

MONY GROUP INC
Form 10-Q
August 14, 2001

**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 quarterly period ended June 30, 2001

.. **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.)

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

As of August 3, 2001 there were 48,910,354 shares of the Registrant's common stock, par value \$0.01, outstanding.

**THE MONY GROUP INC. AND SUBSIDIARIES
INDEX TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS**

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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, as indicated by words such as believes, estimates, intends, anticipates, expects, projects, should, probably, risk, target, goals, objectives, etc. 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 those discussed elsewhere in this report and in the Company's other public filings, press releases, oral presentations and discussions and the following: venture capital gains or losses could differ significantly from our assumptions because of further significant changes in equity values; fees from assets under management could be significantly higher or lower than we have assumed if there are further major movements in the equity markets; the value of our overall investment portfolio could fluctuate significantly as a result of additional major changes in the equity and debt markets generally; actual death claims experience could differ significantly from our mortality assumptions; we may have as-yet unascertained tax liabilities; sales of variable products, mutual funds and equity securities could differ materially from our assumptions because of further unexpected developments in the equity markets and changes in demand for such products; major changes in interest rates could affect our earnings; we could have liability from as-yet unknown or unquantified litigation and claims; pending or known litigation or claims could result in larger settlements or judgments than we anticipate; the Company may have higher operating expenses than anticipated; changes in law or regulation, including tax laws, could

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materially affect the demand for the Company's products and the Company's net income after tax; and the Company may not achieve the assumed economic benefits of consolidating acquired enterprises. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

ITEM 1:

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2001 and December 31, 2000

	June 30, 2001	December 31, 2000
(\$ in millions)		
ASSETS		
Investments:		
Fixed maturity securities available-for-sale, at fair value	\$ 6,524.7	\$ 6,693.0
Fixed maturity securities held to maturity, at amortized cost	2.7	
Trading account securities, at market value (Note 3)	454.6	
Securities pledged as collateral (Note 3)	185.9	
Equity securities available-for-sale, at fair value	327.3	328.6
Mortgage loans on real estate	1,759.1	1,754.7
Policy loans	1,252.6	1,264.6
Real estate to be disposed of	170.4	171.3
Real estate held for investment	47.3	40.7
Other invested assets	153.7	100.0
	10,878.3	10,352.9
Cash and cash equivalents	760.7	869.6
Accrued investment income	192.5	189.0
Amounts due from reinsurers	600.6	598.0
Premiums receivable	11.0	10.9
Deferred policy acquisition costs	1,222.5	1,209.7
Securities borrowed	784.5	
Receivable from brokerage customers, net	486.6	
Other Assets	875.2	549.4
Assets transferred in Group Pension Transaction (Note 5)	4,824.9	4,927.7
Separate account assets	5,448.0	5,868.1
	\$26,084.8	\$24,575.3
LIABILITIES AND SHAREHOLDERS' EQUITY		
Future policy benefits	\$ 7,815.2	\$ 7,794.5
Policyholders' account balances	2,219.8	2,191.3
Other policyholders' liabilities	304.6	295.9
Amounts due to reinsurers	75.2	85.6
Securities loaned	722.7	
Securities sold, not yet purchased, at market value (Note 3)	453.4	
Payable to brokerage customers	210.8	
Accounts payable and other liabilities	688.7	578.7
Short term debt	399.7	52.3
Long term debt	585.3	571.1

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Current federal income taxes payable	99.3	120.4
Deferred Federal Income Taxes	89.7	84.1
Liabilities transferred in Group Pension Transaction (Note 5)	4,790.4	4,897.2
Separate account liabilities	5,445.3	5,865.3
	<hr/>	<hr/>
Total liabilities	23,900.1	22,536.4
Commitments and contingencies (Notes 6)		
Common stock, \$0.01 par value; 400 million shares authorized; 51.2 million shares issued at June 30, 2001 and 47.2 million shares issued at December 31, 2000; 49.2 million shares outstanding at June 30, 2001 and 46.2 million shares outstanding at December 31, 2000	0.5	0.5
Capital in excess of par	1,760.4	1,616.3
Treasury stock at cost: 1,898,689 million and 1,095,900 million shares at June 30, 2001 and December 31, 2000 respectively	(61.0)	(33.0)
Retained earnings	477.8	442.2
Accumulated other comprehensive income	8.9	13.0
Unamortized restricted stock compensation	(1.9)	(0.1)
	<hr/>	<hr/>
Total shareholders' equity	2,184.7	2,038.9
	<hr/>	<hr/>
Total liabilities and shareholders' equity	\$26,084.8	\$24,575.3
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See accompanying notes to unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
For the Three-month Periods Ended June 30, 2001 and 2000**

