UNUMPROVIDENT CORP
Form 424B5
April 28, 2003
Table of Contents

The information in this preliminary prospectus supplement is not complete and may be changed. This preliminary prospectus supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

FILED PURSUANT TO

RULE 424 (B) (5)

REGISTRATION NOS. 333-43808,

333-100953

Subject to Completion. Dated April 25, 2003.

Prospectus Supplement to Prospectus dated April 9, 2003.

20,000,000 Units

UnumProvident Corporation

% Adjustable Conversion-Rate
Equity Security Units

This is an offering of % Adjustable Conversion-Rate Equity Security Units of UnumProvident Corporation. Each equity security unit has a stated amount of $25 and will initially consist of (a) a contract pursuant to which you agree to purchase, for $25, shares of common stock of UnumProvident on , 2006 and (b) a 1/40, or 2.5%, ownership interest in a senior note of UnumProvident with a principal amount of $1,000. The ownership interest in the senior note will initially be held as a component of your unit and will be pledged to secure your obligation to purchase our common stock under the related purchase contract.

We will make quarterly contract adjustment payments to you under the purchase contract at the annual rate of % of the stated amount of $25 per purchase contract. In addition, we will make quarterly interest payments on the senior notes at the initial annual rate of %. We have the right to defer the contract adjustment payments on the purchase contracts, but not the interest payments on the senior notes. The interest rate on the senior notes will be reset and the senior notes will be remarketed. The senior notes are unsecured and rank equally with all of our other unsecured and unsubordinated debt. The units will be sold initially by the underwriters in a minimum number of 40 units.

In addition to offering these units, we are concurrently offering 43,800,000 shares of our common stock, plus up to an additional 6,570,000 shares if the underwriters for that offering exercise their option to purchase additional shares. The completion of this offering of units is subject to the completion of the common stock offering.

Our common stock is listed on the New York Stock Exchange under the symbol UNM . The last reported sale price of our common stock on April 25, 2003 was $9.12 per share. We will apply to list the normal units on the New York Stock Exchange, but no assurances can be given that the application for listing will be approved. Prior to this offering, there has been no public market for the units.

See Risk Factors beginning on page S-29 to read about certain factors you should consider before buying units.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense.

	Per Unit	Total
Initial price to public	$	$
Underwriting discount	$	$
Proceeds, before expenses, to UnumProvident	$	$

The initial public offering price set forth above does not include accumulated contract adjustment payments and accrued interest, if any. Contract adjustment payments on the purchase contracts and interest on the senior notes will accrue from the date of initial issuance of the units, expected to be , 2003.

The underwriters expect to deliver the units in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about , 2003.

Goldman, Sachs & Co. **Banc of America Securities LLC** **Morgan Stanley**

Deutsche Bank Securities **Merrill Lynch & Co.** **SunTrust Robinson Humphrey**

Prospectus Supplement dated , 2003.

Table of Contents

ABOUT THIS PROSPECTUS SUPPLEMENT

You should read this prospectus supplement along with the accompanying prospectus carefully before you invest. Both documents contain important information you should consider when making your investment decision. This prospectus supplement contains specific details regarding this offering and the accompanying prospectus contains information about our securities generally, some of which does not apply to this offering. This prospectus supplement may add, update or change information in the accompanying prospectus. To the extent there is a conflict between the information contained in this prospectus supplement, on the one hand, and the information contained in the accompanying prospectus or any document incorporated by reference in the accompanying prospectus, on the other hand, the information contained in this prospectus supplement shall control. The information contained in our website, *www.unumprovident.com*, is not a part of this prospectus supplement or the accompanying prospectus.

Table of Contents

PROSPECTUS SUPPLEMENT SUMMARY

This summary highlights information contained elsewhere, or incorporated by reference, in this prospectus supplement and the accompanying prospectus. This summary does not contain all of the information that you should consider before investing in our units. You should read carefully this entire prospectus supplement, including the Risk Factors section, and the accompanying prospectus, and the information incorporated by reference, which are described under Where You Can Find More Information in the accompanying prospectus. In this prospectus supplement, UnumProvident, we, our, ours and us refer to UnumProvident Corporation unless the context otherwise requires.

