6.5% over the second quarter and first six months of 2001, due to growth in policyholder fund balances, offset by lower surrender charge income (included in policy charges) with essentially flat JPSC concession income. Investment income growth for the second quarter 2002 was restrained by a drop in the average portfolio yield, and by the change of an accrual relating to Guarantee Life of $1.6. Investment income for the first six months of 2001 included $2.3 due to the cumulative effect of the change in accounting for derivatives. Fixed annuity premium sales increased 12.8% over the second quarter of 2001 and decreased 10.5% from the first six months of 2001, reflecting a level that we consider appropriate given the current investment and crediting rate environment. JPSC's concession and other income decreased 2.5% and 1.9% from the second quarter and first six months of 2001, due to lower volumes of equity market purchase/sale transactions.

Fixed annuity surrenders, as a percentage of beginning fund balances, decreased to 10.2% versus 14.2% and 9.8% versus 15.4% in the second quarter and first half of 2002 and 2001. The lower lapse rates reflect the combined effects of increased surrender charge protection on our in-force block of business as well as the relatively low interest rates. 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 up-front 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 47% from 42% in the second quarter of 2001.

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Total AIP benefits and expenses increased 8.8% and 7.6% over the second quarter and first six months of 2001. Annualized policy benefits, which are mainly comprised of interest credited to policyholder accounts, were relatively flat as a percentage of average policyholder funds. Total AIP expenses decreased 3.8% and 3.6% from the second quarter and first half of 2001, due primarily to the lower commission expenses of JPSC and lower maintenance expenses. The expense details are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Commissions - insurance companies	$12.0	$11.1	$23.1	$24.7
Commissions - broker/dealer	23.0	24.0	44.5	45.3
General and administrative - acquisition related	3.4	3.1	7.1	6.3
General and administrative - maintenance related	4.1	5.2	7.2	10.1
Taxes, licenses and fees	0.7	0.7	1.5	1.7
Total commissions and expenses incurred	43.2	44.1	83.4	88.1
Less commissions and expenses capitalized	(15.1)	(13.9)	(29.8)	(31.0)
Amortization of DAC and VOBA	10.1	9.5	21.0	20.3
Total expense	$38.1	$39.7	$74.6	$77.4

Effective spreads on fixed annuities declined to 1.82% and 1.83% in the second quarter and first six months of 2002 from 1.94% and 2.02% in the second quarter and first half of 2001, primarily due to sales over the past year of our lower commission products which require less spread to achieve pricing objectives. Of the 12 basis point spread compression from the second quarter of 2001, approximately 6 basis points or about $0.8 million after tax represent economic spread compression that affects earnings. The remaining spread compression is offset by lower expenses due to the continued sale of our lower commission products that require a smaller investment spread to meet our return criteria.

JPSC earnings included in the segment results were $1.0 versus $0.4 and $2.0 versus $1.4 for the second quarter and first half of 2002 and 2001.

Risks associated with the annuity business include, among others, compressed investment spreads and increased lapses. See our Form 10-K for more discussion on these risks.

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 June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Premiums and other considerations	$162.0	$130.9	$310.4	$260.2
Investment income, net of expenses	14.6	13.4	29.6	26.7
Total revenues	176.6	144.3	340.0	286.9
Policy benefits	120.9	96.5	230.1	192.2
Expenses	36.5	31.6	70.8	62.6
Total benefits and expenses	157.4	128.1	300.9	254.8
Reportable segment results before income taxes	19.2	16.2	39.1	32.1
Provision for income taxes	6.7	5.7	13.7	11.2
Reportable segment results	$ 12.5	$ 10.5	$ 25.4	$ 20.9

Benefit Partners reportable segment results increased 19.0% and 21.5% over the second quarter and first six months of 2001, primarily due to the growth in this business.

The following table summarizes key information for Benefit Partners:

Three Months Ended June 30		Six Months Ended June 30	
2002	2001	2002	2001

Life, Disability, and Dental:				
Annualized sales	$ 36.5	$ 32.8	$ 92.6	$ 79.3
Loss ratio	73.1%	72.0%	72.4%	72.5%
Total expenses, % of premium income	22.7%	24.1%	22.9%	24.1%
Average assets	$821.3	$736.7	$822.4	$735.4
Premium income	$160.8	$130.9	$309.4	$259.4

Benefit Partners revenues increased 22.4% and 18.5% over the second quarter and first six months of 2001 and annualized sales for the core life, disability and dental lines of business grew 11.3% and 16.8%. The revenue growth resulted from both sales growth and satisfactory persistency in our non-medical business.

