

MONY GROUP INC
Form 10-K
March 27, 2003
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2002

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

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(212) 708-2000

(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, par value \$0.01 per share
(Title of Class)

New York Stock Exchange
(Name of each exchange on which registered)

Securities Registered pursuant to Section 12(g) of the Act: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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

The aggregate market value of the Registrant's voting and non-voting common equity held by non-affiliates of the Registrant as of June 28, 2002 (the last business day of the Registrant's most recently completed second fiscal quarter) was \$1,627,078,260. All executive officers of the Registrant and all persons filing a Schedule 13D with the Commission have been deemed to be affiliates of the Registrant solely for the purpose of the foregoing calculation.

As of March 17, 2003 there were outstanding 47,005,377 shares of Common Stock, \$0.01 par value per share, of the Registrant.

Documents Incorporated by Reference: Portions of the Registrant's proxy statement for the Registrant's 2002 Annual Meeting of Shareholders were incorporated by reference in Parts II and III of this Form 10K.

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Forward-Looking Statements

The Company's management has made in this report, and from time to time may make in its public filings and press releases as well as in oral presentations and discussions, forward-looking statements concerning the Company's operations, economic performance, prospects and financial condition. Forward-looking statements include, among other things, discussions concerning the Company's potential exposure to market risks, as well as statements expressing management's expectations, beliefs, estimates, forecasts, projections and assumptions. The Company claims the protection afforded by the safe harbor for forward-looking statements as set forth in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are subject to many risks and uncertainties. Actual results could differ materially from those anticipated by forward-looking statements due to a number of important factors including the following: The Company could have further venture capital losses; the Company could be subjected to further downgrades by rating agencies of the Company's senior debt ratings and the claims-paying and financial-strength ratings of its insurance subsidiaries; the Company could be required to take a goodwill impairment charge relating to its investment in Advest if the market deteriorates further; the Company could have to accelerate amortization of deferred policy acquisition costs if market conditions continue to deteriorate; the Company could have to write off investments in certain securities if the issuers' financial condition deteriorates; actual death-claim experience could differ from the Company's mortality assumptions; the Company could have liability from as-yet-unknown litigation and claims; larger settlements or judgments than the Company anticipates could result in pending cases due to unforeseen developments; and changes in laws, including tax laws, could affect the demand for the Company's products. The Company does not undertake to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise.

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The MONY Group Inc. (the *MONY Group*), through its subsidiaries (MONY Group and its subsidiaries are collectively referred to herein as the *Company*), provides life insurance, annuities, corporate-owned and bank-owned life insurance (COLI and BOLI), mutual funds, securities brokerage, securities trading, asset management, business and estate planning, trust, and investment banking products and services. The Company distributes its products and services through Retail and Wholesale distribution channels. The Company's Retail distribution channels are comprised of (i) the career agency sales force operated by its principal life insurance operating subsidiary, and (ii) financial advisors and account executives of its securities broker dealer subsidiaries. The Company's Wholesale distribution channel is comprised of (i) MONY Partners, a division of MONY Life, (ii) independent third party insurance brokerage general agencies and securities broker dealers and (iii) its corporate marketing team which markets COLI and BOLI products. For the year ended December 31, 2002, Retail distribution accounted for approximately 22.8%, and 43.5% of sales of protection and accumulation products, respectively, and 100.0% of Retail Brokerage and Investment Banking revenues, while Wholesale distribution accounted for 77.2% and 56.5% of sales of protection and accumulation products, respectively. The Company principally sells its products in all 50 of the United States, the District of Columbia, the U.S. Virgin Islands, Guam and the Commonwealth of Puerto Rico, and currently insures or provides other financial products and services to more than one million individuals.

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

On February 27, 2002, the MONY Group formed MONY Holdings, LLC (*MONY Holdings*) as a downstream, wholly owned, holding company of the MONY Group. MONY Group formed MONY Holdings for the purpose of issuing debt tied to the performance of the Closed Block Business (see *Notes 1 and 19 to the Consolidated Financial Statements*) within MONY Life. On April 30, 2002, the date MONY Holdings commenced its operations, MONY Holdings, through a structured financing tied to the performance of the Closed Block Business within MONY Life, issued \$300.0 million of floating rate insured debt securities (the *Insured Notes*) in a private placement and the MONY Group, pursuant to the terms of the structured financing, transferred all of its ownership interest in MONY Life to MONY Holdings. Other than activities related to servicing the Insured Notes in accordance with the note indenture and its ownership interest in MONY Life, MONY Holdings has no operations and engages in no other activities.

