VESTA INSURANCE GROUP INC
Form 8-K
November 07, 2001

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
November 6, 2001
(Date of earliest event reported)

VESTA INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

Item 5. Other Events.

On November 6, 2001, the Registrant issued a press release announcing its results for the third quarter of 2001. A copy of this press release is attached as Exhibit 99.1 and incorporated herein by reference.

Item 7. Financial Statements and Exhibits.

(c) Exhibits

Exhibit No.	Description
99.1	Press Release dated November 6, 2001.

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 November 6, 2001.

VESTA INSURANCE GROUP, INC.

By: /s/ Donald W. Thornton
Its: Senior Vice President --
General Counsel and Secretary

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

Contact: Charles R. Lambert
Manager Investor Relations
(205) 970-7030
CLambert@vesta.com

VESTA ANNOUNCES THIRD QUARTER RESULTS

Strengthens Reserves for Discontinued Operations;
Maintains Profitability, Excluding One-Time Charges

BIRMINGHAM, Ala., - November 6, 2001 - Vesta Insurance Group, Inc. (NYSE: VTA) reported profitable results from continuing operations for the third quarter of 2001, excluding one-time charges. Vesta recorded a pre-tax charge of $30 million related to the settlement of securities litigation and the Company strengthened reserves for discontinued operations by $30 million.

Excluding the charge for settlement of securities litigation, Vesta reported net operating earnings from continuing operations of $1.3 million, or $0.04 per diluted share, for the quarter ending September 30, 2001 compared to operating earnings of $4.2 million, or $0.17 per diluted share, for the corresponding period in 2000. For the nine months ended September 30, Vesta reported a net operating earnings from continuing operations of $8.8 million or

$0.35 per diluted share compared to net operating earnings of $7.9 million or $0.32 per diluted share for the first nine months of 2000.

With the settlement of the securities litigation, the Company reported a net loss from continuing operations of $18.2 million or $0.57 per diluted share in the third quarter of 2001 compared to earnings of $3.0 million or $0.12 per diluted share in the corresponding period in 2000. For the nine months ended September 30, the net loss from continuing operations was $8.3 million, or $0.33 per diluted share compared to earnings of $6.4 million or $0.26 per diluted share for the first nine months of 2000.

The securities litigation settlement is proceeding as expected as Vesta and its excess insurers have funded the cash settlement. The derivative action lawsuit in state court will be dismissed and the federal court has granted preliminary approval in the class action securities case. Final court approval is expected before the end of the year.

Recent adverse development on both commercial lines and assumed reinsurance was the impetus for strengthening the reserves for discontinued operations. Vesta annually performs a full analysis of its reserves at September 30.

"Following a scheduled annual review, we have determined that strengthening the reserves for our discontinued operations appropriately addresses recent and future claims from prior operations," said James E. Tait, Chairman of Vesta. "Vesta remains a solid financial company. While we will fall short of our 12% return on equity target for 2001, we believe that the strengthening of our discontinued operations reserves and the settlement of the securities litigation positions Vesta for future earnings growth."

Standard Property - Casualty

Net written premium in Vesta's standard property-casualty segment increased 31% to $69.9 million for the quarter ending September 30, 2001 compared to the same period in 2000. The increase in net written premium is primarily related to the acquisition of Florida Select. The standard property-casualty segment's combined ratio was 98.5% in the third quarter of 2001.

Although certain books of business in our standard property and casualty business performed well as expected, Vesta experienced an increase in the frequency and severity of losses in the homeowners line driven by storms in several states as well as increased frequency and large losses in our largest automobile market. In addition, premium has not increased as much as anticipated. The Company is continuing to take aggressive action to address these trends, including appropriate premium rate increases, re-inspection programs and evaluating expense reductions.

Life and Health Insurance

Results from Vesta's life and health segment remained strong by reporting a 35% increase in net operating earnings from continuing operations compared to the third quarter of 2000.

Vesta's life insurance subsidiary, American Founders, continues to grow by acquiring blocks of business and leveraging its administrative capabilities. American Founders has agreed to acquire Teton National Insurance Company and Imperial General Life Insurance Company from Woodmen of the World, located in Colorado. These combined companies have statutory assets of $9 million and premium revenue of $.7 million. This transaction is expected to close by the end of the first quarter of 2002. In addition, American Founders has also reached an agreement to be the third-party administrator for Valley Forge Life Insurance Company. American Founders expects to begin administering the Valley Forge business at the beginning of December 2001.

