

MONY GROUP INC  
Form 10-Q  
May 15, 2003  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 10-Q**

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

**For the quarterly period ended March 31, 2003**

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from            to**

**Commission file number: 1-14603**

**THE MONY GROUP INC.**

**(Exact name of Registrant as specified in its charter)**

**Delaware**  
**(State or other jurisdiction of**  
**incorporation or organization)**

**13-3976138**  
**(I.R.S. Employer**  
**Identification No.)**

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1740 Broadway

New York, New York 10019

(212) 708-2000

(Address, including zip code, and telephone number, including area code,

of Registrant's principal executive offices)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of May 7, 2003 there were 46,960,185 shares of the Registrant's common stock, par value \$0.01, outstanding.

**Table of Contents**

**THE MONY GROUP INC.**

**FORM 10-Q**

**TABLE OF CONTENTS**

	<b>Page</b>
<b>PART I FINANCIAL INFORMATION</b>	
Item 1:	
Financial Statements	2
<u>Unaudited interim condensed consolidated balance sheets as of March 31, 2003 and December 31, 2002</u>	2
<u>Unaudited interim condensed consolidated statements of income and comprehensive income for the three-month periods ended March 31, 2003 and 2002</u>	3
<u>Unaudited interim condensed consolidated statement of changes in shareholders equity for the three-month period ended March 31, 2003</u>	4
<u>Unaudited interim condensed consolidated statements of cash flows for the three-month period ended March 31, 2003 and 2002</u>	5
<u>Notes to unaudited interim condensed consolidated financial statements</u>	6
Item 2:	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	25
Item 3:	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	65
Item 4:	
<u>Controls and Procedures</u>	65
<b>PART II OTHER INFORMATION</b>	
Item 1:	
<u>Legal Proceedings</u>	66
Item 6:	
<u>Exhibits and Reports on Form 8-K</u>	66
<b><u>SIGNATURES</u></b>	S-1
<b><u>CERTIFICATIONS</u></b>	S-2

**Table of Contents**

**FORWARD-LOOKING STATEMENTS**

The Company's management has made in this report, and from time to time may make in its public filings and press releases as well as in oral presentations and discussions, forward-looking statements concerning the Company's operations, economic performance, prospects and financial condition. Forward-looking statements include, among other things, discussions concerning the Company's potential exposure to market risks, as well as statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. The Company claims the protection afforded by the safe harbor for forward-looking statements as set forth in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. Actual results could differ materially from those anticipated by forward-looking statements due to a number of important factors including the following: the Company could have further venture capital losses; the Company could be subjected to further downgrades by rating agencies of the Company's senior debt ratings and the claims-paying and financial-strength ratings of the Company's insurance subsidiaries; the Company could be required to take a goodwill impairment charge relating to its investment in The Advest Group, Inc. if the market deteriorates further; the Company could have to accelerate amortization of deferred policy acquisition costs if market conditions continue to deteriorate; the Company could have to write off investments in certain securities if the issuer's financial condition deteriorates; actual death-claim experience could differ from the Company's mortality assumptions; the Company could have liability from as-yet-unknown litigation and claims; larger settlements or judgments than the Company anticipates could result in pending cases due to unforeseen developments; and changes in laws, including tax laws, could affect the demand for the Company's products. The Company does not undertake to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

**Table of Contents****PART I****FINANCIAL INFORMATION****ITEM 1: FINANCIAL STATEMENTS****THE MONY GROUP INC. AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS**

As of March 31, 2003 and December 31, 2002

	March 31, 2003	December 31, 2002
	(\$ in millions)	
<b>ASSETS</b>		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 8,020.2	\$ 7,909.4
Trading account securities, at fair value	787.5	726.7
Equity securities available-for-sale, at fair value	245.2	249.0
Mortgage loans on real estate	1,829.0	1,877.4
Policy loans	1,204.0	1,212.5
Real estate to be disposed of	19.5	26.8
Real estate held for investment	181.0	180.2
Other invested assets	131.2	110.8
	<u>12,417.6</u>	<u>12,292.8</u>
Cash and cash equivalents	481.2	378.5
Accrued investment income	213.4	207.5
Debt service coverage account (Note 1):		
Sub-account OB	68.9	64.7
Sub-account CBB	0.3	9.4
Amounts due from reinsurers	675.2	695.2
Premiums receivable	6.7	7.3
Deferred policy acquisition costs	1,245.3	1,226.4
Other assets	843.2	854.0
Separate account assets	4,025.1	4,140.6
	<u>\$ 19,976.9</u>	<u>\$ 19,876.4</u>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Future policy benefits	\$ 7,966.5	\$ 7,949.9
Policyholders' account balances	2,891.1	2,779.7
Other policyholders' liabilities	263.9	289.2
Amounts due to reinsurers	67.4	67.7
Securities sold, not yet purchased, at fair value	614.9	586.8

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Accounts payable and other liabilities	954.2	875.3
Short term debt	7.0	7.0
Long term debt	876.3	876.3
Current federal income taxes payable	87.4	95.5
Deferred federal income taxes	223.1	212.9
Separate account liabilities	4,022.1	4,137.6
	<u>          </u>	<u>          </u>
Total liabilities	17,973.9	17,877.9
	<u>          </u>	<u>          </u>
Commitments and contingencies (Note 5)		
Common stock, \$0.01 par value; 400 million shares authorized; 51.3 and 51.2 million shares issued at March 31, 2003 and December 31, 2002, respectively; 47.0 and 46.9 million shares outstanding at March 31, 2003 and December 31, 2002, respectively		
	0.5	0.5
Capital in excess of par	1,769.1	1,761.5
Treasury stock at cost: 4.3 million shares at March 31, 2003 and December 31, 2002	(137.7)	(137.7)
Retained earnings	322.5	314.9
Accumulated other comprehensive income	56.0	59.9
Unamortized restricted stock compensation	(7.4)	(0.6)
	<u>          </u>	<u>          </u>
Total shareholders' equity	2,003.0	1,998.5
	<u>          </u>	<u>          </u>
Total liabilities and shareholders' equity	\$ 19,976.9	\$ 19,876.4
	<u>          </u>	<u>          </u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME**

**For the Three-month Periods Ended March 31, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
	(\$ in millions, except share data and per share amounts)	
<b>Revenues:</b>		
Premiums	\$ 166.8	\$ 164.4
Universal life and investment-type product policy fees	53.0	49.0
Net investment income	175.1	187.4
Net realized gains (losses) on investments	16.6	(2.4)
Group Pension Profits (Note 4)		7.7
Retail brokerage and investment banking revenues	94.6	93.1
Other income	37.0	38.2
	<u>543.1</u>	<u>537.4</u>
<b>Benefits and Expenses:</b>		
Benefits to policyholders	196.3	190.7
Interest credited to policyholders' account balances	33.9	27.9
Amortization of deferred policy acquisition costs	31.0	32.8
Dividends to policyholders	61.9	61.5
Other operating costs and expenses	213.2	203.4
	<u>536.3</u>	<u>516.3</u>
Income from continuing operations before income taxes	6.8	21.1
Income tax expense	1.5	6.8
Income from continuing operations	5.3	14.3
Discontinued operations: Income from real estate to be disposed of, net of income tax expense of \$1.2 million	2.3	
Net income	<u>7.6</u>	<u>14.3</u>
Other comprehensive loss, net	(3.9)	(16.3)
Comprehensive income/(loss)	<u>\$ 3.7</u>	<u>\$ (2.0)</u>
<b>Per Share Data:</b>		
Basic income per share from continuing operations	\$ 0.11	\$ 0.30
Basic income per share from discontinued operations	\$ 0.05	\$

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Basic net income per share	\$ 0.16	\$ 0.30
	<u>          </u>	<u>          </u>
Diluted income per share from continuing operations	\$ 0.11	\$ 0.29
	<u>          </u>	<u>          </u>
Diluted income per share from discontinued operations	\$ 0.05	\$
	<u>          </u>	<u>          </u>
Diluted net income per share	\$ 0.16	\$ 0.29
	<u>          </u>	<u>          </u>
Share Data:		
Weighted-average shares used in basic per share calculation	46,961,194	48,012,310
Plus: incremental shares from assumed conversion of dilutive securities	23,816	1,724,895
	<u>          </u>	<u>          </u>
Weighted-average shares used in diluted per share calculations	46,985,010	49,737,205
	<u>          </u>	<u>          </u>

See accompanying notes to unaudited interim condensed consolidated financial statements.



Table of Contents

## THE MONY GROUP INC. AND SUBSIDIARIES

## UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT

## OF CHANGES IN SHAREHOLDERS EQUITY

For the Three-month Period Ended March 31, 2003

	Common Stock	Capital In Excess Of Par	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Unamortized Restricted Stock Compensation	Total Shareholders Equity
(\$ in millions)							
<b>Balance December 31, 2002</b>	\$ 0.5	\$ 1,761.5	\$ (137.7)	\$ 314.9	\$ 59.9	\$ (0.6)	\$ 1,998.5
Unamortized restricted stock compensation		7.6				(6.8)	0.8
Comprehensive income:							
Net Income				7.6			7.6
Other comprehensive income(1)					(3.9)		(3.9)
Comprehensive income							3.7
<b>Balance March 31, 2003</b>	\$ 0.5	\$ 1,769.1	\$ (137.7)	\$ 322.5	\$ 56.0	\$ (7.4)	\$ 2,003.0

- (1) Represents net unrealized gains/(losses) on investments net of the effect of unrealized gains on deferred policy acquisition cost, reclassification adjustments, and changes in minimum pension liability and taxes.

See accompanying notes to unaudited interim condensed consolidated financial statements.

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****For the Three-month Periods Ended March 31, 2003 and 2002**

	<b>2003</b>	<b>2002</b>
	<b>(\$ in millions)</b>	
<b>Net cash provided by operating activities</b>	<b>\$ 39.8</b>	<b>\$ 64.6</b>
Cash flows from investing activities:		
Sales, maturities or repayment of:		
Fixed maturity securities	586.4	232.0
Equity securities	15.0	14.4
Mortgage loans on real estate	133.2	68.6
Policy loans, net	8.5	5.3
Other invested assets	23.2	11.4
Acquisitions of investments:		
Fixed maturity securities	(703.6)	(278.0)
Equity securities	(10.7)	(2.3)
Mortgage loans on real estate	(83.3)	(35.6)
Property, plant and equipment, net	(4.6)	(4.8)
Other, net	(17.0)	(15.1)
<b>Net cash used in investing activities</b>	<b>\$ (52.9)</b>	<b>\$ (4.1)</b>
<b>Cash flows from financing activities:</b>		
Funding of debt service coverage account-OB	5.0	
Receipts from annuity and universal life policies credited to policyholders' account balances(1)	283.6	238.1
Return of policyholder account balances on annuity and universal life policies(1)	(172.8)	(204.9)
Treasury stock repurchases		(0.2)
Other		0.7
<b>Net cash provided by financing activities</b>	<b>115.8</b>	<b>33.7</b>
<b>Net increase in cash and cash equivalents</b>	<b>102.7</b>	<b>94.2</b>
Cash and cash equivalents, beginning of period	378.5	441.0
<b>Cash and cash equivalents, end of period</b>	<b>\$ 481.2</b>	<b>\$ 535.2</b>

(1) Includes exchanges to a new FPVA product series.

