VESTA INSURANCE GROUP INC
Form 8-K
March 15, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K
CURRENT REPORT

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

Date of Report
March 15, 2004
(Date of earliest event reported)

VESTA INSURANCE GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	63-1097283 (I.R.S. Employer Identification No.)
3760 River Run Drive Birmingham, Alabama (Address of principal executive offices)	35243 (Zip Code)

(205) 970-7000
(Registrant's telephone number, including area code)

Item 9 and 12. Results of Operations and Financial Condition.

On March 15, 2004, the Registrant reported its earnings for the quarter and year-ended December 31, 2003. Attached to this Current Report on Form 8-K is a copy of the Company's press release dated March 15, 2004. This release is being furnished to the Securities and Exchange Commission under Item 12.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Dated as of March 15, 2004.

VESTA INSURANCE GROUP, INC.

By: /s/ Donald W. Thornton

Its: Senior Vice President --
General Counsel and Secretary

Vesta Reports Fourth Quarter Results

Incurs Primarily Non-Cash GAAP Charge for Arbitrations and Deferred Tax Asset; Enters Definitive Agreement to Sell its Life Insurance Business for $63.5 Million

BIRMINGHAM, Ala., March 15 /PRNewswire-FirstCall/ -- Vesta Insurance Group, Inc. (NYSE: VTA) today reported results for its fourth quarter and full year ended December 31, 2003 that included a $118.8 million charge - $28.9 million cash and $89.9 million non-cash -- to write-off recoverables associated with a reinsurance arbitration ruling, and to establish a full valuation allowance for its entire net deferred tax asset in accordance with Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes." The Company also announced that its Board of Directors has deferred consideration of cash dividends on its common stock until the Company's upcoming capital initiatives have been completed.

In addition, Vesta announced that it has entered into a definitive agreement to sell American Founders Financial Corporation for approximately $63.5 million dollars. The transaction is subject to regulatory approval and is expected to close in the second quarter. The closing of the sale of American Founders will result in an estimated GAAP gain of $5 million and a statutory gain of approximately $19.5 million.

On a statutory basis, the impact of writing down the reinsurance recoverables associated with the arbitration rulings is approximately $55.8 million. Including the impact of the potential sale of American Founders, statutory capital is estimated to be approximately $165 million at March 31, 2004, which is approximately 7% below the statutory capital level as of September 30, 2003.

"While we are obviously disappointed with the write down of these recoverables, the negative exposure to these matters is now behind us and we can focus on the growing profitability of our continuing operations which produced excellent results in the fourth quarter and the second half of 2003 and in the first two months of 2004," said Norman W. Gayle, III, President and CEO.

"The Board of Directors determined that deferring the payment of a cash dividend on our common stock is prudent, and we expect our current annual dividend rate of $0.10 per share per year to resume after our capital initiatives are completed.

"Our insurance company strength is sound and we believe our financial position will improve dramatically with the sale of American Founders and the planned initial public offering of our non-standard auto insurance subsidiary, Affirmative Insurance Holdings, Inc. We expect to file a registration statement on Form S-1 in the next few days," said Gayle.

As disclosed on March 2, 2004, an arbitration panel ruled against Vesta in a 6-year reinsurance dispute with NRMA Insurance, Ltd. concerning the 1997 20% whole account quota share contract. As a result of the ruling, Vesta incurred a previously announced $33.5 million pre-tax charge to fourth quarter earnings associated with the NRMA ruling. Vesta considered the NRMA ruling in the evaluation of the recoverability of other amounts due from the other participants on the same reinsurance treaty as well as another, unrelated treaty. Although there are distinct facts and circumstances underlying and affecting our disputes with those other participants, for financial reporting purposes, the Company concluded that those amounts may not ultimately be collected. Accordingly, we recorded an additional pre-tax charge of $32.4 million in the fourth quarter of 2003, $30.1 million of which was related to other balances recoverable from other participants in the 20% whole account quota share contract. The total after-tax charge related to the reinsurance recoverables write-down in the fourth quarter is $43.4 million. The recording of this charge does not impact Vesta's intention to actively arbitrate with the other participants on the 20% whole account quota share contract. Additionally, the Company has filed a motion to vacate the NRMA arbitration award in U.S. District Court on the grounds of the evident partiality of the umpire.

