MONY GROUP INC
Form 10-Q
May 10, 2004
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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 March 31, 2004

¨ **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	**13-3976138**

(State or other jurisdiction of incorporation or organization)	**(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 x No ¨

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

As of May 3, 2004 there were 50,130,740 shares of the Registrant s common stock, par value $0.01, outstanding.

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FORWARD-LOOKING STATEMENTS

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 MONY Group Inc., including the approval of The MONY Group Inc s shareholders and regulatory approvals; a significant delay in the expected completion of, or failure to complete, the contemplated merger; the Company could experience 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; recent improvements in the equities markets may not be sustained into the future; 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 its invested assets if market conditions and/or the issuer s financial condition deteriorates; the Company could have to write off investments in certain securities if the issuers financial condition deteriorates; recent improvements in the equity markets may not be sustained in the future; 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.

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PART I

FINANCIAL INFORMATION

Item 1: ***Financial Statements***

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As of March 31, 2004 and December 31, 2003

	March 31, 2004	December 31, 2003
	($ in millions)	
ASSETS		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 8,705.5	$ 8,464.2
Fixed maturity securities, trading	80.0	78.3
Trading account securities, at fair value	803.1	759.9
Equity securities available-for-sale, at fair value	257.2	257.3
Mortgage loans on real estate	1,896.4	1,782.4
Policy loans	1,175.5	1,180.0
Real estate held for investment	172.4	174.1
Other invested assets	136.1	102.5
	13,226.2	12,798.7
Cash and cash equivalents	388.6	544.3
Accrued investment income	200.4	205.8
Debt service coverage account (Note 1):		
Sub-account OB	67.8	66.9
Sub-account CBB	2.0	7.5
Amounts due from reinsurers	594.7	605.0
Deferred policy acquisition costs	1,315.5	1,325.4
Other assets	858.0	913.3
Separate account assets	4,952.0	4,854.9
Total assets	$ 21,605.2	$ 21,321.8
LIABILITIES AND SHAREHOLDERS EQUITY		
Future policy benefits	$ 8,043.2	$ 8,041.5
Policyholders account balances	3,333.6	3,265.8
Other policyholders liabilities	278.2	267.9

Amounts due to reinsurers	69.7	71.7
Securities sold, not yet purchased, at fair value	626.1	649.3
Accounts payable and other liabilities	1,011.1	918.7
Long term debt	876.4	876.4
Current federal income taxes payable	114.8	129.8
Deferred federal income taxes	202.8	154.6
Separate account liabilities	4,949.0	4,851.9
Total liabilities	19,504.9	19,227.6
Commitments and contingencies (Note 6)		
Common stock, $0.01 par value; 400 million shares authorized; 53.9 and 53.8 million shares issued at March 31, 2004 and December 31, 2003, respectively; 50.1 and 49.5 million shares outstanding at March 31, 2004 and December 31, 2003, respectively	0.5	0.5
Capital in excess of par	1,834.3	1,832.6
Treasury stock at cost: 4.3 million shares at March 31, 2004 and December 31, 2003	(137.7)	(137.7)
Retained earnings	339.2	351.5
Accumulated other comprehensive income	67.6	51.8
Unamortized restricted stock compensation	(3.6)	(4.5)
Total shareholders equity	2,100.3	2,094.2
Total liabilities and shareholders equity	$ 21,605.2	$ 21,321.8

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 Three-month Periods Ended March 31, 2004 and 2003