Proceeds to MONY Holdings from the issuance of the Insured Notes, after all offering and other related expenses, were approximately \$292.6 million. Of this amount, \$60.0 million was deposited in a debt service coverage account (the DSCA), pursuant to the terms of the note indenture, to provide liquidity and collateral for the payment of interest and principal on the Insured Notes and the balance of approximately \$232.6 million was distributed to MONY Group in the form of a dividend. The Insured Notes mature on January 21, 2017. *See Note 20 to the Consolidated Financial Statements.*

Information About Business Segments

For management and reporting purposes, the Company's business is organized in three principal reportable 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. Certain amounts not allocated to the segments are reported as reconciling items. *See Note 7 to the Consolidated Financial Statements.* The Company formed the Retail Brokerage and Investment Banking segment in 2001 in connection with its acquisitions of Advest and Matrix Private Equities, Inc and Matrix Capital Markets, Inc. (together, Matrix). In addition to these companies, this segment includes the revenues, expenses, assets and liabilities of MSC. In prior years MSC was reported in the Company's Other Products segment. Accordingly, segment disclosures for years prior to 2001 have been restated to conform to the current period presentation.

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Protection Products

The Company offers a diverse portfolio of protection products consisting primarily of traditional life insurance, variable universal life insurance (VUL) and universal life insurance (UL).

The Company's traditional protection products consist of whole life and term insurance products. The whole life insurance products vary in their level of premiums and guaranteed cash values, providing flexibility to the Company's primary marketplace of high net worth individuals including small business owners, pre-retirees and family builders with varying needs. The Company's term insurance products include annual renewable term insurance, term insurance providing coverage for a limited number of years and term insurance featuring a level premium for a variable number of years.

Through USFL, the Company offers term and universal life insurance products designed for the special risk market, focusing on customers with treatable medical conditions. USFL specializes in manufacturing and underwriting life insurance policies for individuals considered special medical risks using its proprietary Clinical Underwriting risk evaluation process. USFL primarily distributes its products through brokerage general agencies.

The Company's VUL product provides all of the premium and death benefit flexibility associated with a UL product type. In addition, it provides the policyholder with the ability to direct the investment of premiums in a wide variety of investment funds with different objectives, including a guaranteed interest account. The Company also offers a regular UL product with interest credits that are based on the Company's general investment portfolio which is primarily investment grade, fixed interest debt securities.

The Company also offers an Interest Sensitive Whole Life product which is a hybrid product featuring the comparatively higher degree of predictable growth and guarantees associated with a traditional whole life product and the upward growth potential associated with interest credits on new money typical within a UL product.

The Company's COLI and BOLI products, which are offered through MLOA, are flexible premium VUL products designed for corporate plan sponsors and banks. This product is specifically designed to have sub-accounts which purchase shares of externally managed mutual funds, as well as proprietary mutual funds available from MONY Life's MONY Series Fund and Enterprise's Enterprise Accumulation Trust (EAT), or a guaranteed interest account.

Several of the Company's protection products are designed to meet the needs of customers for estate planning. Survivorship life products insure two lives and provide for the payment of death benefits upon the death of the last surviving insured. A variety of policy riders are available for the Company's protection products. These riders are designed to provide additional benefits or flexibility at the option of the policyholder. They include riders that permit waiver of premium payments upon the occurrence of a covered disability, pay higher benefits in the event of accidental death, allow the purchase of additional coverage without evidence of insurability and permit the addition of term insurance on either the insured or the insured's spouse or dependent children.

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The following tables present the Protection Products segment sales of life insurance and life insurance in force data for the periods indicated. Management uses this information to measure the Company's sales production from period to period by product. The amounts presented with respect to life insurance sales represent annualized statutory-basis premiums. See *Management's Discussion and Analysis of Financial Condition and Results of Operations - New Business Information*.

Protection Products Segment Sales

	For the Year Ended December 31,		
	2002	2001	2000
	(\$ in millions)		
Sales:			
Traditional life (1)	\$ 51.5	\$ 44.7	\$ 41.2
Universal life	38.0	31.6	22.2
Variable universal life	38.3	61.8	74.8
Group universal life	3.0	1.5	2.5
COLI and BOLI	148.2	75.1	125.3
	\$ 279.0	\$ 214.7	\$ 266.0
	\$ 279.0	\$ 214.7	\$ 266.0

(1) Consists of whole life and term life policies.