In connection with the filing of the annual report on Form 10-K for 2003, Vesta updated its SFAS No. 109 income tax analysis, to evaluate the recoverability of its deferred tax asset. In making this evaluation, the Company considered all available positive and negative evidence, including our past results, the existence of significant cumulative losses in recent years, and our estimate of future taxable income. While we anticipate being profitable in future periods, the combination of significant cumulative losses in recent years and uncertainty with respect to our ability to achieve sufficient taxable income to fully realize our year-end deferred tax asset balances within a reasonable timeframe, warrants the recording of a valuation allowance under SFAS No. 109. Accordingly, we incurred a $75.4 million dollar charge to earnings to reflect this valuation allowance.

Also, based on the charges that the Company recorded in the fourth quarter, Vesta updated its goodwill evaluation, in connection with SFAS No. 142, "Goodwill and Other Intangible Assets." Based on this updated analysis, the Company concluded there was no indication of impairment as of December 31, 2003.

In addition to its regularly scheduled conference call for March 16, Vesta management will hold a conference call today, Monday, March 15, at 10:30 am EST to discuss this press release. The conference call will be simultaneously webcast live online through Vesta's corporate website, www.vesta.com and http://www.firstcallevents.com/service/ajwz402091381gf12.html. To access this call via telephone, call 1-877-847-5345 and enter passcode 664731.

Financial Results

For the fourth quarter of 2003, the Company reported net operating earnings from continuing operations of $7.3 million, or $0.21 per share in the fourth quarter of 2003 compared to net operating earnings from continuing operations of $4.3 million, or $0.13 per share for the corresponding period in 2002. Net operating earnings from continuing operations is a non-GAAP measure which excludes certain items, such as realized gains and losses, severance payments, losses and awards from arbitration and litigation, deferred tax asset charge as well as gains on debt extinguishments. Net earned premiums for the quarter were $108.8 million compared to $132.9 million in the fourth quarter of 2002, which is reflective of Vesta's increased use of reinsurance.

The net loss from continuing operations was $109.7 million, or $(3.13) per share for the quarter ending December 31, 2003 compared to net income from continuing operations of $1.0 million, or $0.03 per share in the fourth quarter of 2002. (A reconciliation of net operating earnings from continuing operations to net income from continuing operations is included herein.)

For the twelve months ended December 31, 2003, net operating earnings from continuing operations were $10.4 million, or $0.30 per share compared to net operating earnings from continuing operations of $6.8 million, or $0.20 per share in 2002. For the year, the Company reported a net loss from continuing operations of $102.9 million, or $(2.95) per share compared to a net loss from continuing operations of $10.2 million or $(0.30) per share in 2002. (A reconciliation of the net operating earnings from continuing operations to net income from continuing operations is included herein.)

Operational Results

Vesta's standard property-casualty segment, which includes the residential property and standard auto businesses, posted net income from continuing operations of $4.3 million in the fourth quarter of 2003. Below are the standard property-casualty segment GAAP operational ratios for the three and twelve months ended December 31, 2003 and 2002.

	3 Months Ended December 31,		12 Months Ended December 31,	
	2003	2002	2003	2002
Residential property combined ratio	88.6%	97.1%	102.4%	101.7%
Standard auto combined ratio	94.8%	99.6%	96.7%	104.2%
Standard property-casualty combined ratio	90.2%	98.1%	101.2%	102.5%
Total catastrophe losses incurred (in millions)	$4.6	$2.8	$32.4	$13.4
Impact of catastrophes on standard property-casualty combined ratio	7.0%	3.2%	10.4%	4.1%

"Profitability in the standard property-casualty segment continues to improve," said Gayle. "Our decline in revenues is by design as we entered into a 50% quota share reinsurance agreement effective September 30, 2003 on our property business in our continuing states," said Gayle.

