MONY GROUP INC
Form 10-Q
November 15, 2002
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2002

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGEACT 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 ¨

As of November 6, 2002 there were 46,904,739 shares of the Registrant s common stock, par value $0.01, outstanding.

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FORWARD-LOOKING STATEMENTS

The Company s management has made in this report, and from time to time may make in its public filings and press releases as well as in oral presentations and discussions, forward-looking statements concerning the Company s operations, economic performance, prospects and financial condition. Forward-looking statements include, among other things, discussions concerning the Company s potential exposure to market risks, as well as statements expressing management s expectations, beliefs, estimates, forecasts, projections and assumptions. The Company claims the protection afforded by the safe harbor for forward-looking statements as set forth in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. Actual results could differ materially from those anticipated by forward-looking statements due to a number of important factors including the following: we could have further venture capital losses; we could be subjected to further downgrades by rating agencies of our senior debt ratings and the claims-paying and financial-strength ratings of our insurance subsidiaries; we could be required to take a goodwill impairment charge relating to our investment in Advest if the market deteriorates further; we could have to accelerate amortization of deferred policy acquisition costs if market conditions continue to deteriorate; we could have to write off investments in certain securities if the issuers financial condition deteriorates; actual death-claim experience could differ from our mortality assumptions; the Company could have liability from as-yet-unknown litigation and claims; larger settlements or judgments than we anticipate 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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ITEM 1: FINANCIAL STATEMENTS

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS
As of September 30, 2002 and December 31, 2001

	September 30, 2002	December 31, 2001
	($ in millions)	
ASSETS		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 7,854.6	$ 6,976.0
Fixed maturity securities held to maturity, at amortized cost	0.1	0.1
Trading account securities, at fair value	851.0	378.5
Securities pledged as collateral		345.5
Equity securities available-for-sale, at fair value	252.4	299.2
Mortgage loans on real estate	1,741.3	1,809.7
Policy loans	1,206.7	1,229.0
Other invested assets	353.6	347.5
	12,259.7	11,385.5
Cash and cash equivalents	439.2	441.0
Accrued investment income	220.5	192.9
Debt service coverage account (Note 1):		
Sub-account OB	61.5	
Sub-account CBB	10.6	
Amounts due from reinsurers	589.3	595.8
Premiums receivable	6.8	11.1
Deferred policy acquisition costs	1,199.4	1,233.8
Securities borrowed	0.2	601.0
Receivable from brokerage customers, net		452.1
Other assets	894.5	897.8
Assets transferred in Group Pension Transaction (Note 4)	4,641.5	4,650.4
Separate account assets	4,018.6	5,195.2
Total assets	$ 24,341.8	$ 25,656.6
LIABILITIES AND SHAREHOLDERS EQUITY		
Future policy benefits	$ 7,928.9	$ 7,870.0
Policyholders account balances	2,604.0	2,337.1
Other policyholders liabilities	273.2	281.1
Amounts due to reinsurers	79.2	74.6
Securities loaned		392.4
Securities sold, not yet purchased, at fair value	638.5	539.2
Payable to brokerage customers		374.4
Accounts payable and other liablities	1,016.0	867.8
Short term debt	7.0	320.0
Long term debt	883.2	583.1
Current federal income taxes payable	97.9	81.6
Deferred federal income taxes	166.9	93.7
Liabilities transferred in Group Pension Transaction (Note 4)	4,562.8	4,597.1
Separate account liabilities	4,015.8	5,192.3
Total liabilities	22,273.4	23,604.4
Commitments and contingencies (Note 5)		
Common stock, $0.01 par value; 400 million shares authorized; 51.3 and 51.2 million shares issued at September 30, 2002 and December 31, 2001, respectively; 47.0 and 48.1 million shares outstanding at September 30, 2002 and December 31, 2001, respectively	0.5	0.5

Capital in excess of par	1,761.4	1,760.3
Treasury stock at cost: 4.3 million and 3.1 million shares at September 30, 2002, and December 31, 2001 respectively	(134.7)	(104.7)
Retained earnings	332.4	359.3
Accumulated other comprehensive income	109.5	38.1
Unamortized restricted stock compensation	(0.7)	(1.3)
Total shareholders equity	2,068.4	2,052.2
Total liabilities and shareholders equity	$ 24,341.8	$ 25,656.6

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 September 30, 2002 and 2001

