MONY GROUP INC
Form 10-Q
August 14, 2002
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For quarterly period ended June 30, 2002

¨ **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 ¨

As of August 6, 2002 there were 47,700,528 shares of the Registrant s common stock, par value $0.01, outstanding.

Table of Contents

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

TABLE OF CONTENTS

			Page
PART I	**FINANCIAL INFORMATION**		
	Item 1:	Unaudited interim condensed consolidated balance sheets as of June 30, 2002 and December 31, 2001	3
		Unaudited interim condensed consolidated statements of income and comprehensive income for the three-month periods ended June 30, 2002 and 2001	4
		Unaudited interim condensed consolidated statements of income and comprehensive income for the six-month periods ended June 30, 2002 and 2001	5
		Unaudited interim condensed consolidated statement of changes in shareholders equity for the six-month period ended June 30, 2002	6
		Unaudited interim condensed consolidated statements of cash flows for the six-month periods ended June 30, 2002 and 2001	7
		Notes to unaudited interim condensed consolidated financial statements	8
	Item 2:	Management s Discussion and Analysis of Financial Condition and Results of Operations	21
	Item 3:	Quantitative and Qualitative Disclosures About Market Risk	49
PART II	**OTHER INFORMATION**		
	Item 1:	Legal Proceedings	50
	Item 4:	Submission of Matters to a Vote of Security Holders	50
	Item 6:	Exhibits and Reports on Form 8-K	51
SIGNATURES			52

1

Table of Contents

FORWARD-LOOKING STATEMENTS

The Company s management has made in this report, and from time to time may make in its public filings and press releases as well as in oral presentations and discussions, forward-looking statements concerning the Company s operations, economic performance, prospects and financial condition. Forward-looking statements include, among other things, discussions concerning the Company s potential exposure to market risks, as well as statements expressing management s expectations, beliefs, estimates, forecasts, projections and assumptions, as indicated by words such as believes, estimates, intends, anticipates, expects, projects, should, probably, risk, target, goals, objectives, or similar Company claims the protection afforded by the safe harbor for forward-looking statements as set forth in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. Actual results could differ materially from those anticipated by forward-looking statements due to a number of important factors including those discussed elsewhere in this report and in the Company s other public filings, press releases, oral presentations and discussions and the following: venture capital gains or losses could differ significantly from the Company s assumptions because of further significant changes in equity values; fees from assets under management could be significantly higher or lower than the Company has assumed and there could be significant write-offs of intangible assets if there are further major movements in the equity markets; the value of the Company s overall investment portfolio could fluctuate significantly as a result of major changes in the equity and debt markets generally; actual death claims experience could differ significantly from the Company s mortality assumptions; the Company may not achieve anticipated levels of operational efficiency and cost-saving initiatives; the Company may have as-yet unascertained tax liabilities; sales of variable products, mutual funds and equity securities could differ materially from assumptions because of further unexpected developments in the equity markets and changes in demand for such products; major changes in interest rates could affect the Company s earnings; the Company could have liability from as-yet unknown or unquantified litigation and claims; pending or known litigation or claims could result in larger settlements or judgments than the Company anticipates; the Company may have higher operating expenses than anticipated; changes in law or regulation, including tax laws, could materially affect the demand for the Company s products and the Company s net income after tax; and the Company may not achieve the assumed economic benefits of consolidating acquired enterprises. The Company undertakes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

Table of Contents

ITEM 1: FINANCIAL STATEMENTS

THE MONY GROUP INC. AND SUBSIDIARIES

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

	June 30, 2002	December 31, 2001
	($ in millions)	
ASSETS		
Investments:		
Fixed maturity securities available-for-sale, at fair value	$ 7,406.3	$ 6,976.0
Fixed maturity securities held to maturity, at amortized cost	0.1	0.1
Trading account securities, at market value	793.2	378.5
Securities pledged as collateral		345.5
Equity securities available-for-sale, at fair value	288.1	299.2
Mortgage loans on real estate	1,757.8	1,809.7
Policy loans	1,212.0	1,229.0
Other invested assets	363.4	347.5
	11,820.9	11,385.5
Cash and cash equivalents	494.3	441.0
Accrued investment income	213.7	192.9
Amounts due from reinsurers	567.6	595.8
Premiums receivable	8.7	11.1
Deferred policy acquisition costs	1,237.6	1,233.8
Securities borrowed	0.3	601.0
Receivable from brokerage customers, net		452.1
Other assets	910.1	893.5
Assets transferred in Group Pension Transaction (Note 4)	4,581.9	4,650.4
Separate account assets	4,672.4	5,195.2
Total assets	$ 24,507.5	$ 25,652.3
LIABILITIES AND SHAREHOLDERS EQUITY		
Future policy benefits	$ 7,916.3	$ 7,870.0
Policyholders account balances	2,424.9	2,337.1
Other policyholders liabilities	271.5	281.1
Amounts due to reinsurers	77.0	74.6
Securities loaned		392.4
Securities sold, not yet purchased, at market value	578.1	539.2
Payable to brokerage customers	0.1	374.4
Accounts payable and other liabilities	870.0	867.8
Short term debt	7.0	320.0
Long term debt	879.0	578.8
Current federal income taxes payable	79.0	81.6
Deferred federal income taxes	126.7	104.3
Liabilities transferred in Group Pension Transaction (Note 4)	4,513.2	4,586.5
Separate account liabilities	4,669.5	5,192.3
Total liabilities	$ 22,412.3	$ 23,600.1
Commitments and contingencies (Note 5)		
Common stock, $0.01 par value; 400 million shares authorized; 51.3 and 51.2 million shares issued at June 30, 2002 and December 31, 2001, respectively; 48.0 and 48.1 million shares outstanding at June 30, 2002 and December 31, 2001, respectively	0.5	0.5
Capital in excess of par	1,761.5	1,760.3
Treasury stock at cost: 3.3 million and 3.1 million shares at June 30, 2002, and December 31, 2001, respectively	(112.4)	(104.7)

Retained earnings	362.6	359.3
Accumulated other comprehensive income	84.0	38.1
Unamortized restricted stock compensation	(1.0)	(1.3)
Total shareholders equity	2,095.2	2,052.2
Total liabilities and shareholders equity	$ 24,507.5	$ 25,652.3

See accompanying notes to unaudited interim condensed consolidated financial statements.