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	As of December 31,		
	2002	2001	2000
(\$ in millions)			
Protection Products:			
Traditional life: (1)			
Number of policies (in thousands)	839.1	857.3	879.5
Life reserves	\$ 7,447.0	\$ 7,374.8	\$ 7,283.7
Face amounts	\$ 82,598.6	\$ 73,678.2	\$ 67,015.7
Universal life:			
Number of policies (in thousands)	74.0	74.7	76.4
Life reserves	\$ 765.4	\$ 711.2	\$ 681.2
Face amounts	\$ 10,790.2	\$ 10,843.6	\$ 10,951.6
Variable universal life:			
Number of policies (in thousands)	62.5	62.0	52.0
Account values	\$ 385.0	\$ 402.4	\$ 359.1
Face amounts	\$ 15,171.7	\$ 15,031.0	\$ 12,372.0
Group universal life:			
Number of policies (in thousands)	41.8	43.9	47.3
Life reserves	\$ 70.3	\$ 66.7	\$ 64.1
Face amounts	\$ 1,497.3	\$ 1,571.4	\$ 1,683.0
COLI and BOLI			
Numbers of policies (in thousands)	5.5	4.0	3.0
Life reserves	\$ 495.3	\$ 369.0	\$ 298.2
Face amounts	\$ 3,618.5	\$ 3,199.5	\$ 2,426.7

- (1) Excludes disability income insurance business, which is no longer offered. As of December 31, 1997 all existing in force disability income has been reinsured. The reserves for such business as of December 31, 2002, 2001, and 2000, were \$374.3 million, \$378.0 million, and \$383.4 million, respectively.

Accumulation Products

The Company's annuity products within the Accumulation Products segment focus on the savings and retirement needs of the growing number of individuals who are preparing for retirement or have already retired. The Company offers a variety of accumulation and pay-out products, such as flexible premium variable annuities (FPVA), flexible premium deferred annuities (FPDA), single premium immediate annuities (SPIA) and proprietary retail mutual funds. The Company's annuity and mutual fund products offer numerous investment alternatives to meet the customer's individual investment objectives.

The FPVA is a tax-deferred annuity contract that provides the contractholder with the flexibility to vary payments. In addition, after the annuity's accumulation period, contractholders have the option to receive a lump sum distribution or elect various other pay-out options over the life of the annuitant. Funds may be placed in one or more of the available guaranteed interest accounts or in one of a number of other variable investment options offered through the Company's separate accounts. The FPDA is a tax-deferred annuity which offers a choice of guaranteed interest periods into which the contractholder can allocate payments into one or more of these periods to fit their time horizon. The SPIA contract provides for a single premium payment that is immediately annuitized to provide the annuitant with a guaranteed level income for life.

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Variable annuity contractholders have a range of investment options in which to invest the assets held under their contracts. Currently, these options are comprised of two proprietary fund families and eleven non-proprietary fund families consisting of 24 and 36 different investment options (or mutual funds), respectively, with a wide array of investment objectives. As of December 31, 2002, proprietary and non-proprietary funds accounted for approximately 79.0% and 21.0%, respectively, of variable annuity assets under management.

By offering a variable annuity with a wide variety of variable investment options and guaranteed interest accounts, the Company believes it has the ability to grow profitably in a variety of market environments. The guaranteed interest account within the Company's variable annuities are generally more attractive to customers during periods of rising interest rates and/or declining equity securities markets, whereas variable investment options are generally more attractive to customers during periods of market expansion and for customers with a higher risk tolerance. In addition, the Company offers an FPDA product for those customers who want guaranteed interest rates over a variety of guaranteed interest periods.

The Company believes that it benefits from a shift towards separate account variable annuity products, as this reduces the Company's investment risks and capital requirements because the investment risk in such accounts is borne by the contractholder.