The Company's non-standard auto underwriting business generated a GAAP combined ratio of 97.9% in the fourth quarter and 96.6% for 2003 compared to a 96.3% and a 97.0% combined ratio for the respective corresponding periods in 2002. The non-standard underwriting segment recognized approximately a $1.0 million in contingent commission expense in the fourth quarter due to consistently low loss ratio results. The non-standard agency operations produced a 17.0% pre-tax margin in the quarter, and a 12.7% margin for the full year 2003. The agency segment was positively impacted by approximately $3.0 million of contingent commissions that were recognized in the fourth quarter.

Vesta incurred a net loss of $4.4 million for the full year for its discontinued health insurance and consulting businesses. In addition, the Company incurred an after-tax loss of $11.5 million to its discontinued assumed reinsurance and commercial lines, primarily due to a previously announced $6.1 million net loss in the second quarter from an arbitration with CIGNA Property and Casualty Insurance Company.

Other Information

In December 2003, Vesta completed a debt for equity swap and issued approximately 402,000 shares of common stock in exchange for $2.2 million face value of the Company's 8.525%, Deferrable Capital Securities due 2027.

In addition, Vesta announced that David W. Lacefield has been elected to Senior Vice President of Vesta Insurance Group, in charge of the company's standard property-casualty operations. Lacefield joined Vesta in 2001 as president of TexasSelect. He began his insurance career in 1977 as a pricing analyst at USAA and is heavily experienced in product pricing and design, loss reserving, strategic planning, financial analysis, claims and insurance operations. Lacefield is a member of the Casualty Actuarial Society and the American Academy of Actuaries.

Vesta also announced that Timothy A. Bienek, CFA, has joined Affirmative Insurance Holdings, Vesta's non-standard automobile agency and underwriting subsidiary, as Chief Financial Officer. Previously, Bienek was President, Chief Operating Officer and a Director of Hallmark Financial Services, a publicly traded insurance holding company. Bienek is a 20-year veteran of the property-casualty insurance industry having served in executive positions for Benfield Blanch, Allstate Insurance Company and TIG Holdings.

The conference call on Tuesday, March 16, at 10:00 am EST will also be simultaneously webcast live online through Vesta's corporate website, www.vesta.com and http://www.firstcallevents.com/service/ajwz400350274gf12.html.

About Vesta Insurance Group, Inc.

Vesta, headquartered in Birmingham, Ala., is a holding company for a group of insurance and financial services companies that offer a wide range of consumer-based products.

This news release contains statements concerning management's beliefs, plans or objectives for Vesta's future operations or financial performance, including anticipated transactions, dividend payments and continued segment growth and profitability. These statements, whether expressed or implied, are only predictions and should be considered "forward-looking statements" under applicable securities laws. You should be aware that Vesta's actual operations and financial performance, may differ materially from those reflected in these forward-looking statements. The main factors that could affect these forward-looking statements are that the planned sale of American Founders Financial Corporation does not receive regulatory approval, that the planned public offering of securities of Affirmative Insurance Holdings, Inc. does not price and close on the terms and schedule that we expect, we may experience catastrophic losses in excess of what we expect; we may experience frequency and severity of non-catastrophic losses in excess of what we expect; we may experience unfavorable developments in various litigation and in arbitrations with reinsurers which could cause us to adjust our estimates of reinsurance recoverables; or we may experience deterioration in premium volume in our standard property and casualty segment as a result of rating actions taken by A.M. Best. Please refer to the documents Vesta files from time to time with the Securities and Exchange Commission, specifically Vesta's most recent Form 10-K and Exhibit 99.1 attached thereto, which contains and identifies additional important factors that could cause the actual results to differ materially from those contained in the projections or forward-looking statements.