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

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

	2002	2001
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 169.9	$ 173.4
Universal life and investment-type product policy fees	52.5	52.3
Net investment income	181.9	189.5
Net realized (losses) gains on investments	(25.5)	3.0
Group Pension Profits (Note 4)	7.5	9.3
Retail Brokerage and Investment Banking revenues	97.6	99.8
Other income	29.3	41.7
	513.2	569.0
Benefits and Expenses:		
Benefits to policyholders	199.5	194.5
Interest credited to policyholders account balances	27.9	27.0
Amortization of deferred policy acquisition costs	38.0	28.3
Dividends to policyholders	56.8	60.6
Other operating costs and expenses	207.1	226.8
	529.3	537.2
(Loss)/Income before income taxes	(16.1)	31.8
Income tax (benefit)/expense	(5.1)	9.5
Net (loss)/income	(11.0)	22.3
Other comprehensive income/(loss), net	62.2	(23.2)
Comprehensive income/(loss)	$ 51.2	$ (0.9)
Net (loss)/income per share data:		
Basic (loss)/earnings per share	$ (0.23)	$ 0.45
Diluted (loss)/earnings per share	$ (0.23)	$ 0.44
Share Data:		
Weighted-average shares used in basic per share calculation	47,994,628	49,363,512
Plus: incremental shares from assumed conversion of dilutive securities		1,549,587
Weighted-average shares used in diluted per share calculations	47,994,628	50,913,099

See accompanying notes to unaudited interim condensed consolidated financial statements.

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

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

	2002	2001
	($ in millions, except share data and per share amounts)	
Revenues:		
Premiums	$ 334.3	$ 338.5
Universal life and investment-type product policy fees	101.5	102.0
Net investment income	371.6	373.2
Net realized (losses) gains on investments	(27.9)	5.5
Group Pension Profits (Note 4)	15.2	19.2
Retail Brokerage and Investment Banking revenues	188.4	170.9
Other income	67.5	72.0
	1,050.6	1,081.3
Benefits and Expenses:		
Benefits to policyholders	390.2	392.2
Interest credited to policyholders account balances	55.8	55.3
Amortization of deferred policy acquisition costs	70.8	65.5
Dividends to policyholders	118.3	115.2
Other operating costs and expenses	410.5	401.0
	1,045.6	1,029.2
Income before income taxes	5.0	52.1
Income tax expense	1.7	16.5
Net income	3.3	35.6
Other comprehensive income/(loss), net	45.9	(4.1)
Comprehensive income	$ 49.2	$ 31.5
Net income per share data:		
Basic earnings per share	$ 0.07	$ 0.73
Diluted earnings per share	$ 0.07	$ 0.70
Share Data:		
Weighted-average shares used in basic per share calculation	48,003,420	49,044,496
Plus: incremental shares from assumed conversion of dilutive securities	1,667,333	1,580,133
Weighted-average shares used in diluted per share calculations	49,670,753	50,624,629

See accompanying notes to unaudited interim condensed consolidated financial statements.

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT
OF CHANGES IN SHAREHOLDERS EQUITY
Six-month Period Ended June 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		1.2					1.2
Purchases of treasury stock, at cost			(7.7)				(7.7)
Unamortized restricted stock compensation						0.3	0.3
Comprehensive income:							
Net income				3.3			3.3
Other comprehensive income(1)					45.9		45.9
Comprehensive income							49.2
Balance, June 30, 2002	$ 0.5	$ 1,761.5	$ (112.4)	$ 362.6	$ 84.0	$ (1.0)	$ 2,095.2

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

See accompanying notes to unaudited interim condensed consolidated financial statements.

6

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
Six-month Periods Ended June 30, 2002 and 2001

	2002	2001
	($ in millions)	
Net cash used in operating activities	$ (23.3)	$ (52.8)
Cash flows from investing activities:		
Sales, maturities or repayment of:		
Fixed maturities securities	550.1	749.0
Equity securities	9.8	34.2
Policy loans, net	17.0	12.1
Other invested assets	149.0	139.8
Acquisitions of investments:		
Fixed maturities securities	(893.8)	(554.9)
Equity securities	(14.0)	10.5
Other invested assets	(114.9)	(240.0)
Property, plant and equipment, net	(9.2)	(12.0)
Acquisition of subsidiaries, net of cash acquired	(7.1)	(208.0)
Net cash used in investing activities	$ (313.1)	$ (69.3)
Cash flows from financing activities:		
Repayments of debt		(0.1)
Issuance of debt	300.0	
Receipts from annuity and universal life policies credited to policyholders account balances(1)	511.2	571.1
Return of policyholder account balances on annuity and universal life policies(1)	(414.9)	(530.5)
Treasury stock repurchases	(7.7)	(27.8)
Issuance of common stock	1.1	0.5
Net cash provided by financing activities	389.7	13.2
Net increase/(decrease) in cash and cash equivalents	53.3	(108.9)
Cash and cash equivalents, beginning of period	441.0	869.6
Cash and cash equivalents, end of period	$ 494.3	$ 760.7

(1) Includes exchanges to a new FPVA product series.

See accompanying notes to unaudited interim condensed consolidated financial statements

7

Table of Contents

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 (Complementary Distribution), which principally consist of independent third-party insurance brokerage general agencies and securities broker-dealers, as well as its corporate marketing team. For the six months ended June 30, 2002, Proprietary Distribution accounted for approximately 30.1%, and 42.2% of sales of protection and accumulation products, respectively, and 100.0% of Retail Brokerage and Investment Banking revenues. Complementary Distribution accounted for 69.9% and 57.8% of sales of Protection and Accumulation products, respectively, and 0.0% of retail brokerage and investment banking revenues for the six months ended June 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 people.