Policy benefits increased 25.3% and 19.7% over the second quarter and first six months of 2001, consistent with the growth of business in force. Our life, disability and dental incurred loss ratio increased to 73.1% versus 72.0% and decreased to 72.4% versus 72.5% in the second quarter and first six months of 2002 and 2001. While we closely monitor the loss ratio, we feel our claims management procedures are sound and quarterly fluctuations are inherent in this segment.

Our group life reinsurance agreement covering extraordinary life claims arising from catastrophic events expired in April of this year. We did not purchase catastrophic coverage because a new reinsurance agreement would have required a higher premium and deductible as well as a terrorism exclusion. We are instead relying on case-by-case management to mitigate our concentration

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exposures over time. 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 discussion of risks, which include disability claims, accelerated medical cost inflation and concentration risks that may impact this segment.

Total expenses (including the net deferral and amortization of policy acquisition costs) increased 15.5% and 13.1% over the second quarter and the first half of 2001, which represents a smaller increase than the growth in premiums. As a percentage of premium income, total expenses were 22.7% versus 24.1% and 22.9% versus 24.1% for the second quarter and first six months of 2002 and 2001.

The expense details, including amounts capitalized and amortized of DAC and VOBA, are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Commissions	$18.5	$15.3	$36.1	$30.2
General and administrative	16.7	16.1	33.6	32.0
Taxes, licenses and fees	5.0	3.1	9.0	7.2

Total commissions and expenses incurred	40.2	34.5	78.7	69.4
Less commissions and expenses capitalized	(24.0)	(19.6)	(45.1)	(39.4)
Amortization of DAC and VOBA	20.3	16.7	37.2	32.6
Total expense	$36.5	$31.6	$70.8	$62.6

COMMUNICATIONS

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

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Communications revenues (net)	$50.0	$48.3	$98.6	$98.9
Operating costs and expenses	27.8	28.0	61.5	61.8
Broadcast cash flow	22.2	20.3	37.1	37.1
Depreciation and amortization	1.9	2.7	3.8	5.5
Corporate general and administrative expenses	1.9	2.0	3.2	3.3
Net interest expense	0.7	1.1	1.5	2.2
Operating revenue before income taxes	17.7	14.5	28.6	26.1
Provision for income taxes	7.1	5.8	11.5	10.6
Reportable segment results	$10.6	$ 8.7	$17.1	$15.5

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Reportable segment results increased 21.8% and 10.3% over the second quarter and first six months of 2001, primarily due to increased demand for local advertising and the positive impact from eliminating goodwill amortization under SFAS 142, which offset disappointing first quarter results in our Sports unit.

Combined revenues for Radio and Television increased 4.0% and 3.6% over the second quarter and first half of 2001 reflecting solid increases in demand for local advertising and a small increase in political advertising in TV, which more than offset the weak demand for national advertising from Radio. The second quarter is typically a slow period for Sports with minimal collegiate activity. Revenues from Sports operations decreased 26.7% from the first six months of 2001, reflecting the impact of weak demand for collegiate basketball advertising due to the slowing economic conditions during the prime selling season last fall. See our Form 10-K for a description of our contractual commitments related to Sports operations.

Broadcast cash flow increased 9.4% from the second quarter 2001 due to improved profitability at our Radio and TV properties and was flat with the first six months of 2001 as increased profit on Radio and TV was offset by disappointing first quarter results in our Sports basketball product.

Total expenses, excluding interest expense, decreased $1.1 or 3.4% and $2.1 or 3.0% from the second quarter and first half of 2001. As a percent of communication revenues, these expenses were 63.2% versus 67.7% and 69.5% versus 71.4% in the second quarter and first six months of 2002 and 2001. We reviewed JPCC's current intangible assets in accordance with SFAS 142 and found no cause to record impairment losses. FCC license and goodwill amortization expense was $0.8 and $1.6 in the second quarter and first six months of 2001.

