

MONY GROUP INC  
Form 10-Q  
August 14, 2001

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

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**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 quarterly period ended June 30, 2001

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

For the transition period from to

Commission file number: 1-14603

**THE MONY GROUP INC.**

(Exact name of Registrant as specified in its charter)

**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**13-3976138**  
(I.R.S. Employer  
Identification No.)

**1740 Broadway**  
**New York, New York 10019**  
**(212) 708-2000**  
(Address, including zip code, and telephone number, including area code,  
of Registrant's principal executive offices)

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

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

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

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**FORWARD-LOOKING STATEMENTS**

The Company's management has made in this report, and from time to time may make in its public filings and press releases as well as in oral presentations and discussions, forward-looking statements concerning the Company's operations, economic performance, prospects and financial condition. Forward-looking statements include, among other things, discussions concerning the Company's potential exposure to market risks, as well as statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions, as indicated by words such as believes, estimates, intends, anticipates, expects, projects, should, probably, risk, target, goals, objectives, etc. The Company claims the protection afforded by the safe harbor for forward-looking statements as set forth in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. Actual results could differ materially from those anticipated by forward-looking statements due to a number of important factors including those discussed elsewhere in this report and in the Company's other public filings, press releases, oral presentations and discussions and the following: venture capital gains or losses could differ significantly from our assumptions because of further significant changes in equity values; fees from assets under management could be significantly higher or lower than we have assumed if there are further major movements in the equity markets; the value of our overall investment portfolio could fluctuate significantly as a result of additional major changes in the equity and debt markets generally; actual death claims experience could differ significantly from our mortality assumptions; we may have as-yet unascertained tax liabilities; sales of variable products, mutual funds and equity securities could differ materially from our assumptions because of further unexpected developments in the equity markets and changes in demand for such products; major changes in interest rates could affect our earnings; we could have liability from as-yet unknown or unquantified litigation and claims; pending or known litigation or claims could result in larger settlements or judgments than we anticipate; the Company may have higher operating expenses than anticipated; changes in law or regulation, including tax laws, could

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

### ITEM 1:

#### THE MONY GROUP INC. AND SUBSIDIARIES

#### UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEETS

As of June 30, 2001 and December 31, 2000

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

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

**THE MONY GROUP INC. AND SUBSIDIARIES**

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

	2001	2000
	<hr/>	<hr/>
	(\$ in millions, except share data and per share amounts)	
<b>Revenues:</b>		
Premiums	\$ 173.4	\$ 176.5
Universal life and investment-type product policy fees	52.3	55.9
Net investment income	189.5	229.5
Net realized gains (losses) on investments	3.0	(8.9)
Group Pension Profits (Note 5)	9.3	8.1
Retail Brokerage and Investment Banking revenues	99.8	16.0
Other income	41.7	46.1
	<hr/>	<hr/>
	569.0	523.2
	<hr/>	<hr/>
<b>Benefits and Expenses:</b>		
Benefits to policyholders	194.5	202.4
Interest credited to policyholders' account balances	27.0	25.8
Amortization of deferred policy acquisition costs	28.3	37.2
Dividends to policyholders	60.6	52.7
Other operating costs and expenses	226.8	133.6
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	537.2	451.7

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Income before income taxes and extraordinary item	31.8	71.5
Income tax expense	9.5	23.4
Net income	22.3	48.1
Other comprehensive (loss), net	(23.2)	(10.9)
Comprehensive income	\$ (0.9)	\$ 37.2
Per Share Data:		
Net Income:		
Basic earnings per share	\$ 0.45	\$ 1.03
Diluted earnings per share	\$ 0.44	\$ 1.01
Share Data:		
Weighted-average shares used in basic per share calculation	49,363,512	46,528,902
Plus: incremental shares from assumed conversion of dilutive securities	1,549,587	1,020,958
Weighted-average shares used in diluted per share calculations	50,913,099	47,549,860

See accompanying notes to unaudited interim condensed consolidated financial statements.

**THE MONY GROUP INC. AND SUBSIDIARIES**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
AND COMPREHENSIVE INCOME**

**For the Six-month Periods Ended June 30, 2001 and 2000**

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

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

See accompanying notes to Unaudited interim condensed consolidated financial statements.

**THE MONY GROUP INC. AND SUBSIDIARIES**

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

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

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

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

See accompanying notes to unaudited interim condensed consolidated financial statements.

**THE MONY GROUP INC. AND SUBSIDIARIES**

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

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

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

See accompanying notes to unaudited interim condensed consolidated financial statements

### THE MONY GROUP INC. AND SUBSIDIARIES

#### NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

#### 1. Organization and Description of Business:

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

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

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

#### 2. Acquisitions:

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



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

### 3. Summary of Significant Accounting Policies:

#### *Basis of Presentation*

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

#### *New Accounting Pronouncements*

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

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

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

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

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

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

### *New Accounting Policies*

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

#### *Receivables from and payables to brokerage customers*

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

#### *Collateralized financing transactions*

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

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

#### *Securities*

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

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

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

#### *Investment banking*

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

#### *Short term borrowings*

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

#### 4. Segment Information:

For management and reporting purposes, the Company's business is organized in three principal operating segments, the Protection Products segment, the Accumulation Products segment and the Retail Brokerage and Investment Banking segment. Substantially all of the Company's other business activities are combined and reported in the Other Products segment.