Vesta Insurance Group, Inc
4th Quarter 2003 Segment Comparison
(amounts in thousands)

	Life Insurance		Standard Property-Casualty		Non-Standard Agency	
	2003	2002	2003	2002	2003	2002
Revenues:						

Net premiums written	$2,030	$2,338	$61,532	$59,091	--	--
(Increase) decrease in unearned premiums	--	--	1,660	28,433	--	--
Net premiums earned	2,030	2,338	63,192	87,524	--	--
Net investment income	6,862	7,759	--	--	--	--
Policy fees	605	622	2,974	1,369		
Agents fees and commissions	--	--	--	--	$38,089	$40,902
Other	625	581	139	58	--	--
Total revenues	10,122	11,300	66,305	88,951	38,089	40,902
Expenses:						
Policyholder benefits	5,526	4,048	--	--	--	--
Loss and LAE expenses incurred	--	--	39,386	54,902	--	--
Policy acquisition expenses	325	1,221	9,054	21,158	--	--
Operating expenses	2,110	1,912	11,215	11,112	31,402	38,299
Interest on debt	1,357	1,548	--	--	206	151
Deferrable capital security distributions	--	--	--	--	--	--
Total expenses	9,318	8,729	59,655	87,172	31,608	38,450
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	804	2,571	6,650	1,779	6,481	2,452
Income tax expense (benefit)	281	900	2,328	623	2,268	858
Deferrable capital security distributions, net of tax	--	--	--	--	--	--
Minority interest in subsidiary, net of tax	--	236	--	--	112	355
Net operating earnings (loss) from continuing operations	$523	$1,435	$4,322	$1,156	$4,101	$1,239
Realized gains(loss), net of tax and minority interest	847	(15,629)				
Litigation settlement and arbitration award, net of tax						
Severance payment						
Deferred tax asset charge						
Gain on debt extinguishments, net of tax						
Net income (loss) from continuing operations	$1,370	$(14,194)	$4,322	$1,156	$4,101	$1,239

	Non-Standard Underwriting 2003	Non-Standard Underwriting 2002	Corp & Other 2003	Corp & Other 2002	Eliminations 2003	Eliminations 2002
Revenues:						
Net premiums written	$40,114	$47,477				
(Increase) decrease in unearned premiums	3,488	(4,425)				
Net premiums earned	43,602	43,052				
Net investment income	--	--	$2,296	$4,238	--	$(151)
Policy fees	5,657	3,736	--	--	--	--
Agents fees and commissions	--	--	--	--	$(24,596)	(18,183)
Other	538	758	306	263	--	--
Total revenues	49,797	47,546	2,602	4,501	(24,596)	(18,334)
Expenses:						
Policyholder benefits	--	--	--	--	--	--
Loss and LAE expenses incurred	29,501	26,395	--	--	--	--
Policy acquisition expenses	13,889	12,954	--	--	(9,265)	(5,317)
Operating expenses	4,816	5,713	4,704	3,779	(15,331)	(12,866)
Interest on debt	--	--	1,682	1,952	--	(151)
Deferrable capital security distributions	--	--	392	--	--	--
Total expenses	48,206	45,062	6,778	5,731	(24,596)	(18,334)
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	1,591	2,484	(4,176)	(1,230)	--	--
Income tax expense (benefit)	557	869	(1,462)	(431)	--	--
Deferrable capital security distributions, net of tax	--	--	--	308	--	--
Minority interest in subsidiary, net of tax	--	--	--	--	--	--
Net operating earnings (loss) from continuing operations	$1,034	$1,615	$(2,714)	$(1,107)	--	--
Realized gains (loss), net of tax and minority interest	578	2,209				
Litigation settlement and arbitration award, net of tax	(43,365)	9,471				
Severance payment		(2,714)				