	2004	2003
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 168.7	$ 166.8
Universal life and investment-type product policy fees	55.2	53.0
Net investment income	169.6	175.1
Net realized gains on investments	7.0	16.6
Retail brokerage and investment banking revenues	113.9	94.6
Other income	52.2	37.0
	566.6	543.1
Benefits and Expenses:		
Benefits to policyholders	200.4	196.3
Interest credited to policyholders account balances	35.4	33.9
Amortization of deferred policy acquisition costs	32.5	31.0
Dividends to policyholders	52.2	61.9
Other operating costs and expenses	263.0	213.2
	583.5	536.3
(Loss)/income from continuing operations before income taxes and cumulative effect of a change in accounting principle	(16.9)	6.8
Income tax (benefit)/expense	(0.6)	1.5
(Loss)/income from continuing operations before cumulative effect of a change in accounting principle	(16.3)	5.3
Discontinued operations: Income from real estate to be disposed of, net of income tax expense of $0.0 million and $1.2 million in 2004 and 2003, respectively.		2.3
Net (loss)/income before cumulative effect of a change in accounting principle	(16.3)	7.6
Cumulative effect on prior periods of the adoption of SOP 03-1, net of income tax expense of $2.2 million (Note 3)	4.0	
Net (loss)/ income	(12.3)	7.6
Other comprehensive income/(loss), net	15.8	(3.9)
Comprehensive income	$ 3.5	$ 3.7
Per Share Data:		
	$ (0.33)	$ 0.11

Basic (loss)/income per share from continuing operations before cumulative effect of a change in accounting principle		
Basic income per share from discontinued operations	$	$ 0.05
Basic net (loss)/income per share before cumulative effect of a change in accounting principle	$ (0.33)	$ 0.16
Basic income per share from cumulative effect of a change in accounting principle	$ 0.08	$
Basic net (loss)/income per share	$ (0.25)	$ 0.16
Diluted (loss)/income per share from continuing operations before cumulative effect of a change in accounting principle	$ (0.33)	$ 0.11
Diluted income per share from discontinued operations	$	$ 0.05
Diluted net (loss)/income per share before cumulative effect of a change in accounting principle	$ (0.33)	$ 0.16
Diluted income per share from cumulative effect of a change in accounting principle	$ 0.08	$
Diluted net (loss)/income per share	$ (0.25)	$ 0.16
Share Data:		
Weighted-average shares used in basic per share calculation	50,121,814	46,961,194
Plus: incremental shares from assumed conversion of dilutive securities		23,816
Weighted-average shares used in diluted per share calculations	50,121,814	46,985,010

See accompanying notes to unaudited interim condensed consolidated financial statements.

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THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT

OF CHANGES IN SHAREHOLDERS EQUITY

For the Three-month Period Ended March 31, 2004

	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, 2003	$ 0.5	$ 1,832.6	$ (137.7)	$ 351.5	$ 51.8	$ (4.5)	$ 2,094.2
Unamortized restricted stock compensation						0.9	0.9
Issuance of stock		1.7					1.7
Comprehensive income:							
Net loss				(12.3)			(12.3)
Other comprehensive income(1)					15.8		15.8
Comprehensive income							3.5
Balance March 31, 2004	$ 0.5	$ 1,834.3	$ (137.7)	$ 339.2	$ 67.6	$ (3.6)	$ 2,100.3

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

See accompanying notes to unaudited interim condensed consolidated financial statements.

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THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Three-month Periods Ended March 31, 2004 and 2003

	2004	2003
	($ in millions)	
Net cash (used in)/provided by operating activities	$ (37.9)	$ 39.8
Cash flows from investing activities:		
Sales, maturities or repayment of:		
Fixed maturity securities	314.8	586.4
Equity securities	10.6	15.0
Mortgage loans on real estate	46.7	133.2
Policy loans, net	4.5	8.5
Other invested assets	21.4	23.2
Disposition of subsidiary, net of cash received	0.4	
Acquisitions of investments:		
Fixed maturity securities	(377.6)	(703.6)
Equity securities	(10.3)	(10.7)
Mortgage loans on real estate	(160.9)	(83.3)
Property, plant and equipment, net	(6.0)	(4.6)
Other, net	(30.3)	(17.0)
Net cash used in investing activities	$ (186.7)	$ (52.9)
Cash flows from financing activities:		
Funding of debt service coverage account	4.7	5.0
Receipts from annuity and universal life policies credited to policyholders account balances(1)	290.2	283.6
Return of policyholder account balances on annuity and universal life policies(1)	(227.7)	(172.8)
Issuance of common stock	1.7	
Net cash provided by financing activities	68.9	115.8
Net (decrease)/increase in cash and cash equivalents	(155.7)	102.7
Cash and cash equivalents, beginning of period	544.3	378.5
Cash and cash equivalents, end of period	$ 388.6	$ 481.2