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

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

The Retail Brokerage and Investment Banking segment is comprised of the operations of Advest, Matrix and MONY Securities Corporation (MSC). Advest provides diversified financial services including securities brokerage, trading, investment banking, trust and asset management services. Matrix is a middle market investment bank specializing in merger and acquisition services for a middle market client base. MSC is a securities broker dealer that transacts customer trades primarily in securities and mutual funds. In addition to selling the Company's Protection and Accumulation Products, MSC provides the Company's career agency distribution system access to other non-proprietary investment products (including stocks, bonds, limited partnership interests, tax-exempt unit investment trusts and other investment securities). MSC was previously reported in the Other Products segment. The segmented data presented below as of December 31, 2000 and for the three-month and six-month periods ended June 30, 2000 has been restated from that reported in the prior year period to reflect the reclassification of MSC from the Other Products segment to the Retail Brokerage and Investment Banking segment.

The Company's Other Products segments primarily consists of an insurance brokerage operation and certain lines of insurance business no longer written by the Company (the run-off businesses). The insurance brokerage operation provides the Company's career agency sales force with access to variable life, annuity, small group health and specialty insurance products written by other carriers to meet the insurance and investment needs of its customers. The run off businesses primarily consist of group life and health business as well as group pension business that was not included in the Group Pension Transaction (see Note 5).

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

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

#### Segment Summary Financial Information

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

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

For the  
Three-month  
Periods Ended  
June 30,

2001

2000

(\$ in millions)

For the  
Six-month  
Periods Ended  
June 30,

2001

2000

(\$ in millions)

Income before income taxes:

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

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

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

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

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

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

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

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

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

### 5. The Group Pension Transaction:

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

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

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

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

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

**6. Commitments and Contingencies:**

Since late 1995 a number of purported class actions have been commenced in various state and federal courts against the Company alleging that it engaged in deceptive sales practices in connection with the sale of whole and universal life insurance policies from the early 1980s through the mid 1990s. Although the claims asserted in each case are not identical, they seek substantially the same relief under

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essentially the same theories of recovery (i.e., breach of contract, fraud, negligent misrepresentation, negligent supervision and training, breach of fiduciary duty, unjust enrichment and violation of state insurance and/or deceptive business practice laws). Plaintiffs in these cases seek primarily equitable relief (e.g., reformation, specific performance, mandatory injunctive relief prohibiting the Company from canceling policies for failure to make required premium payments, imposition of a constructive trust and creation of a claims resolution facility to adjudicate any individual issues remaining after resolution of all class-wide issues) as opposed to compensatory damages, although they also seek compensatory damages in unspecified amounts. The Company has answered the complaints in each action (except for one being voluntarily held in abeyance). The Company has denied any wrongdoing and has asserted numerous affirmative defenses.

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

On October 21, 1997, the New York State Supreme Court granted MONY's motion for summary judgment and dismissed all claims filed in the *Goshen* case against MONY. On December 20, 1999, the New York State Court of Appeals affirmed the dismissal of all but one of the claims in the *Goshen* case (a claim under New York's General Business Law), which has been remanded back to the New York State Supreme Court for further proceedings consistent with the opinion. The New York State Supreme Court has subsequently reaffirmed that, for purposes of the remaining New York General Business Law claim, the class is now limited to New York purchasers only, and has further held that the New York General Business Law claims of all class members whose claims accrued prior to November 29, 1992 are barred by the applicable statute of limitations. MONY intends to defend itself vigorously against the sole remaining claim. There can be no assurance, however, that the present litigation relating to sales practices will not have a material adverse effect on MONY.

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

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

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

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

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



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

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

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

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

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

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

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

### 7. Closed Block:

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

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

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

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

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

**8. Extraordinary Item and Other Items:**

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

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

(b) Since January 2000, the Company has had a common share repurchase program in place. During the second quarter of 2001, the Company announced a plan to repurchase an additional 2.5 million common shares, bringing the total authorized share repurchase to approximately 4.9 million shares. Under the plan, the Company may repurchase such shares from time to time, as market conditions and other factors warrant. The plan may be discontinued at anytime. As of June 30, 2001, 1,898,689 million shares had been repurchased at an aggregate cost of approximately \$61.0 million.

**9. Subsequent Events:**

In August 2001, MONY Life paid dividends to MONY Group in the amount of \$100 million.

**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 of the Company's results of operations is based on the results of the Closed Block combined on a line by line basis with the results of operations outside the Closed Block, for such respective periods. 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 consolidation financial statements included elsewhere herein and MONY Group's 2000 Annual Report.*

**Results of Operations**

The following tables present the Company's consolidated and segment results of operations for the six-month period ended June 30, 2001 and 2000. The discussion following these tables discusses the Company's consolidated and segment results of operations.