	2001	2000
	<hr/>	<hr/>
	(\$ in millions, except share data and per share amounts)	
Revenues:		
Premiums	\$ 173.4	\$ 176.5
Universal life and investment-type product policy fees	52.3	55.9
Net investment income	189.5	229.5
Net realized gains (losses) on investments	3.0	(8.9)
Group Pension Profits (Note 5)	9.3	8.1
Retail Brokerage and Investment Banking revenues	99.8	16.0
Other income	41.7	46.1
	<hr/>	<hr/>
	569.0	523.2
	<hr/>	<hr/>
Benefits and Expenses:		
Benefits to policyholders	194.5	202.4
Interest credited to policyholders' account balances	27.0	25.8
Amortization of deferred policy acquisition costs	28.3	37.2
Dividends to policyholders	60.6	52.7
Other operating costs and expenses	226.8	133.6
	<hr/>	<hr/>
	537.2	451.7
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Income before income taxes and extraordinary item	31.8	71.5
Income tax expense	9.5	23.4
Net income	22.3	48.1
Other comprehensive (loss), net	(23.2)	(10.9)
Comprehensive income	\$ (0.9)	\$ 37.2
Per Share Data:		
Net Income:		
Basic earnings per share	\$ 0.45	\$ 1.03
Diluted earnings per share	\$ 0.44	\$ 1.01
Share Data:		
Weighted-average shares used in basic per share calculation	49,363,512	46,528,902
Plus: incremental shares from assumed conversion of dilutive securities	1,549,587	1,020,958
Weighted-average shares used in diluted per share calculations	50,913,099	47,549,860

See accompanying notes to unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME
AND COMPREHENSIVE INCOME
For the Six-month Periods Ended June 30, 2001 and 2000**

	2001	2000
	(\$ in millions, except share data and per share amounts)	
Revenues:		
Premiums	\$ 338.5	\$ 341.5
Universal life and investment-type product policy fees	102.0	105.8
Net investment income	373.2	581.3
Net realized gains on investments	5.5	9.7
Group Pension Profits (Note 5)	19.2	18.2
Retail Brokerage and Investment Banking revenues	170.9	34.4
Other income	72.0	87.3
	1,081.3	1,178.2
Benefits and Expenses:		
Benefits to policyholders	392.2	383.1
Interest credited to policyholders' account balances	55.3	54.2
Amortization of deferred policy acquisition costs	65.5	74.7
Dividends to policyholders	115.2	109.9
Other operating costs and expenses	401.0	272.6

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	1,029.2	894.5
Income before income taxes and extraordinary item	52.1	283.7
Income tax expense	16.5	97.7
Income before extraordinary item	35.6	186.0
Extraordinary loss, net of tax		36.7
Net income	35.6	149.3
Other comprehensive (loss), net	(4.1)	(25.8)
Comprehensive income	\$ 31.5	\$ 123.5
Per Share Data:		
Income before extraordinary items:		
Basic earnings per share	\$ 0.73	\$ 3.97
Diluted earnings per share	\$ 0.70	\$ 3.91
Net Income:		
Basic earnings per share	\$ 0.73	\$ 3.19
Diluted earnings per share	\$ 0.70	\$ 3.14
Share Data:		
Weighted-average shares used in basic per share calculation	49,044,496	46,812,447
Plus: incremental shares from assumed conversion of dilutive securities	1,580,133	783,395
Weighted-average shares used in diluted per share calculations	50,624,629	47,595,842

See accompanying notes to Unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT
OF CHANGES IN SHAREHOLDERS' EQUITY
Six-month Period Ended June 30, 2001**

	Common Stock	Capital In Excess of Par	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income	Unamortized Restricted Stock Compensation	Total Shareholders Equity
				(\$ in millions)			
Balance, December 31, 2000	\$0.5			\$442.2			
Issuance of Shares		\$1,616.3	\$(33.0)		\$13.0	\$(0.1)	\$2,038.9
Purchases of treasury stock, at cost		144.1					144.1
Unamortized restricted stock compensation			(28.0)				(28.0)
Comprehensive income:						(1.8)	(1.8)
Net income				35.6			35.6

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Other comprehensive income(1)					(4.1)		(4.1)
Comprehensive income							31.5
Balance, June 30, 2001	<u>\$0.5</u>	<u>\$1,760.4</u>	<u>\$(61.0)</u>	<u>\$477.8</u>	<u>\$ 8.9</u>	<u>\$(1.9)</u>	<u>\$2,184.7</u>

(1) Represents unrealized gains on investments (net of unrealized losses, the effect of unrealized gains on deferred acquisition costs and dividends to policyholders), reclassification adjustments, minimum pension liability and taxes.

See accompanying notes to unaudited interim condensed consolidated financial statements.

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six-month Periods Ended June 30, 2001 and 2000

	<u>2001</u>	<u>2000</u>
	(\$ in millions)	
Net cash (used in)/provided by operating activities	\$ (52.8)	\$ (29.6)
Cash flows from investing activities:		
Sales, maturities or repayment of:		
Fixed maturities securities	749.0	566.4
Equity securities	34.2	243.8
Mortgage loans on real estate	129.5	86.1
Real estate	7.7	5.0
Other invested assets	2.6	1.6
Acquisitions of investments:		
Fixed maturities securities	(554.9)	(485.9)
Equity securities	10.5	(70.9)
Mortgage loans on real estate	(135.3)	(238.8)
Real estate	(60.7)	(26.8)
Other invested assets	(44.0)	(17.6)
Policy loans, net	12.1	8.2
Other, net		(150.0)
Property, plant and equipment, net	(12.0)	(15.8)
Acquisition of subsidiaries, net of cash acquired	(208.0)	
Net cash provided by/(used in) investing activities	<u>\$ (69.3)</u>	<u>\$ (94.7)</u>
Cash flows from financing activities:		
Issuance of debt		296.6
Repayments of debt	(0.1)	(286.3)
Receipts from annuity and universal life policies credited to policyholder's account balances	571.1	1,326.1
Return of policyholder account balances on annuity and universal life policies	(530.5)	(1,336.0)
Treasury stock repurchases	(27.8)	(31.1)
Other	0.5	