CORPORATE AND OTHER

The Corporate and Other segment includes the excess capital of the insurance subsidiaries, other corporate investments including all our 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 (such as advertising and charitable and civic contributions). All net capital gains and losses, which all include impairments of securities, are reported in this segment.

The following table summarizes results for this segment:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Earnings on investments	$22.1	$23.0	$43.1	$47.3
Interest expense on debt and Exchangeable Securities	2.6	8.3	5.0	16.8
Operating expenses	7.3	10.2	12.2	17.4
Provision for income tax expense (benefit)	0.8	(1.6)	1.2	(3.7
Total expenses	10.7	16.9	18.4	30.5
Reportable segment results before dividends on Capital Securities and mandatorily redeemable preferred stock	11.4	6.1	24.7	16.8
Dividends on Capital Securities and mandatorily redeemable preferred stock	(6.2)	(6.2)	(12.3)	(12.3
Reportable segment results	5.2	(0.1)	12.4	4.5
Realized investment gains, net	2.8	19.5	24.7	56.0
Reportable segment results, including realized gains	$ 8.0	$19.4	$37.1	$60.5

Reportable segment results excluding realized gains increased substantially in 2002 due primarily to lower interest expense.

The earnings on investments for the segment include default charge income received from the operating segments for the Corporate and Other segment's assumption of all credit related losses on the invested assets of those segments. Those default charges are calculated as a percentage of the invested assets. The decrease in investment earnings in the second quarter is due to reduced invested assets, resulting from stock repurchases, net debt repayments, bond losses and impaired assets. 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 bonds impaired or sold at a loss.

Interest expense on debt and Exchangeable Securities decreased $5.7 and $11.8 in the second quarter and first six months primarily due to lower market interest rates, 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 and $4.8 for the second quarter and first six months, excluding JPCC, was included in operating expenses for 2001. 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 $2.4 and $4.9 over the second quarter and first six months of 2001, primarily the result of increased pre-tax segment income for the comparable periods.

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Realized investment gains and losses are as follows:

	Three Months Ended June 30		Six Months Ended June 30	
	2002	2001	2002	2001
Bonds gains	$ 9.5	$ 1.3	$ 12.2	$ 8.7
Bond losses	(7.1)	(7.8)	(12.1)	(15.2)
Bond writedowns	(39.5)	--	(52.8)	--
Stock gains	42.1	37.9	94.0	94.0
Other (losses)	(0.7)	(1.4)	(3.3)	(1.1)
Gross realized gains	4.3	30.0	38.0	86.4
Less: taxes	(1.5)	(10.5)	(13.3)	(30.4)
Net realized gains	$ 2.8	$ 19.5	$ 24.7	$ 56.0

The following table summarizes assets assigned to this segment.

	June 30	
	2002	2001

Parent company, passive investment companies and Corporate line assets of insurance subsidiaries	$ 901	$1,346
Unrealized gain on fixed interest investments	334	52
Co-insurance receivables on acquired blocks	1,084	1,138
Employee benefit plan assets	349	364
Goodwill arising from insurance acquisitions	270	275
Other	330	305
Total	$3,268	$3,480

Total assets for the Corporate and Other segment decreased 6.1% from June 30, 2001 due primarily to sales and writedowns of securities, stock repurchases and the reduction of co-insurance receivables as closed blocks slowly diminish. Unrealized gains and losses on all Available for Sale fixed income securities are assigned to this segment, and increased $282 from June 30, 2001.

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 portfolio management strategies.

Total assets increased $662 from year-end 2001 due to growth in income and net policyholder contract deposits which more than offset dividends and stock repurchases.

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 limit our capitalization of acquisition expenses other than commissions to the lower of product specific pricing allowables or the actual deferrable acquisition costs. When we acquire new business through an acquisition,

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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). The 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 June 30, 2002, 71.0% of balance sheet DAC and VOBA related to Individual UL-type products compared to

71.6% at December 31, 2001.