Deferred tax asset charge	(75,399)					
Gain on debt extinguishments, net of tax	393	3,301				
Net income (loss) from continuing operations	$1,034	$1,615	$(120,507)	$11,160	--	--

	Consolidated	
	2003	2002
Revenues:		
Net premiums written	$103,676	$108,906
(Increase) decrease in unearned premiums	5,148	24,008
Net premiums earned	108,824	132,914
Net investment income	9,158	11,846
Policy fees	9,236	5,727
Agents fees and commissions	13,493	22,719
Other	1,608	1,660
Total revenues	142,319	174,866
Expenses:		
Policyholder benefits	5,526	4,048
Loss and LAE expenses incurred	68,887	81,297
Policy acquisition expenses	14,003	30,016
Operating expenses	38,916	47,949
Interest on debt	3,245	3,500
Deferrable capital security distributions	392	--
Total expenses	130,969	166,810
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	11,350	8,056
Income tax expense (benefit)	3,972	2,819
Deferrable capital security distributions, net of tax	--	308
Minority interest in subsidiary, net of tax	112	591
Net operating earnings (loss) from continuing operations	$7,266	$4,338
Realized gains (loss), net of tax and minority interest	1,425	(13,420)
Litigation settlement and arbitration award, net of tax	(43,365)	9,471
Severance payment	-	(2,714)
Deferred tax asset charge	(75,399)	-
Gain on debt extinguishments, net of tax	393	3,301
Net income (loss) from continuing operations	$(109,680)	$976

Vesta Insurance Group, Inc
2003 Year-to-Date Segment Comparison
(amounts in thousands)

	Life Insurance		Standard Property-Casualty	
	2003	2002	2003	2002
Revenues:				
Net premiums written	$8,806	$10,506	$260,378	$354,618
(Increase) decrease in unearned premiums	--	--	40,483	(34,351)
Net premiums earned	8,806	10,506	300,861	320,267
Net investment income	28,330	36,020	--	--
Policy fees	2,295	3,536	11,448	5,201
Agents fees and commissions	--	--	--	--
Other	2,830	1,602	750	509
Total revenues	42,261	51,664	313,059	325,977
Expenses:				
Policyholder benefits	21,080	23,283	--	--
Loss and LAE expenses incurred	--	--	207,800	221,549
Policy acquisition expenses	1,021	2,720	63,637	72,208
Operating expenses	9,517	9,757	44,480	39,933
Interest on debt	5,631	6,304	--	--
Deferrable capital security distributions	--	--	--	--
Total expenses	37,249	42,064	315,917	333,690
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	5,012	9,600	(2,858)	(7,713)
Income tax expense (benefit)	1,754	3,360	(1,000)	(2,700)
Deferrable capital security distributions, net of tax	--	--	--	--
Minority interest in subsidiary, net of tax	--	742	--	--
Net operating earnings (loss) from continuing operations	$3,258	$5,498	$(1,858)	$(5,013)
Realized gains (loss), net of tax	1,560	(14,355)		
Litigation settlement and arbitration award, net of tax				
Severance payment				
Deferred tax asset charge				
Gain on debt extinguishments, net of tax				
Net income (loss) from continuing operations	$4,818	$(8,857)	$(1,858)	$(5,013)