**For the Three-month Period Ended June 30, 2001**

	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
	(\$ in millions)					
<b>Revenues:</b>						
Premiums	\$169.8			\$ 2.5		\$173.4
Universal life and investment-type product policy fees	37.1	\$ 1.1	\$	0.9	\$	52.3
Net investment income and realized gainson 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
	<u>378.4</u>	<u>62.7</u>	<u>101.9</u>	<u>14.8</u>	<u>11.2</u>	<u>569.0</u>
<b>Benefits and Expenses:</b>						
Benefits to policyholders	184.1	6.0		2.4	2.0	194.5
Interest credited to policyholders' account 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
	<u>351.5</u>	<u>49.8</u>	<u>104.0</u>	<u>14.1</u>	<u>17.8</u>	<u>537.2</u>
Income before income taxes	\$ 26.9			\$ 0.7		
		<u>\$12.9</u>	<u>\$ (2.1)</u>		<u>\$ (6.6)</u>	31.8
Income tax expense						9.5
Net Income						<u>\$ 22.3</u>

For the Three-month Period Ended June 30, 2000

	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
<b>Revenues:</b>						
Premiums	\$174.4	\$ 0.3	\$	1.8	\$	\$176.5
Universal life and investment-type product policy fees	38.2	17.6		0.1		55.9
Net investment income and realized gainson investments	176.1	25.6	0.3	12.2	6.4	220.6
Group Pension Profits	8.1					8.1
Retail Brokerage and Investment Banking revenues			16.0			16.0
Other income	8.8	31.4		5.2	0.7	46.1
	<u>405.6</u>	<u>74.9</u>	<u>16.3</u>	<u>19.3</u>	<u>7.1</u>	<u>523.2</u>
<b>Benefits and Expenses:</b>						
Benefits to policyholders	188.7	7.7		3.3	2.7	202.4
Interest credited to policyholders balances	12.3	11.5		2.0		25.8
Amortization of deferred policy acquisition costs	30.1	7.1				37.2
Dividends to policyholders	51.9	0.4		0.4		52.7
Other operating costs and expenses	69.6	31.0	16.6	9.4	7.0	133.6
	<u>352.6</u>	<u>57.7</u>	<u>16.6</u>	<u>15.1</u>	<u>9.7</u>	<u>451.7</u>
Income before income taxes	\$ 53.0	\$17.2	\$ (0.3)	\$ 4.2	\$ (2.6)	71.5
Income tax expense						23.4
Net Income						<u>\$ 48.1</u>

For the Six-month Period Ended June 30, 2001

	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
(\$ in millions)						
<b>Revenues:</b>						
Premiums	\$331.4	\$ 2.4	\$	\$ 4.7		\$ 338.5
Universal life and investment-type product policy fees	71.6	29.5		0.9		102.0
Net investment income and realized gainson investments	303.5	40.5	2.9	13.3	18.5	378.7
Group Pension Profits	19.2					19.2
Retail Brokerage and Investment Banking revenues			170.9			170.9

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Other income	6.4	53.2		8.6	3.8	72.0
	<u>732.1</u>	<u>125.6</u>	<u>173.8</u>	<u>27.5</u>	<u>22.3</u>	<u>1,081.3</u>
<b>Benefits and Expenses:</b>						
Benefits to policyholders	367.3	11.8		8.3	4.8	392.2
Interest credited to policyholders' account balances	30.1	20.6		4.6		55.3
Amortization of deferred policy acquisition costs	55.2	10.3				65.5
Dividends to policyholders	113.9	0.7		0.6		115.2
Other operating costs and expenses	118.2	57.3	177.8	18.8	28.9	401.0
	<u>684.7</u>	<u>100.7</u>	<u>177.8</u>	<u>32.3</u>	<u>33.7</u>	<u>1,029.2</u>
Income before income taxes	\$ 47.4	\$ 24.9	\$ (4.0)	\$ (4.8)	\$(11.4)	52.1
Income tax expense						16.5
Net Income						<u>\$ 35.6</u>

For the Six-month Period Ended June 30, 2000

	Protection	Accumulation	Retail Brokerage and Investment Banking	Other	Reconciling	Consolidated
<b>Revenues:</b>						
Premiums	\$336.9					
		0.4		4.2		341.5
Universal life and investment-type product policy fees	68.5	36.5		0.8		105.8
Net investment income and realized gains on investments	459.7	76.2	0.4	45.8	8.9	591.0
Group Pension Profits	18.2					18.2
Retail Brokerage and Investment Banking revenues			34.4			34.4
Other income	12.9	62.7		9.7	2.0	87.3
	<u>896.2</u>	<u>175.8</u>	<u>34.8</u>	<u>60.5</u>	<u>10.9</u>	<u>1,178.2</u>
<b>Benefits and Expenses:</b>						
Benefits to policyholders	359.1	13.0		7.2	3.8	383.1
Interest credited to policyholders' account balances	25.7	24.0		4.5		54.2
Amortization of deferred policy acquisition costs	60.1	14.6				74.7
Dividends to policyholders	108.5	0.8		0.6		109.9
Other operating costs and expenses	148.7	60.9	34.7	18.9	9.4	272.6
	<u>702.1</u>	<u>113.3</u>	<u>34.7</u>	<u>31.2</u>	<u>13.2</u>	<u>894.5</u>
Income before income taxes and extraordinary loss	\$194.1	\$ 62.5	\$ 0.1	\$29.3	\$ (2.3)	283.7

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Income tax expense	97.7
Income before extraordinary loss	186.0
Extraordinary loss, net of tax	36.7
Net Income	\$ 149.3

### *Three-month Period Ended June 30, 2001 Compared to the Three-month Period Ended June 30, 2000.*

**Premiums** Premium revenue was \$173.4 million for the three-month period ended June 30, 2001, a decrease of \$3.1 million, or 1.8% from \$176.5 million reported for the comparable prior year period. The decrease was primarily the result of lower premiums in the Protection Products segment of \$4.7 million. This decrease was primarily a result of lower renewal premiums of \$9.4 million due to the reduction of the in-force block, offset by an increase in single premiums of \$1.5 million, and an increase of \$3.4 million in premiums from special risk term insurance products offered by U.S. Financial Life Insurance Company ( USFL ). The increase in new premiums written by USFL is primarily attributable to the expansion of its distribution and the improvement of its financial strength ratings since being acquired by the Company. Management believes that the decrease in traditional life insurance premiums is consistent with industry trends, particularly the continuing shift by consumers from traditional protection products to asset accumulation products. See *New Business Information* for a discussion regarding period to period sales and related trends.

