

MONY GROUP INC
Form 10-Q
November 14, 2003
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

OR

.. **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)

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Delaware
(State or other jurisdiction of
incorporation or organization)

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

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 November 6, 2003 there were 47,184,048 shares of the Registrant's common stock, par value \$0.01, outstanding.

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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: satisfaction of the closing conditions set forth in the merger agreement among AXA Financial, Inc., AIMA Acquisition Co. and the Company, including the approval of the Company's shareholders and regulatory approvals; a significant delay in the expected completion of, or failure to complete, the contemplated merger; the Company could have losses, including 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; the Company could have to accelerate amortization of deferred policy acquisition costs if market conditions deteriorate; the Company may be required to recognize in its earnings other than temporary impairment charges on investments in fixed maturity and equity securities held by it; the Company could have to write off investments in certain securities if the issuers' 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 September 30, 2003 and December 31, 2002 (audited)

	September 30, 2003	December 31, 2002
	(\$ in millions)	
ASSETS		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 8,300.7	\$ 7,909.4
Trading account securities, at fair value	852.6	726.7
Equity securities available-for-sale, at fair value	253.9	249.0
Mortgage loans on real estate	1,856.5	1,877.4
Policy loans	1,184.2	1,212.5
Real estate to be disposed of	0.5	26.8
Real estate held for investment	179.4	180.2
Other invested assets	120.0	110.8
	<u>12,747.8</u>	<u>12,292.8</u>
Cash and cash equivalents	545.6	378.5
Accrued investment income	211.8	207.5
Debt service coverage account (Note 1):		
Sub-account OB	66.6	64.7
Sub-account CBB	9.6	9.4
Amounts due from reinsurers	594.1	695.2
Premiums receivable	6.6	7.3
Deferred policy acquisition costs	1,263.3	1,226.4
Other assets	845.0	854.0
Separate account assets	4,446.5	4,140.6
	<u>\$ 20,736.9</u>	<u>\$ 19,876.4</u>
LIABILITIES AND SHAREHOLDERS EQUITY		
Future policy benefits	\$ 8,006.5	\$ 7,949.9
Policyholders' account balances	3,086.2	2,779.7
Other policyholders' liabilities	265.9	289.2
Amounts due to reinsurers	75.1	67.7

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Securities sold, not yet purchased, at fair value	660.1	586.8
Accounts payable and other liabilities	1,003.9	875.3
Short term debt	7.0	7.0
Long term debt	876.3	876.3
Current federal income taxes payable	50.4	95.5
Deferred federal income taxes	231.4	212.9
Separate account liabilities	4,443.5	4,137.6
	<u> </u>	<u> </u>
Total liabilities	18,706.3	17,877.9
	<u> </u>	<u> </u>
Commitments and contingencies (Note 6)		
Common stock, \$0.01 par value; 400 million shares authorized; 51.5 and 51.2 million shares issued at September 30, 2003 and December 31, 2002, respectively; 47.2 and 46.9 million shares outstanding at September 30, 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 September 30, 2003 and December 31, 2002	(137.7)	(137.7)
Retained earnings	348.5	314.9
Accumulated other comprehensive income	55.7	59.9
Unamortized restricted stock compensation	(5.5)	(0.6)
	<u> </u>	<u> </u>
Total shareholders equity	2,030.6	1,998.5
	<u> </u>	<u> </u>
Total liabilities and shareholders equity	\$ 20,736.9	\$ 19,876.4
	<u> </u>	<u> </u>

See accompanying notes to unaudited interim condensed consolidated financial statements.

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

For the Three-month Periods Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
	(\$ in millions, except share data	
	and per share amounts)	
Revenues:		
Premiums	\$ 164.7	\$ 160.5
Universal life and investment-type product policy fees	52.3	54.6
Net investment income	188.3	170.1
Net realized gains/(losses) on investments	5.0	(41.2)
Group Pension Profits (Note 5)		6.8
Retail brokerage and investment banking revenues	106.8	109.1
Other income	44.4	24.9
	<u>561.5</u>	<u>484.8</u>
Benefits and Expenses:		
Benefits to policyholders	201.7	195.3
Interest credited to policyholders' account balances	35.7	30.0
Amortization of deferred policy acquisition costs	34.0	49.7
Dividends to policyholders	52.0	53.5
Other operating costs and expenses	232.2	202.7
	<u>555.6</u>	<u>531.2</u>
Income/(loss) from continuing operations before income taxes	5.9	(46.4)
Income tax expense/(benefit)	0.4	(16.2)
Income/(loss) from continuing operations	5.5	(30.2)
Discontinued operations: Loss from real estate to be disposed of, net of income tax benefit of \$(0.1) million	(0.2)	
Net income/(loss)	<u>5.3</u>	<u>(30.2)</u>
Other comprehensive (loss)/income, net	(10.8)	25.4
Comprehensive loss	<u>\$ (5.5)</u>	<u>\$ (4.8)</u>
Per Share Data:		
Basic income/(loss) per share from continuing operations	<u>\$ 0.12</u>	<u>\$ (0.64)</u>