Non-Standard Automobile

Vesta also reported that Instant Auto, a non-standard auto agency operation in which Vesta has an approximate 52% ownership interest, continues to execute its growth strategy. Through a series of transactions, Instant Auto has acquired control of approximately $56 million of annual non-standard auto insurance premium, approximately $30 million of which is produced through Spacecoast agencies in Florida, Pennsylvania, Virginia and California and approximately $26 million of which is produced through A-Affordable Insurance agency in Texas. We expect Instant Auto to become profitable in 2002 with the fee and commission income generated through agency operations.

Corporate and Other Developments

Vesta has announced the appointment of T. Owen Vickers, Sr. to the Company's Board of Directors. Vickers serves as Chairman, CEO and President of Birmingham Hide and Tallow Co., Inc., a diversified private company.

During the third quarter, Vesta engaged in debt for equity swaps and issued 568,644 shares of common stock in exchange for $7 million face value of the Company's 8.75% Senior Debentures due 2025. Subsequent to September 30, Vesta issued 115,782 shares of common stock in exchange for $2 million face value of the Company's 8.525% Deferrable Capital Securities due 2027 and the Company funded its portion of the securities litigation settlement. As a result of these transactions, Vesta's pro forma debt to total capital ratio is 34.3% as of September 30, 2001.

Vesta's management will hold its quarterly conference call to discuss the third quarter results on November 7, 2001 at 10:00 a.m. EST. The conference call will be simultaneously webcast live online through Vesta's corporate website, www.vesta.com and http://www.videonewswire.com/event.asp?id=1893.

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 reserve adequacy on discontinued operations, earnings growth, and segment 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, including its combined ratio for the fiscal year ended December 31, 2001, may differ materially from those reflected in these forward-looking statements. Some of the factors that could affect the forward-looking statements contained herein include, without limitation: that further adverse development occurs in discontinued operations; that competitors may decide to target the Company's customer base by offering lower priced insurance; that the Company's independent agents may decide to discontinue sales of the Company's insurance to the individuals they represent; that new policy application levels may not rise to levels necessary to generate sufficient premium volume to achieve its financial performance goals; that A.M. Best may downgrade the Company's rating; that Vesta's securities litigation settlement may not receive court approval; and that Vesta may ultimately be unable to recover a significant amount of paid losses currently reflected on its published financial statements as recoverable under a reinsurance treaty. 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 and the Prospectus dated June 20, 2001, 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.

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Vesta Insurance Group, Inc.
3rd Quarter 2001 Segment Comparison
(amounts in thousands)

	Life and Health Insurance 2001	2000	Standard Property-Casualty 2001	2000	N 200
Revenues:					
Net premiums written	$ 7,365	$ 1,578	$ 69,980	$ 53,487	
(Increase) decrease in unearned premiums	--	--	(6,090)	(1,904)	
Net premiums earned	7,365	1,578	63,890	51,583	
Net investment income	10,348	10,618	--	--	
Policy fees	976	1,174	1,254	264	
Other	314	511	166	--	
Total revenues	19,003	13,881	65,310	51,847	
Expenses:					
Policyholder benefits	8,436	4,302	--	--	
Loss and LAE expenses incurred	--	--	41,896	29,366	
Policy acquisition expenses	2,034	1,091	14,519	12,407	
Operating expenses	3,248	3,024	7,738	7,566	1
Interest on debt	2,067	2,497	--	--	
Goodwill and other intangible amortization	--	--	--	--	
Total expenses	15,785	10,914	64,153	49,339	1
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	3,218	2,967	1,157	2,508	(1
Income taxes (benefit)	968	831	405	891	
Deferrable capital securities, net of tax	--	--	--	--	
Minority interest in subsidiary, net of tax	526	858	--	--	
Net operating earnings (loss) from continuing operations	1,724	1,278	$ 752	$ 1,617	$ (
Securities litigation settlement charge, net of tax					
Realized gains (losses), net of tax and minority interest	136				
Net income (loss) from continuing operations	$1,860	$ 1,278	$ 752	$ 1,617	$ (

*Excludes realized investment gains and losses

Vesta Insurance G
2001 YTD Segment
(amounts in tho

	Life and Health Insurance 2001	2000	Standard Property-Casualty 2001	2000	N 20
Revenues:					
Net premiums written	$22,312	$1,578	$186,978	$158,510	
(Increase) decrease in unearned premiums	--	--	(1,535)	1,776	

