MONY GROUP INC
Form 10-Q
May 15, 2003

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2003

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

For the transition period from to

Commission file number: 1-14603

THE MONY GROUP INC.

(Exact name of Registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**13-3976138** **(I.R.S. Employer Identification No.)**

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 7, 2003 there were 46,960,185 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: the Company could have further venture capital losses; the Company could be subjected to further downgrades by rating agencies of the Company s senior debt ratings and the claims-paying and financial-strength ratings of the Company s insurance subsidiaries; the Company could be required to take a goodwill impairment charge relating to its investment in The Advest Group, Inc. if the market deteriorates further; the Company could have to accelerate amortization of deferred policy acquisition costs if market conditions continue to deteriorate; the Company could have to write off investments in certain securities if the issuers financial condition deteriorates; actual death-claim experience could differ from the Company s mortality assumptions; the Company could have liability from as-yet-unknown litigation and claims; larger settlements or judgments than the Company anticipates could result in pending cases due to unforeseen developments; and changes in laws, including tax laws, could affect the demand for the Company s products. The Company does not undertake to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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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, 2003 and December 31, 2002

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

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

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, 2003 and 2002

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

Basic net income per share	$ 0.16	$ 0.30
Diluted income per share from continuing operations	$ 0.11	$ 0.29
Diluted income per share from discontinued operations	$ 0.05	$
Diluted net income per share	$ 0.16	$ 0.29
Share Data:		
Weighted-average shares used in basic per share calculation	46,961,194	48,012.310
Plus: incremental shares from assumed conversion of dilutive securities	23,816	1,724,895
Weighted-average shares used in diluted per share calculations	46,985,010	49,737,205

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, 2003

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

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

See accompanying notes to unaudited interim condensed consolidated financial statements.

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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, 2003 and 2002

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

(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, (ii) independent third party insurance brokerage general agencies and securities broker dealers and (iii) its corporate marketing team which markets COLI and BOLI products. For the three-month period ended March 31, 2003, Retail distribution accounted for approximately 18.2%, and 43.2% of sales of protection and accumulation products, respectively, and 100.0% of Retail brokerage and investment banking revenues, while Wholesale distribution accounted for 81.8% and 56.8% of sales of protection and accumulation products, respectively. The Company principally sells its products in all 50 of the United States, the District of Columbia, the U.S. Virgin Islands, Guam and the Commonwealth of Puerto Rico, and currently insures or provides other financial services to more than one million individuals.

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

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

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

2. Summary of Significant Accounting Policies:

Basis of Presentation

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

New Accounting Pronouncements

In December 2002, the FASB issued SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure and amendment of FASB Statement No. 123*. This Statement amends FASB Statement No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation. It also amends the disclosure provisions of that Statement to require prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to stock-based employee compensation. Finally, this Statement amends APB Opinion No. 28, *Interim Financial Reporting*, to require disclosure about those effects in interim financial information. The disclosure provisions for this Statement are effective for interim periods beginning after December 15, 2002. The transition provisions of this statement are effective for financial statements for fiscal years ending after December 31, 2002. As of March 31, 2003, the Company has not adopted the fair value based method of accounting for stock based compensation.

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3. Segment Information:

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

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

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

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

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

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

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THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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

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

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

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

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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,	
	2003	2002
	($ in millions)	
Premiums:		
Protection Products	$ 160.8	$ 160.4
Accumulation Products	3.7	1.5
Other Products	2.3	2.5
	$ 166.8	$ 164.4
Universal life and investment-type product policy fees:		
Protection Products	$ 42.4	$ 35.7
Accumulation Products	9.9	12.1
Other Products	0.7	1.2
	$ 53.0	$ 49.0
Net investment income and net realized gains (losses) on investments(4):		
Protection Products	$ 153.4	$ 151.7
Accumulation Products	25.0	21.0
Other Products	5.1	6.5
Reconciling amounts	11.7	5.8
	$ 195.2	$ 185.0
Other income:		
Protection Products(1)	$ 3.1	$ 13.5
Accumulation Products	22.1	25.8
Retail brokerage and investment banking(2)	98.6	93.1
Other Products	6.0	5.0
Reconciling amounts	1.8	1.6