**Universal life and investment-type product policy fees** Universal life and investment-type product policy fees were \$52.3 million for three-month period ended June 30, 2001, a decrease of \$3.6 million, or 6.4% from \$55.9 million reported for the comparable prior year period. The decrease was primarily a result of lower fees in the Protection Products segment and Accumulation Products segment of \$1.0 million and \$3.4 million, respectively. The decrease in the Protection Products segment was primarily related to lower fees from universal life ( UL ) and variable universal life ( VUL ) of \$3.7 million, offset by higher fees earned from USFL of \$2.5 million. The decrease in the Accumulation Products segment was primarily due to lower mortality and expense charges of \$1.3 million, and a \$1.9 million decrease in surrender charges in the Company's flexible payment variable annuity ( FPVA ) product. The decrease in mortality and expense charges is due to lower fund values resulting from stock market declines. The decrease in surrender charges reflects the positive effects of the efforts of the Company's conservation unit and other measures designed to improve persistency.

**Net investment income and realized gains on investments** Net investment income was \$189.5 million for the three-month period ended June 30, 2001, a decrease of \$40.0 million, or 17.4%, from \$229.5 million reported for the comparable prior year period. The decrease in net investment income is primarily related to a decrease in income recorded by the Company from its investments in limited partnership interests. Such partnerships provide venture capital funding to companies through the purchase of, or investment in equity securities issued by such companies. For the three-month period ended June 30, 2001, the Company had income of \$6.3 million relating to such partnership investments, a decrease of \$37.7 million from \$44.0 million recorded for the three-month period ended June 30, 2000. As of June 30, 2001, invested assets, excluding trading portfolio assets of \$640.5 million, were \$10,998.5 million (including cumulative unrealized gains of \$32.4 million on fixed maturity securities) compared to \$10,755.5 million (including cumulative unrealized losses of \$222.5 million on fixed maturity securities) for the prior year period. At June 30, 2001, fixed maturity securities, mortgage loans and real estate represented approximately 59.3%, 16.0% and 1.9%, respectively, of total invested assets (excluding trading portfolio assets), as compared to 59.7%, 17.4% and 3.6%, respectively, at June 30, 2000. The annualized yield on the Company's invested assets, including limited partnership interests, before and after realized gains/(losses) on investments was 6.9% and 7.0%, respectively, for the three-month period ended June 30, 2001, as compared to 8.3% and 7.9%, respectively, for the three-month period ended June 30, 2000. See *Investments Results by Asset Category*.

Net realized capital gains were \$3.0 million for the three-month period ended June 30, 2001, an increase of \$11.9 million, from losses of \$8.9 million for the comparable prior year period. The following table sets forth the components of net realized gains (losses) by investment category for the three-month period ended June 30, 2001 compared to the three-month period ended June 30, 2000.

	<b>For the Three-month Period Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	(\$ in millions)	
Real estate	\$(0.9)	\$3.1
Equity securities	(3.7)	(3.1)
Fixed maturities	2.8	(9.8)

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Mortgage loans	3.5	0.7
Other	1.3	0.2
	\$3.0	\$(8.9)

Net investment income and net realized gains on investments are allocated to the Company's segments based on the assets allocated to such segments to support the associated liabilities of each segment and to maintain a targeted regulatory risk-based capital level for each segment.

*Group Pension Profits* Group pension profits were \$9.3 million for the three-month period ending June 30, 2001, an increase of \$1.2 million or 14.8% from \$8.1 million reported in the corresponding prior year period. The increase is primarily due to higher capital gains of \$2.0 million due to bond prepayment and sales gains in 2001, offset with a \$0.8 million decrease in operating income due to the run-off of the Group Pension business.

For summary financial information relating to the Group Pension profits, refer to Note 5 of the Unaudited Interim Condensed Consolidated Financial Statements included elsewhere herein. Management expects that Group Pension Profits will decline in future periods through the termination of the Group Pension Transaction on December 31, 2002 consistent with the continuing run-off of the underlying business.

*Retail Brokerage and Investment Banking Revenues* Retail Brokerage and Investment Banking revenues were \$99.8 million for the three-month period ended June 30, 2001, an increase of \$83.8 million compared to \$16.0 million for the comparable prior year period. The increase is primarily attributable to the acquisition of Advest in the first quarter of 2001. Revenues for Advest for the three-month periods ended June 30, 2001, were \$87.5 million. See *New Business Information*.

*Other income* Other income (which consists primarily of fees earned by the Company's mutual fund management and insurance brokerage operations, as well as, revenues from interest on deposits held under financial reinsurance arrangements, certain other asset management fees, and other miscellaneous revenues) was \$41.7 million for the three-month period ended June 30, 2001, a decrease of \$4.4 million, or 9.5%, from \$46.1 million reported for the comparable prior year period. The decrease was primarily due to lower income of \$4.5 million in the Accumulation Products segment which was primarily attributable to lower fees earned from the Company's mutual fund management operations. The Company's mutual fund management operations reported \$23.2 million in fees from advisory, underwriting and distribution services in the three-month periods ended June 30, 2001 as compared to \$26.6 million in the comparable prior year period, as assets under management decreased to approximately \$7.6 billion at June 30, 2001 from \$8.8 billion at June 30, 2000. In addition, income from supplementary contracts decreased \$1.7 million in the three-month period June 30, 2001 compared to the three-month period ended June 30, 2000 as lower interest rates on new supplementary contracts makes them less attractive.