See accompanying notes to unaudited interim condensed consolidated financial statements

**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Description of Business:**

The MONY Group Inc. (the "MONY Group"), through its subsidiaries (MONY Group and its subsidiaries are collectively referred to herein as the "Company"), provides life insurance, annuities, corporate-owned and bank-owned life insurance (COLI and BOLI), mutual funds, securities brokerage, securities trading, asset management, business and estate planning, trust, and investment banking products and services. The Company distributes its products and services through Retail and Wholesale distribution channels. The Company's Retail distribution channels are comprised of (i) the career agency sales force operated by its principal life insurance operating subsidiary, and (ii) financial advisors and account executives of its securities broker dealer subsidiaries. The Company's Wholesale channel is comprised of (i) MONY Partners, a division of MONY Life, (ii) independent third party insurance brokerage general agencies and securities broker dealers and (iii) its corporate marketing team which markets COLI and BOLI products. For the three-month period ended March 31, 2003, Retail distribution accounted for approximately 18.2%, and 43.2% of sales of protection and accumulation products, respectively, and 100.0% of Retail brokerage and investment banking revenues, while Wholesale distribution accounted for 81.8% and 56.8% of sales of protection and accumulation products, respectively. The Company principally sells its products in all 50 of the United States, the District of Columbia, the U.S. Virgin Islands, Guam and the Commonwealth of Puerto Rico, and currently insures or provides other financial services to more than one million individuals.

MONY Group's principal operating subsidiaries are MONY Life Insurance Company ("MONY Life"), formerly known as The Mutual Life Insurance Company of New York, and The Advest Group, Inc. ("Advest"). MONY Life's principal wholly owned direct and indirect operating subsidiaries include: (i) MONY Life Insurance Company of America ("MLOA"), an Arizona domiciled life insurance company, (ii) Enterprise Capital Management ("Enterprise"), a distributor of both proprietary and non-proprietary mutual funds, (iii) U.S. Financial Life Insurance Company ("USFL"), an Ohio domiciled insurer underwriting specialty risk life insurance business, (iv) MONY Securities Corporation ("MSC"), a registered securities broker-dealer and investment advisor whose products and services are distributed through MONY Life's career agency sales force, (v) Trusted Securities Advisors Corp., which distributes investment products and services through a network of accounting professionals, (vi) MONY Brokerage, Inc., a licensed insurance broker, which principally provides MONY Life's career agency sales force with access to life, annuity, small group health, and specialty insurance products written by other insurance companies so they can meet the insurance and investment needs of their customers, and (vii) MONY International Holdings, which through its Brazilian domiciled insurance brokerage subsidiary, principally provides insurance brokerage services to unaffiliated third party insurance companies in Brazil and, to a lesser extent since its reorganization in 2001, provides life insurance, annuity and investment products, as well as trust services, to nationals of certain Latin American countries through its Cayman Island based insurance and banking subsidiaries (MONY Life Insurance Company of the Americas, Ltd. and MONY Bank & Trust Company of the Americas, Ltd., respectively). Advest, through its principal operating subsidiaries, Advest, Inc., a securities broker-dealer, Advest Bank and Trust Company, a federal savings bank, and Boston Advisors, a registered investment advisory firm, provides diversified financial services including securities brokerage, securities trading, investment banking, trust, and asset management services.

On February 27, 2002, MONY Group formed MONY Holdings, LLC ("MONY Holdings") as a downstream, wholly owned, holding company of the MONY Group. MONY Group formed MONY Holdings for the purpose of issuing debt tied to the performance of the Closed Block Business ("CBB") (see Note 7) within MONY Life. On April 30, 2002, the date MONY Holdings commenced its operations, MONY Holdings, through a structured financing tied to the performance of the CBB within MONY Life, issued \$300.0 million of floating rate insured debt securities (the "Insured Notes") in a private placement and MONY Group, pursuant to the terms



**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the structured financing, transferred all of its ownership interest in MONY Life to MONY Holdings. Other than activities related to servicing the Insured Notes in accordance with the indenture and its ownership interest in MONY Life, MONY Holdings has no operations and engages in no other activities.

Proceeds to MONY Holdings from the issuance of the Insured Notes, after all offering and other related expenses, were approximately \$292.6 million. Of this amount, \$60.0 million was deposited in a debt service coverage account (the DSCA), pursuant to the terms of the note indenture, to provide collateral for the payment of interest and principal on the Insured Notes and the balance of approximately \$232.6 million was distributed to MONY Group in the form of a dividend. The Insured Notes mature on January 21, 2017. The Insured Notes pay interest only through January 21, 2008 at which time principal payments will begin to be made pursuant to an amortization schedule. Interest on the Insured Notes is payable quarterly at an annual rate equal to three month LIBOR plus 0.55%. Concurrent with the issuance of the Insured Notes, MONY Holdings entered into an interest rate swap contract (the Swap), which locked in a fixed rate of interest on this indebtedness at 6.44%. Including debt issuance costs of \$7.4 million and the cost of the insurance policy (75 basis points per annum) (the Insurance Policy), which guarantees the scheduled principal and interest payments on the Insured Notes, the all-in cost of the indebtedness is 7.36%. See Note 8 for further information regarding the Insured Notes.

**2. Summary of Significant Accounting Policies:**

***Basis of Presentation***

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ significantly from those estimates. The most significant estimates made in conjunction with the preparation of the Company's financial statements include those used in determining: (i) deferred policy acquisition costs, (ii) the liability for future policy benefits, (iii) valuation allowances for mortgage loans and charges for the impairment of invested assets, (iv) pension costs, (v) costs associated with contingencies, (vi) litigation contingencies and restructuring charges and (vii) income taxes. Certain reclassifications have been made in the amounts presented for prior periods to conform those periods to the current presentation.

***New Accounting Pronouncements***

In December 2002, the FASB issued SFAS No. 148 *Accounting for Stock-Based Compensation - Transition and Disclosure and amendment of FASB Statement No. 123*. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee

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compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity's accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. The disclosure provisions for this Statement are effective for interim periods beginning after December 15, 2002. The transition provisions of this statement are effective for financial statements for fiscal years ending after December 31, 2002. As of March 31, 2003, the Company has not adopted the fair value based method of accounting for stock based compensation.

**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**3. Segment Information:**

The Company's business activities consist of the following: protection product operations, accumulation product operations, mutual fund operations, securities broker-dealer operations, investment banking operations, investment management operations, insurance brokerage operations, and certain insurance lines of business no longer written by the Company (the run-off businesses). These business activities represent the Company's operating segments. Except as discussed below, these segments are managed separately because they either provide different products or services, are subject to different regulation, require different strategies, or have different technology requirements.

Management considers the Company's mutual fund operations to be an integral part of the products offered by the Company's accumulation products segment. Accordingly, for management purposes (including performance assessment and making decisions regarding the allocation of resources), the Company aggregates its mutual fund operations with its accumulation products segment. The securities broker-dealer and investment banking operations are aggregated into the Retail Brokerage and Investment Banking segment because they have similar economic characteristics.

Of the aforementioned segments, only the Protection Products segment, the Accumulation Products segment and the Retail Brokerage and Investment Banking segment qualify as reportable segments in accordance with SFAS Statement No. 131. All of the Company's other segments are combined and reported in the Other Products segment.

Products comprising the Protection Products segment primarily include a wide range of individual life insurance products, including: whole life, term life, universal life, variable universal life, corporate-owned life, last survivor whole life, last survivor universal life, last survivor variable universal life, group universal life and special-risk products. In addition, included in the Protection Products segment are: (i) the assets and liabilities transferred pursuant to the Group Pension Transaction (which ceased as of December 31, 2002 *see Note 4*), as well as the Group Pension Profits derived therefrom, (ii) the Closed Block assets and liabilities, as well as all the related revenues and expenses relating thereto (*see Note 6*) and (iii) disability income insurance products (which are 100% reinsured and no longer offered by the Company).

The Accumulation Products segment primarily includes flexible premium variable annuities, single and flexible premium deferred annuities, single premium immediate annuities, proprietary mutual funds, investment management services, and certain other financial services products.

The Retail Brokerage and Investment Banking segment is comprised of the operations of Advest, MSC and Matrix. Advest provides diversified financial services including securities brokerage, trading, investment banking, trust, and asset management services. Matrix is a middle market investment bank specializing in merger and acquisition services for a middle market client base. MSC is a securities broker dealer that transacts

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customer trades primarily in securities and mutual funds. In addition to selling the Company's protection and accumulation products, MSC provides the Company's career agency distribution system access to other non-proprietary investment products (including stocks, bonds, limited partnership interests, tax-exempt unit investment trusts and other investment securities).

The Company's Other Products segment primarily consists of an insurance brokerage operation and the run-off businesses. The insurance brokerage operation provides the Company's career agency sales force with access to variable life, annuity, small group health and specialty insurance products written by other carriers to meet the



**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

insurance and investment needs of its customers. The run-off businesses primarily consist of group life and health business as well as group pension business that was not included in the Group Pension Transaction (*see Note 4*).

Set forth in the table below is certain financial information with respect to the Company's operating segments as of March 31, 2003 and December 31, 2002 and for each of the three-month periods ended March 31, 2003 and 2002, as well as amounts not allocated to the segments. Except for various allocations discussed below, the accounting policies of the segments are the same as those described in the summary of significant accounting policies in the audited financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2002. The Company evaluates the performance of each operating segment based on profit or loss from operations before income taxes and nonrecurring items (e.g. items of an unusual or infrequent nature). The Company does not allocate nonrecurring items to the segments. In addition, all segment revenues are from external customers.

Assets have been allocated to the segments in amounts sufficient to support the associated liabilities of each segment and maintain a separately calculated regulatory risk-based capital (RBC) level for each segment equal to that of the Company's RBC level. Allocations of the net investment income and net realized gains on investments were based on the amount of assets allocated to each segment. Other costs and operating expenses were allocated to each of the segments based on: (i) a review of the nature of such costs, (ii) time studies analyzing the amount of employee compensation costs incurred by each segment, and (iii) cost estimates included in the Company's product pricing. Substantially all non-cash transactions and impaired real estate (including real estate acquired in satisfaction of debt) have been allocated to the Protection Products segment.

Amounts reported as reconciling amounts in the table below primarily relate to: (i) contracts issued by the Mutual Life Insurance Company of New York relating to its employee benefit plans, (ii) revenues and expenses of the MONY Group, and (iii) revenues and expenses of MONY Holdings in 2003.