	2002	2001
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 160.5	$ 162.0
Universal life and investment-type product policy fees	54.6	50.1
Net investment income	170.1	172.9
Net realized (losses) gains on investments	(41.2)	0.5
Group Pension Profits (Note 4)	6.8	8.0
Retail Brokerage and Investment Banking revenues	109.1	82.1
Other income	24.9	21.8
	484.8	497.4
Benefits and Expenses:		
Benefits to policyholders	195.3	203.9
Interest credited to policyholders account balances	30.0	27.9
Amortization of deferred policy acquisition costs	49.7	32.9
Dividends to policyholders	53.5	54.5
Other operating costs and expenses	202.7	190.0
	531.2	509.2
Loss before income taxes	(46.4)	(11.8)
Income tax benefit	(16.2)	(3.1)
Net loss	(30.2)	(8.7)
Other comprehensive income, net	25.4	53.1
Comprehensive (loss)/income	$ (4.8)	$ 44.4
Net loss per share data:		
Basic loss per share	$ (0.64)	$ (0.18)
Diluted loss per share	$ (0.64)	$ (0.18)
Share Data:		
Weighted-average shares used in basic per share calculation	47,414,250	48,642,274
Plus: incremental shares from assumed conversion of dilutive securities		
Weighted-average shares used in diluted per share calculations	47,414,250	48,642,274

See accompanying notes to unaudited interim condensed consolidated financial statements.

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UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME AND COMPREHENSIVE INCOME
For the Nine-month Periods Ended September 30, 2002 and 2001

	2002	2001
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 494.8	$ 500.5
Universal life and investment-type product policy fees	156.1	152.1
Net investment income	541.7	546.1
Net realized (losses) gains on investments	(69.1)	6.0
Group Pension Profits (Note 4)	22.0	27.2
Retail Brokerage and Investment Banking revenues	297.5	253.0
Other income	92.4	93.8
	1,535.4	1,578.7
Benefits and Expenses:		
Benefits to policyholders	585.5	596.1
Interest credited to policyholders account balances	85.8	83.2
Amortization of deferred policy acquisition costs	120.5	98.4
Dividends to policyholders	171.8	169.7
Other operating costs and expenses	613.2	591.0
	1,576.8	1,538.4
(Loss)/Income before income taxes	(41.4)	40.3
Income tax (benefit)/expense	(14.5)	13.4
Net (loss)/income	(26.9)	26.9
Other comprehensive income, net	71.4	48.9
Comprehensive income	$ 44.5	$ 75.8
Net (loss)/income per share data:		
Basic (loss)/earnings per share	$ (0.56)	$ 0.55
Diluted (loss)/earnings per share	$ (0.56)	$ 0.53
Share Data:		
Weighted-average shares used in basic per share calculation	47,804,872	48,915,523
Plus: incremental shares from assumed conversion of dilutive securities		1,597,601
Weighted-average shares used in diluted per share calculations	47,804,872	50,513,124

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 Nine-month Period Ended September 30, 2002

	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, 2001	$ 0.5	$ 1,760.3	$ (104.7)	$ 359.3	$ 38.1	$ (1.3)	$ 2,052.2
Issuance of Shares		1.1					1.1
Purchases of treasury stock, at cost			(30.0)				(30.0)
Unamortized restricted stock compensation						0.6	0.6
Comprehensive income:							
Net loss				(26.9)			(26.9)
Other comprehensive income(1)					71.4		71.4
Comprehensive income							44.5
Balance, September 30, 2002	$ 0.5	$ 1,761.4	$ (134.7)	$ 332.4	$ 109.5	$ (0.7)	$ 2,068.4

(1) Represents net unrealized gains/(losses) on investments net of: the effect of unrealized gains on deferred policy acquisition costs, reclassification adjustments, 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 Nine-month Periods Ended September 30, 2002 and 2001