*Benefits to policyholders* Benefits to policyholders were \$194.5 million for the three-month period ended June 30, 2001, a decrease of \$7.9 million, or 3.9%, from \$202.4 million reported for comparable prior year period. The decrease consisted primarily of lower benefits of approximately \$4.6 million and \$1.8 million in the Company's Protection Products segment and Accumulation Products segment, respectively. The decrease of \$4.6 million in the Protection Products segment was primarily due to lower death benefits of \$3.5 million, and lower surrenders of \$6.1 million, offset by an increase in USFL of \$4.5 million. The decrease of \$1.8 million in the Accumulation Products segment was primarily the result of a decrease in benefits on supplementary contracts of \$3.3 million due to the decline in the reserve, offset by increases in immediate annuity sales which resulted in increased reserve changes of \$1.0 million.

*Interest credited to policyholders' account balances* Interest credited to policyholders' account balances was \$27.0 million for the three-month period ended June 30, 2001, an increase of \$1.2 million, or 4.7%, from \$25.8 million reported for the comparable prior year period. The increase was the result of higher interest crediting of \$2.3 million in the Company's Protection Products segment which was primarily attributable to the Company's Corporate Sponsored VUL ( CSVUL ) business. This was offset by lower interest crediting of \$1.3 million in the Company's Accumulation Products segment primarily due to lower interest crediting on single premium deferred annuities ( SPDA ) of \$0.7 million. During the second quarter of 2001, SPDA account value decreased approximately \$8.0 million to \$274.8 million as compared to \$282.8 million in the prior year period. The decrease in account value in 2001 was primarily due to continuing withdrawals, which management believes partially reflects consumer preferences for separate account products.

*Amortization of deferred policy acquisition costs* Amortization of deferred policy acquisition costs ( DAC ) was \$28.3 million for the three-month period ended June 30, 2001, a decrease of \$8.9 million, or 23.9%, from \$37.2 million reported in the comparable prior year period. The decrease consisted primarily of lower DAC amortization in the Protection Products segment and the Accumulation Products segment of \$5.9 million and \$3.0 million, respectively. The decrease in DAC amortization in the Protection Products segment was due primarily to a decrease of \$3.4 million in the Closed Block due to revised estimates reflecting better than expected profitability and a \$2.7 million decrease in universal life. The decrease in DAC amortization in the Accumulation Products segment primarily resulted from lower amortization of \$3.0 million relating to the Company's FPVA business due to a decline in FPVA inforce business and the exchange activity to the new variable

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annuity products where better persistency is anticipated.

*Dividends to policyholders* Dividends to policyholders were \$60.6 million for the three-month period ended June 30, 2001, an increase of \$7.9 million, or 15.0%, from \$52.7 million reported for the comparable prior year period. The increase, substantially all of which occurred in the Protection Products segment, resulted from an increase in deferred dividend liability established in the Closed Block as of June 30, 2001, as compared to June 30, 2000.

*Other operating costs and expenses* Other operating costs and expenses were \$226.8 million for the three-month period ended June 30, 2001, an increase of \$93.2 million, or 69.8%, from \$133.6 million reported for the comparable prior year period. This increase consisted of \$90.2 million relating to Advest which is reported in the Retail Brokerage and Investment Banking segment and \$5.2 higher interest expense from Senior Notes used to finance the Advest acquisition combined with higher interest on the company's benefit plan expenses of \$6.6 million. Offsetting these increases was \$ 8.1 million lower compensation costs.

### *Six-month Period Ended June 30, 2001 Compared to the Six-month Period Ended June 30, 2000.*

*Premiums* Premium revenue was \$338.5 million for the six-month period ended June 30, 2001, a decrease of \$3.0 million, or 0.9% from \$341.5 million reported for the comparable prior year period ended June 30, 2000. The decrease was primarily attributable to a decrease in the Protection Products segment of \$5.6 million. This decrease was a result of lower renewal premiums of \$16.5 million due to the reduction of the in-force block, offset by an increase of \$8.9 million in premiums from special risk term insurance products offered by USFL. The increase in new premiums written by USFL is primarily attributable to the expansion of its distribution, the improvement of its financial strength ratings since being acquired by the Company. Management believes that the decrease in traditional life insurance premiums is consistent with industry trends, particularly the continuing shift by consumers from traditional protection products to asset accumulation products. See *New Business Information* for a discussion regarding period to period sales and related trends.

*Universal life and investment-type product policy fees* Universal life and investment-type product policy fees were \$102.0 million for six-month period ended June 30, 2001, a decrease of \$3.8 million, or 3.6% from \$105.8 million reported for the comparable prior year period. The decrease was primarily a result of lower fees in the Accumulation Products segment of \$7.0 million, offset by higher fees in the Protection Product segment of \$3.1 million. The decrease in the Accumulation Products segment was primarily due to lower mortality and expense charges of \$2.4 million, and a \$4.1 million decrease in surrender charges in the Company's flexible payment variable annuity ( FPVA ) product. The decrease in FPVA mortality and expense charges is due to lower fund balances resulting from stock market declines. The decrease in surrender charges reflects the positive effects of the efforts of the Company's conservation unit and other measures designed to improve persistency. The increase in the Protection Products segment was primarily attributable to higher fees earned from USFL of \$3.5 million, higher fees earned on corporate sponsored variable universal life universal life ( CSVUL ) of \$1.8 million, offset by lower fees earned on universal life ( UL ) and group universal life ( GUL ) of \$1.5 million and \$0.9 million, respectively.