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)****Segment Summary Financial Information**

	For the Three-month Periods Ended March, 31,	
	2003	2002
	(\$ in millions)	
<b>Premiums:</b>		
Protection Products	\$ 160.8	\$ 160.4
Accumulation Products	3.7	1.5
Other Products	2.3	2.5
	<u>\$ 166.8</u>	<u>\$ 164.4</u>
<b>Universal life and investment-type product policy fees:</b>		
Protection Products	\$ 42.4	\$ 35.7
Accumulation Products	9.9	12.1
Other Products	0.7	1.2
	<u>\$ 53.0</u>	<u>\$ 49.0</u>
<b>Net investment income and net realized gains (losses) on investments(4):</b>		
Protection Products	\$ 153.4	\$ 151.7
Accumulation Products	25.0	21.0
Other Products	5.1	6.5
Reconciling amounts	11.7	5.8
	<u>\$ 195.2</u>	<u>\$ 185.0</u>
<b>Other income:</b>		
Protection Products(1)	\$ 3.1	\$ 13.5
Accumulation Products	22.1	25.8
Retail brokerage and investment banking(2)	98.6	93.1
Other Products	6.0	5.0
Reconciling amounts	1.8	1.6
	<u>\$ 131.6</u>	<u>\$ 139.0</u>
<b>Amortization of deferred policy acquisition costs:</b>		
Protection Products	\$ 27.6	\$ 26.9

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Accumulation Products	3.4	5.9
	<u>\$ 31.0</u>	<u>\$ 32.8</u>
<b>Benefits to policyholders and interest credited to policyholders account balances:</b>		
Protection Products	\$ 197.7	\$ 191.4
Accumulation Products	25.1	16.6
Other Products	5.8	8.3
Reconciling amounts	1.6	2.3
	<u>\$ 230.2</u>	<u>\$ 218.6</u>
<b>Income/(Loss) before income taxes(4):</b>		
Protection Products	\$ 16.5	\$ 25.5
Accumulation Products	3.9	8.5
Retail Brokerage and Investment Banking	(1.1)	(0.8)
Other Products	(2.0)	(4.6)
Reconciling amounts	(7.0)	(7.5)
	<u>\$ 10.3</u>	<u>\$ 21.1</u>

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	As of March 31, 2003	As of December 31, 2002
	(\$ in millions)	
<b>Assets(3):</b>		
Protection Products	\$ 12,388.4	\$ 12,291.7
Accumulation Products	4,503.4	4,521.8
Retail Brokerage and Investment Banking	1,105.1	1,036.0
Other Products	920.0	936.5
Reconciling amounts	1,060.0	1,090.4
	<u>\$ 19,976.9</u>	<u>\$ 19,876.4</u>
<b>Deferred policy acquisition costs:</b>		
Protection Products	\$ 1,105.2	\$ 1,093.3
Accumulation Products	140.1	133.1
	<u>\$ 1,245.3</u>	<u>\$ 1,226.4</u>
<b>Future policy benefits:</b>		
Protection Products	\$ 7,559.6	\$ 7,543.3
Accumulation Products	192.8	188.6
Other Products	199.3	203.1
Reconciling amounts	14.8	14.9
	<u>\$ 7,966.5</u>	<u>\$ 7,949.9</u>
<b>Unearned premiums:</b>		
Protection Products	\$ 53.7	\$ 54.7
Accumulation Products		
Other Products	2.5	2.6
Reconciling amounts		
	<u>\$ 56.2</u>	<u>\$ 57.3</u>
<b>Policyholders balances and other policyholders liabilities:</b>		
Protection Products	\$ 1,640.6	\$ 1,629.8
Accumulation Products	1,304.2	1,225.5
Other Products	153.6	155.7
Reconciling amounts	0.4	0.6
	<u>\$ 3,098.8</u>	<u>\$ 3,011.6</u>

	2003	2002
<b>Separate account liabilities(3):</b>		
Protection Products	\$ 625.7	\$ 604.6
Accumulation Products	2,606.0	2,699.0
Other Products	280.9	298.1
Reconciling amounts	509.5	535.9
	<u>\$ 4,022.1</u>	<u>\$ 4,137.6</u>

- (1) Includes Group Pension Profits in 2002 and other income.
- (2) Includes retail brokerage and investment banking revenues and other income.
- (3) Each segment includes separate account assets in an amount not less than the corresponding liability reported.
- (4) Amounts reported in 2003 include a gain of \$3.5 million pre-tax from discontinued operations, of which \$3.0 million, \$0.4 million, and \$0.1 million has been allocated to the Protection Products, Accumulation Products and Other Products segments, respectively.

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The following is a summary of premiums and universal life and investment-type product policy fees by product for the three-month periods ended March 31, 2003 and 2002.

	<b>Three-month Periods Ended March 31,</b>	
	<b>2003</b>	<b>2002</b>
	(\$ in millions)	
<b>Premiums:</b>		
Individual life	\$ 160.7	\$ 160.4
Group insurance	2.3	2.5
Disability income insurance	0.1	0.1
Other	3.7	1.4
	<u>          </u>	<u>          </u>
Total	\$ 166.8	\$ 164.4
	<u>          </u>	<u>          </u>
<b>Universal life and investment-type product policy fees:</b>		
Universal life	\$ 18.2	\$ 18.3
Variable universal life	21.9	15.0
Group universal life	2.3	2.4
Individual variable annuities	9.9	12.1
Individual fixed annuities	0.7	1.2
	<u>          </u>	<u>          </u>
Total	\$ 53.0	\$ 49.0
	<u>          </u>	<u>          </u>

**4. The Group Pension Transaction:**

The following sets forth certain summarized financial information regarding the components of revenue and expense comprising the Group Pension Profits relating to the Group Pension Transaction for the periods indicated.

**For the  
Three-Month  
Periods Ended**

	<u>March 31,</u>	
	<u>2003</u>	<u>2002</u>
	(\$ in millions)	
<b>Revenues:</b>		
Product policy fees	\$	\$ 4.7
Net investment income		23.2
Net realized gains (losses) on investments		(0.2)
	—	—
Total Revenues		27.7
<b>Benefits and Expenses:</b>		
Interest credited to policyholders' account balances		15.8
Other operating costs and expenses		4.2
	—	—
Total benefits and expenses		20.0
	—	—
Group Pension Profits	\$	\$ 7.7
	—	—

As explained in the notes to the financial statements included in MONY Group's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, in accordance with GAAP, the Group Pension Transaction did

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**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

not constitute a sale because the Company retained substantially all the risks and rewards associated with the business transferred to Aegon. Accordingly, over the life of the transaction the Company was required to reflect the transferred assets and liabilities on its balance sheet under separate captions entitled "Assets transferred in Group Pension Transaction" and "Liabilities transferred in Group Pension Transaction". As a result of the expiration of the transaction at December 31, 2002 and the recognition of earnings from the Final Value Payment from Aegon the Company has no further interest in the transferred assets and liabilities and, accordingly, such assets and liabilities are no longer reflected on its balance sheet. Refer to the notes to MONY Group's consolidated financial statements filed with the Securities and Exchange Commission (SEC) on Form 10-K for the year ended December 31, 2002 for further information.

**5. Commitments and Contingencies:**

(i) Since late 1995 a number of purported class actions have been commenced in various state and federal courts against MONY Life and MLOA alleging that it engaged in deceptive sales practices in connection with the sale of whole and universal life insurance policies from the early 1980s through the mid 1990s. Although the claims asserted in each case are not identical, they seek substantially the same relief under essentially the same theories of recovery (i.e., breach of contract, fraud, negligent misrepresentation, negligent supervision and training, breach of fiduciary duty, unjust enrichment and violation of state insurance and/or deceptive business practice laws). Plaintiffs in these cases seek primarily equitable relief (e.g., reformation, specific performance, mandatory injunctive relief prohibiting MONY Life and MLOA from canceling policies for failure to make required premium payments, imposition of a constructive trust and creation of a claims resolution facility to adjudicate any individual issues remaining after resolution of all class-wide issues) as opposed to compensatory damages, although they also seek compensatory damages in unspecified amounts. MONY Life and MLOA have answered the complaints in each action (except for one being voluntarily held in abeyance). MONY Life and MLOA have denied any wrongdoing and have asserted numerous affirmative defenses.

On June 7, 1996, the New York State Supreme Court certified one of those cases, *Goshen v. The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America* (now known as *DeFilippo, et al v. The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America*), the first of the class actions filed, as a nationwide class consisting of all persons or entities who have, or at the time of the policy's termination had, an ownership interest in a whole or universal life insurance policy issued by MONY Life and MLOA and sold on an alleged "vanishing premium" basis during the period January 1, 1982 to December 31, 1995. On March 27, 1997, MONY Life and MLOA filed a motion to dismiss or, alternatively, for summary judgment on all counts of the complaint. All of the other putative class actions have been consolidated and transferred by the Judicial Panel on Multidistrict Litigation to the United States District Court for the District of Massachusetts and/or are being held in abeyance pending the outcome of the *Goshen* case.

On October 21, 1997, the New York State Supreme Court granted MONY Life's and MLOA's motion for summary judgment and dismissed all claims filed in the *Goshen* case against MONY Life and MLOA. On December 20, 1999, the New York State Court of Appeals affirmed the dismissal of all but one of the claims in the *Goshen* case (a claim under New York's General Business Law), which has been remanded back to the New York State Supreme Court for further proceedings consistent with the opinion. The New York State Supreme Court subsequently reaffirmed that, for purposes of the remaining New York General Business Law claim, the class is now limited to New York purchasers only. On July 2, 2002, the New York Court of Appeals affirmed the New York State Supreme Court's decision limiting the class to New York purchasers. In addition, the New York State Supreme Court has further held that the New York General Business Law claims of all class members whose claims accrued prior to November 29, 1992 are barred by the applicable statute of limitations. MONY Life





**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and MLOA intend to defend themselves vigorously against the sole remaining claim. There can be no assurance, however, that the present litigation relating to sales practices will not have a material adverse effect on them.

(ii) In July 2002, pursuant to a jury verdict, the Company was found liable and ordered to pay a former joint venture partner some of the proceeds distributed to the Company from the disposition of a real estate asset in 1999, which was formerly owned by the joint venture. As a result of the verdict, which the Company appealed, the Company recorded a charge aggregating \$13.7 million pre-tax in its results of operations for the quarter ended June 30, 2002. Approximately, \$6.8 million of this charge was reflected in the income statement caption entitled "net realized losses" because it represented the return of proceeds originally included in the determination of the realized gain recognized by the Company in 1999 upon receipt of the aforementioned distribution. The balance of the charge, which was reflected in the income statement caption entitled "other operating costs and expenses" represented management's best estimate of the interest that the court would have required the Company to pay its former joint venture partner, as well as legal costs. In the first quarter of 2003, the Company settled the litigation for approximately \$4.3 million less than the provision previously recorded. Accordingly, during the first quarter of 2003, the Company reversed such over-accrual to income, approximately \$3.0 million of which was recorded as realized gains and \$1.0 million as a reduction to other expenses. The Company's appeal was subsequently withdrawn.

(iii) In December 2002 the SEC and self-regulatory organizations National Association of Securities Dealers directed all broker-dealers, including the Company, to evaluate their procedures with respect to mutual fund sales charge breakpoints. Management does not believe that the outcome of its evaluation, including any determination it may make with respect to sales charges paid by its customers, will have a material adverse effect on the Company's results of operation, cash flows, or financial position.