UnumProvident Corporation

We are the surviving corporation in the merger on June 30, 1999 of Provident Companies Inc., the leading individual income protection insurance provider in North America, with Unum Corporation, the leading group income protection insurance provider. We are the parent holding company for a group of insurance and non-insurance companies that collectively operate throughout North America and in the United Kingdom and Japan. We, through our subsidiaries, are the largest provider of group and individual income protection insurance in North America and the United Kingdom. We also provide a complementary portfolio of other insurance products, including long-term care insurance, life insurance, employer- and employee-paid group benefits, and related services.

Effective January 1, 2003, we adjusted our reporting segments to more closely reflect the manner in which we manage our business internally and will be reporting on this new segment basis beginning with the first quarter of 2003. The income protection segment includes insurance for loss of income due to either sickness or injury or the loss of two or more activities of daily living , disability management services, and customized disability programs. Included within this segment are group long-term and short-term income protection insurance, individual income protection insurance, and group and individual long-term care insurance, as well as various disability management services and programs. The products are marketed primarily to employers and multi-life employee groups by our sales force and national practice groups, working in conjunction with independent brokers and consultants. The life and accident segment includes insurance for life, accidental death and dismemberment, cancer, and critical illness marketed primarily to employers and multi-life employee groups by our sales force through independent brokers and consultants. The Colonial segment includes insurance for life, income protection, accident and sickness, cancer, and critical illness issued by Colonial Life & Accident Insurance Company and marketed primarily to employees through our agency field sales force. The other segment includes products that we no longer actively market. The corporate segment includes investment income on corporate assets not specifically allocated to a line of business, corporate interest expense, and certain corporate expenses not allocated to a line of business.

In 2002, we had net income of $401.2 million, or net income per diluted common share of $1.65. The following table sets forth certain operating data for each segment for the year ended December 31, 2002 (in millions of dollars).

	Income Protection	Life and Accident	Colonial	Other	Corporate	Total

Operating revenue excluding net realized investment loss	$ 6,908.6	$ 2,031.8	$ 720.0	$ 232.0	$ 35.6	$ 9,928.0
Benefits and expenses	6,266.6	1,776.5	582.5	186.4	190.1	9,002.1
Operating income (loss) before net realized investment loss, federal income tax and cumulative effect of accounting principle change	$ 642.0	$ 255.3	$ 137.5	$ 45.6	$ (154.5)	$ 925.9

Table of Contents

In the foregoing table, Operating revenue includes premium income, net investment income, and other income, but excludes net realized investment gains and losses. Operating income

(loss) excludes net realized investment gains and losses, federal income tax and cumulative effects of accounting principle changes. These alternative measures of revenue and income or loss differ from revenue and income (loss) before federal income tax as presented in our statements of income prepared in accordance with accounting principles generally accepted in the United States (GAAP) due to the exclusion of before-tax realized investment gains and losses. The following table presents a reconciliation of each of the non-GAAP financial measures set forth in the preceding table to the most directly comparable GAAP financial measure for the year ended December 31, 2002 (in millions of dollars).

Operating revenue (excluding net realized investment loss)	$	9,928.0
Net realized investment loss		(315.0)
Revenue	$	9,613.0
Operating income before net realized investment loss, federal income tax and cumulative effect of accounting principle change	$	925.9
Net realized investment loss		(315.0)
Federal income tax		202.6
Cumulative effect of accounting principle change, net of tax		(7.1)
Net income	$	401.2

We believe operating revenue and operating income or loss excluding realized investment gains and losses are useful measures of performance. Our investment focus is on investment income to support our insurance liabilities as opposed to the generation of realized investment gains and losses, and a long-term focus is necessary to maintain profitability over the life of the business. Realized investment gains and losses are dependent on market conditions and not necessarily related to decisions regarding underlying business. However, income excluding realized investment gains and losses does not replace net income as a measure of our profitability. Due to our exposure to below-investment-grade fixed maturity securities, and other factors discussed under Risk Factors in this prospectus supplement, we may experience realized investment losses. The realization of investment gains and losses will affect future earnings levels as the underlying business is long-term in nature and requires that we be able to sustain the assumed interest rates in our liabilities.

Business Strategies

Our objective is to grow our business and further enhance our profitability by providing:

Comprehensive Solutions for Income Protection and Related Needs

We offer a comprehensive portfolio of income protection products and services. These coverage choices, available primarily in the income protection and Colonial market segments, seek to meet the diverse needs of the marketplace. We seek to achieve a competitive advantage by offering our products to employers and other multi-life employee groups so they can be combined with other coverages to provide integrated product solutions for customers.