On February 27, 2002, MONY Group formed a downstream holding company, MONY Holdings, LLC (MONY Holdings). On April 30, 2002, MONY Group transferred all of its ownership interests in MONY Life Insurance Company (MONY Life) to MONY Holdings, and 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 in a private placement. The Closed Block business consists of MONY Life s regulatory Closed Block and surplus and related assets within MONY Life that support the business in the regulatory Closed Block.

MONY Group s principal operating subsidiaries are 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 or ECM), 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.

2. Summary of Significant Accounting Policies:

Basis of Presentation

The accompanying 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

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 meet 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. Pre-tax income from real estate held for sale recorded for the three and six-month periods ended June 30, 2002 was approximately $10.7 million and $17.8 million, respectively. The carrying value of the Company s real estate that is classified as To be Disposed Of and that is classified as Held for Investment was $195.9 million and $45.4 million, respectively, at June 30, 2002. These amounts are reflected in the income statement 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 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.

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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*).

Table of Contents

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 June 30,		For the Six-month Periods Ended June 30,	
	2002	2001	2002	2001
	($ in millions)		($ in millions)	
Premiums:				
Protection Products	$ 164.5	$ 169.8	$ 324.9	$ 331.4
Accumulation Products	3.3	1.1	4.8	2.4
Other Products	2.1	2.5	4.6	4.7
	$ 169.9	$ 173.4	$ 334.3	$ 338.5
Universal life and investment-type product policy fees:				
Protection Products	$ 39.8	$ 37.1	$ 75.5	$ 71.6
Accumulation Products	12.6	14.3	24.7	29.5
Other Products	0.1	0.9	1.3	0.9
	$ 52.5	$ 52.3	$ 101.5	$ 102.0
Net investment income and net realized gains (losses) on investments:				
Protection Products	$ 128.8	$ 153.6	$ 280.5	$ 303.5
Accumulation Products	13.5	20.3	34.5	40.5
Retail Brokerage and Investment Banking	3.1	2.1	5.4	2.9
Other Products	4.5	7.3	11.0	13.3
Reconciling amounts	6.5	9.2	12.3	18.5
	$ 156.4	$ 192.5	$ 343.7	$ 378.7
Other income:				
Protection Products(1)	$ 4.9	$ 17.9	$ 18.4	$ 25.6
Accumulation Products	25.8	27.0	51.6	53.2
Retail Brokerage and Investment Banking(1)	98.6	99.8	189.4	170.9
Other Products	3.8	4.1	8.8	8.6
Reconciling amounts	1.3	2.0	2.9	3.8
	$ 134.4	$ 150.8	$ 271.1	$ 262.1
Amortization of deferred policy acquisition costs:				
Protection Products	$ 30.2	$ 24.3	$ 57.1	$ 55.2
Accumulation Products	7.8	4.0	13.7	10.3
	$ 38.0	$ 28.3	$ 70.8	$ 65.5
Benefits to policyholders:(2)				
Protection Products	$ 198.5	$ 198.7	$ 389.9	$ 397.4

Accumulation Products	23.2	16.3	39.8	32.4
Other Products	3.8	4.5	12.1	12.9
Reconciling amounts	1.9	2.0	4.2	4.8
	$ 227.4	$ 221.5	$ 446.0	$ 447.5
Income before income taxes:				
Protection Products	$ (0.2)	$ 26.9	$ 25.3	$ 47.4
Accumulation Products	(6.4)	12.9	2.1	24.9
Retail Brokerage and Investment Banking	0.7	(2.1)	(0.1)	(4.0)
Other Products	(2.6)	0.7	(7.2)	(4.8)
Reconciling amounts	(7.6)	(6.6)	(15.1)	(11.4)
	$ (16.1)	$ 31.8	$ 5.0	$ 52.1

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	As of June 30, 2002	As of December 31, 2001
	($ in millions)	
Assets:(3)		
Protection Products(4)	$ 16,376.9	$ 16,188.1
Accumulation Products	4,709.6	5,077.7
Retail Brokerage and Investment Banking	1,019.2	1,101.3
Other Products	1,258.0	1,116.1
Reconciling amounts	1,143.8	2,169.1
	$ 24,507.5	$ 25,652.3
Deferred policy acquisition costs:		
Protection Products	$ 1,089.8	$ 1,087.0
Accumulation Products	147.8	146.8
	$ 1,237.6	$ 1,233.8
Policyholders liabilities:		
Protection Products(5)	$ 10,403.8	$ 10,366.5
Accumulation Products	1,195.0	1,142.5
Other Products	358.0	361.7
Reconciling amounts	16.0	16.3
	$ 11,972.8	$ 11,887.0
Separate account liabilities:(3)		
Protection Products(6)	$ 3,769.3	$ 3,783.7
Accumulation Products	3,053.7	3,464.3
Other Products	365.9	429.7
Reconciling amounts	639.7	694.1
	$ 7,828.6	$ 8,371.8

(1) Includes Group Pension Profits, Retail Brokerage and Investment Banking revenues and other income.
(2) Includes benefits to policyholders and interest credited to policyholders account balances.
(3) Each segment includes separate account assets in an amount not less than the corresponding liability reported.
(4) Includes assets transferred in the Group Pension Transaction of $4,581.9 million and $4,650.4 million as of June 30, 2002 and December 31, 2001, respectively (see Note 4).
(5) Includes policyholder liabilities transferred in the Group Pension Transaction of $1,354.1 million and $1,407.0 million as of June 30, 2002 and December 31, 2001, respectively (see Note 4).
(6) Includes separate account liabilities transferred in the Group Pension Transaction of $3,159.1 million and $3,179.5 million as of June 30, 2002 and December 31, 2001 respectively (see Note 4).