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Net cash (used in) financing activities	13.2	(30.7)
Net (decrease)/increase in cash and cash equivalents	(108.9)	(155.0)
Cash and cash equivalents, beginning of period	869.6	377.2
Cash and cash equivalents, end of period	\$760.7	\$ 222.2

See accompanying notes to unaudited interim condensed consolidated financial statements

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Description of Business:

On November 16, 1998, pursuant to its Plan of Reorganization (the Plan) which was approved by the New York Superintendent of Insurance on the same day (the Plan Effective Date), The Mutual Life Insurance Company of New York (MONY) converted from a mutual life insurance company to a stock life insurance company (the Demutualization) and became a wholly owned subsidiary of The MONY Group Inc. (MONY Group), a Delaware corporation organized on June 24, 1997. In connection with the Plan, MONY established a closed block (Closed Block) to fund the guaranteed benefits and dividends of certain participating insurance policies, and eligible policyholders received cash, policy credits, or shares of common stock of the MONY Group in exchange for their membership interests in MONY. Also, on November 16, 1998, the MONY Group consummated an initial public offering (the Offering) of approximately 12.9 million shares of its common stock and MONY changed its name to MONY Life Insurance Company. The shares of common stock issued in the Offering are in addition to approximately 34.3 million shares of common stock of the MONY Group distributed to the aforementioned policyholders. As used in these financial statements, the Company shall be a reference to MONY Group and its direct and indirect subsidiaries; MONY Life shall be a reference to MONY Life Insurance Company and its direct and indirect subsidiaries and the Transaction shall be a collective reference to the Plan and Offerings.

The Company is primarily engaged in the business of providing a wide range of life insurance, annuity, and investment products and services to higher income individuals, particularly family builders, pre-retirees, and small business owners. In addition, as a result of the acquisitions of Advest Group Inc. (Advest) and Matrix Capital Markets Group Inc. and Matrix Private Equities, Inc. (referred to together as Matrix) during the first quarter of 2001 (see Note 2), the Company provides trading, investment banking and trust services, and has significantly enhanced its asset management services and securities brokerage offerings.

The Company distributes its products and services primarily through its career agency sales force, Advest financial advisors and various complementary distribution channels. Complementary distribution includes: (i) sales of mutual funds by Enterprise Capital Management, a Company subsidiary, through third-party broker dealers, (ii) sales of Protection Products sold by U.S. Financial Life Insurance Company (USFL), also a Company subsidiary, through brokerage general agencies, (iii) sales of corporate-owned life insurance (COLI) products by the Company's corporate marketing team and (iv) sales of a variety of financial products and services through the Company's Trusted Securities Advisors Corp. subsidiary. The Company primarily sells its products in all 50 of the United States, the District of Columbia and the Commonwealth of Puerto Rico.

2. Acquisitions:

On January 31, 2001, the Company completed a merger in which it acquired all of the outstanding capital stock of Advest in exchange for approximately \$308.2 million of consideration (including transaction and other acquisition related expenses of approximately \$15.0 million) consisting of cash of approximately \$165.9 million and 3.9 million shares of common stock of the MONY Group with a fair value of approximately \$142.3 million. As a result of the merger, Advest became a wholly owned subsidiary of MONY Group Inc. Advest, through its principal operating subsidiaries Advest Inc., a securities broker-dealer, and Advest Bank and Trust Company, a federal savings bank, provides diversified financial services including, securities brokerage, trading, investment banking, trust and asset management services. The transaction was accounted for under the purchase method of accounting. Goodwill recorded in connection with the transaction approximated \$157.2 million and is being amortized on a straight line basis over 20 years. Goodwill was increased by \$22.2 million during the second quarter primarily reflecting cost incurred in connection with the outsourcing of Advest's clearing operations which was contemplated at the date of acquisition. In connection with the transaction, a retention program was established for certain Advest personnel, which is expected to cost, on a present value basis, approximately \$45.0 million over the five-year period commencing from the date the transaction was consummated. Pursuant to the terms of this retention program the Company expects to record a charge of \$7.5 million in each of the two 12 month periods following the date the transaction was consummated and \$10.0 million in each of the three succeeding 12 month periods. In addition, a separate retention program was established for certain of Advest's key management personnel that could result in total costs of approximately \$15.0 million, depending upon the achievement of specified performance goals, over the two year period following the date the Advest Acquisition was consummated.

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Effective January 1, 2001, the Company acquired 100% of the equity of Matrix for \$12.1 million in cash, plus the obligation to make certain contingent payments in the event that Matrix achieves certain profit goals. Matrix primarily provides investment banking services to middle market companies. The transaction was accounted for under the purchase method of accounting. Goodwill recorded in connection with the transaction was approximately \$11.1 million and is being amortized on a straight line basis over 15 years.

3. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying unaudited interim condensed consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the United States (GAAP). The preparation of financial statements in conformity with GAAP requires management to make certain estimates and assumptions that affect the reported amounts of assets and liabilities, 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. In the opinion of management these statements include all normal recurring adjustments necessary to present fairly the financial position, results of operations and cash flows of the Company for the periods presented in conformity with GAAP. These statements should be read in conjunction with the consolidated financial statements of the Company for the year ended December 31, 2000, which are presented in MONY Group s Annual Report on Form 10-K for the fiscal year ended December 31, 2000 (MONY Group s 2000 Annual Report). The results of operations for the three-month and six-month period ended June 30, 2001 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made in the amounts presented for the comparative prior periods to conform those periods to the current presentation.