(1) Includes exchanges to a new FPVA 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 three-month period ended March 31, 2004, Retail distribution accounted for approximately 13.9% and 36.4% of sales of protection and accumulation products, respectively, and 100.0% of retail brokerage and investment banking revenues, while Wholesale distribution accounted for 86.1% and 63.6% 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 products and services to more than one million individuals.

MONY Group s principal operating subsidiaries are MONY Life Insurance Company (MONY Life), formerly known as The Mutual Life Insurance Company of New York, and The Advest Group, Inc. (Advest). MONY Life s principal wholly owned direct and indirect operating subsidiaries include: (i) MONY Life Insurance Company of America (MLOA), an Arizona domiciled life insurance company, (ii) Enterprise Capital Management (Enterprise), a distributor of both proprietary and non-proprietary mutual funds, (iii) U.S. Financial Life Insurance Company (USFL), an Ohio domiciled insurer underwriting specialty risk life insurance business, (iv) MONY Securities Corporation (MSC), a registered securities broker-dealer and investment advisor whose products and services are distributed through MONY Life s career agency sales force, (v) 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, (vi) 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, (vii) 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 (viii) 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. (Boston Advisors), a registered investment advisory firm, provides diversified financial services including securities brokerage, securities trading, investment banking, trust, and asset management services.

On February 27, 2002, MONY Group formed MONY Holdings, LLC (MONY Holdings) as a downstream, wholly owned, holding company of the MONY Group. MONY Group formed MONY Holdings for the purpose of issuing debt tied to the performance of the Closed Block Business within MONY Life (see *Note 9*). On April 30, 2002 MONY Holdings commenced its operations and, through a structured financing tied to the performance of the Closed Block Business within MONY Life, issued $300.0 million of floating rate insured debt securities (the Insured Notes) in a private placement. In addition, MONY Group, pursuant to the terms of

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 Insured Notes 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 the Insured Notes 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. Proposed Merger with AXA Financial, Inc.:

On September 17, 2003, MONY Group entered into an Agreement and Plan of Merger with AXA Financial, Inc. (AXA Financial) and AIMA Acquisition Co. (AIMA), which was subsequently amended on February 22, 2004 (hereafter referred to collectively as the AXA Agreement), pursuant to which MONY Group will become a wholly owned subsidiary of 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 MONY Group, MONY Group s shareholders will receive $31.00 for each share of MONY Group s common stock. The acquisition contemplated by the AXA Agreement is subject to various regulatory approvals and other customary conditions, including the approval of MONY Group s shareholders. A special meeting of MONY Group s shareholders is scheduled for May 18, 2004 to vote on the proposed acquisition of MONY Group by AXA Financial. The transaction is expected to close in the second quarter of 2004. See Note 6 for further information regarding the pending merger transaction.

The MONY Group has announced that it will pay a cash dividend, which was determined in accordance with the AXA Agreement, of approximately $0.33 to $0.35 per share to shareholders who are record holders of the issued and outstanding shares of MONY Group s common stock immediately prior to the effective time of the merger transaction with AXA Financial. However, the exact per share amount of the dividend will be determined by the total number of issued and outstanding shares of MONY Group s common stock immediately prior to the effective time of the merger transaction with AXA Financial. This dividend is expressly conditioned on the closing of the merger transaction with AXA Financial.