Table of Contents

Employees are increasingly turning to the workplace for access to quality insurance protection. Through return-to-work expertise and a comprehensive portfolio of basic employee benefits, as well as supplemental, voluntary, and executive product offerings, we offer businesses of all sizes highly competitive benefits to protect the incomes and lifestyles of employees and their families. Income protection solutions include integrated short-term and long-term disability income protection plans with flexible coverage and funding options.

Our broad portfolio also includes individual income protection products marketed increasingly to multi-life employee groups that help protect individual customers and their families from the financial effects of accidents or illnesses. The products feature choices suited to different ages, incomes, family needs, and lifestyles. We also offer long-term care insurance as a lifestyle protection product.

We have national practice groups that specialize in employer-provided plans for employees, executive benefit plans for multi-life employee groups, and products sold to groups of employees through payroll deduction at the workplace. These national practice groups partner with our sales force and representatives from claims, customer service, and underwriting who work in conjunction with independent brokers and consultants to present coverage solutions to potential customers and to manage existing customer accounts. We also utilize an agency field sales force to market the products offered by our Colonial segment.

Benefits Emphasizing Return to Work

Our organization and range of offerings are designed to help employers better manage lost time from the workplace and improve productivity.

Impairment-Based Claims Management With a Clinical Focus. We have made considerable investments in clinical resources and created a specialty process for handling long-duration claims based on the type of injury or illness. This process, along with our extensive clinical and vocational resources, is designed to promote return-to-work and absence management.

Return-to-Work Program Planning. We offer a combination of web-based resources and access to return-to-work planners to provide employers opportunities to impact their workplace productivity by strategically designing and formalizing return-to-work programs. Some customers using our customized return-to-work program have experienced a significant reduction in lost work days and medical costs.

Family and Medical Leave Act Absence Management. We offer administration and compliance for complex Family and Medical Leave Act and state leave regulations. Our Family and Medical Leave Act services unit can help employers improve absence management.

Integrated Disability Management. By combining our early intervention, rehabilitation, and cost containment resources with the worker s compensation provider chosen by the customer, employers are offered the benefit of common occupational and non-occupational case management and integrated reporting.

Comparative Reporting and Analysis. With web-based access to our private disability database, customers can compare their claim results with those of peer companies to allow analysis of trends in their claim experience with others in their industry. This provides them with a tool to focus on changes in plan design or internal corporate policies needed to promote return-to-work.

Table of Contents

Highly Responsive Service for Customers and their Advisors

We are committed to providing a high quality service experience for all customers and their advisors. Through a variety of technology tools and trained service professionals, we offer a service environment designed to be responsive, timely, and committed to service excellence.

A suite of services is in place to support customers and their advisors. For advisors, we offer Internet-based portal access to work in process and marketing materials. Dedicated service professionals respond to requests for individual sales proposals. Dedicated account management service professionals in local sales offices assist both advisors and customers in plan design, contract implementation, and service delivery. For advisors, we offer technology and call center supported contracting and compensation administration services that are designed to make it easier to do business.

Our employer customers are assigned service professionals in local sales offices to support and address their implementation and ongoing service needs. Larger employer customers are also assigned customer care (claims management and return-to-work services) account managers located in the home office who can provide support for several ongoing programs. We have regional service teams that manage the administration of the account, including contracts, booklets, and billing. We offer a wide array of electronic services, including our Benefit Manager web page, electronic booklets and billing, enrollment options, including the Internet and interactive voice response, and call centers dedicated to enrollment support. Employer customers have access to a local service specialist regardless of size. Larger cases with more than 2,000 insured lives have a wider array of technology tools as well as dedicated national practice account managers available to service the account in the local sales office. The national practice account managers are complemented with home office based account managers when the needs of the customer dictate this solution. We also offer technology enabled call center access to service professionals who are connected via a common voice technology network. Our offering includes web-enabled, self-service benefit administration solutions for employers and their employees.

Recent Developments

First Quarter 2003 Results Of Operations

We reported a net loss of $246.4 million ($1.02 per diluted common share) for the first quarter of 2003, compared to net income of $87.9 million ($0.36 per diluted common share) for the first quarter of 2002.