New Accounting Pronouncements

On December 26, 2000 the American Institute of Certified Public Accountants issued 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 (SOP 00-3)*. SOP 00-3 provides guidance with respect to accounting for Demutualizations and requires, among other things, that (i) Closed Block assets, liabilities, revenues, and expenses should be displayed in financial statements combined with all other assets, liabilities, revenues, and expenses outside the Closed Block, and (ii) Demutualization expenses be classified as a single line item within income from continuing operations. The guidance in SOP 00-3 requires restatement of financial statements presented for years prior to its issuance and is effective for fiscal years beginning after December 15, 2000, except as it pertains to demutualization expenses which was effective immediately upon its issuance. The financial statements herein reflect the adoption of SOP 00-3. Accordingly, the consolidated statements of income and comprehensive income and balance sheets presented herein for the three-month and six-month periods ended June 30, 2000 have been restated from those previously reported in the prior year to conform the presentation thereof to that required by SOP 00-3.

In the first quarter of 2001, the Company adopted SFAS 133, *Accounting for Derivative Instruments and Hedging Activities (SFAS 133)*. SFAS 133 requires all derivatives to be recognized in the statement of financial position as either assets or liabilities and measured at fair value. The corresponding derivative gains and losses should be reported based on the hedge relationship, if any, that exists. Changes in the fair value of derivatives that are not designated as hedges or that do not meet the hedge accounting criteria in SFAS 133, are required to be reported in earnings. SFAS 133, is effective for all fiscal quarters of the fiscal years beginning after June 15, 2000. SFAS 133 did not have a significant affect on the Company s financial position or results of operations.

In September 2000, the FASB issued SFAS No. 140 *Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities, a replacement of SFAS No. 125 (SFAS 140)*. SFAS No. 140 specifies the accounting and reporting requirements for securitizations and other transfers of financial assets and collateral, recognition and measurement of servicing assets and liabilities and the extinguishment of liabilities. SFAS No. 140 is effective for transfers and servicing of financial assets and extinguishments of liabilities occurring after March 31, 2001 and is to be applied prospectively with certain exceptions. This statement is effective for recognition and reclassification of collateral and for disclosures relating to securitization transactions and collateral for fiscal years ending after December 15, 2000. Adoption of the new requirements did not have a significant impact on the Company s consolidated financial position or results of operations.

In July 2001, the FASB issued SFAS No. 141, *Business Combinations (SFAS 141)*. SFAS 141 addresses the financial accounting and reporting for all business combinations. This statement requires that all business combinations be accounted for under the purchase accounting method and abolishes the use of the pooling-of-interest method, requires separate recognition of intangible assets that can be identified and named, and expands required disclosures. All of the Company s past business combinations have been accounted for under the purchase accounting method. The provisions of this statement apply to all business combinations initiated after June 30, 2001. This statement has no effect on the financial position or results of operations of the Company.

In June 2001, the FASB issued SFAS No. 142, *Goodwill and Other Intangible Assets (SFAS 142)*. This statement addresses (i) how intangible assets that are acquired individually or with a group of other assets (but not those acquired in a business combination) should be accounted for in financial statements upon their acquisition and (ii) how goodwill and other intangible assets should be accounted for after they have been initially recognized in the financial statements. Under SFAS 142, Company s will no longer amortize goodwill on a straight-line basis over a predetermined period of time. SFAS 142 requires companies to evaluate recoverability of goodwill at least annually, and more frequently if events and circumstances indicate that goodwill may not be recoverable. FAS 142 requires amortization of identified intangibles with finite

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useful lives over their expected useful lives. This statement is effective for fiscal years beginning after December 15, 2001. The Company is in the process of evaluating the effect of SFAS 142 on its financial position and results of operations, but does not expect it to have an adverse material effect.

New Accounting Policies

Following is a summary of significant accounting policies for certain new line items appearing in the Company's 2001 financial statements for the first time due to the acquisition of Advest.

Receivables from and payables to brokerage customers

Receivables from and payables to brokerage customers arise from cash and margin transactions executed by Advest on their behalf. In virtually all instances, receivables are collateralized by securities with market values in excess of the amounts due. The collateral is not reflected in the accompanying financial statements. A reserve for doubtful accounts is established based upon reviews of individual credit risks, as well as prevailing and anticipated economic conditions. Included in payables to brokerage customers are free credit balances of \$168.3 million as of June 30, 2001. Advest pays interest on credit balances when the customer has indicated that the funds are for reinvestment purposes.

Collateralized financing transactions

Securities loaned and borrowed are accounted for as collateralized financing transactions and are recorded at the amount of cash collateral received or advanced. The fee received or paid by Advest is recorded as interest revenue or expense and is reflected in Retail Brokerage and Investment Banking revenues and other operating costs and expenses, respectively, in the consolidated statement of income. The initial collateral advanced or received has a market value in excess of the market value of the underlying securities. The Company monitors the market value of securities borrowed and loaned on a daily basis, with additional collateral obtained or refunded, as necessary.

Advest utilizes short-term repurchase agreements as supplementary short-term financing and delivers U.S. Treasury securities as collateral for cash received. These repurchase agreements are accounted for as collateralized financings. The fee paid by Advest is recorded as interest expense. Advest monitors the market value of securities transferred on a daily basis, and obtains or refunds collateral as necessary.