(iv) It is possible that the results of operations or the cash flow of the Company in a particular quarterly or annual period could be materially affected, as a result of the settlement, or re-evaluation of the matters discussed above. Management believes however, that the ultimate payments in connection with such matters should not have a material adverse effect on the Company's financial statements. In addition to the matters discussed above, the Company is involved in various other legal actions and proceedings (some of which involve demands for unspecified damages) in connection with its business. In the opinion of management of the Company, resolution of contingent liabilities, income taxes and other matters will not have a material adverse effect on the Company's financial position or results of operations.

(v) At March 31, 2003, the Company had commitments to fund the following: \$114.1 million of equity partnership investments, \$62.0 million private fixed maturities with interest rates ranging from 3.95% to 6.33%, \$18.4 million of fixed rate agricultural loans with periodic interest rate reset dates with initial rates ranging from 5.15% to 7.00%, \$156.7 million fixed and floating rate commercial mortgages with interest rates ranging from 3.84% to 8.00% and \$0.2 million of mezzanine financing with pay rates of 10.0%.

(vi) In addition, MONY Group maintains a syndicated credit facility with banks aggregating \$150.0 million, with a scheduled renewal date in July 2003. The purpose of this facility is to provide additional liquidity for any unanticipated short-term cash needs that MONY Group might experience and also to serve as support for MONY Group's \$150.0 million commercial paper program. In accordance with specified covenants of the facility, MONY Life is required to maintain a tangible net worth determined in accordance with Statutory Accounting Practices of at least

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\$900.0 million and MONY Group is required to maintain a debt to capitalization ratio not to exceed 40% and cash and cash equivalents on a separate company basis equal to the greater of \$75 million or one and one half years of debt service. As of March 31, 2003, MONY Group was in compliance with each of the covenants as follows: (i) MONY Life's tangible net worth determined in accordance with Statutory

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**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Accounting Practices totaled \$1,087.5 million, (ii) MONY Group's debt to total capitalization ratio (including comprehensive income and short-term debt) for purposes of the credit facility was 31.0%, and (iii) MONY Group had cash and cash equivalents of \$146.5 million. For purposes of the facility, cash and cash equivalents is defined to include only commercial paper rated at least A1/P1 and US Treasuries. MONY Group has not borrowed against the facility since its inception, and did not have any commercial paper outstanding as of March 31, 2003 and December 31, 2002. The facility was amended at the consummation of the offering of the Insured Notes to permit the offering of the Insured Notes.

**6. Closed Block:**

On November 16, 1998, MONY Life, pursuant to the New York Insurance Law, established a closed block (the "Closed Block") of certain participating insurance policies (the "Closed Block in force business") as defined in its plan of demutualization (the "Plan"). In conjunction therewith, MONY Life allocated assets to the Closed Block that are expected to produce cash flows which, together with anticipated revenues from the Closed Block in force business, are expected to be sufficient to support the Closed Block in force business, including but not limited to the payment of claims and surrender benefits, certain expenses and taxes, and for the continuation of dividend scales in effect at the date of MONY Life's demutualization (assuming the experience underlying such dividend scales continues), and for appropriate adjustments in such scales if the experience changes. To determine the amount of assets to allocate to the Closed Block in order to provide sufficient funding for the aforementioned payments, MONY Life forecasted the expected cash flows from the Closed Block in force business and mathematically determined the cash flows that would need to be provided from assets allocated to the Closed Block to fully fund the aforementioned payments. Assets were then allocated to the Closed Block accordingly. The aforementioned forecast consists of a cash flow projection for each year over the estimated life of the policies in the Closed Block. The earnings from such expected cash flows from the Closed Block in force business and the assets allocated to the Closed Block are referred to as the "glide path earnings".

The assets allocated to the Closed Block and the revenues inure solely to the benefit of the owners of policies included in the Closed Block. The assets and liabilities allocated to the Closed Block are recorded in the Company's financial statements at their historical carrying values. The carrying value of the assets allocated to the Closed Block are less than the carrying value of the Closed Block liabilities at the effective date of MONY Life's demutualization. The excess of the Closed Block liabilities over the Closed Block assets at the effective date of MONY Life's demutualization represents the total estimated future post-tax contribution expected to emerge from the operation of the Closed Block, which will be recognized in MONY Life's income over the period the policies and the contracts in the Closed Block remain in force.

To the extent that the actual cash flows, subsequent to the effective date of MONY Life's demutualization, from the assets allocated to the Closed Block and the Closed Block in force business are, in the aggregate, more favorable than assumed in establishing the Closed Block, total dividends paid to the Closed Block policyholders in future years will be greater than the total dividends that would have been paid to such policyholders if dividend scales used to determine Closed Block cash flows had been continued. Conversely, to the extent that the actual cash flows, subsequent to the effective date of MONY Life's demutualization, from the assets allocated to the Closed Block and the Closed Block in force business are, in the aggregate, less favorable than assumed in establishing the Closed Block, total dividends paid to the Closed Block policyholders in future years will be less than the total dividends that would have been paid to such policyholders if dividend scales used to determine Closed Block cash flows had been continued. Accordingly, the recognition of the estimated ultimate aggregate future post-tax contribution expected to emerge from the operation of the Closed Block is not affected by the ultimate aggregate actual experience of the Closed

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Block assets and the Closed Block in force business subsequent to the effective date of MONY Life's demutualization, except in the event that the actual experience

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

of the Closed Block assets and the Closed Block in force business subsequent to the effective date of the demutualization is not sufficient to pay the guaranteed benefits on the policies in the Closed Block, in which case MONY Life will be required to fund any such deficiency from its general account assets outside of the Closed Block.

However, because the decision to increase or decrease dividend scales is based on revised estimates as to the ultimate profitability of the business such actions will not necessarily coincide with periodic reports of the results of the Closed Block. Accordingly, actual earnings that emerge from the Closed Block may either be more or less than the expected Closed Block earnings (or glide path earnings). In accordance with Statement of Position 00-3 Accounting by Insurance Enterprises for Demutualizations and Formations of Mutual Insurance Holding Companies and for Certain Long-Duration Participating Contracts, actual Closed Block earnings in excess of expected Closed Block earnings (or the glide path earnings) in any period are recorded as an additional liability to Closed Block policyholders (referred to as the deferred dividend liability) because such excess earnings inure solely to the benefit of the policyholders in the Closed Block. If actual Closed Block earnings are less than expected Closed Block earnings (or the glide path earnings) in any period, the difference is charged against the balance of any existing deferred dividend liability. If the deferred dividend liability is not sufficient to absorb the difference, it remains in earnings for the period and an adjustment will be made to get back on the glide path when earnings emerge in future periods that are sufficient to offset such remaining accumulated difference or through a subsequent reduction in dividend scales.

Since the Closed Block has been funded to provide for payment of guaranteed benefits and the continuation of current payable dividends on the policies included therein, it will not be necessary to use general funds to pay guaranteed benefits unless the in force business in the Closed Block experiences very substantial ongoing adverse experience in investment, mortality, persistency or other experience factors. MONY Life regularly (at least quarterly) monitors the experience from the Closed Block and may make changes to the dividend scale, when appropriate, to ensure that the profits are distributed to the Closed Block policyholders in a fair and equitable manner. In addition, periodically the New York Insurance Department requires the filing of an independent auditor's report on the operations of the Closed Block.

The following tables set forth certain summarized financial information relating to the Closed Block, as of and for the periods indicated:

	As of March 31, 2003	As of December 31, 2002
	(\$ in millions)	
<b>Assets:</b>		
Fixed Maturity Securities:		
Available for sale, at estimated fair value (amortized cost; \$3,925.2 and \$3,873.2, respectively)	\$ 4,222.0	\$ 4,160.9
Mortgage loans on real estate	600.8	633.6
Real estate to be held for investment	9.3	8.3
Policy loans	1,109.3	1,119.0

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Cash and cash equivalents	121.3	59.2
Amounts due from broker	18.4	0.9
Premiums receivable	6.3	11.1
Deferred policy acquisition costs	421.2	430.5
Other assets	217.1	210.5
	<hr/>	<hr/>
Total Closed Block assets	\$ 6,725.7	\$ 6,634.0
	<hr/>	<hr/>

Table of Contents

## THE MONY GROUP INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED INTERIM CONDENSED

## CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of	As of
	March 31, 2003	December 31, 2002
	<u>          </u>	<u>          </u>
	(\$ in millions)	
<b>Liabilities:</b>		
Future policy benefits	\$ 6,899.0	\$ 6,901.4
Policyholders' account balances	290.4	291.6
Other policyholders' liabilities	149.7	159.1
Other liabilities	422.6	328.0
	<u>          </u>	<u>          </u>
Total Closed Block liabilities	\$ 7,761.7	\$ 7,680.1
	<u>          </u>	<u>          </u>

	For the Three-month Periods Ended March 31,	
	2003	2002
	<u>          </u>	<u>          </u>
	(\$ in millions)	
<b>Revenues:</b>		
Premiums	\$ 113.2	\$ 120.4
Net investment income	98.9	98.2
Net realized gains/(losses) on investments	5.6	(1.1)
Other income	0.4	0.4
	<u>          </u>	<u>          </u>
	218.1	217.9
	<u>          </u>	<u>          </u>
<b>Benefits and Expenses:</b>		
Benefits to policyholders	131.6	132.1
Interest credited to policyholders' account balances	2.4	2.1
Amortization of deferred policy acquisition cost	8.8	11.7
Dividends to policyholders	60.7	60.2
Other operating costs and expenses	1.4	1.1
	<u>          </u>	<u>          </u>
Total benefits and expenses	204.9	207.2
	<u>          </u>	<u>          </u>
Contribution from the Closed Block	\$ 13.2	\$ 10.7
	<u>          </u>	<u>          </u>



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For the three-month period ended March 31, 2003 and 2002, there were \$2.5 million and \$0.0 million, respectively, in charges for other than temporary impairments on fixed maturity securities in the Closed Block with no net effect on the operations of the Company.

### **7. The Closed Block Business:**

The CBB is comprised of certain amounts within MONY Holdings and MONY Life. Within MONY Holdings, the CBB includes: (i) the Insured Notes, (ii) the capitalized costs of issuing the Insured Notes, (iii) the DSCA Sub-account CBB (*see Note 8*), (iv) the Swap, and (v) the Insurance Policy (*see Note 1*). Within MONY Life, the CBB includes: (i) the Closed Block discussed in Note 8 and (ii) an amount of capital (hereafter referred to as *Surplus and Related Assets* ) outside the Closed Block, but within MONY Life, that when aggregated with the assets and liabilities in the Closed Block results in an aggregate carrying value of assets in the CBB within MONY Life in excess of the carrying value of the liabilities in the CBB within MONY Life. The amount by which the assets in the CBB within MONY Life exceed the liabilities in the CBB within MONY Life represents a sufficient amount of capital based on regulatory standards to support the CBB within MONY Life. All business of MONY Holdings and subsidiary, consolidated, other than the CBB, is defined in the note indenture as the

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Ongoing Business ( OB ). The determination of the amount of Surplus and Related Assets was based on Statutory Accounting Practices as required by the note indenture. As the Closed Block's results of operations emerge, an equal amount of the Surplus and Related Assets is intended to become available to the OB. The investment of the Surplus and Related Assets is restricted to permitted investments and subject to certain concentration limitations as outlined in the note indenture (*see Note 8*).