The first quarter of 2003 net loss includes an increase in our group long-term income protection GAAP reserves of $454.0 million before tax, or $295.1 million after tax. In April 2003, we completed an analysis of our assumptions related to our group long-term income protection claim reserves. We initiated this analysis based on a trend in lower net claim recovery rates observed during the first quarter of 2003. Claim recovery rates during the first quarter of 2003 were below expected levels and lower than those experienced in the past three years. The analysis of emerging net claim recovery rates and the reasons driving the changes resulted in a reduction in our long-term expectations. Based on this analysis, we increased our long-term income protection reserves as of March 31, 2003 to reflect our current estimate of future benefit obligations. This analysis indicated not only a decrease in overall claim recovery rates, but a change in claim recovery rates by claim duration. The reserve increase represents a

6.2% increase in our total net group long-term income protection GAAP reserves, which prior to this increase at March 31, 2003 were $7.34 billion.

Table of Contents

Also included in the net income (loss) for the first quarter are net realized after-tax investment losses of $57.6 million ($0.24 per diluted common share) in the first quarter of 2003 compared to $56.1 million ($0.23 per diluted common share) in the first quarter of 2002. Included in the first quarter of 2002 net income is a write-down of goodwill of $11.0 million before tax, or $7.1 million after tax ($0.03 per diluted common share). We adopted the provisions of Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, in the first quarter of 2002. The transitional impairment tests of goodwill resulted in the write-down, which was reported as a cumulative effect of accounting principle change. Excluding the net realized investment losses and the first quarter of 2002 cumulative effect of accounting principle change, the after-tax operating loss for the first quarter of 2003 totaled $188.8 million ($0.78 per diluted common share) compared to after-tax operating income of $151.1 million ($0.62 per diluted common share) for the first quarter of 2002.

A reconciliation from after-tax operating income (loss), excluding net realized investment losses and the cumulative effect of accounting principle change, to net income (loss) is as follows:

	Three Months Ended March 31,	
	2003	2002
	($ in millions, except per share data)	
Operating income (loss) before net realized investment loss and cumulative effect of accounting principle change	$ (188.8)	$ 151.1
Net realized investment loss, net of tax	(57.6)	(56.1)
Income (loss) before cumulative effect of accounting principle change	(246.4)	95.0
Cumulative effect of accounting principle change, net of tax		(7.1)
Net income (loss)	$ (246.4)	$ 87.9
Per Diluted Common Share		
Operating income (loss) before net realized investment loss and cumulative effect of accounting principle change	$ (0.78)	$ 0.62
Net realized investment loss, net of tax	(0.24)	(0.23)
Income (loss) before cumulative effect of accounting principle change	(1.02)	0.39
Cumulative effect of accounting principle change, net of tax		(0.03)
Net income (loss)	$ (1.02)	$ 0.36

Results by Segment

As stated previously, effective January 1, 2003, we adjusted our reporting segments to more closely reflect the manner in which we manage our business internally. Beginning with the first quarter of 2003, we will report results for the following five segments income protection, life and accident, Colonial, other and corporate. See UnumProvident Corporation .

The income protection segment reported an operating loss before net realized investment gains and losses and federal income taxes, or operating loss, of $353.8 million, including the reserve increase of $454.0 million for the group long-term income protection line of business. This compares to operating income before net realized investment gains and losses and federal income taxes, or operating income, of $163.5 million in the first quarter of 2002.

Table of Contents

Within the segment, the group income protection line reported an operating loss of $423.7 million in the first quarter of 2003, compared to operating income of $87.0 million in the prior year first quarter and $75.6 million in the fourth quarter of 2002. The lower earnings in the quarter relative to a year ago are the result of a decline in net claim recoveries in the long-term income protection line of business, as well as lower earnings in the short-term income protection line of business.

Also within this segment, the individual income protection line of business reported operating income of $60.2 million, compared to operating income of $67.5 million in the first quarter of 2002 and $64.7 million in the fourth quarter of 2002. The decline in earnings was primarily the result of lower net claim recoveries in the quarter. Our income protection segment was also adversely affected by adverse publicity, which caused reduced sales of our long-term, short-term and individual income protection products. We have begun to report separately the results of our recently issued income protection business from our closed block of individual income protection business. Operating income in the recently issued individual income protection business totaled $44.4 million in the first quarter of 2003 compared to $41.6 million in the first quarter of 2002. Operating income in the closed block of individual income protection business totaled $15.8 million in the first quarter of 2003 compared to $25.9 million in the first quarter of 2002.