Non-Standard

	Non-Standard Agency 2003	2002	Underwriting 2003	2002
Revenues:				
Net premiums written	--	--	$179,584	$181,349
(Increase) decrease in unearned premiums	--	--	(12,173)	(19,872)
Net premiums earned	--	--	167,411	161,477
Net investment income	--	--	--	--
Policy fees			22,036	11,090
Agents fees and commissions	$145,919	$131,224	--	--
Other	--	--	2,890	5,363
Total revenues	145,919	131,224	192,337	177,930
Expenses:				
Policyholder benefits	--	--	--	--
Loss and LAE expenses incurred	--	--	114,426	100,278
Policy acquisition expenses	--	--	49,962	50,109
Operating expenses	126,593	118,445	18,706	16,943
Interest on debt	767	1,012	--	--
Deferrable capital security distributions	--	--	--	--
Total expenses	127,360	119,457	183,094	167,330
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	18,559	11,767	9,243	10,600
Income tax expense (benefit)	6,496	4,118	3,235	3,710
Deferrable capital security distributions, net of tax	--	--	--	--
Minority interest in subsidiary, net of tax	605	894	--	--
Net operating earnings (loss) from continuing operations	$11,458	$6,755	$6,008	$6,890
Realized gains (loss), net of tax				
Litigation settlement and arbitration award, net of tax				
Severance payment				
Deferred tax asset charge				
Gain on debt extinguishments,net of tax				
Net income (loss) from continuing operations	$11,458	$6,755	$6,008	$6,890

	Corp & Other 2003	2002	Eliminations 2003	2002
Revenues:				
Net premiums written				
(Increase) decrease in unearned premiums				
Net premiums earned				
Net investment income	$12,361	$18,392	--	$(1,012)
Policy fees	--	--	--	--

Agents fees and commissions	--	--	$(96,809)	(76,078)
Other	841	907	--	--
Total revenues	13,202	19,299	(96,809)	(77,090)
Expenses:				
Policyholder benefits	--	--	--	--
Loss and LAE expenses incurred	--	--	--	--
Policy acquisition expenses	--	--	(28,821)	(34,100)
Operating expenses	17,920	20,257	(67,988)	(41,978)
Interest on debt	6,441	8,618	--	(1,012)
Deferrable capital security distributions	871	--	--	--
Total expenses	25,232	28,875	(96,809)	(77,090)
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	(12,030)	(9,576)	--	--
Income tax expense (benefit)	(4,210)	(3,352)	--	--
Deferrable capital security distributions, net of tax	622	1,081	--	--
Minority interest in subsidiary, net of tax	--	--	--	--
Net operating earnings (loss) from continuing operations	$(8,442)	$(7,305)	--	--
Realized gains (loss), net of tax	3,494	(266)		
Litigation settlement and arbitration award, net of tax	(43,365)	(5,869)		
Severance payment	(2,714)			
Deferred tax asset charge	(75,399)			
Gain on debt extinguishments, net of tax	393	6,160		
Net income (loss) from continuing operations	$(123,319)	$(9,994)	--	--

	Consolidated	
	2003	2002
Revenues:		
Net premiums written	$448,768	$546,473
(Increase) decrease in unearned premiums	28,310	(54,223)
Net premiums earned	477,078	492,250
Net investment income	40,691	53,400
Policy fees	35,779	19,827
Agents fees and commissions	49,110	55,146
Other	7,311	8,381
Total revenues	609,969	629,004
Expenses:		
Policyholder benefits	21,080	23,283
Loss and LAE expenses incurred	322,226	321,827
Policy acquisition expenses	85,799	90,937

Operating expenses	149,228	163,357
Interest on debt	12,839	14,922
Deferrable capital security distributions	871	--
Total expenses	592,043	614,326
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	17,926	14,678
Income tax expense (benefit)	6,275	5,136
Deferrable capital security distributions, net of tax	622	1,081
Minority interest in subsidiary, net of tax	605	1,636
Net operating earnings (loss) from continuing operations	$10,424	$6,825
Realized gains (loss), net of tax	5,054	(14,621)
Litigation settlement and arbitration award, net of tax	(43,365)	(5,869)
Severance payment	-	(2,714)
Deferred tax asset charge	(75,399)	
Gain on debt extinguishments, net of tax	393	6,160
Net income (loss) from continuing operations	$(102,893)	$(10,219)

Vesta Insurance Group, Inc
Fourth Quarter and Year-to-Date Results
(amounts in thousands, except share data)