*Net investment income and realized gains on investment* Net investment income was \$373.2 million for the six-month period ended June 30, 2001, a decrease of \$208.1 million, or 35.8%, from \$581.3 million reported for the comparable prior year period. The decrease in net investment income is primarily related to a decrease in income recorded by the Company from its investments in limited partnership interests. Such partnerships provide venture capital funding to companies through the purchase of or investment in equity securities issued by such companies. For the six-month period ended June 30, 2001, the Company had income of \$1.5 million relating to such partnership investments, a decrease of \$208.3 million from \$209.8 million recorded for the six-month period ended June 30, 2000. As of June 30, 2001, invested assets excluding trading portfolio assets of \$640.5 million were \$10,998.5 million (including cumulative unrealized gains of \$32.4 million on fixed maturity securities) compared to \$10,755.5 million (including cumulative unrealized losses of \$222.5 million on fixed maturity securities) for the prior year period. At June 30, 2001, fixed maturity securities, mortgage loans and real estate represented approximately 59.3%, 16.0% and 1.9%, respectively, of total invested assets (excluding trading portfolio assets), as compared to 59.7%, 17.4% and 3.6%, respectively, at June 30, 2000. The annualized yield on the Company's invested assets, including limited partnership interests, before and after realized gains/(losses) on investments was 6.7% and 6.8%, respectively, for the six-month period ended June 30, 2001, as compared to 10.5% and 10.7%, respectively, for the six-month period ended June 30, 2000. See *Investments Results by Asset Category*.

Net realized capital gains were \$5.5 million for the six-month period ended June 30, 2001, a decrease of \$4.2 million, from gains of \$9.7 million for the comparable prior year period. The following table sets forth the components of net realized gains (losses) by investment category for the six-month period ended June 30, 2001 compared to the six-month period ended June 30, 2000.

	<b>For the Six-month Period Ended June 30,</b>	
	<b>2001</b>	<b>2000</b>
	<b>(\$ in millions)</b>	
Real estate	\$(2.5)	\$ 2.5



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Equity securities	(5.3)	17.0
Fixed maturities	7.5	(12.8)
Mortgage loans	5.2	2.8
Other	0.6	0.2
	\$5.5	\$ 9.7

*Group Pension Profits* Group Pension Profits were \$19.2 million for six-month period ended June 30, 2001, an increase of \$1.0 million or 5.5% from \$18.2 million reported in the corresponding prior year period. The increase is due to higher capital gains of \$3.0 million due to sales and prepayment gains on bonds in 2001, offset with \$2.0 million decrease in operating income due to the run-off of the group pension business. See *Notes to Unaudited interim Condensed Consolidated Financial Statements Group Pension Transaction* .

For summary financial information relating to the Group Pension profits, refer to Note 5 of the Unaudited Interim Condensed Consolidated Financial Statements included herein. Management expects that Group Pension Profits will decline in future periods through the termination of the Group Pension Transaction on December 31, 2002 consistent with the continuing run-off of the underlying business.

*Retail Brokerage and Investment Banking Revenues* Retail Brokerage and Investment Banking revenues were \$170.9 million for the six-month period ended June 30, 2001, an increase of \$136.5 million compared \$34.4 million for the comparable prior year period. The increase is primarily attributable to the acquisitions of Advest and Matrix in the first quarter of 2001. Revenues for Advest for the period January 31, 2001 (date of acquisition) through June 30, 2001, were \$145.9 million. See *New Business Information*.

*Other income* Other income (which consists primarily of fees earned by the Company's mutual fund management and insurance brokerage operations, as well as revenues from interest on deposits held under financial reinsurance arrangements, certain other asset management fees, and other miscellaneous revenues) was \$72.0 million for the six-month period ended June 30, 2001, a decrease of \$15.3 million, or 17.5%, from \$87.3 million reported for the comparable prior year period. The decrease was primarily due to lower income of \$6.5 million in the Protection Products segment and \$9.6 million the Accumulation Products segment, respectively.

The decrease in income recorded in the Protection Products was primarily due to the decrease in cash surrender value of the Company's corporate owned life insurance (COLI) contract as a result of unfavorable market conditions. In the second quarter of 2000, the Company purchased a COLI contract from a third party insurance company to better hedge the changes in the value of the Company's non-qualified employee compensation plans. The decrease in income recorded in the Accumulation Products segment was primarily attributable to lower fees earned from the Company's mutual fund management operations. The Company's mutual fund management operations reported \$47.0 million in fees from advisory, underwriting and distribution services in the six-month period ended June 30, 2001 as compared to \$53.9 million in the comparable prior year period, as assets under management decreased to approximately \$7.6 billion at June 30, 2001 from \$8.8 billion at June 30, 2000. In addition, income from supplementary contracts decreased \$2.0 million in the six-month period June 30, 2001 compared to the six-month period ended June 30, 2000 as interest rates on new supplementary contracts were decreased making them less attractive.