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Basic loss per share from discontinued operations	\$ (0.01)	\$
Basic net income/(loss) per share	\$ 0.11	\$ (0.64)
Diluted income/(loss) per share from continuing operations	\$ 0.11	\$ (0.64)
Diluted loss per share from discontinued operations	\$	\$
Diluted net income/(loss) per share	\$ 0.11	\$ (0.64)
Share Data:		
Weighted-average shares used in basic per share calculation	46,970,155	47,414,250
Plus: incremental shares from assumed conversion of dilutive securities	1,044,246	
Weighted-average shares used in diluted per share calculations	48,014,401	47,414,250

See accompanying notes to unaudited interim condensed consolidated financial statements.

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THE MONY GROUP INC. AND SUBSIDIARIES

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

For the Nine-month Periods Ended September 30, 2003 and 2002

	<u>2003</u>	<u>2002</u>
	(\$ in millions, except share data	
	and per share amounts)	
Revenues:		
Premiums	\$ 505.3	\$ 494.8
Universal life and investment-type product policy fees	159.8	156.1
Net investment income	564.5	541.7
Net realized gains/(losses) on investments	36.6	(69.1)
Group Pension Profits (Note 5)		22.0
Retail brokerage and investment banking revenues	310.3	297.5
Other income	132.6	92.4
	<u>1,709.1</u>	<u>1,535.4</u>
Benefits and Expenses:		
Benefits to policyholders	609.3	585.5
Interest credited to policyholders' account balances	103.5	85.8
Amortization of deferred policy acquisition costs	93.8	120.5
Dividends to policyholders	174.3	171.8
Other operating costs and expenses	688.4	613.2
	<u>1,669.3</u>	<u>1,576.8</u>
Income/(loss) from continuing operations before income taxes	39.8	(41.4)
Income tax expense/(benefit)	10.0	(14.5)
Income/(loss) from continuing operations	29.8	(26.9)
Discontinued operations: Income from real estate to be disposed of, net of income tax expense of \$2.0 million	3.8	
Net income/(loss)	<u>33.6</u>	<u>(26.9)</u>
Other comprehensive (loss)/income, net	(4.2)	71.4
Comprehensive income	<u>\$ 29.4</u>	<u>\$ 44.5</u>
Per Share Data:		
Basic income/(loss) per share from continuing operations	<u>\$ 0.64</u>	<u>\$ (0.56)</u>

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Basic income per share from discontinued operations	\$ 0.08	\$
Basic net income/(loss) per share	\$ 0.72	\$ (0.56)
Diluted income/(loss) per share from continuing operations	\$ 0.63	\$ (0.56)
Diluted income per share from discontinued operations	\$ 0.08	\$
Diluted net income/(loss) per share	\$ 0.71	\$ (0.56)
Share Data:		
Weighted-average shares used in basic per share calculation	46,964,214	47,804,872
Plus: incremental shares from assumed conversion of dilutive securities	364,595	
Weighted-average shares used in diluted per share calculations	47,328,809	47,804,872

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 Nine-month Periods Ended September 30, 2003 and 2002**

