

VESTA INSURANCE GROUP INC
Form 10-Q
May 25, 2006
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2004

OR

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 1-12338

VESTA INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

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

3760 River Run Drive

63-1097283
(I.R.S. Employer

Identification No.)

35243

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Birmingham, Alabama
(Address of principal executive offices)

(Zip Code)

(205) 970-7000

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Table of Contents

Vesta Insurance Group, Inc.

Index

	Page
Part I <u>Financial Information</u>	
Item 1. <u>Financial Statements:</u>	
<u>Consolidated Balance Sheets as of September 30, 2004 (unaudited) and December 31, 2003 (restated)</u>	3
<u>Consolidated Statements of Operations for the Three and Nine Months Ended September 30, 2004 and 2003 (restated) (unaudited)</u>	4
<u>Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2004 and 2003 (restated) (unaudited)</u>	5
<u>Notes to Consolidated Financial Statements (unaudited)</u>	6
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	28
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4. <u>Controls and Procedures</u>	38
Part II <u>Other Information</u>	
Item 1. <u>Legal Proceedings</u>	40
Item 2. <u>Changes in Securities</u>	44
Item 3. <u>Defaults Upon Senior Securities</u>	44
Item 4. <u>Submission of Matters to a Vote of Security Holders</u>	44
Item 5. <u>Other Information</u>	44
Item 6. <u>Exhibits and Reports on Form 8-K</u>	45
<u>Signatures</u>	46

Table of Contents**Part I****Item 1. Financial Statements****Vesta Insurance Group, Inc.****Consolidated Balance Sheets**

(amounts in thousands except share data)

	September 30, 2004 (unaudited)	December 31, 2003 (restated)
Assets:		
Fixed maturities available for sale - at fair value (amortized cost: 2004 - \$635,786; 2003 - \$674,623)	\$ 647,649	\$ 692,260
Fixed maturities - trading	156,474	161,348
Equity securities at fair value: (cost: 2004 - \$29,581; 2003 - \$28,454)	30,384	29,937
Mortgage loans	9,956	9,089
Policy loans	56,504	57,209
Short-term investments	7,747	6,146
Other invested assets	25,378	24,741
Total investments	934,092	980,730
Cash	80,852	101,877
Accrued investment income	9,245	11,012
Premiums in course of collection (net of allowances for losses of \$383 at 2004 and 2003)	51,096	117,020
Reinsurance balances receivable	457,463	488,156
Reinsurance recoverable on paid losses	50,299	46,484
Deferred policy acquisition costs	46,883	51,537
Property and equipment	13,492	21,070
Investment in unconsolidated subsidiary	85,820	
Deferred income taxes	2,929	
Goodwill	7,510	130,197
Other intangible assets		16,315
Other assets	34,010	16,353
Total assets	\$ 1,773,691	\$ 1,980,751
Liabilities:		
Policy liabilities	\$ 676,577	\$ 678,720
Losses and loss adjustment expenses	459,948	354,359
Unearned premiums	258,064	329,165
Federal Home Loan Bank advances	153,364	158,811
Reinsurance balances payable	93,304	120,741
Deferred income taxes		5,310
Line of credit	30,000	30,000
Long term debt	75,938	75,932
Other liabilities	67,424	127,678
Total liabilities	1,814,619	1,880,716

Commitments and contingent liabilities : See Note D

Stockholders' (deficit) equity:

Preferred stock, \$.01 par value, 5,000,000 shares authorized, issued: 2004 - 0 and 2003 - 0

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Common stock, \$.01 par value, 100,000,000 shares authorized, issued: 2004 - 38,559,541 and 2003 - 38,545,788	386	385
Additional paid-in capital	242,702	245,410
Accumulated other comprehensive income, (net of deferred tax expense of \$8,074 and \$9,096 in 2004 and 2003, respectively)	6,894	10,122
Accumulated deficit	(267,169)	(131,475)
Treasury stock (2,479,977 shares at cost at September 30, 2004 and at December 31, 2003)	(18,263)	(18,263)
Restricted stock	(5,478)	(6,144)
Total stockholders (deficit) equity	(40,928)	100,035
Total liabilities and stockholders (deficit) equity	\$ 1,773,691	\$ 1,980,751

