

VESTA INSURANCE GROUP INC
Form 8-K
November 06, 2002

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 5, 2002
(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 5. Other Events.

On November 5, 2002, the Registrant issued a press release announcing its results for the third quarter of 2002. 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

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated November 5, 2002.

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 5, 2002.

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 REPORTS THIRD QUARTER RESULTS

*Operating Earnings Increase by \$1.8 Million;
Written Premiums Grow by 87% Over Prior-Year Period*

BIRMINGHAM, Ala. - November 5, 2002 - Vesta Insurance Group, Inc. (NYSE: VTA) today reported net operating earnings of \$3.1 million, or \$0.09 per diluted share for the quarter ending September 30, 2002 compared to net operating earnings of \$1.3 million, or \$0.04 per diluted share for the corresponding period in 2001. Net premiums written for the quarter were \$149.9 million compared to \$80.2 million in the third quarter of 2001, an 87% increase.

For the nine months ended September 30 2002, Vesta reported net operating earnings of \$2.5 million, or \$0.08 per diluted share, compared to net operating earnings of \$8.8 million or \$0.35 per diluted share for the first nine months of 2001.

Including non-operating items such as realized gains and losses on investments and gains from debt extinguishments, the Company reported net income from continuing operations of \$4.4 million, or \$0.13 per diluted share, in the third quarter of 2002 compared to a loss of \$17.3 million, or \$0.57 per diluted share, in the corresponding period in 2001. For the nine months ended September 30, Vesta reported net income from continuing operations of \$4.2 million or \$0.12 per diluted share compared to a loss of \$7.4 million or \$0.33 per diluted share in 2001. In the third quarter of 2002, the Company adopted SFAS 145, which allows Vesta to classify gains or losses from extinguishments of debt as ordinary income and include the gains or losses in continuing operations. Vesta recorded after-tax gains of \$1.9 million, or \$0.06 per share in the third quarter of 2002 and \$2.8 million, or \$0.09 per share for the nine months ended September 30, 2002 from the extinguishments of debt.

"We are pleased with the third quarter results and the positive trends in our businesses," said Norman W. Gayle, III, President and CEO. "We expect continued improvement in our standard-property casualty segment in the 4th quarter and believe that our continuing operations are on track to produce an annual 10% return on equity in 2003."

Segment Results

Vesta's non-standard automobile businesses produced strong earnings in the third quarter. Net operating earnings from the agency segment were \$2.2 million, an increase of 21% compared to the previous quarter. The specialty underwriting segment, which includes the underwriting risk on non-standard automobile insurance, added \$1.7 million in net operating income.

Vesta's life and health segment posted net operating earnings of \$2.2 million in the quarter due to improved mortality levels and improvement in the health insurance results. The Company has been informed by A.M. Best that the financial strength ratings of American Founders Life Insurance Company and States General Life Insurance Company have been changed to B (Fair) and B-, respectively. Management expects the rating actions to cause minimal impact to American Founders financial results for the remainder of 2002 and 2003. This rating action does not affect Vesta's property-casualty ratings, which were affirmed at B+ (secure) in June 2002.

Vesta's standard property-casualty business reported a net operating loss of \$1.1 million from net written premium of \$97.2 million in the third quarter of 2002 compared to \$70.0 million in the same period of 2001. The Company's GAAP combined ratio for its residential property business and standard auto business was 103.7% and 95.4%, respectively, for the third quarter for an overall 102.0% combined ratio for the segment.

"We are very pleased with the continued improvement in the standard auto business, which accounts for approximately 25% of the total revenues in the standard property-casualty segment," said Gayle. "In addition, the residential property business in Florida, Hawaii and Texas, which represents approximately 50% of the standard property-casualty segment, is maintaining its strong performance with a 94.6% combined ratio in the third quarter and a 93.6% combined ratio year to date. The remaining portfolio is predominantly a Midwest and Mid-Atlantic book of residential property business that ran a 124% combined ratio for the third quarter. We believe that the corrective re-underwriting measures taken previously on this portfolio -- including reducing new business, inspection programs, and rate increases -- will lessen this portfolio's impact on the overall results going forward."