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following is a summary of premiums and universal life and investment-type product policy fees by product for the three and six-month periods ended June 30, 2002 and 2001.

	Three-month Periods Ended June 30,		Six-month Periods Ended June 30,	
	2002	2001	2002	2001
	($ in millions)		($ in millions)	
Premiums:				
Individual life	$ 164.5	$ 169.7	$ 324.9	$ 331.4
Group insurance	2.1	2.5	4.6	4.7
Disability income insurance	0.1	0.1	0.2	0.2
Other	3.2	1.1	4.6	2.2
Total	$ 169.9	$ 173.4	$ 334.3	$ 338.5
Universal life and investment-type product policy fees:				
Universal life	$ 14.5	$ 17.8	$ 32.8	$ 35.7
Variable universal life	23.2	17.1	38.2	31.2
Group universal life	2.2	2.3	4.6	4.8
Individual variable annuities	12.6	14.2	24.7	29.4
Individual fixed annuities	0.0	0.9	1.2	0.9
Total	$ 52.5	$ 52.3	$ 101.5	$ 102.0

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

4. The Group Pension Transaction:

The following sets forth certain summarized financial information relating to the Group Pension Transaction as of and for the periods indicated, including information regarding: (i) the general account assets transferred to support the existing deposits in the Group Pension Transaction (such assets hereafter referred to as the AEGON Portfolio), (ii) the transferred separate account assets and liabilities, and (iii) the components of revenue and expense comprising the Group Pension Profits.

	As of June 30, 2002	As of December 31, 2001
	($ in millions)	
Assets:		
General Account		
Fixed Maturities: available-for-sale, at estimated fair value (amortized cost; $1,306.0 million and $1,371.2 million, respectively)	$ 1,334.8	$ 1,400.5
Mortgage loans on real estate	24.8	26.5
Cash and cash equivalents	39.1	19.4
Other assets	24.1	24.5
Total general account assets	1,422.8	1,470.9
Separate account assets	3,159.1	3,179.5
Total assets	$ 4,581.9	$ 4,650.4
Liabilities:		
General Account(1)		
Policyholders account balances	$ 1,354.1	$ 1,407.0
Separate account liabilities(2)	$ 3,159.1	$ 3,179.5
Total Liabilities	$ 4,513.2	$ 4,586.5

(1) Includes general account liabilities transferred in connection with the Group Pension Transaction pursuant to indemnity reinsurance of $69.9 million and $71.2 million as of June 30, 2002 and December 31, 2001, respectively.

(2) Includes separate account liabilities transferred in connection with the Group Pension Transaction pursuant to indemnity reinsurance of $11.7 million and $11.8 million as of June 30, 2002 and December 31, 2001, respectively.

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

	For the Three-Month Periods Ended June 30,		For the Six-Month Periods Ended June 30,	
	2002	2001	2002	2001
	($ in millions)			
Revenues:				
Product policy fees	$ 4.6	$ 4.2	$ 9.3	$ 9.5
Net investment income	22.6	25.8	45.8	53.0
Net realized gains (losses) on investments	0.3	2.0	0.1	3.6
Total Revenues	$ 27.5	$ 32.0	$ 55.2	$ 66.1
Benefits and Expenses:				
Interest Credited to policyholders account balances	$ 16.6	$ 18.6	$ 32.4	$ 37.1
Other operating costs and expenses	3.4	4.1	7.6	9.8
Total benefits and expenses	20.0	22.7	40.0	46.9
Group Pension Profits	$ 7.5	$ 9.3	$ 15.2	$ 19.2

5. Commitments and Contingencies:

Since late 1995 a number of purported class actions have been commenced in various state and federal courts against MONY Life and MLOA alleging that it engaged in deceptive sales practices in connection with the sale of whole and universal life insurance policies from the early 1980s through the mid 1990s. Although the claims asserted in each case are not identical, they seek substantially the same relief under essentially the same theories of recovery (i.e., breach of contract, fraud, negligent misrepresentation, negligent supervision and training, breach of fiduciary duty, unjust enrichment and violation of state insurance and/or deceptive business practice laws). Plaintiffs in these cases seek primarily equitable relief (e.g., reformation, specific performance, mandatory injunctive relief prohibiting MONY Life and MLOA from canceling policies for failure to make required premium payments, imposition of a constructive trust and creation of a claims resolution facility to adjudicate any individual issues remaining after resolution of all class-wide issues) as opposed to compensatory damages, although they also seek compensatory damages in unspecified amounts. MONY Life and MLOA have answered the complaints in each action (except for one being voluntarily held in abeyance). MONY Life and MLOA have denied any wrongdoing and have asserted numerous affirmative defenses.

On June 7, 1996, the New York State Supreme Court certified one of those cases, Goshen v. The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America (now known as DeFilippo, et al v. The Mutual Life Insurance Company of New York and MONY Life Insurance Company of America), the first of the class actions filed, as a nationwide class consisting of all persons or entities who have, or at the time of the policy s termination had, an ownership interest in a whole or universal life insurance policy issued by MONY Life and MLOA and sold on an alleged vanishing premium basis during the period January 1, 1982 to December 31, 1995. On March 27, 1997, MONY Life and MLOA filed a motion to dismiss or, alternatively, for summary judgment on all counts of the complaint. All of the other putative class actions have been consolidated and transferred by the Judicial Panel on Multidistrict Litigation to the United States District Court for the District of Massachusetts and/or are being held in abeyance pending the outcome of the Goshen case.