*Benefits to policyholders* Benefits to policyholders were \$392.2 million for the six-month period ended June 30, 2001, an increase of \$9.1 million, or 2.4%, from \$383.1 million reported for comparable prior year period. The increase consisted primarily of higher death benefits of approximately \$8.2 million, and \$1.1 million in the Company's Protection Products segment, and Other Products segment, respectively, offset by \$1.2 million in lower benefits in the Accumulation Products segment. The increase of \$8.2 million in the Protection Products segment was due to higher death benefits of \$5.7 million, and higher reserves of \$10.2 million which is consistent with the growth of the traditional in-force block, offset by lower surrenders of \$17.5 million and an increase in USFL benefits of \$9.2 million. The increase in the Other Products segment was due primarily to a release of a reserve on a long term disability claim. The decrease of \$1.2 million in the Accumulation Products segment was primarily the result of a decrease in supplementary contracts of \$3.8 million due to the decline in the reserves. This was offset by increases in immediate annuity benefit payments and reserve changes of \$1.9 million.

*Interest credited to policyholders' account balances* Interest credited to policyholders' account balances was \$55.3 million for the six-month period ended June 30, 2001, an increase of \$1.1 million, or 2.0%, from \$54.2 million reported for the comparable prior year period. The increase was the result of higher interest crediting of \$4.3 million in the Company's Protection Product segment due primarily to a \$3.5 million increase in CSVUL. This was offset by lower interest crediting of \$3.5 million in the Company's Accumulation Products segment primarily due to lower interest crediting on single premium deferred annuities (SPDA) of \$1.7 million. During the second quarter of 2001, SPDA account value decreased approximately \$20.5 million to \$274.8 million as compared to \$295.3 million in the prior year period. The decrease in account value in 2001 was primarily due to continuing withdrawals, which management believes partially reflects consumer preferences for separate account products.

*Amortization of deferred policy acquisition costs* Amortization of deferred policy acquisition costs (DAC) was \$65.5 million for the six-month period ended June 30, 2000, a decrease of \$9.2 million, or 12.3%, from \$74.7 million reported in the comparable prior year period. The decrease consisted primarily of lower DAC amortization in the Protection Product segment and the Accumulation Products segment of \$5.0

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million and \$4.2 million, respectively. The decrease in DAC in the Protection product segment was due to lower universal life and variable universal life of \$4.0 million and \$1.2 million, respectively due to higher death claims. The decrease in DAC amortization in the Accumulation Products segment primarily resulted from lower amortization in FPVA of \$4.2 million due to an adjustment to future expected profitability due to higher surrender charges received per dollar of surrender benefits and lower anticipated trailer costs.

*Dividends to policyholders* Dividends to policyholders were \$115.2 million for the six-month period ended June 30, 2001, an increase of \$5.3 million, or 4.8%, from \$109.9 million reported for the comparable prior year period. The increase, substantially all of which occurred in the Protection Products segment, resulted from an increase in the deferred dividend liability established in the Closed Block as of June 30, 2001, as compared to June 30, 2000.

*Other operating costs and expenses* Other operating costs and expenses were \$401.0 million for the six-month period ended June 30, 2001, an increase of \$128.4 million, or 47.1%, from \$272.6 million reported for the comparable prior year period. This increase consisted of \$150.0 million for the Retail Brokerage and Investment Banking segment, resulting from the acquisition of Advest and \$10.3 higher interest expense resulting from the financing of the Advest acquisition. Offsetting these increases was \$30.0 million lower compensation.

### New Business Information

The Company distributes its Protection and Accumulation products primarily through its career agency sales force and various complementary distribution channels which include: (i) sales of proprietary retail mutual funds through third party broker-dealers, (ii) sales of Protection Products by the Company's USFL subsidiary through brokerage general agencies, (iii) sales of COLI products by the Company's corporate marketing team, and (iv) sales of a variety of financial products and services through the Company's Trusted Advisors subsidiary. The table below and discussion which follows present certain information with respect to the Company's sales of protection and accumulation products during the three and six-month periods ended June 30, 2001 and 2000 by source of distribution. Management uses this information to measure the Company's sales production from period to period by source of distribution.

The amounts presented with respect to life insurance sales represent annualized statutory-basis premiums. Annualized premiums in the Protection Products segment represent the total premium scheduled to be collected on a policy or contract over a twelve-month period. Pursuant to the terms of certain of the policies and contracts issued by the Company, premiums and deposits may be paid or deposited on a monthly, quarterly, or semi-annual basis. Annualized premium does not apply to single premium paying business. All premiums received on COLI business and single premium paying policies during the periods presented are included. Statutory basis premiums are used in lieu of GAAP basis premiums because, in accordance with statutory accounting practices, revenues from all classes of long-duration contracts are measured on the same basis, whereas GAAP provides different revenue recognition rules for different classes of long-duration contracts as defined by the requirements of SFAS No. 60, *Accounting and Reporting by Insurance Enterprises*, SFAS No. 97, *Accounting and Reporting by Insurance Enterprises for Certain Long Duration Contracts and for Realized Gains and Losses from the Sale of Investments*, and SOP 95-1, *Accounting for Certain Insurance Activities of Mutual Life Insurance Enterprises*. The amounts presented with respect to annuity and mutual fund sales represent deposits made by customers during the periods presented.

The amounts presented with respect to the Retail Brokerage and Investment Banking segment represent fees earned by Advest, Matrix and MSC primarily from securities brokerage, investment banking and asset management services.