The following tables set forth certain summarized financial information attributable to the OB and the CBB of MONY Holdings and its subsidiary, MONY Life, as of March 31, 2003 and December 31, 2002 and for the three-month period ended March 31, 2003:

	As of March 31, 2003		
	Ongoing Business	Closed Block Business(1)	Total
	(\$ in millions)		
<b>Assets:</b>			
Fixed maturity securities available for sale, at fair value	\$ 2,275.3	\$ 5,669.1	\$ 7,944.4
Equity securities available for sale, at fair value	237.8		237.8
Mortgage loans on real estate	915.9	913.1	1,829.0
Real estate to be disposed of	19.5		19.5
Real estate held for investment	171.7	9.3	181.0
Other invested assets	88.6	31.9	120.5
Policy loans	94.7	1,109.3	1,204.0
Debt service coverage account - OB	68.9		68.9
Debt service coverage account - CBB		0.3	0.3
Cash and cash equivalents	172.1	145.4	317.5
Accrued investment income	56.8	152.1	208.9
Amounts due from reinsurers	582.4	92.8	675.2
Deferred policy acquisition costs	824.1	421.2	1,245.3
Other assets	522.3	12.7	535.0
Separate account assets	4,025.1		4,025.1
<b>Total assets</b>	<b>\$ 10,055.2</b>	<b>\$ 8,557.2</b>	<b>\$ 18,612.4</b>
<b>Liabilities:</b>			
Future policy benefits	\$ 1,067.5	\$ 6,899.0	\$ 7,966.5
Policyholders' account balances	2,600.6	290.4	2,891.0
Other policyholders' liabilities	114.2	149.7	263.9
Other liabilities	708.7	515.8	1,224.5
Long term debt	216.9	300.0	516.9
Separate account liabilities	4,022.1		4,022.1

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Total liabilities.	\$ 8,730.0	\$ 8,154.9	\$ 16,884.9
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(1) Includes the assets and liabilities of MONY Holdings as of March 31, 2003.

**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	As of December 31, 2002		
	Ongoing Business	Closed Block Business(1)	Total
	(\$ in millions)		
<b>Assets:</b>			
Fixed maturity securities available for sale, at fair value	\$ 2,248.4	\$ 5,579.8	\$ 7,828.2
Equity securities available for sale, at fair value	247.7		247.7
Mortgage loans on real estate	927.0	950.4	1,877.4
Other invested assets	281.7	22.7	304.4
Policy loans	93.5	1,119.0	1,212.5
Debt service coverage account OB	64.7		64.7
Debt service coverage account CBB		9.4	9.4
Cash and cash equivalents	128.7	95.0	223.7
Accrued investment income	54.3	149.7	204.0
Amounts due from reinsurers	602.5	92.7	695.2
Deferred policy acquisition costs	795.9	430.5	1,226.4
Other assets	575.5	17.7	593.2
Separate account assets	4,140.6		4,140.6
<b>Total assets</b>	<b>\$ 10,160.5</b>	<b>\$ 8,466.9</b>	<b>\$ 18,627.4</b>
<b>Liabilities:</b>			
Future policy benefits	\$ 1,048.5	\$ 6,901.4	\$ 7,949.9
Policyholders' account balances	2,488.1	291.6	2,779.7
Other policyholders' liabilities	130.1	159.1	289.2
Other liabilities	810.3	421.2	1,231.5
Long term debt	217.5	300.0	517.5
Separate account liabilities	4,137.6		4,137.6
<b>Total liabilities</b>	<b>\$ 8,832.1</b>	<b>\$ 8,073.3</b>	<b>\$ 16,905.4</b>

(1) Includes the assets and liabilities of MONY Holdings as of December 31, 2002.

Table of Contents

## THE MONY GROUP INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED INTERIM CONDENSED

## CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three-Month Period Ended March 31, 2003(2)		
	Ongoing Business	Closed Block Business(1)	Total
	(\$ in millions)		
<b>Revenues:</b>			
Premiums	\$ 53.6	\$ 113.2	\$ 166.8
Universal life and investment-type product policy fees	53.0		53.0
Net investment income	46.5	125.6	172.1
Net realized gains on investments	5.2	6.6	11.8
Other income	39.4	0.4	39.8
<b>Total revenues</b>	<b>197.7</b>	<b>245.8</b>	<b>443.5</b>
<b>Benefits and Expenses:</b>			
Benefits to policyholders	64.8	131.5	196.3
Interest credited to policyholders account balances	31.5	2.4	33.9
Amortization of deferred policy acquisition cost	22.2	8.8	31.0
Dividends to policyholders	1.2	28.7	29.9
Other operating costs and expenses	87.7	60.7	148.4
<b>Total benefits and expenses</b>	<b>207.4</b>	<b>232.1</b>	<b>439.5</b>
<b>Net (loss) income from continuing operations before income taxes</b>	<b>\$ (9.7)</b>	<b>\$ 13.7</b>	<b>\$ 4.0</b>

- (1) Includes: (i) revenues and expenses associated with the DSCA, the Insured Notes, and the Swap, (ii) the net contribution to income from the Surplus and Related Assets, and (iii) the results of operations from the Closed Block.
- (2) MONY Holdings commenced operations on April 30, 2002 therefore no comparative financial information is presented for the three-month period ended March 31, 2002.

The statutory surplus of MONY Life as of March 31, 2003 was \$11,165.7 million, of which \$3,291.2 million was attributable to the OB and \$7,874.5 million was attributable to the CBB. The statutory net gain from operations of MONY Life for the three-month period ended March 31, 2003, was \$18.8 million, of which \$(10.5) million was attributable to the OB and \$29.3 million was attributable to the CBB. The net gain from operations attributable to the CBB includes: (i) the net contribution to income from the Surplus and Related Assets, and (ii) the results of operations from the Closed Block.

**8. The Insured Notes:**

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Dividends from MONY Life are the principal source of cash inflow, which will enable MONY Holdings to meet its obligations under the Insured Notes. The ability of MONY Life to declare and pay MONY Holdings a dividend is governed by the Insurance Law of the State of New York. The Insurance Law of the State of New York permits a stock life insurance company to pay dividends each calendar year, without the prior approval of the superintendent of the insurance department, in an amount equal to the lesser of (a) ten percent of its policyholders surplus as of the end of the preceding calendar year or, (b) the company's net gain from operations for the preceding calendar year (not including realized capital gains), as determined in accordance with Statutory Accounting Practices prescribed or permitted by the Insurance Department of the State of New York (hereafter referred to as the NY Dividend Statute). The maximum allowable dividend from MONY Life to MONY Holdings in 2003 without regulatory approval is \$90.6 million.

**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

In addition, pursuant to the note indenture, dividends to MONY Holdings from MONY Life are required to be allocated between the OB and the CBB. This allocation, while principally based on separately applying the NY Dividend Statute to the policyholders surplus and net gain from operations attributable to the OB and the CBB, is subject to certain adjustments described in the note indenture. The amount of the dividend attributable to the CBB is required to be deposited in the DSCA Sub-account CBB. As described in the note indenture, the amount of the dividend deposited in the DSCA Sub-account CBB will not generally be available for dividend to the MONY Group until all the obligations to pay principal, interest and other amounts on the Insured Notes are fully extinguished. Under limited circumstances, if the fair value of the DSCA exceeds amounts set forth in the note indenture, such excess can become available for dividend to the MONY Group. The amount of such dividend attributable to the Ongoing Business will generally be available to MONY Holdings to pay dividends to the MONY Group. Accordingly, where applicable, financial information presented herein has been segregated between amounts attributable to the OB and to the CBB to assist readers of the financial statements in evaluating the relative contributions to MONY Life's dividend from the OB and the CBB, respectively. See Notes 1 and 8 for additional information regarding the Insured Notes.

**9. Stock-Based Compensation:**

***Stock Incentive Plans***

*1998 Stock Incentive Plan and 2002 Stock Option Plan*

In November 1998, upon approval of the New York Insurance Department, MONY Group adopted the 1998 Stock Incentive Plan (the 1998 SIP) for employees of the Company and certain of its career financial professionals. As a condition for its approval of the 1998 SIP, the New York Insurance Department restricted options under the plan to no more than 5 percent of the shares of MONY Group's common stock outstanding as of the date of its initial public offering (2,361,908 shares). Options granted under the 1998 SIP may be Incentive Stock Options (ISOs) qualifying under Section 422(a) of the Internal Revenue Code or Non-Qualified Stock Options (NQSOs).

Pursuant to the 1998 SIP, options may be granted at a price not less than 100% of the fair value of the Company's common stock as determined on the date of grant. In addition, one-third of each option granted pursuant to the 1998 SIP shall become exercisable on each of the first three anniversaries following the date such option is granted and will remain exercisable for a period not to exceed 10 years from the date of grant. As of March 31, 2003, options to acquire 2,352,493 million common shares of the MONY Group had been issued under the 1998 SIP. Options to acquire 1,961,620 common shares remained outstanding as of March 31, 2003.

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In May 2002, MONY Group's shareholders approved the 2002 Stock Option Plan (the 2002 SOP), and the allocation of 5,000,000 shares of MONY Group common stock for grants under that 2002 SOP Plan. Options granted under the plan may not be exercised, transferred or otherwise disposed of by the grantee prior to December 24, 2003, even if vested. Options may be ISOs qualifying under Section 422(a) of the Internal Revenue Code or NQSOs. Options may be granted at a price not less than 100% of the fair value of the Company's common stock as determined on the date of grant, and vesting provisions are determined at the discretion of the board of directors. As of March 31, 2003, options to acquire 2,455,725 common shares of the MONY Group had been issued and 2,435,025 options were outstanding under the 2002 SOP. All options granted through March 31, 2003 under the 2002 SOP are NQSOs that shall vest one-third ratably on the December 31st after each of the first three anniversaries following the date such option was granted, and will remain exercisable for a period not to exceed 10 years from the date of grant.



**Table of Contents****THE MONY GROUP INC. AND SUBSIDIARIES****NOTES TO UNAUDITED INTERIM CONDENSED****CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

SFAS 123, issued in October 1995, prescribes accounting and reporting standards for employee stock-based compensation plans, as well as transactions in which an entity issues equity instruments to acquire goods or services from non-employees. However, for employee stock based compensation plans, SFAS 123 permits companies, at their election, to continue to apply the accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), which was issued and effective since 1972. SFAS 123 provides no similar election with respect to transactions in which an entity issues equity instruments to acquire goods or services from non-employees. For companies electing to apply the accounting prescribed by APB 25 to their employee stock-based compensation plans, SFAS 123 requires that pro forma disclosure be made of net income and earnings per share as if the fair value accounting prescribed by SFAS 123 had been adopted. Based on the definition of an employee prescribed in the Internal Revenue Code, the Company's career financial professionals do not qualify as employees.