Securities

Advest's trading securities and securities sold, not yet purchased are valued at market with unrealized gains and losses reflected in current period revenues from principal transactions or investment banking. Periodically, Advest receives stock warrants in connection with its investment banking activities. Warrants are carried at their fair value which is determined using the Black-Scholes model or another standard option valuation technique. The value of such warrants and changes therein are reflected in earnings.

At June 30, 2001, trading securities, securities pledged as collateral and securities sold, not yet purchased consisted of:

	Trading securities	Securities pledged as collateral	Securities sold, not yet Purchase
	(\$ in millions)		
Corporate obligations	\$273.1	\$182.8	\$335.6
State and municipal obligations	55.7		0.2
U.S. government and agency obligations	56.8	3.1	116.2
Mortgage-backed securities	64.4		
Stocks and warrants	4.6		1.4
	\$454.6	\$185.9	\$453.4

Investment banking

Investment banking revenues are recorded, net of expenses, on the settlement date for management fees and sales concessions, and on the dates the underwriting syndications are closed for underwriting fees. Investment banking revenues are included in Retail Brokerage and Investment Banking revenues in the consolidated statement of income.

Short term borrowings

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In the ordinary course of business, primarily to facilitate securities settlements and finance margin debits and trading inventories, Advest obtains bank loans which are collateralized by its trading securities and customers' margin securities. The loans are payable on demand and bear interest based on the federal funds rate. At June 30, 2001, Advest had \$392.7 million in bank loans all collateralized by firm and customer securities. The weighted average interest rate on bank loans outstanding at June 30, 2001, was 5.03%.

4. Segment Information:

For management and reporting purposes, the Company's business is organized in three principal operating 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.

Products comprising the Protection Products segment primarily includes a wide range of insurance products, including: whole life, term life, universal life, variable universal life, corporate-owned life insurance, last survivor variable universal life, last survivor universal life, group universal life, last survivor whole 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, as well as the Group Pension Profits derived therefrom (see Note 5), (ii) the Closed Block assets and liabilities, as well as all the related revenues and expenses relating thereto.

The Accumulation Products segment primarily includes flexible premium variable annuities, single 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, Matrix and MONY Securities Corporation (MSC). 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). MSC was previously reported in the Other Products segment. The segmented data presented below as of December 31, 2000 and for the three-month and six-month periods ended June 30, 2000 has been restated from that reported in the prior year period to reflect the reclassification of MSC from the Other Products segment to the Retail Brokerage and Investment Banking segment.

The Company's Other Products segments primarily consists of an insurance brokerage operation and certain lines of insurance business no longer written by the Company (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 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).

Amounts reported as reconciling amounts in the table below primarily relate to: (i) contracts issued by the Company relating to its employee benefit plans and, (ii) assets, liabilities, revenues and expenses of the MONY Group.

Set forth in the following table is certain financial information with respect to the Company's operating segments as well as amounts not allocated to the segments as of June 30, 2001 and December 31, 2000 and for each the three-month and six-month periods ended June 30, 2001 and 2000.

Segment Summary Financial Information

	For the Three-month Periods Ended June 30,		For the Six-month Periods Ended June 30,	
	2001	2000	2001	2000
	(\$ in millions)		(\$ in millions)	
Premiums:				
Protection Products	\$169.8	\$174.4	\$331.4	\$336.9
Accumulation Products	1.1	0.3	2.4	0.4
Other Products	2.5	1.8	4.7	4.2
	\$173.4	\$176.5	\$338.5	\$341.5

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Universal life and investment-type product policy fees:				
Protection Products	\$ 37.1	\$ 38.2	\$ 71.6	\$ 68.5
Accumulation Products	14.3	17.6	29.5	36.5
Other Products	0.9	0.1	0.9	0.8
	<u>\$ 52.3</u>	<u>\$ 55.9</u>	<u>\$102.0</u>	<u>\$105.8</u>
Net investment income and net realized gains (losses) on investments:				
Protection Products	\$153.6	\$176.1	\$303.5	\$459.7
Accumulation Products	20.3	25.6	40.5	76.2
Retail Brokerage and Investment Banking	2.1	0.3	2.9	0.4
Other Products	7.3	12.2	13.3	45.8
Reconciling amounts	9.2	6.4	18.5	8.9
	<u>\$192.5</u>	<u>\$220.6</u>	<u>\$378.7</u>	<u>\$591.0</u>
Other income:				
Protection Products(1)	\$ 17.9	\$ 16.9	\$ 25.6	\$ 31.1
Accumulation Products	27.0	31.4	53.2	62.7
Retail Brokerage and Investment Banking	99.8	16.0	170.9	34.4
Other Products	4.1	5.2	8.6	9.7
Reconciling amounts	2.0	0.7	3.8	2.0
	<u>\$150.8</u>	<u>\$ 70.2</u>	<u>\$262.1</u>	<u>\$139.9</u>
Amortization of deferred policy acquisition costs:				
Protection Products	\$ 24.3	\$ 30.1	\$ 55.2	\$ 60.1
Accumulation Products	4.0	7.1	10.3	14.6
	<u>\$ 28.3</u>	<u>\$ 37.2</u>	<u>\$ 65.5</u>	<u>\$ 74.7</u>
Benefits to policyholders:(2)				
Protection Products	\$198.7	\$201.0	\$397.4	\$384.8
Accumulation Products	16.3	19.2	32.4	37.0
Other Products	4.5	5.3	12.9	11.7
Reconciling amounts	2.0	2.7	4.8	3.8
	<u>\$221.5</u>	<u>\$228.2</u>	<u>\$447.5</u>	<u>\$437.3</u>