On October 21, 1997, the New York State Supreme Court granted MONY Life s and MLOA s motion for summary judgment and dismissed all claims filed in the Goshen case against MONY Life and MLOA. On December 20, 1999, the New York State Court of Appeals affirmed the dismissal of all but one of the claims in the Goshen case (a claim under New York s General Business Law), which has been remanded back to the

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

New York State Supreme Court for further proceedings consistent with the opinion. The New York State Supreme Court has subsequently reaffirmed that, for purposes of the remaining New York General Business Law claim, the class is now limited to New York purchasers only, and has further held that the New York General Business Law claims of all class members whose claims accrued prior to November 29, 1992 are barred by the applicable statute of limitations**.** On August 9, 2001, the New York State Appellate Division, First Department, affirmed the ruling limiting the class to New York purchasers. On January 15, 2002, the New York State Court of Appeals granted the plaintiffs motion for leave to appeal from that decision. On July 2, 2002, the New York Court of Appeals unanimously affirmed the Appellate Division decision limiting the class action claims under section 349 of the New York General Business Law to purchase of insurance products in New York. MONY Life and MLOA intend to defend themselves vigorously against the plaintiffs sole remaining claim. There can be no assurance, however, that the present litigation relating to sales practices will not have a material adverse effect on them.

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

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

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

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

In order to challenge successfully the New York Superintendent s approval of the plan, plaintiffs would have to sustain the burden of showing that such approval was arbitrary and capricious or an abuse of discretion, made in violation of lawful procedures, affected by an error of law or not supported by substantial evidence. In

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

addition, Section 7312 provides that MONY Life may ask the court to require the challenging party to give security for the reasonable expenses, including attorneys fees, which may be incurred by MONY Life or the New York Superintendent or for which MONY Life may become liable, to which security MONY Life shall have recourse in such amount as the court shall determine upon the termination of the action.

The MONY Group, MONY Life and the New York Superintendent moved to dismiss the state court complaint in its entirety on a variety of grounds. On April 20, 2001, the New York Supreme Court granted both motions and dismissed all claims against the MONY Group, MONY Life and the New York Superintendent. Plaintiffs have appealed the dismissal of the claims against the MONY Group, MONY Life and the New York Superintendent to the New York Appellate Division, First Department. MONY Group and MONY Life intend to defend themselves vigorously against plaintiffs appeal. There can be no assurance, however, that the present litigation will not have a material adverse effect on them.

In addition to the matters discussed above, the Company is involved in various other legal actions and proceedings (some of which involve demands for unspecified damages) in connection with its business. In the opinion of management of the Company, resolution of contingent liabilities, income taxes and other matters will not have a material adverse effect on the Company s financial position or results of operations.

At June 30, 2002, the Company had commitments to fund the following: $5.1 million of equity partnership investments, an $25.7 million private fixed maturities with interest rates ranging from 6.15% to 7.7%, $10.5 million of fixed rate agricultural loans with periodic interest rate reset dates with initial rates ranging from 6.75% to 7.42%, $181.3 million fixed and floating rate commercial mortgages with interest rates ranging from 4.34% to 9.25% and $4.4 million of mezzanine financing with pay rates ranging from 9.0% to 10.0%.

In addition, the Company maintains a syndicated credit facility with domestic banks aggregating $150.0 million. This facility was renewed in July 2002 with a renewal date in July 2003. In accordance with certain covenants of the facility, the Company is required to maintain a certain level of statutory tangible net worth and debt to capitalization ratio. The purpose of this facility is to provide additional liquidity for any unanticipated short-term cash needs the Company might experience and also to serve as support for the Company s $150.0 million commercial paper program which was activated in the third quarter of 2000. The Company has complied with all covenants of the facility, has not borrowed against the line of credit since its inception, and does not have any commercial paper outstanding as of June 30, 2002.

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

6. Closed Block:

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

	June 30, 2002	December 31, 2001
	($ in millions)	
Assets:		
Fixed Maturities:		
Available for sale, at estimated fair value (amortized cost; $3,803.5 and $3,780.9, respectively)	$ 4,028.2	$ 3,868.9
Mortgage loans on real restate	566.2	622.1
Real estate to be disposed of	8.0	
Policy loans	1,120.1	1,144.3
Cash and cash equivalents	72.8	56.2
Amounts due from broker	0.6	6.2
Premiums receivable	9.2	12.5
Deferred policy acquisition costs	471.3	500.6
Other assets	225.4	219.3
Total Closed Block assets	$ 6,501.8	$ 6,430.1
Liabilities:		
Future policy benefits	$ 6,885.5	$ 6,869.8
Policyholders account balances	291.1	292.9
Other policyholders liabilities	157.1	162.2
Other liabilities	223.8	163.9
Total Closed Block liabilities	$ 7,557.5	$ 7,488.8

	For the three-month Periods Ended June 30,		For the six-month Periods Ended June 30,	
	2002	2001	2002	2001
	($ in millions)			
Revenues:				
Premiums	$ 127.6	$ 138.2	$ 248.0	$ 267.5
Net investment income	98.5	99.1	196.7	199.0
Net realized (losses)/gains on investments	(1.8)	2.1	(2.9)	2.0
Other income	0.5	0.5	0.9	1.0
Total revenues	224.8	239.9	442.7	469.5
Benefits and Expenses:				
Benefits to policyholders	142.7	152.0	274.8	293.4

Interest credited to policyholders account balances	2.1	2.1	4.2	4.2
Amortization of deferred policy acquisition cost	12.5	11.0	24.2	32.2
Dividends to policyholders	56.0	59.9	116.2	113.4
Other operating costs and expenses	2.0	2.4	3.1	4.1
Total benefits and expenses	215.3	227.4	422.5	447.3
Contribution from the Closed Block	$ 9.5	$ 12.5	$ 20.2	$ 22.2

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

For the three-month periods ended June 30, 2002 and 2001, there were $6.1 million and $4.7 million in charges for other than temporary impairments on fixed maturities in the Closed Block.

7. Goodwill and Other Intangible Assets Adoption of Statement 142

In accordance with the adoption of SFAS No 142, Goodwill and Other Intangible Assets (SFAS 142), goodwill is periodically tested for impairment and is no longer amortized. The following tables set forth the impact of the adoption of SFAS 142 on the Company s net income and earnings per share amounts for the three and six month periods ended June 30, 2002 and 2001. In addition, as required by SFAS 142, management tested the carrying value of the Company s goodwill and determined that no impairment exists.