	<u>2003</u>	<u>2002</u>
	(\$ in millions)	
Net cash provided by operating activities	\$ 48.2	\$ 33.9
Cash flows from investing activities:		
Sales, maturities or repayments of:		
Fixed maturity securities	1,434.4	800.3
Equity securities	49.7	11.7
Mortgage loans on real estate	333.3	350.8
Policy loans, net	28.4	22.3
Other invested assets	75.4	21.0
Acquisitions of investments:		
Fixed maturity securities	(1,710.3)	(1,350.6)
Equity securities	(25.9)	(17.4)
Mortgage loans on real estate	(296.4)	(292.2)
Property, plant and equipment, net	(24.3)	(18.0)
Other, net	(46.0)	(25.9)
Acquisition of subsidiaries, net of cash acquired		(7.1)
Net cash used in investing activities	<u>(181.7)</u>	<u>(505.1)</u>
Cash flows from financing activities:		
Issuance of debt		300.0
Funding of debt service coverage account	(2.1)	(71.2)
Debt issuance costs	(0.4)	(7.4)
Receipts from annuity and universal life policies credited to policyholders' account balances(1)	829.9	841.7
Return of policyholder account balances on annuity and universal life policies(1)	(526.8)	(564.8)
Issuance of common stock		1.1
Purchase of treasury stock		(30.0)
Net cash provided by financing activities	<u>300.6</u>	<u>469.4</u>
Net increase/(decrease) in cash and cash equivalents	167.1	(1.8)
Cash and cash equivalents, beginning of period	378.5	441.0
Cash and cash equivalents, end of period	<u>\$ 545.6</u>	<u>\$ 439.2</u>

(1) Includes exchanges to a new Flexible Premium Variable Annuity product series.

See accompanying notes to unaudited interim condensed consolidated financial statements

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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 Insurance Company, (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 nine-month period ended September 30, 2003, Retail distribution accounted for approximately 20.8%, and 41.4% of sales of protection and accumulation products, respectively, and 100.0% of retail brokerage and investment banking revenues, while Wholesale distribution accounted for 79.2% and 58.6% 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 more fully meet the insurance and investment needs of their customers, (vii) MONY Consultoria e Corretagem de Seguros Ltda., a Brazilian domiciled insurance brokerage subsidiary, which principally provides insurance brokerage services to unaffiliated third party insurance companies in Brazil, (viii) MONY Bank & Trust Company of the Americas, Ltd., a Cayman Islands bank and trust company, which provides investment and trust services to nationals of certain Latin American countries, and (ix) MONY Life Insurance Company of the Americas, Ltd., a Cayman Islands based insurance company, which provides life insurance and annuity products to nationals of certain Latin American countries. Advest, through its principal operating subsidiaries, Advest, Inc., a securities broker-dealer, Advest Trust Company, a federal savings bank, and Boston Advisors, Inc., 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 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 8) 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

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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 9 for further information regarding the Insured Notes.

MONY Group is a holding company and is a legal entity separate and distinct from its subsidiaries. The rights of MONY Group to participate in any distribution of assets of any subsidiary, including upon its liquidation or reorganization, are subject to the prior claims of creditors of that subsidiary, except to the extent that MONY Group may itself be a creditor of that subsidiary and its claims are recognized. MONY Holdings and its subsidiary have entered into covenants and arrangements with third parties in connection with the issuance of the Insured Notes which are intended to conform their separate, bankruptcy-remote status, by assuring that the assets of MONY Holdings and its subsidiary are not available to creditors of MONY Group or its other subsidiaries, except and to the extent that MONY Group and its other subsidiaries are, as shareholders or creditors of MONY Holdings and its subsidiary, or would be, entitled to those assets.

2. Merger

On September 17, 2003, the Company entered into an Agreement and Plan of Merger with AXA Financial, Inc. and AIMA Acquisition Co. (the AXA Agreement), pursuant to which the Company will become a wholly owned subsidiary of AXA Financial, Inc. (AXA Financial) in a cash transaction valued at approximately \$1.5 billion. Under the terms of the AXA Agreement, which has been approved by the boards of directors of AXA Financial and the Company, the Company's shareholders will receive \$31.00 in cash for each share of the MONY Group's common stock.

The AXA Agreement is subject to various regulatory approvals and other customary conditions, as well as the approval of the Company's shareholders. The transaction is expected to close in the first quarter of 2004.