At the effective date of the initial grants of options pursuant to the 1998 SIP, the Company elected to apply the accounting prescribed by APB 25 to option grants to employees and, accordingly, make the aforementioned pro forma disclosures. Pursuant to the requirements of APB 25, the options granted by the Company under the 1998 SIP to employees qualify as non-compensatory. Accordingly, the Company is not required to recognize any compensation expense with respect to such option grants. With respect to grants of options under the SIP to career financial professionals, the Company adopted the accounting provisions of SFAS 123. Pursuant to the guidance in SFAS 123 and related interpretations, vesting provisions attached to stock based compensation issued to non-employees constitute a performance based condition which requires variable plan accounting. Under variable plan accounting, the fair value of the option grant must be re-measured at the end of each accounting period, until the options are 100 percent vested. Accordingly, the compensation cost charged to expense during any particular accounting period represents the difference between the vested percentage of the fair value of the options at the end of the accounting period and the cumulative compensation cost charged to expense in prior periods. Compensation cost is determined based on the fair value of such options using a Black-Scholes option pricing model (see below for further discussion regarding how fair value is determined). Such compensation cost is required to be recognized over the vesting period. Compensation expense recognized in the statement of income and comprehensive income related to options granted to career financial professionals which were outstanding at March 31, 2003 and 2002 was \$0.0 million and \$0.3 million respectively.

The following table presents the net income and net income per share of the Company on a pro forma basis as if the fair value accounting prescribed by SFAS 123 had been applied to the options granted to employees under the 1998 SIP and outstanding at March 31, 2003 and 2002.:

	<b>March 31, 2003</b>	<b>March 31, 2002</b>
	<b>(\$ in millions except per share amounts)</b>	
Net income	\$ 5.5	\$ 13.7
Net income per share:		
Basic	\$ 0.12	\$ 0.29
Diluted	\$ 0.12	\$ 0.28

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The fair value of each option outstanding is estimated using the Black-Scholes option pricing model with the following assumptions: exercise prices ranging from \$21.10 to \$43.44, dividend yields ranging from 1.04% to 2.37%, expected volatility ranging from 23.5% to 44.4%, range of interest rates from 3.4 to 6.7%. The fair value of options determined using the Black-Scholes pricing model ranged from \$6.30 to \$18.92 per share at March 31, 2003.

**Table of Contents**

**THE MONY GROUP INC. AND SUBSIDIARIES**

**NOTES TO UNAUDITED INTERIM CONDENSED**

**CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee and career financial professionals options have characteristics different than those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its stock options.

*Restricted Stock Ownership Plan*

In May 2001, MONY Group shareholders approved The MONY Group Inc. Restricted Stock Ownership Plan (the Plan). Pursuant to the terms of the Plan, management has the authority to grant up to 1,000,000 restricted shares of MONY Group common stock to eligible employees, as defined in the Plan, and to establish vesting and forfeiture conditions relating thereto. During 2002 and 2001, MONY Group granted 97,143 and 352,050 restricted shares, respectively to certain members of management pursuant to the Plan. The 2002 and 2001 awards made under the Plan are conditioned on: (i) the expiration of a vesting period and (ii) an increase in the average per share price of MONY Group common stock above specified targets. In accordance with APB No. 25, compensation expense is recognized on the awards proportionally over the vesting period of the award provided that the condition with respect to the average price of MONY Group common stock is satisfied at the end of any period. In March 2003, the ownership granted 334,050 restricted shares to certain member of management under the Restricted Stock Ownership Plan. The 2003 awards made under the plan are conditioned on the expiration of a vesting period.

In addition to the Restricted Stock Ownership Plan, MONY Group issued approximately 111,987 shares of restricted stock in connection with the acquisition of Advest, of which approximately 33,497 shares remained restricted at March 31, 2003. These restricted shares are conditioned only on the expiration of a vesting period.

Furthermore, MONY Group has issued 20,913 shares of restricted stock to members of its board of directors. These restricted shares are conditioned only on the expiration of a vesting period. At March 31, 2003, 10,686 shares of such restricted stock remained restricted at March 31, 2003.

**10. Reorganization and Other Charges:**

During the fourth quarter of 2002 and 2001, the Company recorded Reorganization and Other charges aggregating approximately \$7.7 million and \$146.1 million, respectively. Of these charges, \$7.7 million and \$19.0 million, respectively, met the definition of restructure charges as defined by Emerging Issues Task Force Consensus 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to

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Exit an Activity (including Certain Costs Incurred in a Restructuring) . The 2002 restructure charge consisted of severance and related benefits resulting from headcount reductions of 161 and 26, respectively, in the Company's home office and career agency system, as well as losses from abandonment of certain leased offices and equipment. The 2001 restructure charge consisted of severance and related benefits of \$10.3 million resulting from headcount reductions of 117 and 240, in the Company's home office and career agency system, respectively, and \$8.7 million of other miscellaneous items. The balance of the charge in 2001, \$127.0 million, was unrelated to the Company's restructure activities and consisted of: (i) impairments of certain invested assets and valuation related write-downs of private equity securities held in the Company's equity method venture capital portfolio, (ii) the write-off of deferred sales charges in the Company's mutual fund business to reflect revised estimates of recoverability which are principally due to the decline in the value of the Company's internet funds, (iii) write-downs of certain information technology assets, and (iv) other miscellaneous items. Set forth

Table of Contents

## THE MONY GROUP INC. AND SUBSIDIARIES

## NOTES TO UNAUDITED INTERIM CONDENSED

## CONSOLIDATED FINANCIAL STATEMENTS (Continued)

below is certain information regarding the liability recorded in connection with the Company's restructuring actions during 2002 and 2001, as well as the changes therein. Such liability is reflected in Accounts Payable and Other Liabilities on the Company's consolidated balance sheet.

	December 31, 2002	Charges	Cash Payments	Change in Reserve Estimates	March 31, 2003
	(\$ in millions)				
<b>Restructuring Charges Liability:</b>					
Severance benefits	\$ 8.3	\$	\$ 4.6	\$	\$ 3.7
Other reorganization charges	4.4		0.8		3.6
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Restructuring Charges Liability	\$ 12.7	\$	\$ 5.4	\$	\$ 7.3
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>

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**Table of Contents**

**ITEM 2:**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

*The following discussion addresses the financial condition and results of operations of the Company for the periods indicated. The discussion and analysis of the Company's financial condition and results of operations presented below should be read in conjunction with the Company's unaudited interim condensed consolidated financial statements and related notes thereto included elsewhere herein, as well as MONY Group's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 (MONY Group's 2002 Annual Report) not included herein.*

**Organization and Business**

The MONY Group Inc. (the "MONY Group"), through its subsidiaries (MONY Group and its subsidiaries are collectively referred to herein as the "Company"), provides life insurance, annuities, corporate-owned and bank-owned life insurance ("COLI and BOLI"), mutual funds, securities brokerage, securities trading, asset management, business and estate planning, trust, and investment banking products and services. The Company distributes its products and services through Retail and Wholesale distribution channels. The Company's Retail distribution channels are comprised of (i) the career agency sales force operated by its principal life insurance operating subsidiary, and (ii) financial advisors and account executives of its securities broker dealer subsidiaries. The Company's Wholesale channel is comprised of (i) MONY Partners, a division of MONY Life, (ii) independent third party insurance brokerage general agencies and securities broker dealers and (iii) its corporate marketing team which markets COLI and BOLI products. For the three-month period ended March 31, 2003, Proprietary Distribution accounted for approximately 18.2%, and 43.2% of sales of Protection and Accumulation products, respectively, and 100.0% of Retail Brokerage and Investment Banking revenues. Complementary Distribution accounted for 81.8% and 56.8% of sales of Protection and Accumulation products, respectively, and 0.0% of Retail Brokerage and Investment Banking revenues for the three months ended March 31, 2003. The Company principally sells its products in all 50 of the United States, the District of Columbia, the U.S. Virgin Islands, Guam and the Commonwealth of Puerto Rico, and currently insures or provides other financial products and services to more than one million individuals.

MONY Group's principal operating subsidiaries are MONY Life Insurance Company ("MONY Life"), formerly known as The Mutual Life Insurance Company of New York, and The Advest Group, Inc. ("Advest"). MONY Life's principal wholly owned direct and indirect operating subsidiaries include: (i) MONY Life Insurance Company of America ("MLOA"), an Arizona domiciled life insurance company, (ii) Enterprise Capital Management ("Enterprise"), a distributor of both proprietary and non-proprietary mutual funds, (iii) U.S. Financial Life Insurance Company ("USFL"), an Ohio domiciled insurer underwriting specialty risk life insurance business, (iv) MONY Securities Corporation ("MSC"), a registered securities broker-dealer and investment advisor whose products and services are distributed through MONY Life's career agency sales force, (v) Trusted Securities Advisors Corp. ("Trusted Advisors"), which distributes investment products and services through a network of accounting professionals, (vi) MONY Brokerage, Inc., a licensed insurance broker, which principally provides MONY Life's career agency sales force with access to life, annuity, small group health, and specialty insurance products written by other insurance companies so they can meet the insurance and investment needs of their customers, and (vii) MONY International Holdings, which through its Brazilian domiciled insurance brokerage subsidiary, principally provides insurance brokerage services to unaffiliated third party insurance companies in Brazil and, to a lesser extent since its reorganization in 2001, life insurance, annuity and investment products, as well as trust services, to nationals of certain Latin American countries through its Cayman Island based insurance and banking subsidiaries (MONY Life Insurance Company of the Americas, Ltd. and MONY Bank & Trust of the Americas, Ltd., respectively). Advest, through its principal operating subsidiaries, Advest, Inc., a securities broker-dealer, Advest Bank and Trust Company, a federal savings bank, and Boston Advisors, a registered investment advisory firm, provides diversified financial services including securities brokerage, securities trading, investment banking, trust, and asset management services.



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**Table of Contents**

*See Note 1 to the Unaudited Interim Condensed Consolidated Financial Statements for further information regarding the Company's organization and business.*

**General Discussion of Factors Affecting Profitability**

The Company derives its revenues principally from: (i) premiums on individual life insurance, (ii) insurance, administrative and surrender charges on universal life and annuity products, (iii) asset management fees from separate account and mutual fund products, (iv) net investment income on general account assets, (v) the Group Pension Profits (which ceased as of December 31, 2002 – see Note 4 to the Unaudited Interim Condensed Consolidated Financial Statements), and (vi) commissions from securities and insurance brokerage operations. The Company's expenses consist of insurance benefits provided to policyholders, interest credited on policyholders' account balances, dividends to policyholders, the cost of selling and servicing the various products sold by the Company, including commissions to sales representatives (net of any deferrals) and general business expenses.