For the
Three-month
Periods Ended
June 30,

2001

2000

(\$ in millions)

For the
Six-month
Periods Ended
June 30,

2001

2000

(\$ in millions)

Income before income taxes:

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Protection Products	\$26.9	\$53.0	\$47.4	\$194.1
Accumulation Products	12.9	17.2	24.9	62.5
Retail Brokerage and Investment Banking	(2.1)	(0.3)	(4.0)	0.1
Other Products	0.7	4.2	(4.8)	29.3
Reconciling amounts	(6.6)	(2.6)	(11.4)	(2.3)
	<u>\$31.8</u>	<u>\$71.5</u>	<u>\$52.1</u>	<u>\$283.7</u>

	<u>As of June 30, 2001</u>	<u>As of December 31, 2000</u>
(in millions)		
Assets:(5)		
Protection Products(3)	\$16,274.5	\$16,239.1
Accumulation Products	5,240.4	5,593.5
Retail Brokerage and Investment Banking	977.2	9.7
Other Products	1,341.3	1,051.0
Reconciling amounts	2,251.4	1,682.0
	<u>\$26,084.8</u>	<u>\$24,575.3</u>
Deferred policy acquisition costs:		
Protection Products	\$ 1,076.3	\$ 1,064.3
Accumulation Products	146.2	145.4
	<u>\$ 1,222.5</u>	<u>\$ 1,209.7</u>
Policyholders liabilities:		
Protection Products(4)	\$10,327.9	\$10,290.7
Accumulation Products	1,053.4	1,060.0
Other Products	371.7	381.4
Reconciling amounts	17.3	17.7
	<u>\$11,770.3</u>	<u>\$11,749.8</u>
Separate account liabilities:(5)		
Protection Products(6)	\$ 3,889.9	\$ 3,939.5
Accumulation Products	3,716.7	4,072.9
Other Products	453.3	499.5
Reconciling amounts	726.0	770.1
	<u>\$ 8,785.9</u>	<u>\$ 9,282.0</u>

(1) Includes Group Pension Profits, Retail Brokerage and Investment Banking revenues and other income.

(2) Includes benefits to policyholders and interest credited to policyholders' account balances.

(3) Includes assets transferred in the Group Pension Transaction of \$4,824.9 million and \$4,927.7 million as of June 30, 2001 and December 31, 2000, respectively (see Note 5).

(4) Includes policyholder liabilities transferred in the Group Pension Transaction of \$1,430.7 million and \$1,468.1 million as of June 30, 2001 and December 31, 2000, respectively (see Note 5).

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- (5) Each segment includes separate account assets in an amount equal to the corresponding liability reported.
- (6) Includes separate account liabilities transferred in the Group Pension Transaction of \$3,340.6 million and \$3,416.7 million as of June 30, 2001 and December 31, 2000 respectively (see Note 5).

The following is a summary of premiums and universal life and investment-type product policy fees by product for the three and six-month periods ended June 30, 2001 and 2000, respectively.

	Three-month Period Ended June 30,		Six-month Period Ended June 30,	
	2001	2000	2001	2000
	(\$ in millions)		(\$ in millions)	
Premiums:				
Individual life	\$169.7	\$174.3	\$331.4	\$336.7
Group insurance	2.5	1.8	4.7	4.2
Disability income insurance	0.1	0.1	0.2	0.2
Other	1.1	0.3	2.2	0.4
Total	\$173.4	\$176.5	\$338.5	\$341.5
Universal life and investment-type product policy fees:				
Universal life	\$ 17.8	\$ 18.7	\$ 35.7	\$ 34.5
Variable universal life	17.1	16.7	31.2	28.3
Group universal life	2.3	2.8	4.8	5.7
Individual variable annuities	14.2	17.6	29.4	36.3
Individual fixed annuities	0.9	0.1	0.9	1.0
Total	\$ 52.3	\$ 55.9	\$102.0	\$105.8

5. The Group Pension Transaction:

The following sets forth certain summarized financial information relating to the Group Pension Transaction (as defined in the notes to the audited consolidated financial statements included in MONY Group's 2000 Annual Report) as of and for the periods indicated, including information regarding: (i) the general account assets transferred to support the existing deposits in the Group Pension Transaction (such assets hereafter referred to as the AEGON Portfolio), (ii) the transferred separate account assets and liabilities, and (iii) the components of revenue and expense comprising the Group Pension Profits (as defined in the notes to the audited consolidated financial statements included in MONY Group's 2000 Annual Report):

	As of June 30 2001	As of December 31, 2000
	(\$ in millions)	
Assets:		
General Account		
Fixed Maturities: available for sale, at estimated fair value (amortized cost; \$1,377.0 million and \$1,420.8 million, respectively)	\$1,388.5	\$1,419.0
Mortgage loans on real estate	37.6	47.5
Cash and cash equivalents	33.5	18.5
Accrued investment income	24.7	26.0

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Total general account assets	1,484.3	1,511.0
Separate account assets	3,340.6	3,416.7
Total assets	\$4,824.9	\$4,927.7
Liabilities:		
General Account(1)		
Policyholders' account balances	\$1,430.7	\$1,468.1
Other liabilities	19.1	12.4
Total general account liabilities	\$1,449.8	\$1,480.5
Separate account liabilities(2)	\$3,340.6	\$3,416.7
Total Liabilities	\$4,790.4	\$4,897.2

- (1) Includes general account liabilities transferred in connection with the Group Pension Transaction pursuant to indemnity reinsurance of \$73.2 million and \$74.2 million as of June 30, 2001 and December 31, 2000, respectively.
- (2) Includes separate account liabilities transferred in connection with the Group Pension Transaction pursuant to indemnity reinsurance of \$12.9 million and \$14.7 million as of June 30, 2001 and December 31, 2000, respectively.