	Three-month Periods Ended June 30,		Six-month Periods Ended June 30,	
	2002	2001	2002	2001
	($ in millions except earnings per share amounts)			
Reported net (loss) income	$ (11.0)	$ 22.3	$ 3.3	$ 35.6
Add back: Goodwill amortization		2.3		3.8
Adjusted net (loss) income	$ (11.0)	$ 24.6	$ 3.3	$ 39.4
Basic earnings per share:				
Reported net (loss) income	$ (0.23)	$ 0.45	$ 0.07	$ 0.73
Goodwill amortization		0.05		0.08
Adjusted net (loss) income	$ (0.23)	$ 0.50	$ 0.07	$ 0.81
Diluted earnings per share:				
Reported net (loss) income	$ (0.23)	$ 0.44	$ 0.07	$ 0.70
Goodwill amortization		0.05		0.08
Adjusted net (loss) income	$ (0.23)	$ 0.49	$ 0.07	$ 0.78

The goodwill amortization recorded for the three-month and six-month periods ended June 30, 2001 was included in the Protection Products and Retail Brokerage and Investment Banking segments as follows:

	Three-month Period Ended June 30, 2001	Six-month Period Ended June 30, 2001
Protection Products	$ 0.4	$ 0.5
Retail Brokerage and Investment Banking	1.9	3.3
Total	$ 2.3	$ 3.8

8. Reorganization and Other Charges:

During 2001, the Company recorded Reorganization Charges aggregating approximately $56.8 million on a pre-tax basis taken in connection with the Company s previously announced reorganization of certain of its businesses. Of the reorganization charges recorded, approximately $10.3 million of severance benefits relating to headcount reductions in the Company s home office and career agency system and $8.7 million of other reorganization charges met the definition of restructuring charges as defined by Emerging Issues Task Force Consensus 94-3, Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring) . The liability relating to the aforementioned

Table of Contents

THE MONY GROUP INC. AND SUBSIDIARIES

NOTES TO UNAUDITED INTERIM CONDENSED
CONSOLIDATED FINANCIAL STATEMENTS (Continued)

restructuring charges at December 31, 2001 was $12.6 million and was reduced by actual payments and revisions to estimates made during the first six months of 2002 as follows:

	December 31, 2001	Payments/ Revisions to Estimates	June 30, 2002
Restructuring Charges Liability:			
Severance benefits	$ 8.1	$ (3.9)	$ 4.2
Other reorganization charges	4.5	(0.8)	3.7
Total Restructuring Charges Liability	$ 12.6	$ (4.7)	$ 7.9

9. Subsequent Event

In July 2002, pursuant to a jury verdict, the Company was found liable and ordered to pay a former joint venture partner some of the proceeds distributed to the Company from the disposition of a real estate asset in 1999, which was formerly owned by the joint venture. As a result of the verdict, which the Company is appealing, the Company recorded a charge aggregating $14.1 million pre-tax in its results of operations for the quarter ended June 30, 2002. Approximately, $7.2 million of this charge is reflected in the income statement caption entitled net realized losses because it represents the return of proceeds originally included in the determination of the realized gain recognized by the Company in 1999 upon receipt of the aforementioned distribution. The balance of the charge, which is reflected in the income statement caption entitled other operating costs and expenses represents management s best estimate of the interest that the court will require the Company to pay its former joint venture partner, as well as legal costs.

Table of Contents

ITEM 2:

**MANAGEMENT S DISCUSSION AND ANALYSIS OF
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion addresses the financial condition and results of operations of the Company for the periods indicated. The discussion and analysis of the Company s financial condition and results of operations presented below should be read in conjunction with the Company s unaudited interim condensed consolidated financial statements and related notes to the unaudited interim condensed consolidated financial statements included elsewhere herein, as well as MONY Group s 2001 Annual Report on Form 10-K for fiscal year ended December 31, 2001 (MONY Group s 2001 Annual Report) not included herein.

General Discussion of Factors Affecting Profitability

The Company derives its revenues principally from: (i) premiums on individual life insurance, (ii) insurance, administrative and surrender charges on universal life and annuity products, (iii) asset management fees from separate account and mutual fund products, (iv) net investment income on general account assets, (v) the Group Pension Profits, (See Note 4 to the unaudited interim condensed consolidated financial statements) and (vi) commissions from securities and insurance brokerage operations. The Company s expenses consist of insurance benefits provided to policyholders, interest credited on policyholders account balances, dividends to policyholders, the cost of selling and servicing the various products sold by the Company, including commissions to sales representatives (net of any deferrals) and general business expenses.

The Company s profitability depends in large part upon (i) the amount of its assets and its third-party assets under management, (ii) the adequacy of its product pricing (which is primarily a function of competitive conditions, management s ability to assess and manage trends in mortality and morbidity experience as compared to the level of benefit payments, and its ability to maintain expenses within pricing assumptions), (iii) the maintenance of the Company s target spreads between credited rates on policyholders account balances and the rate of earnings on its investments, (iv) the persistency of its policies (which affects the ability of the Company to recover the costs incurred to sell a policy), (v) its ability to manage the market and credit risks associated with its invested assets, (vi) returns on venture capital investments (vii) the investment performance of its mutual fund and variable product offerings, and (viii) commission and fee revenue from securities brokerage and investment banking operations. External factors, such as economic conditions, as well as legislation and regulation of the insurance marketplace and products, may also affect the Company s profitability.