The long-term care line of business, which includes the results of both the group and individual long-term care lines of business, reported operating income of $5.8 million in the first quarter of 2003, compared to $4.8 million in the first quarter of 2002 and $6.0 million in the fourth quarter of 2002. Finally, the disability services line of business reported operating income of $3.9 million in the first quarter of 2003, compared to $4.2 million in the first quarter of 2002 and $5.6 million in the fourth quarter of 2002.

Premium income for the income protection segment increased 6.8% to $1,295.0 million in the first quarter of 2003, compared to $1,212.0 million in the first quarter of 2002. Within this segment, premium income for the group income protection line of business increased 6.4% to $762.1 million in the first quarter of 2003 from $716.4 million in the first quarter of 2002. The premium income growth in this line is due to new sales submitted in 2002 and favorable renewal activity and improved persistency on the existing block of business. Premium income for the individual income protection line of business increased 4.1% to $437.8 million in the first quarter of 2003 from $420.4 million in the first quarter of 2002. Premium income growth in this line is due to a 20.3% growth of premium income in the recently issued income protection line, driven by strong sales growth in the brokerage voluntary and United Kingdom income protection business. Premium income in the closed block of individual income protection insurance declined 4.0% to $268.6 million in the first quarter of 2003 from $279.7 million in the first quarter of 2002. Within this segment, premium income for the long-term care line of business increased 26.5% to $95.1 million in the first quarter of 2003 from $75.2 million in the first quarter of 2002 due to solid sales growth along with stable persistency.

New annualized sales (submitted date basis) for group long-term income protection fully-insured products declined 14.1% to $67.9 million in the first quarter of 2003, from $79.0 million in the first quarter of 2002 due to a decline in North American brokerage sales, while group long-term income protection administrative services only (ASO) premium equivalents decreased 45.8% to $1.3 million in the first quarter of 2003, from $2.4 million in the first quarter of 2002. New annualized sales (submitted date basis) for group short-term income protection fully-insured products declined 26.3% to $26.9 million in the first quarter of 2003, from $36.5 million in the first quarter of 2002, consistent with our strategy to shift sales from large case fully insured business to ASO, while group short-term income protection ASO premium equivalent sales increased 88.3% to $22.6 million in the first quarter of 2003, from $12.0 million in the first quarter of 2002. New annualized sales (paid for basis) for individual income

Table of Contents

protection increased 17.7% to $41.2 million in the first quarter of 2003 from $35.0 million in the first quarter of 2002 due to strong sales growth in brokerage voluntary and United Kingdom income protection sales.

Premium persistency in our long-term income protection block improved to 87.0% for the first quarter of 2003 compared to 86.6% in the first quarter of 2002. Persistency also improved in our short-term income protection line of business to 85.2% in the first quarter of 2003 compared to 83.4% in the first quarter of 2002.

The life and accident segment reported operating income of $63.8 million in the first quarter of 2003, compared to $44.4 million in the first quarter of 2002 and $87.3 million in the fourth quarter of 2002. The improvement in results relative to the year ago quarter was primarily the result of improved experience in our group life line of business.

Premium income in this segment increased 6.4% to $476.8 million in the first quarter of 2003, from $448.0 million in the first quarter of 2002 due to strong sales in the brokerage voluntary life line and favorable renewal activity and improved persistency in the group life and accidental death and dismemberment business. New annualized sales (submitted date basis) in the group life line increased to $54.3 million in the first quarter of 2003, from $53.3 million in the first quarter of 2002. New annualized sales in the accidental death and dismemberment line of business decreased to $6.7 million in the first quarter of 2003, from $9.9 million in the first quarter of 2002. New annualized sales in the brokerage voluntary life and other lines increased to $34.9 million in the first quarter of 2003 from $20.5 million in the first quarter of 2002.

Premium persistency in our group life business improved to 83.1% for the first quarter of 2003 compared to 81.4% in the first quarter of 2002.

The Colonial segment reported operating income of $35.2 million in the first quarter of 2003, compared to $33.0 million in the first quarter of 2002 and $36.2 million in the fourth quarter of 2002. Premium income for this segment increased 9.1% to $170.6 million in the first quarter of 2003, from $156.3 million in the first quarter of 2002. New annualized sales in this segment increased 8.8% to $59.6 million in the first quarter of 2003, from $54.8 million in the first quarter of 2002.

The other segment reported operating income of $11.7 million in the first quarter of 2003, compared to $9.5 million in the first quarter of 2002 and $8.5 million in the fourth quarter of 2002.