We provided a sensitivity analysis of changes in significant assumptions to DAC and VOBA in our 2001 Form 10-K. In the first half of 2002, no variances were significant enough to 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 half of 2002, we continue to believe this was a periodic fluctuation. We have not adjusted our future estimated gross profits based on the first two quarters' experience. 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 June 30, 2002 and December 31, 2001, we had reinsurance receivables of $887 and $914 and policy loans of $137 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:

	June 30 2002	December 2001
Total assets less separate accounts	$27,680	$26,848
Total stockholders' equity	3,543	3,391
Ratio of stockholders' equity to assets less separate accounts	12.8%	12.6%

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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, increased $86 from December 31, 2001. In 2002 through June 30, we purchased 2,463,800 shares at an average cost of $46.93 per share. From July 1, 2002 through August 12, 2002, we have purchased 3,384,200 shares at an average price of $43.64 per share. On August 5, 2002, our board refreshed our share repurchase authorization to cover 5 million shares of common stock.

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, 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 $444, half available for five years and half available for 364 days. The credit agreements principally support our issuance of commercial paper. Outstanding commercial paper had various maturities, with $105 at June 30, 2002 and none at December 31, 2001 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 $179 and $297 at June 30, 2002 and December 31, 2001 were 1.85% and 3.72%. The maximum amount outstanding during the first six months 2002 was $330 versus $565 during the year ended December 31, 2001.

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 may be 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 June 30, 2002 and December 31, 2001, repurchase agreements, including accrued interest, were $541 and $292, reflecting the lower interest rate on repurchase agreements compared to rates on commercial paper. The securities involved had a fair value and amortized cost of $571 and $533 at June 30, 2002 versus $306 and $289 at the end of 2001. The maximum principal amounts outstanding were $577 and $467 during the first six months of 2002 and 2001.

At June 30, 2002 and December 31, 2001, net advances from subsidiaries were $501 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 the first six months of 2002 and 2001 was $113 and $386. The primary decrease was approximately $150 of premiums received pending policy issuance in the last week of 2001 that was reported as cash received from operations in 2001, but is reported as an increase in policyholder deposits and a decrease in cash from operations in 2002.

Net cash used in investing activities was $659 and $507 for the first half of 2002 and 2001 reflecting investments made due to higher sales.

Net cash provided by financing activities was $442 and $148 for first six months 2002 and 2001 including cash inflows from policyholder contract deposits net of withdrawals of $668 and $309, reflecting both the increase in sales and the processing of the premiums received at the end of 2001.

In order to meet the parent company's dividend payments, debt servicing obligations and other expenses, we received dividends from subsidiaries. Total cash dividends paid by subsidiaries during the first six months were $183 versus $155 in 2001. Our life insurance subsidiaries are subject to laws in their 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 $35 and $139 at June 30, 2002 and December 31, 2001, again reflecting an unusual amount of premiums received pending policy issuance in late December 2001. Fixed income and equity securities held by the parent company and non-regulated subsidiaries were $502 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 June 30, 2002 and December 31, 2001 were $15,694 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 invested assets:

	June 30, 2002	
Publicly-issued bonds	$14,356	62.2%
Privately-placed bonds	3,963	17.1
Subtotal bonds	18,319	79.3
Redeemable preferred stock	25	0.1

Subtotal debt securities	18,344	79.4
Mortgage loans on real property	3,177	13.7
Common stock	485	2.1
Non-redeemable preferred stock	2	0.0
Policy loans	909	3.9
Real estate	132	0.6
Other	25	0.1
Cash and equivalents	35	0.2
Total	$23,109	100.0%

During the second quarter, accounting restatements, regulatory investigations and corporate governance issues exerted increased stress on the general credit markets, particularly in industries such as communications, energy, and technology. These issues have increased concerns about the investment portfolios of financial institutions; therefore, we are providing additional disclosures relating to our bond portfolio.

Following is a table summarized by category that details the unrealized gains and losses in our AFS and HTM portfolios as of June 30, 2002:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)
Available for sale, carried at fair value:			
US Treasury obligations and direct obligations of US Government agencies	$ 127	$ 12	$ --
Federal agency mortgage backed securities (including collateralized mortgage obligations)	3,255	206	--
Obligations of states and political subdivisions	137	5	(1)
Corporate obligations	9,055	390	(238)
Corporate private-labeled mortgage backed securities (including collateralized mortgage obligations)	2,116	130	(12)
Redeemable preferred stock	25	1	(1)
Subtotal, debt securities	14,715	744	(252)
Non-redeemable preferred stock	2	--	--
Common Stock	42	444	(1)
Securities available for sale	$ 14,759	$ 1,188	$ (253)
Held to maturity, carried at amortized cost:			
Obligations of state and political subdivisions	$ 13	$ --	$ --
Corporate obligations	3,124	133	(39)
Debt securities held to maturity	$ 3,137	$ 133	$ (39)

Total AFS and HTM	$ 17,896	$ 1,321	$ (292)
	========	=======	=======

The unrealized gains and losses shown above do not necessarily represent future gains or losses that will be realized. Fluctuations in fair values result from changes in market interest rates and credit related issues. Gross unrealized gains and losses at December 31, 2001 were $1,114 and $(369).