	3 Months Ended December 31,		12 Months Ended December 31,	
	2003	2002	2003	2002
Revenues:				
Net premiums written	$103,676	$108,906	$448,768	$546,473
(Increase) decrease in unearned premiums	5,148	24,008	28,310	(54,223)
Net premiums earned	108,824	132,914	477,078	492,250
Net investment income	9,158	11,846	40,691	53,400
Policy fees	9,236	5,727	35,779	19,827
Agents fees and commissions	13,493	22,719	49,110	55,146
Other	1,608	1,660	7,311	8,381
Total revenues	142,319	174,866	609,969	629,004
Expenses:				
Policyholder benefits	5,526	4,048	21,080	23,283
Loss and LAE expenses incurred	68,887	81,297	322,226	321,827
Policy acquisition expenses	14,003	30,016	85,799	90,937
Operating expenses	38,916	47,949	149,228	163,357
Interest on debt	3,245	3,500	12,839	14,922
Deferrable capital securities distributions	392	-	871	-
Total expenses	130,969	166,810	592,043	614,326

Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	11,350	8,056	17,926	14,678
Income taxes	3,972	2,819	6,275	5,136
Deferrable capital securities distributions, net of tax	-	308	622	1,081
Minority interest in subsidiary, net of tax	112	591	605	1,636
Net operating earnings (loss) from continuing operations	7,266	4,338	10,424	6,825
Litigation settlement and arbitration award (loss), net of tax	(43,365)	9,471	(43,365)	(5,869)
Realized gains (losses), net of tax and minority interest	1,425	(13,420)	5,054	(14,621)
Severance payment	-	(2,714)	-	(2,714)
Deferred tax asset charge	(75,399)	-	(75,399)	-
Gain on debt extinguishments, net of tax	393	3,301	393	6,160
Net income (loss) from continuing operations	(109,680)	976	(102,893)	(10,219)
Gain (loss) from health insurance discontinued operations, net of tax	(1,745)	(6,254)	(4,075)	(6,411)
Gain (loss) from consulting discontinued operations, net of tax	63	(1,081)	(361)	(1,180)
Loss from discontinued property-casualty operations, net of tax	(3,871)	(4,519)	(11,489)	(14,401)
Net income (loss) before cumulative effect of change in accounting principle	(115,233)	(10,878)	(118,818)	(32,211)
Cumulative effect of change in accounting principle	(1,167)	-	(1,167)	-
Net income (loss)	(116,400)	(10,878)	(119,985)	(32,211)
Gain on redemption of preferred securities, net of tax	-	350	-	560
Income (loss) available to common shareholders	$(116,400)	$(10,528)	$(119,985)	$(31,651)
Weighted average shares outstanding for the period	35,070	34,190	34,917	33,793
Net operating earnings (loss) from continuing operations earnings per share	$0.21	$0.13	$0.30	$0.20
Realized gains (losses) per share	$0.04	$(0.39)	$0.14	$(0.43)
Net income (loss) from				

continuing operations per share	$(3.13)	$0.03	$(2.95)	$(0.30)
Income (loss) available to common shareholders per share	$(3.32)	$(0.31)	$(3.44)	$(0.94)

Vesta Insurance Group, Inc
Condensed Consolidated Balance Sheet
(amounts in thousands, except per share amounts)

	December 31, 2003	December 31, 2002
Assets:		
Invested assets	$986,072	$1,013,093
Cash	92,376	140,593
Other assets	833,966	889,172
Total assets	$1,912,414	$2,042,858
Liabilities:		
Future policy benefits	$668,298	$678,419
Losses and loss adjustment expenses	355,555	322,320
Unearned premiums	329,773	306,782
Long term debt	75,932	55,795
Line of credit	30,000	30,000
Other liabilities	341,258	391,236
Total liabilities	1,800,816	1,784,552
Deferrable capital securities	-	22,445
Stockholders' equity	111,598	235,861
Total liabilities and stockholders' equity	$1,912,414	$2,042,858
Equity per share*	$3.09	$6.61
Shares outstanding at period end	36,066	35,678

* At December 31, 2003 and December 31, 2002, unrealized gains and losses on fixed income securities, after-tax totaled approximately $12.0 million and $15.1 million, respectively, which represents $0.33 and $0.42, respectively of book value per share.