	2002	2001
	($ in millions)	
Net cash used in operating activities	$ 33.9	$ (42.2)
Cash flows from investing activities:		
Sales, maturities or repayment of:		
Fixed maturity securities	800.3	1,031.1
Equity securities	11.7	40.0
Policy loans, net	22.3	19.8
Other invested assets	371.8	220.2
Acquisitions of investments:		
Fixed maturity securities	(1,350.6)	(927.8)
Equity securities	(17.4)	(0.8)
Property, plant and equipment, net	(18.0)	(31.8)
Acquisition of subsidiaries, net of cash acquired	(7.1)	(207.6)
Other, net	(318.1)	(387.7)
Net cash used in investing activities	(505.1)	(244.6)
Cash flows from financing activities:		
Repayments of debt		(0.1)
Issuance of debt	300.0	
Debt issuance costs	(7.4)	
Funding of debt service coverage account	(71.2)	
Receipts from annuity and universal life policies credited to policyholders account balances(1)	841.7	889.2
Return of policyholder account balances on annuity and universal life policies(1)	(564.8)	(775.6)
Issuance of common stock	1.1	0.1
Treasury stock repurchases	(30.0)	(77.7)
Net cash provided by financing activities	469.4	35.9
Net decrease in cash and cash equivalents	(1.8)	(250.9)
Cash and cash equivalents, beginning of period	441.0	869.6
Cash and cash equivalents, end of period	$ 439.2	$ 618.7

(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/BOLI), mutual funds, securities brokerage, asset management, business and estate planning, trust, and investment banking products and services. The Company distributes its products and services to individuals and institutional clients through: (i) a career agency sales force operated by its principal life insurance subsidiary and financial advisors and brokers of its securities broker-dealer and mutual fund subsidiaries (Proprietary Distribution) and (ii) complementary distribution channels, which principally consist of independent third-party insurance brokerage general agencies and securities broker-dealers, as well as its corporate marketing team (Complementary Distribution). For the nine-month period ended September 30, 2002, Proprietary Distribution accounted for approximately 14.4%, and 38.8% of sales of Protection and Accumulation products, respectively, and 100.0% of Retail Brokerage and Investment Banking revenues. Complementary Distribution accounted for 85.6% and 61.2% of sales of Protection and Accumulation products, respectively, and 0.0% of Retail Brokerage and Investment Banking revenues for the nine months ended September 30, 2002. The Company principally sells its products in all 50 of the United States, the District of Columbia, the U.S. Virgin Islands, Guam and the Commonwealth of Puerto Rico, and currently insures or provides other financial services to more than one million individuals.

MONY Group s principal operating subsidiaries are MONY Life Insurance Company (MONY Life), formerly known as The Mutual Life Insurance Company of New York, and The Advest Group, Inc. (Advest). MONY Life s principal wholly owned direct and indirect operating subsidiaries include: (i) MONY Life Insurance Company of America (MLOA), an Arizona domiciled life insurance company, (ii) Enterprise Capital Management (Enterprise), a distributor of both proprietary and non-proprietary mutual funds, (iii) U.S. Financial Life Insurance Company (USFL), an Ohio domiciled insurer underwriting specialty risk life insurance business, (iv) MONY Securities Corporation (MSC), a registered securities broker-dealer and investment advisor whose products and services are distributed through MONY Life s career agency sales force, (v) Trusted Securities Advisors Corp. (Trusted Advisors), which distributes investment products and services through a network of accounting professionals, (vi) MONY Brokerage, Inc. (MBI), a licensed insurance broker, which principally provides MONY Life s career agency sales force with access to life, annuity, small group health, and specialty insurance products written by other insurance companies so they can meet the insurance and investment needs of their customers, and (vii) MONY Life Insurance Company of the Americas, Ltd. (MLICA), which provides life insurance, annuity and investment products to nationals of certain Latin American countries.

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 (*see Note 7*) within MONY Life. On April 30, 2002, the date MONY Holdings commenced its operations, MONY Holdings, through a structured financing tied to the performance of the Closed Block Business within MONY Life, issued $300.0 million of floating rate insured debt securities (the Notes) in a private placement and MONY Group, pursuant to the terms of the structured financing, transferred all of its ownership interest in MONY Life to MONY Holdings. Other than activities related to servicing the Notes in accordance with the indenture and its ownership interest in MONY Life, MONY Holdings has no operations and engages in no other activities.

Proceeds to MONY Holdings from the issuance of the 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 Notes and the balance of approximately $232.6 million was distributed to MONY

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NOTES TO UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Group in the form of a dividend. The Notes mature on January 21, 2017. The 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 Notes is payable quarterly at an annual rate equal to three month LIBOR plus 0.55%. Concurrent with the issuance of the Notes, MONY Holdings entered into an interest rate swap contract (the Swap), which locked in a fixed rate of interest on this indebtedness at 6.44%. Including debt issuance costs of $7.4 million and the cost of the insurance policy (75 basis points per annum) (the Insurance Policy), which guarantees the scheduled principal and interest payments on the Notes, the all-in cost of the indebtedness is 7.36%. See Note 8 for further information regarding the Notes.

2. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying condensed consolidated interim 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 impairment writedowns for other invested assets, and (iv) litigation contingencies and restructuring charges. Certain reclassifications have been made in the amounts presented for prior periods to conform those periods to the current presentation.

New Accounting Pronouncements

In October 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets (SFAS 144). SFAS 144 establishes a single accounting model for the impairment or disposal of long-lived assets, including assets to be held and used, assets to be disposed of by other than sale, and assets to be disposed of by sale. The provisions of SFAS 144 are effective for financial statements issued for fiscal years beginning after December 15, 2001 and interim periods within such year, except that assets held for sale as a result of disposal activities initiated prior to the effective date of SFAS 144 may be accounted for in accordance with prior guidance until the end of the fiscal year in which SFAS 144 is effective. SFAS 144 retains many of the same provisions of SFAS 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of (SFAS 121). In addition to retaining the SFAS 121 requirements, SFAS 144 requires companies to present the results of operations of components of the entity that are held for sale as discontinued operations in the consolidated statements of income and comprehensive income. The Company has real estate to be disposed of that meets the definition of a component of the entity. Substantially all the Company s real estate to be disposed of resulted from disposal activities initiated prior to the effective date of SFAS 144. The pre-tax (loss)/income from real estate to be disposed of recorded for the three and nine-month periods ended September 30, 2002 was approximately $(0.9) million and $9.8 million, respectively. The carrying value of the Company s real estate that is classified as To be Disposed Of and as Held for Investment was $158.9 million and $54.2 million, respectively, at September 30, 2002. These amounts are reflected in the balance sheet caption entitled Other Invested Assets .

3. Segment Information:

For management and reporting purposes, the Company s business is organized in three principal reportable operating segments, the Protection Products segment, the Accumulation Products segment, and the Retail

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 include a wide range of insurance products, including: whole life, term life, universal life, variable universal life, corporate-owned life, last survivor whole life, last survivor universal life, last survivor variable universal life, group universal life and special-risk products. In addition, included in the Protection Products segment are: (i) the assets and liabilities transferred pursuant to the Group Pension Transaction, as well as the Group Pension Profits derived therefrom (*see Note 4*) and (ii) the Closed Block assets and liabilities, as well as all the related revenues and expenses relating thereto (*see Note 6*).

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, MSC and Matrix Capital Markets Group, Inc. and Matrix Private Equities, Inc. (collectively referred to as Matrix), wholly owned subsidiaries of the MONY Group. Advest provides diversified financial services including securities brokerage, trading, investment banking, trust, and asset management services. Matrix is a middle market investment bank specializing in merger and acquisition services for a middle market client base. MSC is a securities broker dealer that transacts customer trades primarily in securities and mutual funds. In addition to selling the Company s Protection and Accumulation Products, MSC provides the Company s career agency distribution system access to other non-proprietary investment products (including stocks, bonds, limited partnership interests, tax-exempt unit investment trusts and other investment securities).

The Company s Other Products segment primarily consists of an insurance brokerage operation and 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 4).*

Set forth in the table below is certain financial information with respect to the Company s operating segments as of and for each of the three and nine-month periods ended September 30, 2002 and 2001, 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 Report on Form 10-K for the fiscal year ended December 31, 2001. 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 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 relating to its employee benefit plans, (ii) revenues and expenses of the MONY Group, (iii) revenues and expenses of MONY Holdings in 2002 and (iv) a $1.5 million reversal of certain reserves in 2002 associated with a previously recorded reorganization charge (see Note 10).

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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 September 30,		For the Nine-month Periods Ended September 30,	
	2002	2001	2002	2001
	($ in millions)		($ in millions)	
Premiums:				
Protection Products	$ 155.9	$ 159.1	$ 480.8	$ 490.5
Accumulation Products	2.3	1.0	7.1	3.4
Other Products	2.3	1.9	6.9	6.6
	$ 160.5	$ 162.0	$ 494.8	$ 500.5
Universal life and investment-type product policy fees:				
Protection Products	$ 42.9	$ 38.4	$ 118.4	$ 110.0
Accumulation Products	11.6	12.5	36.3	42.0
Other Products	0.1	(0.8)	1.4	0.1
	$ 54.6	$ 50.1	$ 156.1	$ 152.1
Net investment income and net realized gains (losses) on investments:				
Protection Products	$ 114.7	$ 139.4	$ 395.2	$ 442.9
Accumulation Products	11.1	18.7	45.6	59.2