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We review our bond portfolio for diversification in several ways, one of which includes composition by industry sector as shown below:

	Carrying Value	As a % of To
Industrials		
Basic Materials	$ 1,030	5.6%
Capital Goods	701	3.8%
Communications	597	3.3%
Consumer Cyclical	1,920	10.5%
Consumer Non-Cyclical	921	5.0%
Energy	796	4.3%
Technology	105	0.6%
Transportation	817	4.5%
Other Industrials	336	1.8%
Utilities	2,334	12.7%
Financials		
Banks	1,572	8.6%
Insurance	327	1.8%
Other Financials	1,168	6.4%
Mortgage Backed Securities (including Commercial Mortgage Backed Securities)	5,695	31.1%
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Total	$18,319	100.0%
	=======	=====

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The following table identifies unrealized gains and losses as of June 30, 2002 by the same industry sectors as the previous table:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fa Val

Industrials				
Basic Materials	$ 1,024	$ 37	$ (21)	$ 1,
Capital Goods	688	28	(10)	
Communications	614	17	(34)	
Consumer Cyclical	1,893	82	(39)	1,
Consumer Non-Cyclical	888	50	(4)	
Energy	787	28	(14)	
Technology	108	3	(9)	
Transportation	825	35	(39)	
Other Industrials	318	21	(1)	
Utilities	2,322	82	(57)	2,
Financials				
Banks	1,509	96	(12)	1,
Insurance	316	16	(1)	
Other Financials	1,165	45	(36)	1,
Mortgage Backed Securities (including Commercial Mortgage Backed Securities)	5,370	336	(13)	5,
Total	$17,827	$876	$(290)	$18,

Diversification is also managed by limiting our bond exposure to any one company. The following table shows the carrying value and sector of the ten largest individual company exposures (total entity, including subsidiaries) as of June 30, 2002:

Exposure	Sector	Carrying Value
Verizon Communications	Communications	$109
Bank of America Corporation	Banks	100
Wachovia Corp	Banks	97
General Electric Co	Capital Goods	89
Sprint Corp	Communications	85
U S Bancorp	Banks	84
Citigroup Inc	Banks	82
Cargill Inc	Consumer Non-Cyclical	82
Duke Energy Corp	Utilities	79
El Paso Corp	Utilities	77

Our internal guidelines require an average quality bond portfolio of "A" or higher diversified by issuer and asset type. Currently, the average quality is "A+".

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At June 30, 2002, total bonds that were rated below investment grade (BIG) totaled $1,009 or 5.5% of the carrying values of the bond portfolios. Industry sectors containing the majority (77%) of our BIG bonds include Consumer Cyclicals, Basic Materials, Banks, Transportation, Utilities, Consumer Non-Cyclicals and Communications. The ten largest individual BIG bond exposures at June 30, 2002, were as follows:

Bond	Sector	Carrying Value
Rite Aid Corp	Consumer Cyclical	$38
Qwest Communications Intl	Communications	31
Delta Airlines	Transportation	29
Amerigas Propane LP	Utilities	28
Crompton Corp	Basic Materials	24
United Air Lines	Transportation	21
US Airways Inc	Transportation	21
Dole Foods Company	Consumer Non-Cyclical	20
JDN Realty Corporation	Other Financials	20
Ferrellgas LP	Utilities	20

We own additional bonds in certain of the above issuers, which are investment grade, not included in the above carrying values.

Subsequent to the balance sheet date, one large exposure, Williams Companies, was downgraded to below investment grade. At June 30, 2002, we hold $56 in total carrying value ($62 amortized cost) related to Williams Companies, of which $38 ($40 amortized cost) is positions in pipeline operating subsidiaries. In addition, we own $26 of carrying value ($25 amortized cost) of power generation project finance bonds that were downgraded to below investment grade due to their sales contracts with Williams Companies.