See accompanying Notes to Consolidated Financial Statements

Table of Contents**Vesta Insurance Group, Inc.****Consolidated Statements of Operations**

(amounts in thousands except per share data)

	Three months ended September 30,		Nine months ended September 30,	
	2004 (Unaudited)	2003 (Unaudited) (Restated)	2004 (Unaudited)	2003 (Unaudited) (Restated)
Revenues:				
Net premiums written	\$ 58,311	\$ 84,326	\$ 303,619	\$ 346,372
Change in unearned premiums	(2,289)	43,023	6,412	23,349
Net premiums earned	56,022	127,349	310,031	369,721
Policy fees	4,083	9,832	21,850	26,543
Agency fees and commissions		9,867	33,437	35,617
Net investment income	9,034	9,491	27,019	29,714
Realized (losses) gains	(5,824)	(128)	(3,344)	5,018
Gain on sale of subsidiary	11,209		11,209	
Other	579	1,900	2,278	5,556
Total revenues	75,103	158,311	402,480	472,169
Expenses:				
Policyholder benefits	5,480	5,360	16,904	15,811
Losses and loss adjustment expenses incurred	104,914	80,244	279,859	253,339
Policy acquisition expenses	11,936	22,246	47,330	72,500
Litigation and billing dispute settlements	(8,691)		(12,537)	
Impairment of goodwill and other intangible assets	59,153		59,153	
Operating expenses	34,815	36,699	106,730	107,401
Interest on debt	2,712	3,283	8,568	9,594
Deferrable capital security distributions	432	478	1,295	478
Total expenses	210,751	148,310	507,302	459,123
(Loss) Income from continuing operations before income taxes, equity in net earnings of investee, minority interest and deferrable capital security distributions	(135,648)	10,001	(104,822)	13,046
Income tax expense (benefit)	(7,664)	3,513	(6,108)	4,437
Equity in net earnings of investee, net of tax	(2,090)		(2,090)	
Minority interest, net of tax		114	478	493
Deferrable capital security distributions, net of tax				622
Net (loss) income from continuing operations	(125,894)	6,374	(97,102)	7,494
Loss from discontinued operations, net of tax	(28,960)	(2,011)	(33,376)	(10,849)
(Loss) income before cumulative effect of change in accounting principle	(154,854)	4,363	(130,478)	(3,355)
Cumulative effect of change in accounting principle, net of tax			(5,216)	
Net (loss) income	\$ (154,854)	\$ 4,363	\$ (135,694)	\$ (3,355)
Net (loss) income from continuing operations per share - Basic and diluted	\$ (3.55)	\$ 0.18	\$ (2.74)	\$ 0.21
Net (loss) income available to common shareholders per share - Basic and diluted	\$ (4.37)	\$ 0.12	\$ (3.83)	\$ (0.10)

See accompanying Notes to Consolidated Financial Statements

Table of Contents**Vesta Insurance Group, Inc.****Consolidated Statements of Cash Flows**

(amounts in thousands)

	Nine months ended September 30,	
	2004 (Unaudited)	2003 (Unaudited) (Restated)
Operating Activities:		
Net loss	\$ (135,694)	\$ (3,355)
Adjustments to reconcile net loss to cash used in operations		
Changes in:		
Loss and LAE reserves, and future policy liabilities	140,896	(10,875)
Unearned premium reserves	(11,894)	24,573
Reinsurance balances receivable	4,929	(46,613)
Premiums in course of collection	(12,908)	(8,870)
Reinsurance recoverable on paid losses	(5,222)	15,652
Reinsurance balances payable	(13,389)	(29,431)
Other assets and liabilities	(27,652)	17,684
Policy acquisition costs deferred	(54,366)	(62,465)
Policy acquisition costs amortized	47,330	72,500
Realized losses (gains)	3,334	(5,018)
Interest credited to insurance liabilities	10,168	7,731
Gain on sale of subsidiary	(11,209)	3,116
Equity in earnings of investee	(2,090)	
Impairment of goodwill and other intangible assets		