	For the Three-month Periods Ended June 30,		For the Six-month Periods Ended June 30,	
	2001	2000	2001	2000
	(\$ in millions)			
Revenues:				
Product policy fees	\$ 4.2	\$ 5.9	\$ 9.5	\$12.0
Net investment income	25.8	28.3	53.0	58.4
Net realized gains (losses) on investments	2.0	0.0	3.6	0.6
Total Revenues	32.0	34.2	66.1	71.0
Benefits and Expenses:				
Interest Credited to policyholders account balances	18.6	22.3	37.1	43.2
Other operating costs and expenses	4.1	3.8	9.8	9.6
Total benefits and expenses	22.7	26.1	46.9	52.8
Group Pension Profits	\$ 9.3	\$ 8.1	\$19.2	\$18.2

6. Commitments and Contingencies:

Since late 1995 a number of purported class actions have been commenced in various state and federal courts against the Company 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

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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 the Company 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. The Company has answered the complaints in each action (except for one being voluntarily held in abeyance). The Company has denied any wrongdoing and has 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 and sold on an alleged vanishing premium basis during the period January 1, 1982 to December 31, 1995. On March 27, 1997, MONY 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's motion for summary judgment and dismissed all claims filed in the *Goshen* case against MONY. 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 has subsequently reaffirmed that, for purposes of the remaining New York General Business Law claim, the class is now limited to New York purchasers only, and 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 intends to defend itself 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 MONY.

On November 16, 1999, The MONY Group Inc. and MONY Life Insurance Company were served with a complaint in an action entitled *Calvin Chatlos, M.D., and Alvin H. Clement, On Behalf of Themselves And All Others Similarly Situated v. The MONY Life Insurance Company, The MONY Group Inc., and Neil D. Levin, Superintendent, New York Department of Insurance*, filed in the United States District Court for the Southern District of New York. The action purports to be brought as a class action on behalf of all individuals who had an ownership interest in one or more in-force life insurance policies issued by MONY Life Insurance Company as of November 16, 1998. The complaint alleges that (i) the New York Superintendent of Insurance, Neil D. Levin, violated Section 7312 of the New York Insurance Law by approving the plan of demutualization, which plaintiffs claim was not fair and adequate, primarily because it allegedly failed to provide for sufficient assets for the mechanism established under the plan to preserve reasonable dividend expectations of the closed block, and (ii) MONY violated Section 7312 by failing to develop and submit to the Superintendent a plan of demutualization that was fair and adequate. The plaintiffs seek equitable relief in the form of an order vacating and/or modifying the Superintendent's order approving the plan of demutualization and/or directing the Superintendent to order MONY to increase the assets in the closed block, as well as unspecified monetary damages, attorneys' fees and other relief.

In early January 2000, MONY and the New York Superintendent wrote to the District Court seeking a pre-motion conference preliminary to the filing of a motion to dismiss the federal complaint on jurisdictional, federal abstention and timeliness grounds and for failure to state a claim. Following receipt of those letters, plaintiffs' counsel offered voluntarily to dismiss their complaint, and a stipulation and order to that effect was thereafter filed and approved by the court.

On March 27, 2000, plaintiffs filed a new action in New York State Supreme Court bearing the same caption and naming the same defendants as the previously filed federal action. The state court complaint differs from the complaint previously filed in federal court in two primary respects. First, it no longer asserts a claim for damages against the Superintendent, nor does its prayer for relief seek entry of an order vacating or modifying the Superintendent's decision or requiring the Superintendent to direct MONY to place additional assets into the closed block. Rather, it seeks an accounting and an order from the Court directing MONY to transfer additional assets to the closed block.

Second, the new complaint contains claims for breach of contract and fiduciary duty, as well as new allegations regarding the adequacy of the disclosures contained in the Policyholder Information Booklet distributed to policyholders soliciting their approval of the plan of demutualization (which plaintiffs claim violated both the Insurance Law and MONY's fiduciary duties).

In order to challenge successfully the New York Superintendent's approval of the plan, plaintiffs would have to sustain the burden of showing that such approval was arbitrary and capricious or an abuse of discretion, made in violation of lawful procedures, affected by an error of law or not supported by substantial evidence. In addition, Section 7312 provides that MONY may ask the court to require the challenging party to give security for the reasonable expenses, including attorneys' fees, which may be incurred by MONY or the Superintendent or for which MONY may become liable, to which security MONY shall have recourse in such amount as the court shall determine upon the termination of the action.

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MONY and the Superintendent moved to dismiss the state court complaint in its entirety on a variety of grounds. On April 20, 2001, the New York Supreme Court granted both motions and dismissed all claims against MONY and the Superintendent. On June 29, 2001 plaintiffs filed a Notice of Appeal with the New York Appellate Division, appealing the dismissal of the claims against MONY and the Superintendent. MONY intends to defend itself vigorously against plaintiffs' appeal. There can be no assurance, however, that the present litigation will not have a material adverse effect on MONY.

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 consolidated financial position or results of operations.