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The wide array of investment fund options offered through the Company's separate accounts also permits contractholders to choose more aggressive or conservative investment strategies without affecting the composition and quality of assets in the Company's general account. The Company believes there will be a continuation in the trend among U.S. employers away from defined benefit plans (under which the employer makes the investment decisions) toward employee-directed defined contribution retirement and savings plans (which allow employees to choose from a variety of investment options), which will benefit its accumulation business. In 2002, 87.0% and 13.0% of the Company's total annuity sales came from retail and wholesale distribution, respectively, compared to 99.6% and 0.4% in 2001.

At December 31, 2002, approximately 85.0% of the Company's career financial professionals were licensed through MSC to sell variable annuities (with 85.0% having National Association of Securities Dealers (NASD) Series 6 licenses and 59.0% having NASD Series 7 licenses).

The following table sets forth the total account value of the principal products offered by the Company in its Accumulation Products segment.

Accumulation Products Segment Assets Under Management

	As of December 31,		
	2002	2001	2000
	(\$ in millions)		
Individual variable annuities (1) (2)	\$ 3,244.9	\$ 3,867.6	\$ 4,368.5
Individual fixed annuities (1) (2)	815.7	728.2	758.2
Proprietary mutual funds	3,695.3	4,396.6	4,841.8
	<u>\$ 7,755.9</u>	<u>\$ 8,992.4</u>	<u>\$ 9,968.5</u>

(1) Individual variable annuity contracts in force were approximately 99.0 thousand, 103.0 thousand and 105.0 thousand, respectively, and individual fixed annuity contracts in force were 15.7 thousand, 9.1 thousand and 10.4 thousand, respectively, for each of the years ended December 31, 2002, 2001 and 2000.

(2) Represents account values for annuities.

The Company offers proprietary retail mutual funds through Enterprise. Enterprise is the registered investment advisor of The Enterprise Group of Funds, a mutual fund family that provides investors with a broad range of investment alternatives through 24 separate investment portfolios. In addition, EAT, for which Enterprise is also the registered investment advisor, is the principal funding vehicle for the Company's variable annuities and VUL insurance products. EAT provides investors with a broad range of investment alternatives through 17 separate investment portfolios. Enterprise is also the registered investment advisor of Enterprise Global Funds plc (EGF plc) which is comprised of 11 separate investment portfolios. EGF plc represents Enterprise's overseas arm of investment management services. Altogether, the Enterprise fund companies have in excess of \$5.6 billion in assets under management. The Company earns investment management fees on the assets managed in connection with both its variable annuities and its proprietary retail mutual funds. In addition, the Company has entered into agreements with Fidelity Variable Insurance Products Fund, Janus Aspen Series, Dreyfus Variable Investment Fund, Alger American Fund, Invesco Variable Investment Funds, Inc., Pimco Variable Insurance Trust, Lord Abbett Series Fund, Morgan Stanley The Universal Institutional Funds, Inc., PBHG Insurance Series Fund and MFS Variable Insurance Trust to provide additional investment choices for the Company's variable annuities and VUL products. The Company has agreements with T. Rowe Price, The Vanguard Group and Van Eck Worldwide Insurance Trust for its variable COLI product.

The Company offers a variety of proprietary retail mutual funds to retail customers. Enterprise's wholly owned subsidiary, Enterprise Fund Distributors, Inc., acts as the broker-dealer in distributing shares in the Enterprise Group of Funds through MSC and third-party broker-dealer firms. In addition, Enterprise markets EAT as a funding vehicle for variable product offerings of third-party insurance companies, initially concentrating on small and mid-size insurance companies.

Retail Brokerage and Investment Banking

The Retail Brokerage and Investment Banking segment is comprised of the operations of Advest, Matrix and MSC.

Advest is comprised of the following principal operating subsidiaries or divisions: (i) Advest, Inc., (ii) the Lebenthal division of Advest, Inc. (formerly Lebenthal & Co., Inc.) and (iii) Boston Advisors. Advest's principal operating subsidiary, Advest, Inc., a regional broker/dealer, provides securities brokerage, investment banking, institutional sales, trading and asset management services to retail and institutional investors through 100 sales offices in 18 states and Washington, DC. Advest's Boston Advisors subsidiary, an investment advisory firm, manages the financial assets of individuals, endowment funds and retirement plans, as well as four money funds. Over \$1.7 billion of funds designated for investment in money funds by brokerage clients of Advest, Inc. are invested in the funds managed by Boston Advisors. Managed accounts, including the funds of Babson United Investment Advisors, Inc. (an Advest subsidiary) and Lebenthal Asset Management, Inc. (a division of Advest), total \$4.0 billion. Advest's Advest Bank and Trust Company subsidiary, an FDIC-insured, federal savings bank, provides trust and custody services primarily through the branch network of Advest, Inc.