The corporate segment reported a loss of $54.2 million in the first quarter of 2003, compared to losses of $29.0 million in the first quarter of 2002 and $50.9 million in the fourth quarter of 2002. The results in this segment for the first quarter of 2003 include $15.0 million related to the before-tax severance and retirement benefits discussed below in Management Changes .

Our net realized after-tax investment losses of $57.6 million in the first quarter of 2003 consisted of gross realized before-tax investment losses and write-downs of $140.6 million and gross realized before-tax investment gains of $52.4 million, for net realized before-tax investment losses of $88.2 million. For the first quarter of 2002, our net realized after-tax investment losses of $56.1 million consisted of gross realized before-tax investment losses and write-downs of $196.1 million and gross realized before-tax investment gains of $110.4 million, for net realized before-tax investment losses of $85.7 million.

As of March 31, 2003, book value per common share was $27.09, compared to $28.33 as of December 31, 2002 and $23.58 as of March 31, 2002. Book value per share excluding net unrealized gains and losses on securities was $23.15 as of March 31, 2003 and $24.25 as of December 31, 2002 and $23.84 as of March 31, 2002.

Table of Contents

Financial Restructuring Plan

On April 25, 2003, we also announced a series of actions to increase our financial strength and improve the predictability of our business. We expect the restructuring to improve our Risk Based Capital (RBC) position, reduce our leverage, reduce the amount we owe to our insurance company subsidiaries and improve the risk profile for our investment portfolio. We expect to complete most of the restructuring plan by the end of the second quarter of 2003. There is a risk, however, that we may not be able to complete our plan in its entirety.

We developed the financial restructuring plan to respond specifically to issues raised by rating agencies and investors. The plan also reflects a continued refinement of our strategic direction. The principal components of the plan include the following:

Equity Offerings. The issuance of units in this offering for an aggregate offering price of $500.0 million and the issuance of shares of our common stock in the concurrent offering for an aggregate offering price of approximately $400.0 million. See Concurrent Offering .

Dividend Reduction. A reduction in the annual dividend on our common stock from $.59 per share to $.30 per share, commencing with the dividend payable on May 16, 2003. We believe this change will make our dividend payout and yield more comparable to our peer companies and will reduce and potentially eliminate the need for our insurance company subsidiaries to pay any dividends to us during the remainder of 2003, thereby retaining higher levels of capital in our insurance company subsidiaries.

Internal Reorganization. We are contributing to our insurance company subsidiaries certain of our assets to better align our businesses, which we believe will increase the statutory capital of certain of our insurance company subsidiaries by approximately $285.0 million. The assets that we propose to contribute consist of GENEX Services, Inc., which provides specialized skills in disability case management and vocational rehabilitation to assist disabled claimants to return to work, and a corporate-owned life insurance asset.

Changes to Investment Portfolio. At December 31, 2002, approximately 10% (market value basis) of our investment portfolio consisted of below-investment-grade fixed maturity securities. During the first quarter of 2003, we sold 760.9 million (market value) of our below-investment-grade fixed maturity securities. This reduced our below-investment grade exposure to approximately 8.4% of the market value of our investment portfolio, excluding ceded policy loans, as of March 31, 2003.

Other Initiatives. We are taking a number of business and financial actions to respond to the present business environment, which we do not anticipate will materially improve in 2003. These actions include further lowering the discount rate on new claim incurrals to reflect the continued low interest rate environment and the expectation of a more challenging claims environment, which is expected to result in higher levels of claims incidence and lower net recovery results. We are taking actions to partially offset these changes through continued improvements in productivity and a heightened emphasis on expense management.

Assuming the issuance of $500.0 million of units in this offering and 43,800,000 shares of our common stock in the concurrent offering (without exercise of the underwriters option to purchase additional shares of common stock), the anticipated application of the estimated net proceeds as described under Use of Proceeds and the completion of the internal reorganization described above, we will have:

increased the RBC of our insurance company subsidiaries, calculated on a weighted average basis using the National Association of Insurance Commissioners, or NAIC, Company Action

Table of Contents

Level formula, from 210% at December 31, 2002, to 244% on a pro forma basis as of that date, through a combination of $195.0 million in cash, $170.0 million in reduced dividends from our insurance company subsidiaries, and the contribution of $285.0 million in assets to our insurance company subsidiaries,

reduced inter-company loans from our insurance company subsidiaries by $535.0 million from $694.6 million at December 31, 2002, to approximately $160.0 million, and

reduced our leverage (giving 50% credit for company-obligated manditorily redeemable preferred securities of a subsidiary trust holding solely our junior subordinated debt securities and 80% equity credit for the equity security units we are issuing concurrently) from 27.7% at December 31, 2002 to 25.3% on a pro forma basis as of that date.