Vesta Insurance Group, Inc
Reconciliation of Net Operating Earnings from Continuing Operations to Net Income
(amounts in thousands, except share data)

	3 Months Ended December 31,		12 Months Ended December 31,	
	2003	2002	2003	2002
Net operating earnings (loss) from continuing operations	$7,266	$4,338	$10,424	$6,825

Special items:				
Litigation settlement and arbitration award (loss), net of tax	(43,365)	9,471	(43,365)	(5,869)
Realized gains (losses), net of tax and minority interest	1,425	(13,420)	5,054	(14,621)
Severance payment	-	(2,714)	-	(2,714)
Deferred tax asset charge	(75,399)	-	(75,399)	-
Gain on debt extinguishments, net of tax	393	3,301	393	6,160
Net income (loss) from continuing operations	$(109,680)	$976	$(102,893)	$(10,219)
Gain (loss) from health insurance discontinued operations, net of tax	(1,745)	(6,254)	(4,075)	(6,411)
Gain (loss) from consulting discontinued operations, net of tax	63	(1,081)	(361)	(1,180)
Loss from discontinued property-casualty operations, net of tax	(3,871)	(4,519)	(11,489)	(14,401)
Net income (loss) before cumulative effect of change in accounting principle	$(115,233)	$(10,878)	$(118,818)	$(32,211)
Cumulative effect of change in accounting principle	(1,167)	-	(1,167)	-
Net income (loss)	(116,400)	(10,878)	(119,985)	(32,211)
Gain on redemption of preferred securities, net of tax	-	350	-	560
Income (loss) available to common shareholders	$(116,400)	$(10,528)	$(119,985)	$(31,651)
Diluted earnings per share:				
Net operating earnings (loss)	$0.21	$0.13	$0.30	$0.20
Special items:				
Litigation settlement and arbitration award (loss), net of tax	$(1.24)	$0.27	$(1.24)	$(0.17)
Realized gains (losses), net of tax and minority interest	$0.04	$(0.39)	$0.14	$(0.43)
Severance payment	$-	$(0.08)	$-	$(0.08)
Deferred tax asset charge	$(2.15)	$-	$(2.16)	$-
Gain on debt extinguishments, net of tax	$0.01	$0.10	$0.01	$0.18
Net income (loss) from continuing operations	$(3.13)	$0.03	$(2.95)	$(0.30)
Gain (loss) from health insurance discontinued operations, net of tax	$(0.05)	$(0.18)	$(0.12)	$(0.19)
Gain (loss) from consulting discontinued operations, net of				

tax	$0.00	$(0.03)	$(0.01)	$(0.03)
Loss from discontinued property-casualty operations, net of tax	$(0.11)	$(0.14)	$(0.33)	$(0.43)
Net income (loss) before cumulative effect of change in accounting principle	$(3.29)	$(0.32)	$(3.41)	$(0.95)
Cumulative effect of change in accounting principle	$(0.03)	$-	$(0.03)	$-
Net income (loss)	$(3.32)	$(0.32)	$(3.44)	$(0.95)
Gain on redemption of preferred securities, net of tax	$-	$0.01	$-	$0.01
Income (loss) available to common shareholders	$(3.32)	$(0.31)	$(3.44)	$(0.94)
Shares used in computing per share amounts:				
Weighted average shares outstanding for the period	35,070	34,190	34,917	33,793

The above table reconciles the Company's GAAP results to net operating earnings/ (loss). Management believes that net operating earnings/(loss) provides investors with a useful indicator to gauge possible future performance because it eliminates the effects of items that could cause significant impact to the Company's financial results from one period to another.

SOURCE Vesta Insurance Group, Inc.
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SU: ERN CCA