Potential Forward Looking Risks Affecting Profitability

The results of operations of the Company s businesses, particularly the businesses comprising its Accumulation Products segment and the businesses comprising its Retail Brokerage and Investment Banking segment, are highly sensitive to general economic and securities market conditions. Such conditions include the level of valuations in the securities markets, the level of interest rates, consumer sentiment, the levels of retail securities trading volume, and the consensus economic and securities market outlook. Set forth below is a discussion of certain matters that may adversely impact the Company s results of operations in the event of a continuation or worsening of current economic and securities market conditions, as well as other matters that could adversely affect its future earnings:

Matters Potentially Affecting the Accumulation Products Segment

- In accordance with GAAP, the amortization of deferred policy acquisition costs (DPAC) requires management to make assumptions about future investment yields, contract charges, interest crediting rates, mortality rates, lapse rates, expense levels, and policy duration. In addition, GAAP requires that management must periodically evaluate the recoverability of DPAC based on historical and projected future results. For

many of the Company s products, amortization of DPAC varies with profit margins of the policies and contracts supporting the DPAC balances. Changes in management s assumptions or actual results that differ significantly from management s estimates may materially affect the Company s financial position and operating results.

At June 30, 2002 the carrying value of the Company s DPAC was approximately $1.2 billion. Approximately $160.0 million of this amount pertains to the Company s annuity in force business. The profit margins from this business, over which the related DPAC is amortized, are particularly sensitive to changes in assumed investment returns and asset valuations. With respect to the investment return assumptions which underlie the amortization of its annuity DPAC, the accounting policy followed by the Company, which is referred to as the reversion to the mean method, assumes a rate of return over the life of the business of 8.0%. In applying this method, the future assumed rate of return assumption is adjusted based on actual returns to date so that the ultimate rate of return over the expected life of the business is always 8.0%. However, the Company s policy is to never exceed a future rate of return assumption in excess of 10%. Accordingly, the ultimate rate of return over the life of such business may be less than 8.0%. In addition, in applying the reversion to the mean method the Company s policy does not provide for a floor on the assumed future rate of return. Accordingly, actual returns to date sufficiently in excess of the ultimate assumed rate of return of 8% may result in a future rate of return assumption that could actually be negative. Management believes that its policies for applying the reversion to the mean method are conservative.

While management s current best estimate for the ultimate return underlying this business is 8%, there can be no assurance that a continuing deterioration in the securities markets (whether with regard to investment returns or asset valuations) will not require management to revise its estimate of the ultimate profitability of this business. This could result in accelerated amortization and, or, a charge to earnings to reflect the amount of DPAC which may not be recoverable from the future profits from this business. Such an event, should it occur, may materially affect the Company s financial position and operating results.

- As with DPAC, the provision of loss reserves on annuity products requires management to make assumptions regarding the ultimate profitability of such business. The factors affecting the ultimate profitability that will be realized from such business include the yield from investments supporting the business, mortality rates, lapse rates, expense levels, policyholder dividends and policy duration. To the extent that circumstances lead management to conclude that the business will not ultimately be profitable, the Company would be required to record its best estimate of such loss in the period such determination was made. While management believes such a scenario is unlikely, a sustained deterioration in the securities markets will significantly impact such determination and, as a result, there can be no assurance that the Company s business will be profitable and such a determination may materially affect the Company s financial position and operating results.
- Certain of the Company s annuity products contain contractual provisions that guaranty minimum death benefits. These provisions require the Company to pay the estate of a contract holder any excess of the guaranteed minimum benefit over the cash value of the annuity contract. It s the Company s practice to establish reserves for the payment of any guaranteed minimum death benefit claims based on management s mortality expectations and the expected cash values of annuity contracts. At June 30, 2002, the Company carried a reserve of approximately $5.0 million with respect to such claims. While management believes that this reserve is sufficient, there can be no assurance that additional reserves for such claims may not need to be established, particularly if there is a sustained or continuing deterioration in the securities markets. In addition, the American Institute of Certified Public Accountants is deliberating the issuance of guidance concerning the establishment of such reserves. This guidance may require the Company to change the methodology it applies in determining the amount of reserves that should be established for such claims. There can be no assurance that the Company won t have to establish additional reserves upon the adoption of any new guidance issued by the FASB.
- As discussed above under the caption *General Discussion of Factors Affecting Profitability*, revenues from the Company s separate account and mutual fund products depend, in large part, upon the amount of the Company s assets under management. Accordingly, a continuing or sustained deterioration in the securities

markets can adversely affect the Company s revenues and there can be no assurance that such affect won t be material to the Company s results of operations and financial condition.

- Management estimates that the cumulative impact from the matters discussed above on the earnings from the Company s Accumulation Product segment would result in break even results for the balance of 2002 if securities market valuations remain at June 30, 2002 levels. However, if security valuations for the balance of the year remain at the lows experienced in July then management estimates that the Accumulation Products segment will earn $8.5 million less in each of the 3rd and 4th quarters of 2002, as compared to the 2nd quarter of 2002. Approximately $5.0 million of the $8.5 million in each quarter results from the unlocking of assumptions underlying the amortization of DPAC.

Retail Brokerage and Investment Banking Segment

- The carrying value of goodwill in the Company s Retail Brokerage and Investment Banking segment approximates $175.0 million at June 30, 2002. While management, based on its long term outlook for these operations, has concluded that no impairment of such goodwill exists as of June 30, 2002, there can be no assurance that an impairment charge may not be necessary in the future if securities market conditions worsen or there is a prolonged downturn in retail securities trading volumes.

Other Matters (The matters described below are allocated to the Company s operating segments)

- As required under GAAP, the rate of return assumption for 2002 on assets funding the Company s pension liabilities was established at December 31, 2001. This assumption was made by management based on the historic returns on such assets, management s outlook for future returns, and consideration of the long-term outlook for such returns in the marketplace. However, a continuation or worsening of current securities market conditions may require management to lower the assumed rate of return assumption thereby causing an increase in net periodic pension expense. In addition, the deterioration of the securities markets during 2002 has resulted in a decline in the fair market value of the assets funding the Company s pension obligations. If such values do not recover by the end of 2002 this may cause an increase in the Company s net periodic pension expense due to the requirement under GAAP to amortize unrealized gains and losses through net periodic pension cost over a period of time. There can be no assurance that the impact of the aforementioned items, individually or in the aggregate, will not be material to the Company s results of operations.