Net premiums earned	22,312	1,578	185,443	160,286	
Net investment income	32,138	10,618	--	--	$ 3
Policy fees	2,926	1,174	2,285	503	
Other	549	511	586	--	1,0
Total revenues	57,925	13,881	188,314	160,789	1,4
Expenses:					
Policyholder benefits	25,431	4,302	--	--	
Loss and LAE expenses incurred	--	--	117,371	94,960	
Policy acquisition expenses	6,058	1,091	41,096	36,844	
Operating expenses	9,815	3,024	22,143	20,693	4,4
Interest on debt	6,695	2,497	--	--	
Goodwill and other intangible amortization	--	--	--	--	
Total expenses	47,999	10,914	180,610	152,497	4,4
Income (loss) from continuing operations before income taxes deferrable capital securities, and minority interest	9,926	2,967	7,704	8,292	(2,9
Income taxes (benefit)	3,018	831	2,982	2,800	(1,0
Deferrable capital securities, net of tax	--	--	--	--	
Minority interest in subsidiary, net of tax	1,596	858	--	--	(9
Net operating earnings (loss) from continuing operatins	$5,312	$1,278	$4,722	$5,492	$(1,0
Securities litigation settlement charge, net of tax					
Realized gains (loss), net of tax and minority interest					
Net income (loss) from continuing operations	$5,961	$1,278	$4,722	$5,492	$(1,0

*Excludes realized investment gains and losses

Vesta Insurance Group, In
Quarter vs. Quarter and YTD vs.
(amounts in thousands, except per s

	3 Months Ended September 30, 2001	**2000**	**9**
Revenues:			
Net premiums written	$ 80,152	$ 55,431	
(Increase) decrease in unearned premiums	(6,455)	(2,129)	
Net premiums earned	73,697	53,302	

Net investment income	15,450	16,854
Policy Fees	2,230	1,438
Other	3,183	898
Total revenues	94,560	72,492
Expenses:		
Policyholder benefits	8,436	4,302
Loss and LAE expenses incurred	43,896	29,421
Policy acquisition expenses	17,139	13,532
Operating expenses	17,575	12,369
Interest on debt	4,054	4,188
Goodwill and other intangible amortization	935	351
Total expenses	92,035	64,163
Income from continuing operations before income taxes deferrable capital securities, and minority interest	2,525	8,329
Income taxes	725	2,718
Deferrable capital securities, net of tax	387	571
Minority interest in subsidiary, net of tax	144	858
Net operating earnings from continuing operations	1,269	4,182
Securities litigation settlement charge, net of tax	(19,500)	-
Realized gains (losses), net of tax and minority interest	69	(1,189)
Net income (loss) from continuing operations	(18,162)	2,993
Income (loss) from discontinued operations, net of tax	(19,800)	1,003
Extraordinary gain on debt extinguishments, net of tax	910	-
Net income (loss)	(37,052)	3,996
Gain on redemption of preferred securities	5,099	-
Preferred stock dividend	-	(1,272)
Income (loss) available to common shareholders	$ (31,953)	$ 2,724
Weighted average diluted shares outstanding	31,837	24,050
Net operating earnings from continuing operations per share	$ 0.04	$ 0.17
Realized gains per share	$ 0.00	$ (0.05)
Net income (loss) from continuing operations per share	$ (0.57)	$ 0.12
Income (loss) available to common shareholders per share	$ (1.00)	$ 0.17

Vesta Insurance Group, Inc.
Condensed Consolidated Balance Sheet
(amounts in thousands)

	September 30, 2001
Assets:	
Invested assets	$ 1,039,244

Cash	33,375
Other assets	691,306
Total assets	$ 1,763,925
Liabilities:	
Future policy benefits	$ 689,068
Losses and loss adjustment expenses	275,856
Unearned premiums	145,259
Debt	89,405
Other liabilities	277,003
Total liabilities	1,476,591
Deferrable capital securities	29,750
Stockholders' equity	257,584
Total liabilites and stockholders' equity	$ 1,763,925
Book value per share	$ 7.57
Book value per share excluding unrealized investment gains and losses	7.14
Shares Outstanding at period end*	34,011

* Excludes shares in the Vesta Agents Stock Incentive Plan Trust