Michael J. Gough, 63, a consultant with extensive insurance industry experience, has been elected to Vesta's Board of Directors effective November 5. Mr. Gough, a Fellow of the Institute of Chartered Accountants in the United Kingdom, spent 15 years with Alexander & Alexander, a major insurance holding company, prior to its acquisition by Aon Corporation. With Mr. Gough's election to the Board, the total number of Directors remains at eight with seven being non-executive Directors. Mr. Gough is replacing James E. Tait, who resigned as a Director to focus his energies full-time on Vesta's consulting subsidiary, Tait Advisory Services. Ehney A. Camp, III, a Director since 1993, has been elected to replace Mr. Tait as Chairman of the Board.

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Additionally, Vesta announced that the Company's Board of Directors declared a quarterly cash dividend for the period ending September 30, 2002 of \$0.025 per share on the Company's common stock at its meeting on November 5, 2002. The dividend is payable on December 3, 2002 to shareholders of record on November 18, 2002.

Vesta management will hold its quarterly conference call to discuss third quarter 2002 results on November 6, 2002 at 10 AM EST. The conference call will be simultaneously webcast live online through Vesta's corporate website, www.vesta.com and <http://www.firstcallevts.com/service/ajwz368495189gf12.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 return on equity, 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 factor that could affect the forward-looking statements contained herein is that frequency and severity of insured losses in our standard property-casualty segment or specialty underwriting segment could increase beyond expected levels. 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.

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Vesta Insurance Group, Inc
3rd Quarter 2002 Segment Comparison
(amounts in thousands)

	Life and Health Insurance		Standard Property-Casualty		Agency	
	2002	2001	2002	2001	2002	2001
Revenues:						
Net premiums written	\$ 7,537	\$ 7,365	\$ 97,191	\$ 69,980	--	
(Increase) decrease in unearned premiums	--	--	(8,497)	(6,090)	--	
Net premiums earned	7,537	7,365	88,694	63,890	--	
Net investment income	9,827	10,348	--	--	--	\$
Policy fees	798	976	1,345	1,254		
Agents fees and commissions	--	--	--	--	\$ 26,745	
Other	367	314	122	166	--	
Total revenues	18,529	19,003	90,161	65,310	26,745	
Expenses:						
Policyholder benefits	8,082	8,436	--	--	--	
Loss and LAE expenses incurred	--	--	61,446	41,896	--	
Policy acquisition expenses	1,482	2,034	19,881	14,519	--	
Operating expenses	3,470	3,248	10,551	7,738	22,922	1,

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Interest on debt	1,592	2,067	--	--	287	
Goodwill and other intangible amortization	--	--	--	--	--	
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Total expenses	14,626	15,785	91,878	64,153	23,209	1,
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Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	3,903	3,218	(1,717)	1,157	3,536	(1,
Income tax expense (benefit)	1,366	968	(601)	405	1,238	(
Deferrable capital securities, net of tax	--	--	--	--	--	
Minority interest in subsidiary, net of tax	355	526	--	--	112	(
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Net operating earnings (loss)*	\$ 2,182	\$1,724	\$ (1,116)	\$ 752	\$ 2,186	\$ (
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Securities litigation settlement charge, net of tax						
Gain on debt extinguishments, net of tax						
Realized gains (loss), net of tax and minority interest	(575)	136				
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Net income (loss) from continuing operations	\$1,607	\$1,860	\$ (1,116)	\$ 752	\$ 2,186	\$ (4
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*Excludes realized investment gains and losses and other non-operating items

Vesta Insurance Group, Inc
2002 YTD Segment Comparison
(amounts in thousands)