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On November 30, 2001, Advest completed the acquisition of Lebenthal & Co., Inc. (Lebenthal), in a merger transaction. Since its founding in 1925, Lebenthal has specialized in the sale of municipal bonds to individual investors. In recent years, Lebenthal has significantly expanded its product offerings to include stocks, mutual funds, annuities, insurance, estate planning, money management, and retirement accounts. Lebenthal's investment advisory subsidiary, Lebenthal Asset Management, Inc., acts as investment advisor to a family of municipal bond investment companies and private accounts. Effective June 8, 2002, Lebenthal merged with Advest, Inc. and Lebenthal Asset Management, Inc. merged with Boston Advisors. *See Note 1 to the Consolidated Financial Statements.*

On May 31, 2002, Boston Advisors completed the acquisition of substantially all of the assets of Babson-United Investment Advisors, Inc (Babson-United). Babson-United has provided independent, unbiased investment information and investment counseling services to individuals and institutions since 1904. At the date of acquisition Babson-United managed approximately \$1.3 billion for 580 clients across the country.

Matrix is a middle market investment bank specializing in merger and acquisition services. Services offered by Matrix include exclusive sales and divestitures, acquisition searches and buy-side engagements, management buyouts, financial services and valuations.

MSC is a registered securities broker-dealer and investment advisor and a member of NASD. MSC performs brokerage and other investment services relating to a wide range of securities, including mutual funds, stocks, bonds, limited partnership interests (primarily in real estate, oil and gas and equipment leasing) and tax-exempt unit investment trusts. For the years ended December 31, 2002, 2001, and 2000, 24%, 37%, and 43%, respectively, of the investment products sold by MSC were shares in mutual funds in the Enterprise Group of Funds. MSC's products and services are distributed through registered representatives who belong to the Company's career agency sales force. MSC transacts business in all 50 of the United States, the District of Columbia and Puerto Rico. Sales of non-proprietary investment products were \$312.0 million, \$290.0 million, and \$381.0 million, for the years ended December 31, 2002, 2001 and 2000, respectively.

Other Products

The Company's Other Products segment primarily consists of MBI and certain lines of insurance business no longer written by the Company (the Run-Off Businesses). Through MBI, the Company provides its career agency sales force with access to life, annuity, small group health and specialty insurance products written by other carriers to meet the insurance and investment needs of its customers. MBI is licensed as an insurance broker in Delaware and most other states. The Run-Off Businesses primarily consist of group life and health insurance and the group pension business that was not included in the Group Pension Transaction. *See Note 11 to the Consolidated Financial Statements.*

Financial information with respect to each of the Company's business segments is included in Management's Discussion and Analysis of Financial Condition and Results of Operations and in Note 7 to the Consolidated Financial Statements.

Marketing and Distribution

The Company's marketing strategy focuses on high net worth individuals including small business owners and higher income individuals, particularly family builders and pre-retirees. The Company believes this strategy capitalizes on the Company's key strengths, namely its wide range of protection, accumulation, securities brokerage, investment planning, and investment banking products and services, as well as its Retail

and Wholesale distribution systems.

Retail Distribution

The Company actively manages its Retail distribution to ensure that expertise is properly leveraged across the organization so that customers needs can be optimally managed. Following is a brief overview of the Company's Retail distribution channel.

Career Agency System

The Company believes that its career agency system provides a competitive advantage in the marketplace. Distribution through career financial professionals allows the Company to establish closer relationships with customers than is typical of insurers using third party brokers, thereby enhancing the ability of the Company to evaluate customer needs and underwriting risks.

The Company's career agency distribution system consisted of 1,502 domestic career financial professionals at December 31, 2002. The sales force is organized as a managerial agency system, which is comprised of 38 agency managers as of December 31, 2002, who supervise the marketing and sales activities of financial professionals. Such professionals are managed by experience and productivity level within defined marketing territories in the United States.