Restatement of Financial Statements

On March 24, 2003, we announced that we had recently resolved various accounting and disclosure comments from the Securities and Exchange Commission s Division of Corporation Finance. One of the comments addressed the fair value used to determine the amount of other than temporary impairments on fixed maturity securities. During 2001 and 2000, we recorded other than temporary impairments on certain of our fixed maturity securities based on values that included their quoted market prices, as well as to give effect to our analysis with respect to certain issuers of securities that perhaps was not reflected in those market prices. After discussions with the SEC, we concluded that not relying solely on quoted market prices for our other than temporary impairment charges was an erroneous interpretation of Statement of Financial Accounting Standards No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. We restated our financial statements (including relevant schedules and exhibits) for the affected periods and included the restated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2002. The non-cash adjustments did not impact our total stockholders equity in any period because we had already recorded the unrealized effect of the decreased market value of our fixed maturity securities through stockholders equity in the appropriate periods. In addition, these adjustments had an immaterial effect on the statutory surplus of our insurance company subsidiaries.

The effect on net income and net income per share (assuming dilution) was as follows (dollars in millions, except per share data):

	2002	2001	2000
Net Income			
As Reported	$ 367.0	$ 579.2	$ 564.2
As Restated	401.2	541.2	538.9
Change	$ 34.2	$ (38.0)	$ (25.3)
Net Income Per Share			
As Reported	$ 1.51	$ 2.38	$ 2.33
As Restated	1.65	2.22	2.23
Change	$ 0.14	$ (0.16)	$ (0.10)

Table of Contents

Management Changes

On March 31, 2003, we announced several senior management changes. Thomas R. Watjen, who was previously Vice Chairman and Chief Operating Officer, was appointed to serve as President and Chief Executive Officer (CEO) on an interim basis. Mr. Watjen replaced J. Harold Chandler, who previously served as Chairman, President and CEO. F. Dean Copeland, who was previously Senior Executive Vice President and General Counsel, assumed the additional position of Chief Administrative Officer.

Outside directors C. William Pollard, retired Chairman and CEO of The ServiceMaster Company, and Lawrence R. Pugh, retired Chairman and CEO of V.F. Corporation, are now serving as Co-Chairmen in a newly created Office of the Chairman of the Board, which will serve as the focal point for interaction between the board of directors and senior management.

The board of directors also named outside director John W. Rowe, Chairman, President and CEO of Exelon Corporation, to lead a search committee, which will be assisted by a national executive recruiting firm in seeking a new CEO. The search began on March 31, 2003, and the board of directors will consider Mr. Watjen as well as external candidates.

Pursuant to his current employment contract dating from 1999, Mr. Chandler will receive severance of approximately $8.5 million, which represents a payment of three times base salary and bonus. In addition, under the terms of his contract, he will receive the present value of a retirement benefit (approximately $8.5 million). These charges reduced our first quarter of 2003 net income by approximately $9.8 million, or $0.04 per diluted common share.

Table of Contents

Ratings

Standard & Poor s Corporation (S&P), Moody s Investors Service (Moody s), Fitch, Inc. (Fitch), and A.M. Best Company (AM Best) are among the third parties that provide assessments of our overall financial position. In the fourth quarter of 2002 and subsequently (including S&P and AM Best on April 25, 2003), the rating agencies have downgraded our senior debt ratings and the financial strength ratings of our insurance company subsidiaries. Currently, each of the rating agencies has our insurance company subsidiaries financial strength ratings and our senior debt ratings under review with negative implications principally due to concerns regarding our ability to raise a significant amount of capital, our earnings outlook given our focus on income protection insurance and challenges in the income protection insurance market as environmental conditions continue to put pressure on claims incidence and recoveries, the level and quality of the statutory capital of our insurance company subsidiaries and our exposure to below-investment-grade securities. The table below reflects our senior debt ratings and the financial strength ratings for our U.S. domiciled insurance company subsidiaries as of April 25, 2003.

	S&P	Moody s	Fitch	AM Best
UnumProvident Corporation				
Senior debt	BBB (Good)	Baa3 (Medium Grade)	BBB (Good)	bbb