### New Business and Revenues By Source

	Three-months Ended June 30,		Six-months Ended June 30,	
	2001	2000	2001	2000
	(\$ in millions)			
<b>New Business By Source of Distribution</b>				
<i>Protection Products</i>				
Career Agency System	\$ 21.2	\$ 23.0	\$ 38.3	\$ 43.2
U.S. Financial Life Insurance Company	12.7	11.2	22.5	20.1
Complementary Distribution(4)	13.9	22.6	36.3	46.2
Total New Annualized Life Insurance Premiums	\$ 47.8	\$ 56.8	\$ 97.1	\$ 109.5
<i>Accumulation Products</i>				
Career Agency System Variable Annuities(1)	\$102.0	\$116.0	\$174.0	\$ 232.0
Career Agency System Mutual Funds	100.0	169.0	216.0	381.0

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Third Party Distribution Mutual Funds	256.0	314.0	505.0	863.0
Total Accumulation Sales	\$458.0	\$599.0	\$895.0	\$1,476.0
<b>Retail Brokerage &amp; Investment Banking Revenues</b>				
Advest(2)	\$ 87.5	\$ 98.4	\$145.9	\$ 173.3
MONY Securities Corp.	12.1	16.0	23.1	34.4
Matrix Capital Markets(3)	0.2	1.4	1.9	2.8
Total Revenue	\$ 99.8	\$115.8	\$170.9	\$ 210.5

- (1) Excludes sales associated with an exchange program offered by the Company wherein contract holders surrendered old FPVA contracts and reinvested the proceeds therefrom in a new enhanced FPVA product offered by the Company.
- (2) Amounts presented for Advest are for the two and five month periods ended June 30, 2001 and June 30, 2000, respectively. Advest was acquired on January 31, 2001 and, accordingly, the Company's consolidated results of operations include only the activity of Advest for the two and five month periods ended June 30, 2001. The comparable prior year activity is pro forma as if Advest was acquired on January 31, 2000 and is presented for comparative purpose only. Such pro forma information is not indicative of future results. Actual results could differ materially.
- (3) Amounts presented for Matrix are for the three and six-month periods ended June 30, 2001 and June 30, 2000. Matrix was acquired effective January 1, 2001 and, accordingly, the Company's consolidated results of operations include only the activity of Matrix for the three and six-month periods ended June 30, 2001. The comparable prior year activity is pro forma as if Matrix was acquired on January 1, 2000 and is presented for comparative purposes only. Such pro forma information is not indicative of future results. Actual results could differ materially.
- (4) Amounts are primarily comprised of COLI cases.

### ***Protection Product Segment***

#### *Protection Products Segment New Business Information for the three-month period ended June 30, 2001 compared to the three-month period ended June 30, 2000*

Total new annualized and single life insurance premiums for the three-month period ended June 30, 2001 were \$47.8 million, compared with \$56.8 million during the comparable prior year period. Recurring premiums increased to \$28.4 million during the quarter compared to \$23.8 million for the three-month period ended June 30, 2000. USFL sales were \$12.7 million for the three-month period ended June 30, 2001, compared to \$11.2 million during the comparable 2000 period due to an increase in universal life sales.

New life insurance premiums (first-year and single premiums) through the career network remained steady for the three-month period ended June 30, 2001 at \$21.2 million compared to \$23.0 million for the comparable prior year period. New life insurance premiums increased 24 percent from the first quarter of 2001 a 14 percent increase from the comparable prior year period. Sales of COLI and BOLI were \$13 million, compared with \$21 million during the second quarter of 2000. The decrease in sales reflects an increase in competition in the marketplace. In addition, corporate sales are large-premium cases, which typically generate revenues that can fluctuate considerably from quarter-to-quarter.

#### *Protection Segment New Business Information for the six-month period ended June 30, 2001 compared to the six-month period ended June 30, 2000.*

Total new annualized and single life insurance premiums for the six-month period ended June 30, 2001 were \$97.1 million, a decrease of \$12.4 million from \$109.5 million for the comparable prior year period. Recurring premiums decreased to \$50.4 million for the six-month period ended June 30, 2001 compared to \$65.0 million during the comparable prior year period. USFL sales were \$22.5 million for the six-month period ended June 30, 2001, compared to \$20.1 million during the comparable 2000 period due to an increase in universal life sales.

New life insurance premiums (first-year and single premiums) were \$38.3 million for the six-month period ended June 30, 2001 compared to \$43.2 million for the comparable prior year period. Sales of variable-based life insurance products, which comprise a significant portion of the Company's life insurance products, are heavily influenced by the performance of the stock market. Sales of COLI and BOLI were \$35.2 million for the six-month period ended June 30, 2001 compared with \$44.6 during the comparable prior year period. The decrease in sales reflects an increase in competition in the marketplace. In addition, corporate sales are large-premium cases, which typically generate revenues that can fluctuate considerably from quarter-to-quarter.

### ***Accumulation Segment***

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The following tables set forth assets under management as of June 30, 2001 and June 30, 2000, and changes in the primary components of assets under management for the three and six-month periods ended June 30, 2001 and 2000:

	<u>As of June 30, 2001</u>	<u>As of June 30, 2000</u>
	(\$ in billions)	
<b>Assets under management:</b>		
Individual variable annuities	\$4.1	\$ 4.7
Individual fixed annuities	0.7	0.8
Proprietary retail mutual funds	4.5	5.1