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

During December 2003, AXA Financial acquired warrants to purchase MONY Group common shares from certain affiliates of Goldman Sachs & Co. (the Investors) which, in the aggregate, provided for the purchase of 4.4% of MONY Group s fully diluted common shares outstanding as of December 31, 2003 for cash consideration of $23.50 per share. Concurrently therewith, AXA Financial exercised the warrants resulting in the payment to the MONY Group by AXA Financial of the exercise price, which aggregated approximately $52.4 million, and the issuance by MONY Group of 2,228,574 common shares to AXA Financial. In December 1997, MONY Group issued warrants (the Goldman Warrants) to the Investors in connection with an investment in the Mutual Life Insurance Company of New York in contemplation of its demutualization and the initial public offering of the MONY Group, which was fully disclosed in the Company s filing on Form S-1 with the Securities and Exchange Commission (the SEC). Such warrants provided for the purchase of MONY Group common shares equal to 7.0% of MONY Group s fully diluted common shares outstanding as of December 24, 1998. As a result of their sale to AXA Financial, at March 31, 2004 the Investors held warrants for the purchase of 1,303,690 of MONY Group s common shares outstanding as of such date. As of March 31, 2004, there were no warrants other than the Goldman Warrants outstanding for the purchase of MONY Group s common shares.

The MONY Group incurred merger related expenses totaling $21.2 million for the quarter ended March 31, 2004 in connection with its pending merger with AXA Financial. These expenses, consisting primarily of legal and consulting fees, are reflected under the caption other operating costs and expenses in the Company s statement of income and comprehensive income.

3. Summary of Significant Accounting Policies:

Basis of Presentation

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

Stock-Based Compensation

FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), issued in October 1995, prescribes accounting and reporting standards for employee stock-based compensation plans, as well as transactions in which an entity issues equity instruments to acquire goods or services from non-employees. However, for employee stock based compensation plans, SFAS 123 permits companies, at their election, to continue to apply the accounting prescribed by Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), which was issued and effective since 1972. SFAS 123 provides no similar election with respect to transactions in which an entity issues equity instruments to acquire goods or services from non-employees. For companies electing to apply the accounting prescribed by APB 25 to their employee stock-based compensation plans, SFAS 123 requires that pro forma disclosure be made of net income and

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

earnings per share as if the fair value accounting prescribed by SFAS 123 had been adopted. The Company elected to apply the accounting prescribed by APB 25 to option grants to employees and, accordingly, make the aforementioned pro forma disclosures. Based on the definition of an employee prescribed in the Internal Revenue Code, the Company s career financial professionals do not qualify as employees. See Note 10 for further discussion of the Company s stock based compensation plans.

The following table reflects the effect on the net (loss)/income and the net (loss)/income per share of the Company as if the accounting prescribed by SFAS 123 had been applied to the options granted to employees and outstanding as at March 31, 2004 and December 31, 2003:

	For the Three-month Periods Ended March 31,	
	2004	2003
	($ in millions except per share amounts)	
Net (loss)/income, as reported	$ (12.3)	$ 7.6
Less: Total stock-based employee compensation determined under the fair value method of accounting, net of tax	1.6	2.1
Pro forma net (loss)/income	$ (13.9)	$ 5.5
Earnings per share:		
Net (loss)/income per share, as reported		
Basic	$ (0.25)	$ 0.16
Diluted	$ (0.25)	$ 0.16
Net (loss)/income per share, pro forma		
Basic	$ (0.28)	$ 0.12
Diluted	$ (0.28)	$ 0.12

The fair value of each option outstanding is estimated using the Black-Scholes option pricing model with the following assumptions: exercise prices ranging from $20.90 to $44.25, dividend yields ranging from 1.02% to 2.37%, expected volatility ranging from 23.5% to 44.4%, and a range of interest rates from 3.3% to 6.7%. The fair value of options determined using the Black-Scholes pricing model ranged from $6.30 to $18.92 per share at March 31, 2004.

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

New Accounting Pronouncements

On January 1, 2004, the Company adopted the American Institute of Certified Public Accountants 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)

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 estimating any contract benefits recognized in excess of the account balance. The cumulative effect of the adoption of SOP 03-1, totaling $4.0 million or $0.08 per share, is shown as a one time credit to income in the Company s income statement for the three-month period ended March 31, 2004. See Note 5 for the required disclosures pursuant to the adoption of SOP 03-1.