On August 11th, US Airways Group Inc. filed for Chapter 11 bankruptcy protection. Our total exposure, as of June 30, 2002, to US Airways is $33 in carrying value ($45 amortized cost); comprised of both BIG bonds ($21 carrying value; $31 amortized cost), as shown in the table above, and investment grade bonds ($12 carrying value; $14 amortized cost). All US Airways bonds held are secured by equipment.

At December 31, 2001, BIG bonds were $1,065 or 6.1% of the carrying value of the bond portfolio. Our BIG bonds at June 30, 2002 and December 31, 2001 were larger than historical exposures. We are currently managing the percentage of BIG bonds with the intention to reduce our exposure as a percentage of the total portfolio over time.

A continued weak economy or a more pronounced downturn, or events which affect one or more companies, industry sectors or countries, could lead to further credit related losses.

Mortgage backed securities (including Commercial Mortgage Backed Securities) at June 30, 2002 and December 31, 2001, which are included in debt securities Available for Sale, were as follows:

	June 30 2002	December 31 2001
Federal agency issued mortgage backed securities	$3,461	$3,254
Corporate private-labeled mortgage backed securities	2,234	2,330
Total	$5,695	$5,584

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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.

We record mortgage loans on real property net of an allowance for credit losses. This allowance includes both reserve amounts for specific loans that are believed to be at a higher risk of becoming impaired in the near future, and a general reserve that is calculated by review of historical industry loan loss statistics. We consider future cash flows and the probability of payment when we calculate our specific loan loss reserve. At June 30, 2002 and December 31, 2001, our allowances for mortgage loan credit losses were $30.6 and $28.6.

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 through June 30, 2002, has been limited to managing well-defined interest rate risks. Interest rate swaps with a current notional value of $129 and $132 were open as of June 30, 2002 and December 31, 2001. Subsequent to June 30, 2002, we have purchased derivative instruments, known as "Swaptions", designed to limit our interest rate risks on certain annuity contracts. Effective August 1, 2002, we now purchase S&P 500 Index (R) options to manage the market risk associated with the sale of equity indexed annuities previously managed through reinsurance.

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 rose in the first quarter of 2002 and have since declined below the December 31, 2001 rate in the second quarter. Our equity securities, primarily Bank of America Corporation (BankAmerica), are subject to price risk. Our Form 10-K illustrates the impact of a 20% decline on our December 31, 2001 equity holdings. The fair value of our BankAmerica common stock at June 30, 2002 was $444.

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; the outcome of litigation; 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.

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.

PART II. OTHER INFORMATION
JEFFERSON-PILOT CORPORATION

Item 1. Legal Proceedings

There have been no material developments in the proceedings described in Item 3 of Form 10-K, and there are no new material proceedings to report here.

Item 5. Other Information

Section 202 of the Sarbanes-Oxley Act of 2002 includes a requirement that we disclose any preapproval during the reporting period by our Audit Committee of any non-audit services to be performed by Ernst & Young LLP (E&Y), our external auditor. Non-audit services are defined generally in the law as services other than those provided in connection with an audit or a review of our financial statements. It is not clear whether this section has yet become effective, but we are providing the following information: During the second quarter 2002, our Audit Committee Chairman, pursuant to authority delegated by the Committee, preapproved the engagement of E&Y to assist us in due diligence for a possible acquisition.

E&Y also is performing limited other ongoing non-audit services.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

(4)(ii) Credit Agreement, and 364 Day Credit Agreement, each dated as of May 7, 2002 among the Registrant and the several lenders from time to time party thereto, and Bank of America, N.A., as Administrative Agent, are not being filed because the total amount of borrowings available in the aggregate under the two agreements does not exceed 10% of total consolidated assets. The Registrant agrees to furnish a copy of each of these agreements to the Commission upon request.

(b) Reports on Form 8-K

There were none filed during the second quarter of 2002.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the 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 August 13, 2002

By (Signature) /s/Reggie D. Adamson
(Name and Title) Reggie D. Adamson, Senior Vice President - Finance
(Principal Accounting Officer)
Date August 13, 2002