	Life and Health Insurance		Standard Property- Casualty		Agency	
	2002	2001	2002	2001	2002	2001
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Revenues:						
Net premiums written	\$23,173	\$22,312	\$299,818	\$186,978	--	--
(Increase) decrease in unearned premiums	--	--	(62,768)	(1,535)	--	--
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Net premiums earned	23,173	22,312	237,050	185,443	--	--
Net investment income	28,584	32,138	--	--	--	\$ 30
Policy fees	2,914	2,926	3,937	2,285		
Agents fees and commissions	--	--	--	--	\$76,505	1,09
Other	1,024	549	347	586	--	--
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Total revenues	55,695	57,925	241,334	188,314	76,505	1,40
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Expenses:						
Policyholder benefits	29,831	25,431	--	--	--	--
Loss and LAE expenses incurred	--	--	168,571	117,371	--	--
Policy acquisition expenses	3,968	6,058	52,013	41,096	--	--
Operating expenses	10,307	9,815	29,815	22,143	66,329	4,40
Interest on debt	4,756	6,695	--	--	861	--
Goodwill and other intangible amortization	--	--	--	--	--	--
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Total expenses	48,862	47,999	250,399	180,610	67,190	4,400
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	6,833	9,926	(9,065)	7,704	9,315	(2,999)
Income tax expense (benefit)	2,392	3,018	(3,173)	2,982	3,260	(1,040)
Deferrable capital securities, net of tax	--	--	--	--	--	--
Minority interest in subsidiary, net of tax	506	1,596	--	--	539	(900)
Net operating earnings (loss)*	\$3,935	\$5,312	\$(5,892)	\$4,722	\$5,516	\$(1,040)
Securities litigation settlement charge, net of tax						
Gain on debt extinguishments, net of tax						
Realized gains (loss), net of tax and minority interest	686	649				
Net income (loss) from continuing operations	\$4,621	\$5,961	\$(5,892)	\$4,722	\$5,516	\$(1,040)

*Excludes realized investment gains and losses and other non-operating items

Vesta Insurance Group, Inc
Third Quarter Results
(amounts in thousands, except share data)

	3 Months Ended September 30,	
	2002	2001
Revenues:		
Net premiums written	\$ 149,913	\$ 80,152
(Increase) decrease in unearned premiums	(11,697)	(6,455)
Net premiums earned	138,216	73,697
Net investment income	14,397	15,450
Policy fees	5,272	2,230
Agents fees and commissions	21,268	299
Other	2,990	2,884
Total revenues	182,143	94,560
Expenses:		
Policyholder benefits	8,082	8,436
Loss and LAE expenses incurred	87,524	43,896
Policy acquisition expenses	27,673	17,139
Operating expenses	49,215	17,575
Interest on debt	3,576	4,054
Goodwill and other intangible amortization	84	935
Total expenses	176,154	92,035
Income from continuing operations before income taxes,		

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deferrable capital securities, and minority interest	5,989	2,525
Income taxes	2,097	725
Deferrable capital securities, net of tax	322	387
Minority interest in subsidiary, net of tax	467	144
	-----	-----
Net operating earnings	3,103	1,269
Securities litigation settlement charge, net of tax	-	(19,500)
Realized gains (losses), net of tax and minority interest	(667)	69
Gain on debt extinguishments, net of tax	1,949	910
Net income (loss) from continuing operations	4,385	(17,252)
Loss from discontinued operations, net of tax	(655)	(19,800)
Net income (loss)	3,730	(37,052)
Gain on redemption of preferred securities, net of tax	-	5,099
Preferred stock dividend	-	-
	-----	-----
Income (loss) available to common shareholders	\$ 3,730	\$ (31,953)
	=====	=====
Weighted average diluted shares outstanding for the period	34,320	31,837
Net operating earnings from continuing operations earnings per share	\$ 0.09	\$ 0.04
Realized gains (losses) per share	\$ (0.02)	\$ 0.00
Net income (loss) from continuing operations per share	\$ 0.13	\$ (0.57)
Income (loss) available to common shareholders per share	\$ 0.11	\$ (1.00)

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

	September 30, 2002	
	-----	-----
Assets:		
Invested assets		\$ 1,103,287
Cash		32,745
Other assets		908,820

Total assets		\$ 2,044,852
		=====
Liabilities:		
Future policy benefits		\$ 680,446
Losses and loss adjustment expenses		342,210
Unearned premiums		301,245
Debt		96,982
Other liabilities		340,933

Total liabilities		1,761,816

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Deferrable capital securities	22,445
Stockholders' equity	260,591

Total liabilities and stockholders' equity	\$ 2,044,852
	=====
Equity per share	\$ 7.30
Equity per share excluding unrealized investment gains and losses	6.96
Shares outstanding at period end*	35,708

* Excludes shares in the Vesta Agents Stock Incentive Plan Trust