The Company's profitability depends in large part upon (i) price movements and trends in the securities markets, (ii) the amount of its assets and its third-party assets under management, (iii) the adequacy of its product pricing (which is primarily a function of competitive conditions, management's ability to assess and manage trends in mortality and morbidity experience as compared to the level of benefit payments, and its ability to maintain expenses within pricing assumptions), (iv) supply and demand for the kinds of products and services offered by the Company (see Note 3 to the Unaudited Interim Condensed Consolidated Financial Statements included herein for the principal products and services offered by the Company), (v) the maintenance of the Company's target spreads between credited rates on policyholders' account balances and the rate of earnings on its investments, (vi) the amount of time purchasers of the Company's insurance and annuity products hold and renew their contracts with the Company (referred to as "persistence"), which affects the Company's ability to recover the costs incurred to sell such policies and contracts, (vii) the ability to manage the market and credit risks associated with its invested assets, (viii) returns on venture capital investments, (ix) the investment performance of its mutual fund and variable product offerings, and (x) commission and fee revenue from securities brokerage and investment banking operations which fluctuate with trading volume. External factors, such as general economic conditions and the securities markets, as well as legislation and regulation of the insurance marketplace and products, may also affect the Company's profitability. In addition, downgrades of the claims paying ability ratings of the Company's insurance subsidiaries by Nationally Recognized Statistical Rating Organizations may affect the Company's ability to compete in the marketplace for its products and services. Similarly, downgrades of MONY Group's credit ratings may affect the Company's ability to access the debt markets to raise additional capital, which could affect the Company's liquidity and ability to support the capital of its insurance subsidiaries.

**Potential Forward Looking Risks Affecting Profitability**

The results of operations of the Company's businesses, particularly the businesses comprising its Accumulation Products segment and the businesses comprising its Retail Brokerage and Investment Banking segment, are highly sensitive to general economic and securities market conditions. Such conditions include the level of valuations in the securities markets, the level of interest rates, consumer sentiment, the level of retail securities trading volume, and the consensus economic and securities market outlook. Set forth below is a discussion of certain matters that may adversely impact the Company's results of operations in the event of a continuation or worsening of current economic and securities market conditions, as well as other matters that could adversely affect its future earnings:

***Further Declines in Securities Market Prices Could Reduce the Value of Certain Intangible Assets on the Company's Balance Sheet***



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- ***The Company Might Have to Amortize or Write-Off Deferred Policy Acquisition Costs Sooner Than Planned.*** In accordance with GAAP, deferred policy acquisition costs ( DPAC ) (policy acquisition costs

**Table of Contents**

represent costs that vary with and primarily relate to the production of business, such as commissions paid to financial professionals and brokers) are amortized on a basis consistent with how earnings emerge from the underlying products that gave rise to such DPAC. Such amortization is calculated based on the actual amount of earnings that have emerged to date relative to management's best estimate of the total amount of such earnings expected to emerge over the life of such business. This calculation requires the Company to make assumptions about future investment yields, contract charges, interest crediting rates, mortality rates, lapse rates, expense levels, policyholder dividends and policy duration. In addition, to the extent that the present value of estimated future earnings expected to emerge over the remaining life of the business is not sufficient to recover the remaining DPAC balance, GAAP requires that such excess DPAC amount be immediately charged to earnings. Accordingly, changes in the Company's assumptions underlying DPAC or actual results that differ significantly from management's prior estimates may materially affect the rate at which the Company amortizes or writes-off DPAC, which may materially affect its financial position and results of operations. Also, to the extent that circumstances lead management to conclude that the business, after writing off all DPAC, will not ultimately be profitable, the Company would be required to record its best estimate of the loss in the period such determination was made. While management believes such a scenario is unlikely, a sustained deterioration in the securities markets will significantly impact such determination and may require the Company to recognize a loss that could materially affect its financial position and results of operations.

At March 31, 2003 the carrying value of the Company's DPAC was \$1.2 billion. Approximately \$141.7 million of this amount pertains to the Company's annuity in force business. The profit margins from this business, over which the related DPAC is amortized, are particularly sensitive to changes in assumed investment returns and asset valuations. With respect to the investment return assumptions which underlie the amortization of the Company's annuity DPAC, the accounting policy applied, which is referred to as the reversion to the mean method, assumes a rate of return over the life of the business of 8.0%. In applying this method, the future assumed rate of return assumption is adjusted based on actual returns to date so that the ultimate rate of return over the expected life of the business is always 8.0%. However, the Company's policy is to never exceed a future rate of return assumption in excess of 10.0%. Accordingly, the ultimate rate of return over the life of such business may be less than 8.0%. In addition, in applying the reversion to the mean method the Company's policy does not provide for a floor on the assumed future rate of return. Accordingly, actual returns to date sufficiently in excess of the ultimate assumed rate of return of 8.0% may result in a future rate of return assumption that could actually be negative.

While the Company's current best estimate for the ultimate investment return underlying this business is 8.0%, a continuing deterioration in the securities markets (whether with regard to investment returns or asset valuations) could require the Company to revise its estimate of the ultimate profitability of this business. This could result in accelerated amortization and/or a charge to earnings to reflect the amount of DPAC which may not be recoverable from the estimated present value of future profits expected to emerge from this business. Such an event, should it occur, may materially affect the Company's financial position and results of operations.

During the first quarter of 2003, the Company revised its estimate of the ultimate amount of gross profits to be earned from its annuity in force block of business. This revision reflects the decline in annuity in force account values during the year due primarily to the deterioration of the equity securities markets, and an increase in profitability due to increased margins resulting from higher service fee revenues on underlying funds.

The Company's calculation of annuity product DPAC asset balances as of December 31, 2002 incorporated an assumption of 10% returns in 2003 and later for all funds underlying variable annuity products. This assumption is consistent with the reversion to the mean method described above. The assumption of future returns impacts the Company's expectation of both future fee income and future expenses, including the cost of the death benefit guarantees. The Company's anticipated earnings for 2003, which were disclosed at its Investment Community Meeting on January 16, 2003, were predicated on a 7.0% return, which built in \$3.0 million of variable annuity DPAC unlocking. Within a fairly wide range, any deviation from 7.0% will change

**Table of Contents**

earnings by approximately \$1.0 million per 1% change in return. For example, a return of 8% would lead to a \$1 million gain relative to plan, and a return of 6% would lead to a \$1 million loss. However, if the funds were to lose 10% or more of their value, the Company may need to take additional loss recognition writeoffs. These writeoffs have a larger immediate impact than DPAC unlocking, in that the entire amount of DPAC deemed non-recoverable must be written off at once, rather than over the life of the product. Every additional drop of 1% in this range would decrease earnings by approximately \$2.0 million. For example, 2003 returns of 0% would decrease pre-tax earnings by approximately \$11.0 million.

- ***The Company Might Have to Write-Off Some Goodwill.*** The carrying value of goodwill in the Company's Retail Brokerage and Investment Banking segment was \$191.4 million at March 31, 2003. Based on the Company's estimate of the fair value of these businesses, the Company concluded that no impairment of such goodwill exists as of March 31, 2003. However, if securities market conditions worsen or if there is a prolonged downturn in retail securities trading volumes, the Company might conclude, in the future, that all or a portion of such goodwill is impaired and must be written off.

***The Company May Be Required to Recognize in its Earnings Other Than Temporary Impairment Charges on its Investments in Fixed Maturity and Equity Securities, as Well as Mark to Market Losses on Certain of its Venture Capital Investments***

- Management's assessment of whether an investment in a debt or equity security is other than temporarily impaired is based primarily on the following factors:
  - Management's analysis of the issuer's financial condition and trends therein;
  - the value of any collateral or guaranty;
  - the investment's position in the issuer's capital structure;
  - Management's analysis of industry fundamentals;
  - Management's assessment of the macro economic outlook; and
  - the consideration of other factors, including: any actions by rating agencies affecting the issuer, the period of time the fair value of a security has been at less than its cost, the Company's expectations regarding the period of time required for a recovery of any current unrealized loss, and other relevant facts regarding the issuer.

Changes in the factors discussed above (particularly, a sustained or continuing decline in the prices of securities or a deterioration in the credit quality of issuers or a deterioration in industry or issuer fundamentals or in the macro economic outlook) may significantly affect the Company's determination of whether a security is other than temporarily impaired, which may require the Company to recognize an other than temporary impairment charge that could be material to its financial position and results of operations. See *Investments Other Than Temporary Impairment Charges On Investments in Fixed Maturity Securities and Common Stocks*.

The Company makes investments in partnerships specializing in venture capital investing. The Company's investments are in the form of limited partnership interests. The Company generally limits these investments to no more than 2.0% to 3.0% of its total invested assets. In accordance with GAAP, certain of the Company's investments in these partnerships are accounted for under the equity method of accounting, while the balance of the portfolio is accounted for at estimated fair value with changes in fair value recorded in other comprehensive income. Generally, substantially all the Company's partnership investments acquired before May 1995 are accounted for at fair value, while those acquired after May 1995 are accounted for under the equity method of accounting. Because the underlying partnerships are required under GAAP to mark their investment portfolios to market and report changes in such market value through their earnings, the Company's earnings will reflect the pro rata share of such mark to market adjustment if the Company accounts for the partnership investment under the equity method. With respect to partnerships accounted for at fair value, there will be no impact on the Company's earnings until: (i) the underlying investments held by the

**Table of Contents**

partnership are distributed to the Company by the partnership, or (ii) the underlying investments held by the partnership are sold by the partnership and the proceeds distributed to the Company, or (iii) an impairment of the Company's investment in the partnership is determined to exist. Historically, venture capital investments have had a significant impact on the Company's earnings. The Company's future earnings from venture capital investments could be adversely affected when market valuations deteriorate, which could materially affect the Company's results of operations and financial position. At March 31, 2003, the carrying value of the Company's venture capital investments was \$178.4 million, of which \$84.8 million is accounted for under the equity method and \$93.6 million is accounted for at fair value.

***Further Declines in Securities Market Prices Could Increase the Company's Liabilities and Expenses***

- Certain of the Company's annuity products have contractual provisions which guarantee minimum death benefits. These provisions require the Company to pay the beneficiary any excess of the guaranteed minimum benefit over the fund value of the annuity contract in addition to the payment of the fund value. It is the Company's practice to establish reserves for the payment of any guaranteed minimum death benefit claims on the basis of its outlook for mortality experience and the amount at risk on the annuity contracts. At March 31, 2003, the Company's net amount at risk (or the aggregate amount by which the guaranteed values exceeded the cash values of the Company's in force annuity contracts) totaled approximately \$791.5 million. At March 31, 2003, the Company carried a reserve of approximately \$7.0 million with respect to such claims. However, additional reserves for such claims may need to be established, particularly if there is a sustained or continuing deterioration in the securities markets. In addition, the American Institute of Certified Public Accountants (AICPA) is deliberating the issuance of guidance concerning the establishment of such reserves. This guidance may require the Company to change its methodology for determining the amount of reserves that should be established for such claims. Accordingly, upon the adoption of any new guidance issued by the AICPA, the Company might then have to establish additional reserves.

***Further Declines in Securities Market Prices Could Decrease Our Revenues***

- As discussed above under the caption *General Discussion of Factors Affecting Profitability*, revenues from the Company's separate account and mutual fund products depend, in large part, upon the amount of assets it has under management. Accordingly, a continuing or sustained deterioration in the securities markets can adversely affect the Company's revenues which could be material to its results of operations and financial position.