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Subject to certain requirements, at any time after January 1, 2004, the Company may set a record date for, and declare and pay a dividend to, its shareholders in an aggregate amount not to exceed its Adjusted Net Earnings as defined in the AXA Agreement. Adjusted Net Earnings is defined in the AXA Agreement as the Company's consolidated net income for the six-month period ended December 31, 2003 determined in accordance with accounting principles generally accepted in the United States of America (GAAP), exclusive of the following: (i) earnings resulting from changes in accounting policies and methods; (ii) all capital gains and losses, other than those resulting from prepayments and calls on bonds and mortgages; (iii) reductions in litigation reserves, which are not the result of a final, non-appealable judgment or settlement between the parties

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

to such litigation; (iv) changes in other accrued items or reserves resulting from changes in assumptions; (v) earnings resulting from any changes to existing reinsurance agreements; (vi) other non recurring items, including but not limited to, tax reserve releases, changes in restructuring reserves (other than from payments), gains and losses on reinsurance transactions not in the ordinary course of business and gains on disposal of non-invested assets; (vii) earnings resulting from changes in assumptions used to capitalize and amortize deferred policy acquisition costs, including mortality, lapse and investment returns; and (viii) gains or losses resulting from sales of subsidiaries or any material asset outside of the ordinary course of business consistent with best practices; in each case net of all applicable tax, deferred policy acquisition cost amortization and policyholder dividend accruals. The Company's preliminary estimate of Adjusted Net Earnings for the third quarter of 2003, from which dividends may be paid under the AXA Agreement, is approximately \$4.0 million. The final number, which will be reported on by an independent public accountant as discussed in the preliminary proxy statement filed with the Securities and Exchange Commission (the SEC) on October 14, 2003, will be higher or lower than the estimated \$4.0 million Adjusted Net Earnings for the third quarter depending on the Company's results in the fourth quarter of 2003.

3. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with 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.

The interim financial data as of September 30, 2003 and for the three and nine-month periods ended September 30, 2003 and 2002 is unaudited; however, in the opinion of the Company, the interim data includes all adjustments, consisting only of normal recurring adjustments necessary for a fair statement of results for the interim periods.

Recent Accounting Pronouncements

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In December 2002, the FASB issued SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure and amendment of FASB Statement No. 123 (SFAS 148)*. 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 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, SFAS 148 amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. The disclosure provisions for SFAS 148 are effective for interim periods beginning after December 15, 2002. The transition provisions of SFAS 148 are effective for financial statements for fiscal years ending after December 31, 2002. As of September 30, 2003, the Company has not adopted the fair value based method of accounting for stock based compensation.

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NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In April 2003, the FASB issued SFAS No. 149 *Amendment of Statement 133 on Derivative Instruments and Hedging Activities* (SFAS 149). SFAS 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activities* (SFAS 133). SFAS 149 is generally effective for contracts entered into or modified after June 30, 2003. The adoption of SFAS 149 did not have a material impact on the Company's results of operations and financial position.

In April 2003, the FASB issued SFAS 133 Implementation Issue B36, *Embedded Derivatives: Modified Coinsurance Arrangements and Debt Instruments That Incorporate Credit Risk Exposures That Are Unrelated or Only Partially Related to the Creditworthiness of the Obligor under Those Instruments* (DIG B36). DIG B36 addresses the need to separately account for an embedded derivative within a reinsurer's receivable and ceding company's payable arising from modified coinsurance or similar arrangements. Paragraph 12(a) of SFAS 133 indicates that an embedded derivative must be separated from the host contract (bifurcated) if the economic characteristics and risks of the embedded derivative instrument are not clearly and closely related to the economic characteristics and risks of the host contract. DIG B36 concludes that bifurcation is necessary in a modified coinsurance arrangement because the yield on the receivable and payable is based on a specified proportion of the ceding company's return on either its general account assets or a specified block of those assets, rather than the overall creditworthiness of the ceding company. The effective date of implementation is the first day of the first fiscal quarter beginning after September 15, 2003, with earlier application as of the beginning of a fiscal quarter permitted. The adoption of DIG B36 is not expected to have a material impact on the Company's results of operations and financial position.

In May 2003, the FASB issued SFAS No. 150 *Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity* (SFAS 150). SFAS 150 changes the accounting for certain financial instruments that, under previous guidance, could be classified as equity or mezzanine equity, by now requiring those instruments to be classified as liabilities (or assets in some circumstances) in the statement of financial position. Further, SFAS 150 requires disclosure regarding the terms of those instruments and settlement alternatives. SFAS 150 affects an entity's classification of the following free-standing instruments: (i) mandatory redeemable instruments, (ii) financial instruments to repurchase an entity's own equity instruments, and (iii) financial instruments embodying obligations that the issuer must or could choose to settle by issuing a variable number of its shares or other equity instruments based solely on (a) a fixed monetary amount known at inception or (b) something other than changes in its own equity instruments. SFAS 150 does not apply to features embedded in a financial instrument that is not a derivative in its entirety. The guidance in SFAS 150 is generally effective for all financial instruments entered into or modified after May 31, 2003, and is otherwise effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS 150 did not have a material impact on the Company's results of operations and financial position.