The Company segregates its career agency sales force into four groups (tiers) according to experience and productivity levels and assigns agency managers to tiers based on their skill sets and the particular needs and goals of such tiers. There is a tier for new financial professionals with little or no experience in the industry, a tier for experienced financial professionals who are producing at superior levels, and two tiers in between. The Company believes that this tiering system is unique in the life insurance

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industry and gives the Company a competitive advantage in the marketplace. For example, by having certain managers responsible solely for recruiting and providing necessary support systems for new recruits, the Company is able to increase the quality of new financial professionals recruited each year. The Company believes that the tiering system allows the Company to attract and retain already established and successful financial professionals by providing an environment in which such financial professionals can compete favorably with other producer groups, such as third-party brokers or general agents and to attract and retain other financial professionals by providing marketing and training support that is responsive to their career development needs.

The agency managers are all employees of the Company, while the career financial professionals are all independent contractors and not employees of the Company. The Company's compensation arrangements with career financial professionals contain incentives for them to solicit applications for products issued by MONY Life and MLOA and for products issued by insurance companies not affiliated with the Company, made available by the Company through MBI and MSC. Those incentives include increased levels of expense reimbursement, sales awards and certain other benefits.

The Company's compensation structure provides a salary plus incentive compensation system for all of its agency managers and sales managers, designed to more closely align the interests of the managers with those of the Company. The Company has several programs to recruit and train its career financial professionals. As a result of its recruiting programs and the alignment of its new financial professionals financing program with its productivity-driven commission plus expense reimbursement arrangement, the Company hired 507 new financial professionals in 2002.

Advest

The Company, through its wholly-owned subsidiary, Advest, distributes investment products and services through 573 financial advisors. Advest Inc., one of the country's leading regional financial services firms, is headquartered in Hartford, CT. Advest provides financial, securities brokerage, trading, investment banking, trust, and other advisory services to its clients through a network of more than 100 offices in 18 states and the District of Columbia. Advest is a member of the New York, American, and other principal stock exchanges.

Lebenthal has long been one of the most respected names in the financial services industry. The firm was founded in 1925 and became a division of Advest in 2002. Through a series of creative advertising campaigns, innovative sales tools, and investor education, Lebenthal has established itself as a household name in the Northeast and is particularly well known for its expertise in the municipal bond area.

Boston Advisors manages the financial assets of individuals, endowment funds and retirement plans from their location in Boston, Massachusetts. In addition, Boston Advisors manages four money funds.

Advest Bank and Trust Company, an FDIC-insured, federal savings bank, provides trust and custody services primarily through Advest's branch network.

Trusted Advisors

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Through Trusted Advisors, the Company sells a variety of financial products and services to customers through certified public accountants and other tax professionals who are licensed agents and registered representatives of the Company.

Wholesale Distribution

The following is a brief overview of the Wholesale distribution channel.

MONY Partners

During 2001 MONY Partners was formed as a division of MONY Life. MONY Partners wholesales the Company's individual life and annuity products through MONY Life's career agency sales force, Trusted Advisors' representatives, Advest financial advisors, independent brokerage agents and independent securities broker-dealers. The Company believes that MONY Partners has a competitive advantage in the independent brokerage marketplace in being able to offer brokers competitive products, as well as access to the multiple services, channels and experience within the Company's organization. For example, broker general agents or securities broker-dealers have an opportunity to grow revenue by utilizing: (i) Matrix's merger and acquisition advisory services; (ii) MONY Life's estate planning and seminar marketing resources; and (iii) cross-selling arrangements with Trusted Advisors' representatives.

Other Wholesale Distribution channels

The Company utilizes wholesalers to sell its mutual fund products through third party broker-dealers. The Company continually attempts to expand the number of these specialized sales agents distributing its products.

USFL distributes certain protection products through 223 insurance brokerage general agencies located in 49 states. USFL specializes in manufacturing and underwriting term and universal life insurance policies for individuals considered special medical risks using its proprietary Clinical Underwriting risk evaluation process.

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Through its corporate marketing group, the Company distributes COLI and BOLI products to small to mid-size business owners as well as corporate CEOs, CFOs and benefits administrators to develop retirement plans.

Pricing and Underwriting

Insurance underwriting involves a determination of the type and amount of risk which an insurer is willing to accept. The Company's underwriters evaluate each policy application on the basis of information provided by the applicant and others. The Company follows detailed and uniform underwriting practices and procedures designed to properly assess and quantify risks before issuing coverage to qualified applicants. The long-term profitability of the Company's products is affected by the degree to which future experience deviates from these assumptions.

Reinsurance

The Company uses a var