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.

Products comprising the Protection Products segment primarily include a wide range of individual life insurance products, including: whole life, term life, universal life, variable universal life, corporate-owned life, last survivor whole life, last survivor universal life, last survivor variable universal life, group universal life and special-risk products. In addition, included in the Protection Products segment are: (i) the Closed Block assets and liabilities, as well as all the related revenues and expenses relating thereto (*see Note* 7) and (ii) disability income insurance products (which are 100% reinsured and no longer offered by the Company).

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

The Retail Brokerage and Investment Banking segment is comprised of the operations of Advest, MSC and Matrix. Advest provides diversified financial services including securities brokerage, trading, investment

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 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.

Set forth in the table below is certain financial information with respect to the Company s operating segments as of March 31, 2004 and December 31 2003 and for each of the three-month periods ended March 31, 2004 and 2003, 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, 2003. 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, (iii) revenues and expenses of MONY Holdings and (iv) merger related expenses totaling $21.2 million for the three-month period ended March 31, 2004, incurred in connection with MONY Group s pending merger transaction with AXA Financial (see *Note 2)*.

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Segment Summary Financial Information

	For the Three-month Periods Ended March, 31,	
	2004	**2003**
	($ in millions)	
Premiums:		
Protection Products	$ 163.3	$ 160.8
Accumulation Products	3.3	3.7
Other Products	2.1	2.3
	$ 168.7	$ 166.8
Universal life and investment-type product policy fees:		
Protection Products	$ 43.6	$ 42.4
Accumulation Products	11.4	9.9
Other Products	0.2	0.7
	$ 55.2	$ 53.0
Net investment income and net realized gains (losses) on investments(3):		
Protection Products	$ 143.3	$ 153.4
Accumulation Products	23.1	25.0
Retail brokerage and investment banking	0.1	
Other Products	4.2	5.1
Reconciling amounts	5.9	11.7
	$ 176.6	$ 195.2
Other income:		
Protection Products	$ 12.1	$ 3.1
Accumulation Products	30.0	22.1
Retail brokerage and investment banking(1)	116.6	98.6
Other Products	5.7	6.0
Reconciling amounts	1.7	1.8

	$ 166.1	$ 131.6
Amortization of deferred policy acquisition costs:		
Protection Products	$ 28.0	$ 27.6
Accumulation Products	4.5	3.4
	$ 32.5	$ 31.0
Benefits to policyholders and interest credited to policyholders account balances:		
Protection Products	$ 205.0	$ 197.7
Accumulation Products	22.2	25.1
Other Products	7.5	5.8
Reconciling amounts	1.1	1.6
	$ 235.8	$ 230.2
(Loss)/income before income taxes and cumulative effect of a change in accounting principle(3):		
Protection Products	$ 8.7	$ 16.5
Accumulation Products	9.2	3.9
Retail Brokerage and Investment Banking	4.1	(1.1)
Other Products	(5.8)	(2.0)
Reconciling amounts	(33.1)	(7.0)
	$ (16.9)	$ 10.3

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of March 31, 2004	As of December 31, 2003
	($ in millions)	
Assets(2):		
Protection Products	$ 13,121.5	$ 12,980.1
Accumulation Products	5,253.8	5,235.6
Retail Brokerage and Investment Banking	1,208.0	1,115.5
Other Products	904.6	781.8
Reconciling amounts	1,117.3	1,208.8
	$ 21,605.2	$ 21,321.8
Deferred policy acquisition costs:		
Protection Products	$ 1,148.0	$ 1,153.4
Accumulation Products	167.5	172.0
	$ 1,315.5	$ 1,325.4
Future policy benefits:		
Protection Products	$ 7,630.9	$ 7,626.3
Accumulation Products	205.8	207.7
Other Products	191.3	192.3
Reconciling amounts	15.2	15.2