- The Company has a portfolio of real estate invested assets which are classified as to be disposed of with a carrying value at June 30, 2002 of $195.9 million. A hotel property located in Phoenix Arizona represents approximately $138.7 million, or 70.8%, of this portfolio at June 30, 2002. No other property in the portfolio exceeds 5.0% of the aggregate carrying value of the portfolio at June 30, 2002. While the Company is actively engaged in trying to sell these properties, circumstances may require the reclassification of certain real estate assets as held for investment by year end. In the event that the Company is required to reclassify these assets, particularly the Phoenix hotel property, it may be required to recognize a loss and the amount of the loss may be material to the Company s results of operations.

- The Company makes investments in partnerships specializing in venture capital investing. The Company s investments are in the form of limited partnership interests. As a percentage of its total invested assets, the Company generally limits these investments to no more than 2% to 3%. In accordance with GAAP, certain of the Company s investments in these partnerships are accounted for under the equity method of accounting, while the balance of the portfolio is accounted for under the cost method. Generally, substantially all the Company s partnership investments acquired before May, 1995 are accounted for under the cost method of accounting, while those acquired subsequent thereto are accounted for under the equity method of accounting. Because the underlying partnerships are required under GAAP to mark their investment portfolios to market and report changes in such market value through their earnings, the Company s earnings will reflect its pro rata share of such mark to market adjustment if it accounts for the partnership investment under the equity

Table of Contents

method. Under the cost method there will be no impact on the Company s earnings until: (i) the underlying investments held by the partnership are distributed to the Company, or (ii) the underlying investments held by the partnership are sold by the partnership and the proceeds distributed to the Company, or (iii) an impairment of the Company s investment in the partnership is determined to exist. Historically, venture capital investments owned by the Company have significantly impacted the Company s earnings. The Company s future earnings from its venture capital investments could be adversely affected when market valuations deteriorate and this affect could materially affect the Company results of operations and financial position.

- Presently there is a significant debate within industry, the accounting profession, and among securities analysts and regulators as to the propriety of the current generally accepted accounting practice provided in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (Opinion 25), which provides for the application of the intrinsic value based method of accounting. For certain stock based compensation plans (including certain stock option plans), the guidance provided in Opinion No. 25 does not require companies to recognize compensation expense. Recently, many companies, in response to this debate, have announced their intention to adopt the generally accepted accounting guidance prescribed under FASB No. 123, *Accounting for Stock-Based Compensation*, which provides for the application of the fair value based method of accounting. In accordance with this method, all forms of employee stock-based compensation are measured at fair value at the date of grant and expensed over the requisite service or vesting period. If the Company adopts FASB No. 123, the adoption may result in additional expense recognition and the amount may be material to its results of operations.

Summary of Financial Results

The following tables present the Company s consolidated and segmented results of operations for the three and six-month periods ended June 30, 2002 and 2001. The discussion following these tables discusses the Company s consolidated and segmented results of operations.

	For the Three-month Period Ended June 30, 2002					
	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
	($ in millions)					
Revenues:						
Premiums	$ 164.5	$ 3.3	$	$ 2.1	$	$ 169.9
Universal life and investment-type product policy fees	39.8	12.6		0.1		52.5
Net investment income and realized losses on investments	128.8	13.5	3.1	4.5	6.5	156.4
Group Pension Profits	7.5					7.5
Retail Brokerage and Investment Banking revenues			97.6			97.6
Other income	(2.6)	25.8	1.0	3.8	1.3	29.3
Total revenue	338.0	55.2	101.7	10.5	7.8	513.2
Benefits and Expenses:						
Benefits to policyholders	183.5	12.4		1.7	1.9	199.5
Interest credited to policyholders account balances	15.0	10.8		2.1		27.9
Amortization of deferred policy acquisition costs	30.2	7.8				38.0
Dividends to policyholders	56.2	0.3		0.3		56.8
Other operating costs and expenses	53.3	30.3	101.0	9.0	13.5	207.1
Total expense	338.2	61.6	101.0	13.1	15.4	529.3
(Loss)/Income before income taxes	$ (0.2)	$ (6.4)	$ 0.7	$ (2.6)	$ (7.6)	(16.1)
Income tax (benefit)						(5.1)
Net Loss						$ (11.0)

Table of Contents

	For the Three-month Period Ended June 30, 2001					
	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
	($ in millions)					
Revenues:						
Premiums	$ 169.8	$ 1.1	$	$ 2.5	$	$ 173.4
Universal life and investment-type product policy fees	37.1	14.3		0.9		52.3
Net investment income and realized gains on investments	153.6	20.3	2.1	7.3	9.2	192.5
Group Pension Profits	9.3					9.3
Retail Brokerage and Investment Banking revenues			99.8			99.8
Other income	8.6	27.0		4.1	2.0	41.7
Total revenue	378.4	62.7	101.9	14.8	11.2	569.0
Benefits and Expenses:						
Benefits to policyholders	184.1	6.0		2.4	2.0	194.5
Interest credited to policyholders balances	14.6	10.3		2.1		27.0
Amortization of deferred policy acquisition costs	24.3	4.0				28.3
Dividends to policyholders	59.9	0.3		0.4		60.6
Other operating costs and expenses	68.6	29.2	104.0	9.2	15.8	226.8
Total expense	351.5	49.8	104.0	14.1	17.8	537.2
Income/(Loss) before income taxes	$ 26.9	$ 12.9	$ (2.1)	$ 0.7	$ (6.6)	31.8
Income tax expense						9.5
Net Income						$ 22.3

25

Table of Contents

	For the Six-month Period Ended June 30, 2002					
	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
	($ in millions)					
Revenues:						
Premiums	$ 324.9	$ 4.8	$	$ 4.6		