***Continuing Weakness in the Securities Markets Could Result in Increased Pension Costs***

- As required under GAAP, both the rate of return assumption for 2002 on assets funding the Company's pension liabilities and the discount rate used to determine those liabilities were established at the end of December 31, 2001. The Company made these assumptions on the basis of historical returns on such assets, its outlook for future returns, the long-term outlook for such returns in the marketplace, and yields available on high-quality corporate bonds. However, due to deteriorating economic conditions, the decline in securities market valuations and interest rates, the Company lowered both its assumed rate of return assumption from 10.0% to 8.0% and the discount rate assumption from 7.3% to 6.6%, which will cause an increase in the Company's net periodic pension expense in 2003 and thereafter. In addition, the deterioration of the securities markets during 2002 has resulted in a decline in the fair value of the assets funding the Company's pension obligations. As a result, the Company's net periodic pension expense will increase in 2003 and thereafter due to the requirement under GAAP to amortize unrealized gains and losses through net periodic pension costs over a period of time. The Company expects that the effect of changing the assumed rate of return on assets funding the Company's pension liabilities and the decline in the fair value of such assets, as well as changing the discount rate, will result in lower earnings in 2003 of approximately \$23.0 million before tax, as compared to those reported in 2002. In addition, a continuing deterioration in the securities markets may require further changes in the assumed rate of return on assets funding the Company's pension liabilities and the discount rate, which may have a material adverse affect on the Company's results of operations and financial position.

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## **Table of Contents**

- While the market value of assets exceeded the Company's pension liabilities at December 31, 2002, any unfunded liability at December 31, 2003 will either cause the Company to contribute assets to the pension plan in an amount sufficient to eliminate any unfunded position or, as required by GAAP, the Company will be required to charge to comprehensive income the full amount of any prepaid benefit cost at such date. At March 31, 2002, prepaid benefit costs aggregated \$146.4 million. While management expects that, in the event of an underfunded position, it would make a contribution to the Company's pension to avoid such a charge to comprehensive income, this will ultimately depend upon the total amount of any such underfunding, which largely is dependent upon the market values of assets backing the pension plan, and the amount of pension plan liabilities, at December 31, 2003. It should be noted that, in the event a company is required to charge its prepaid benefit cost asset to comprehensive income due to an underfunded position, in accordance with GAAP, a company may reestablish that asset if the market value of assets supporting the pension plan increase, the plan liabilities decrease, and/or subsequent contributions to the pension plan cause the plan be in a funded position.

### ***The Company's Expenses May Increase if it Chooses or Becomes Required to Adopt the Fair Value Recognition Provisions of SFAS No. 123 Accounting for Stock Based Compensation ( SFAS 123 ) and Recognize Expense for the Issuance of Certain Employee Stock Based Compensation***

- Presently there is a significant debate within industry, the accounting profession and among securities analysts and regulators as to the propriety of the current generally accepted accounting practice provided in Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees ( Opinion No. 25 ), which provides for the application of the intrinsic value based method of accounting. For certain stock based compensation plans (including certain stock option plans), the guidance provided in Opinion No. 25 does not require companies to recognize compensation expense. Recently, certain companies, in response to this debate, have announced their intention to adopt the generally accepted accounting guidance prescribed under SFAS 123, which provides for the application of the fair value based method of accounting. In accordance with this method, all forms of employee stock-based compensation are measured at fair value at the date of grant and expensed over the requisite service or vesting period. If the Company chooses to adopt these provisions of SFAS No. 123 or if it becomes required to adopt such provisions as a result of action by the Financial Accounting Standards Board, the adoption will result in additional expense recognition in an amount that may be material to the Company's results of operations.

## **Segments**

The Company's business is organized in three principal reportable segments: the Protection Products segment, the Accumulation Products segment, and the Retail Brokerage and Investment Banking segment. Substantially all of the Company's other business activities are combined and reported in the Other Products segment. Certain amounts, which are not allocated to the segments, are reported as reconciling items. Reconciling items are principally comprised of: (i) revenues and expenses associated with contracts issued by MONY Life relating to its employee benefit plans, (ii) revenues and expenses of the MONY Group, (iii) revenues and expenses of MONY Holdings, since its formation and commencement of operations in 2002 - see Note 1 to the Unaudited Interim Condensed Consolidated Financial Statements, and (iv) certain charges associated with the Company's reorganization activities in 2002 and 2001. See Reorganization and Other Charges for further details. The Company formed the Retail Brokerage and Investment Banking segment in 2001 in connection with its acquisitions of Advest and Matrix. In addition to these companies, this segment includes the revenues, expenses, assets and liabilities of MSC. In prior years MSC was reported in the Company's Other Products segment. See Note 3 to the Unaudited Interim Condensed Consolidated Financial Statements for further information regarding the Company's reportable segments.

## **Critical Accounting Policies**

Preparation of the Company's financial statements in accordance with GAAP requires the application of accounting policies that often involve significant use of judgment. Differences between estimated and actual



## **Table of Contents**

results and changes in facts and circumstances that cause management to revise its estimates may materially affect the Company's results of operations and financial position.

The following is a discussion of the critical accounting policies that, in the Company's view, require significant use of judgment. See Note 3 of the Consolidated Financial Statement included in the MONY Group's 2002 Annual Report for a complete description of the Company's significant accounting policies.

### ***Investments***

The Company records investments in fixed maturity securities and equity securities available for sale, trading account securities and certain investments in venture capital partnerships at fair value in its consolidated balance sheet. In most cases, the Company determines fair values using quoted market prices. However, the valuation of certain investments, such as private placement fixed maturity securities, requires the use of assumptions and estimates related to interest rates, default rates, and the timing of cash flows because quoted market prices are not available. At March 31, 2003, the carrying value of private placement fixed maturity securities was \$3,155.0 million.

The Company records changes in the fair values of investments in fixed maturity and equity securities available for sale that are not considered to be other than temporarily impaired in other comprehensive income. The Company reports changes in the value of venture capital investments accounted for using the equity method and trading securities in the consolidated statement of operations. For investments the Company considers to be other than temporarily impaired, the Company records an impairment loss, which is reflected in realized gains (losses) on investments. See *Investments Other Than Temporary Impairment Charges On Investments in Fixed Maturity Securities and Common Stocks*. Determining whether a security is other than temporarily impaired requires the use of estimates and significant judgment. The Company's financial position and results of operations are therefore affected by changes in circumstances that affect the value of these investments and the Company's determination as to whether the investments are other than temporarily impaired.

The Company records mortgage loans on real estate at their unpaid principal balances, net of valuation allowances. Valuation allowances established for the excess of the carrying value of a mortgage loan over its estimated fair value when the loan is considered to be impaired. Mortgage loans are considered to be impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Estimated fair value is based on either the present value of expected future cash flows discounted at the loan's original effective interest rate, or the loan's observable market price (if considered to be a practical expedient), or the fair value of the collateral if the loan is collateral dependent and if foreclosure of the loan is considered probable. In addition, the Company records an estimate for incurred but not reported defaults. The Company bases its estimate for incurred but not reported defaults on historical default rates and the current mortgage portfolio composition. The Company's financial position and operating results are therefore sensitive to: (i) changes in the estimated cash flows from mortgages, (ii) the value of the collateral, and (iii) changes in the economic environment in general. At March 31, 2003 and December 31, 2002, the valuation allowance on these mortgage loans was \$2.1 million and \$14.7 million, respectively.

### ***Deferred policy acquisition costs and insurance reserves***

The Company values DPAC and insurance reserves in accordance with the relevant GAAP pronouncements: generally Statement of Financial Accounting Standards (SFAS) 60 for term and whole life insurance products, SFAS 97 for universal life and investment-type contracts, and SFAS 120 for traditional participating life insurance contracts. The valuation of DPAC and insurance reserves requires management to assume future investment yields, mortality rates, lapse rates, expense levels, policyholder dividends and policy duration. For many of the Company's

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products, amortization of DPAC varies with profit margins of the policies and contracts supporting the DPAC balances. The Company must periodically evaluate the recoverability of DPAC and the adequacy of its reserves based on historical and projected future results. Changes in



## **Table of Contents**

management's assumptions or actual results that differ significantly from management's estimates may materially affect the Company's financial position and results of operations. See *Potential Forward Looking Risks Affecting Profitability*.

### ***Goodwill and intangible assets***

The Company's assets include goodwill and intangible assets, which are primarily related to its 2001 acquisition of Advest. In accordance with SFAS 142, the Company must reevaluate the valuation of the goodwill and intangible assets at least annually by comparing the fair value and carrying value of the reporting unit to which the goodwill and intangible assets relate. If the carrying value of the reporting unit exceeds its fair value, the Company must recognize an impairment loss for the excess of carrying value over fair value. The estimate of a reporting unit's fair value considers various valuation methodologies and in certain cases, requires the use of assumptions and estimates regarding the reporting unit's future cash flows and discount rates. Changes in the business supporting the goodwill and intangible assets may affect management's assessment of the recoverability of goodwill and intangible assets. See *Potential Forward Looking Risks Affecting Profitability*.

### ***Litigation, contingencies and restructuring charges***

Accounting for litigation, contingencies and restructuring charges requires the Company to estimate the expected costs of events which have already occurred but which the Company has not completely resolved. As discussed in Note 5 to the Unaudited Interim Condensed Consolidated Financial Statements, the Company is party to various legal actions and proceedings in connection with its businesses. To the extent the losses are probable and reasonably estimable, the Company records liabilities related to these matters in accordance with the provisions of SFAS 5 and Financial Accounting Standards Board Interpretation 14. Judgments or settlements exceeding established loss reserves or changes in the circumstances requiring management to update its loss estimate may materially affect the Company's financial position and results of operations.

As discussed in Note 10 to the MONY Group's Unaudited Interim Condensed Consolidated Financial Statements, in both 2002 and 2001 the Company established reserves related to the reorganization of certain of its businesses. These reserves are primarily related to the estimated costs of employee terminations and benefits, lease abandonments and other costs directly related to the Company's reorganization plans and incremental to the Company's normal operating costs. Although management does not expect significant changes to its reorganization plans, the actual costs related to these plans may differ from management's estimates.

### ***Other Significant Estimates***

In addition to the items discussed above, the application of GAAP requires management to make other estimates and assumptions. For example, accounting for pension and other post-retirement and post-employment benefits requires estimates of future returns on plan assets, expected increases in compensation levels and trends in health care costs. See *Potential Forward Looking Risks Affecting Profitability*. Another example is the recognition of deferred tax assets, which depends upon management's assumptions with respect to the Company's ability to realize the deferred tax benefit.

**Table of Contents****Summary of Financial Results**

The following tables present the Company's consolidated and segmented results of operations for the three-month periods ended March 31, 2003 and 2002. The discussion following these tables discusses the Company's consolidated and segmented results of operations.

**For the Three-month Period Ended March 31, 2003**

	<b>Protection</b>	<b>Accumulation</b>	<b>Retail Brokerage and Investment Banking</b>	<b>Other</b>	<b>Reconciling</b>	<b>Consolidated</b>
	(\$ in millions)					
<b>Revenues:</b>						
Premiums	\$ 160.8	\$ 3.7	\$	\$ 2.3	\$	\$ 166.8
Universal life and investment-type product policy fees	42.4	9.9		0.7		53.0
Net investment income	142.9	21.3		3.9	7.0	175.1
Realized gains on investments	7.5	3.3		1.1	4.7	16.6
Group Pension Profits						
Retail Brokerage and Investment Banking revenues						