In July 2003 the American Institute of Certified Public Accountants issued Statement of Position 03-1 *Accounting and Reporting by Insurance Enterprises for Certain Non-Traditional Long-Duration Contracts and for Separate Accounts* (SOP 03-1). SOP 03-1 provides guidance relating to (i) separate account presentation, (ii) accounting for an insurance enterprise's interest in separate accounts, (iii) gains and losses on the transfer of assets from the general account, (iv) liability valuation, (v) return based on a contractually referenced pool of assets or index, (vi) determining the significance of mortality and morbidity risk and classification of contracts that contain death or other insurance benefit features, (vii) accounting for contracts that contain death or other insurance benefit features, (viii) accounting for reinsurance and other similar contracts, (ix) accounting for annuitization benefits, (x) sales inducements to contract holders, and (xi) disclosures in the financial statements of an insurance enterprise regarding (a) separate account assets and liabilities, (b) the insurance enterprise's accounting policy for sales inducements, and (c) the nature of the liabilities and methods and assumptions used in

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estimating any contract benefits recognized in excess of the account balance. SOP 03-1 is effective for financial statements for fiscal years beginning after December 15, 2003, with earlier adoption encouraged. The adoption of SOP 03-1 is not expected to have a material impact on the Company's results of operations and financial position.

In October 2003, the FASB finalized the proposed FASB Staff Position 46-e *Effective Date of Interpretation 46 (FIN 46), for Certain Interests Held by a Public Entity (Staff Position 46-e)*. Staff Position 46-e defers the latest date by which all public entities must apply SFAS Interpretation No. 46 *Consolidation of Variable Interest Entities (Interpretation 46)*, to the first reporting period ending after December 15, 2003. Interpretation 46 provides guidance on identifying variable interest entities and on assessing whether a Company's investment in a variable interest entity requires consolidation thereof. Interpretation 46 was initially effective in January 2003 for investments made in variable interest entities after January 31, 2003 and it was effective in the first fiscal year or interim period beginning after June 15, 2003 for investments in variable interest entities made prior to February 1, 2003. The deferral applies to all variable interest entities and potential variable interest entities, both financial and non-financial in nature. Variable interest entities that were previously consolidated in issued financial statements under Interpretation 46 will not be unconsolidated. The adoption of Interpretation 46 is not expected to have a material impact on the Company's results of operations and financial position.

4. 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.

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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 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 5*), 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 7*) and (iii) disability income insurance products (which are 100% reinsured and no longer offered by the Company).

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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, Matrix Capital Markets Group, Inc. and Matrix Private Equities, Inc. (together 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 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 more fully meet the 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 5*).

Set forth in the table below is certain financial information with respect to the Company's operating segments as of September 30, 2003 and December 31 2002 and for each of the three and nine-month periods ended September 30, 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 MONY Life relating to its employee benefit plans, (ii) revenues and expenses of the MONY Group and MONY Holdings, (iii) a charge of \$1.1 million incurred in the three-month period ended June 30, 2003 associated with the merger of some of the Company's asset management operations (*see Note 11*), (iv) a charge of

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\$0.4 million in the three-month period ended September 30, 2003 for additional lease abandonment charges relating to the Company's reorganization activities in 2002 (*see Note 11*), and (v) merger related expenses of \$5.5 million in 2003 associated with the pending acquisition of the Company by AXA Financial (*see Note 2*).

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Segment Summary Financial Information

	For the		For the	
	Three-month		Nine-month	
	Periods Ended		Periods Ended	
	September 30,		September 30,	
	2003	2002	2003	2002
	(\$ in millions)		(\$ in millions)	
Premiums:				
Protection Products	\$ 158.2	\$ 155.9	\$ 483.7	\$ 480.8
Accumulation Products	4.3	2.3	15.2	7.1
Other Products	2.2	2.3	6.4	6.9