At June 30, 2001, the Company had commitments to contribute capital to its equity partnership investments of \$153.1 million and commitments to purchase \$47.2 million of private fixed and floating rate maturity securities with interest rates ranging from 6.55% to 11.50%.

At June 30, 2001, the Company had commitments to issue \$6.1 million of fixed rate agricultural loans with periodic interest rate reset dates. The initial interest rates on such loans range from approximately 7.50% to 7.87%. In addition, the Company had commitments to issue \$119.0 million of fixed rate and floating rate commercial mortgage loans with interest rates ranging from 6.60% to 8.65%.

At June 30, 2001, the Company had commitments to issue \$16.4 million of mezzanine financing with pay rates ranging from 9.00% to 15.50%.

In addition, the Company maintains a bank line of credit facility with domestic banks aggregating \$150.0 million, with a scheduled renewal date in June 2002. In accordance with certain covenants under these lines of credit, the Company is required to maintain a certain statutory tangible net worth and debt to capitalization ratio. The purpose of this facility is to provide additional liquidity for any unanticipated short-term cash needs the Company might experience and also to serve as support for the Company's \$150.0 million commercial paper program which was activated in the third quarter of 2000. The Company has complied with all covenants under these lines of credit, has not borrowed against these lines of credit since their inception, and does not have any commercial paper outstanding as of June 30, 2001.

At June 30, 2001, Advest was contingently liable under bank letter of credit agreements in the amount of \$5.3 million, which are collateralized by securities held in customer accounts.

7. Closed Block:

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

	June 30, 2001	December 31, 2000
	(\$ in millions)	
Assets:		
Fixed Maturities:		
Available for sale, at estimated fair value (amortized cost;\$3,527.8 and \$3,535.8 respectively)	\$3,556.9	\$3,543.1
Mortgage loans on real estate	592.2	566.0
Policy loans	1,167.8	1,183.9
Cash and cash equivalents	277.0	167.8
Premiums receivable	9.5	13.6
Deferred policy acquisition costs	520.7	552.6
Other assets	229.3	224.2
	\$6,353.4	\$6,251.2
Liabilities:		
Future policy benefits	\$6,832.2	\$6,826.8
Policyholders' account balances	292.5	293.3
Other Policyholders' liabilities	181.6	173.5
Other liabilities	111.9	22.2

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Total Closed Block liabilities \$7,418.2 \$7,315.8

	For the Three-month Period Ended June 30,		For the Six month Periods Ended June 30,	
	2001	2000	2001	2000
	(\$ in millions)			
Revenues:				
Premiums	\$138.2	\$147.9	\$267.5	\$283.6
Net investment income	99.1	98.6	199.0	195.0
Net realized gains (losses) on investments	2.1	(4.4)	2.0	(6.9)
Other income	0.5	0.3	1.0	1.1
Total revenues	239.9	242.4	469.5	472.8
Benefits and Expenses:				
Benefits to policyholders	\$152.0	\$160.6	\$293.4	\$302.2
Interest credited to policyholders' account balances	2.1	2.1	4.2	4.3
Amortization of deferred policy acquisition cost	11.0	14.3	32.2	31.9
Dividends to policyholders	59.9	52.1	113.4	108.7
Other operating costs and expenses	2.4	2.5	4.1	4.3
Total benefits and expenses	227.4	231.6	447.3	451.4
Contribution from the Closed Block	\$ 12.5	\$ 10.8	\$ 22.2	\$ 21.4

For the three-month periods ended June 30, 2001 and 2000, there were \$4.7 million and \$4.5 million in charges for other than temporary impairments on fixed maturities in the Closed Block. For the six-month periods ended June 30, 2001 and 2000, there were \$4.7 million and \$7.5 million, respectively, in charges for other than temporary impairments on fixed maturity securities in the Closed Block.

8. Extraordinary Item and Other Items:

(a) On March 8, 2000, the MONY Group issued \$300.0 million principal amount of senior notes (the Senior Notes). The Senior Notes mature on March 15, 2010 and bear interest at 8.35% per annum. The principal amount of the Senior Notes is payable at maturity and interest is payable semi-annually. The net proceeds to the MONY Group from the issuance of the Senior Notes, after deducting underwriting commissions and other expenses (primarily legal and accounting fees), were approximately \$296.6 million. Approximately \$280.0 million of the net proceeds from the issuance of the Senior Notes was used by the MONY Group Company to finance the repurchase, on March 8, 2000, by MONY Life of all of its outstanding \$115.0 million face amount 9.5% coupon surplus notes, and \$116.5 million face amount of its \$125.0 million face amount 11.25% coupon surplus notes (hereafter referred to as the 9.5% Notes and 11.25% Notes, respectively), which were outstanding at December 31, 1999. The balance of the net proceeds from the issuance of the Senior Notes will be used by the MONY Group Company for general corporate purposes.

As a result of the repurchase of the 9.5% Notes and substantially all of the 11.25% Notes, the Company recorded a before tax loss of \$56.5 million (\$36.7 million after tax) during the first quarter of 2000. The loss resulted from the premium paid by MONY Life to the holders of the 9.5% Notes and the 11.25% Notes reflecting the excess of their fair value over their carrying value on the Company's books at the date of the transaction of approximately \$7.0 million and \$49.5 million, respectively. This loss is reported, net of tax, as an extraordinary item on the Company's income statement for the six-month period ended June 30, 2000.

(b) Since January 2000, the Company has had a common share repurchase program in place. During the second quarter of 2001, the Company announced a plan to repurchase an additional 2.5 million common