

VESTA INSURANCE GROUP INC  
Form 8-K  
February 28, 2003

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**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**  
**February 27, 2003**  
(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)

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**Item 5. Other Events.**

On February 27, 2003, the Registrant issued a press release announcing its results for the fourth 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 February 27, 2003.

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 February 27, 2003.

VESTA INSURANCE GROUP, INC.

By: /s/ Donald W. Thornton

Its: Senior Vice President --  
General Counsel and Secretary

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EXHIBIT 99.1

**FOR IMMEDIATE RELEASE**

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

**VESTA REPORTS FOURTH QUARTER RESULTS**

*Written Premiums Grow by 30% Over Prior-Year Period;  
Hopson B. Nance Named Chief Financial Officer*

BIRMINGHAM, Ala. - February 27, 2003 - Vesta Insurance Group, Inc. (NYSE: VTA) today reported net operating earnings of \$4.5 million, or \$0.13 per share in the fourth quarter compared to a loss of \$2.3 million, or \$(0.07) per share for the corresponding period in 2001. Net income from continuing operations was \$1.1 million, or \$0.03 per share for the quarter ending December 31, 2002 compared to a net loss of \$1.6 million, or \$(0.05) per share in the fourth quarter of 2001. Net operating earnings is a non-GAAP measure which excludes certain items, such as realized gains and losses, litigation and arbitration awards and charges, gains on debt extinguishments, and severance charges. Net premiums written for the quarter were \$110.3 million compared to \$85.1 million in the fourth quarter of 2001, a 30% increase. (A reconciliation of operating earnings to net loss is included herein.)

For the full year, net operating earnings were \$7.2 million, or \$0.21 per share compared to \$5.3 million, or \$0.20 per share in 2001. For the full year, the Company reported a net loss from continuing operations of \$9.7 million, or \$(0.29) per share compared to a loss of \$10.2 million or \$(0.38) per share in 2001. Net premiums written for the full

year were \$552 million compared to \$286 million in 2001, a 93% increase. (A reconciliation of operating earnings to net income is included herein.)

"We are very pleased with the growth and continuing improvement in our core operations," said Norman W. Gayle, III, President and CEO. "Just as important, we have eliminated a number of uncertainties and enter 2003 with improving trends of earnings growth."

#### **Fourth Quarter Segment Results**

American Founders posted net operating earnings of \$1.4 million. The Company also wrote down \$27 million of non-performing collateral loans held as an investment and recently engaged William Blair & Company to assist management in assessing capital raising alternatives for the life insurance operations. As one step to stabilize its capital for the life insurance operations following the write down, American Founders increased its quota share reinsurance and ended 2002 with \$30.7 million in statutory capital.

vesta's standard property-casualty business reported net operating earnings of \$1.3 million. Effective December 1, 2002, Vesta entered a 50% quota share reinsurance agreement for residential property business in Texas. During 2002, Vesta's subsidiary, Texas Select Lloyds, wrote approximately \$184 million of gross written premiums. The Company's GAAP combined ratio for its residential property business and standard auto business was 96.8% and 99.6%, respectively. Overall, the standard property-casualty combined ratio was 97.7% for the fourth quarter compared to 109.9% for the same period in 2001. For the full year, the standard property-casualty combined ratio was 102.1% compared to 99.4% for 2001.

"For 2003, we expect increased standard lines profitability with an annualized targeted combined ratio of 98% in 2003 on the strength of our growing residential property business and improving auto business," said Gayle. "We are pleased with the placement of the quota share agreement with top-rated reinsurers further affirming our positive outlook for our Texas operations."

Vesta's non-standard automobile businesses produced another strong quarter. Net operating earnings from the agency segment were \$1.2 million. The specialty underwriting segment, which includes our underwriting risk on non-standard automobile insurance, added \$1.6 million in net operating earnings.

The Company also recorded an after-tax charge of \$12 million in the quarter related to its discontinued operations. The charge included \$6.2 million relating to the decision made in the fourth quarter to exit the health insurance lines, and \$4.7 million for commercial and reinsurance assumed businesses, which were discontinued in 1999.

Hopson B. Nance, CPA, who has served as Interim Chief Financial Officer since October 2002, has been elected the permanent Chief Financial Officer and Treasurer. A graduate of Auburn University, Nance joined Vesta in 2000 as vice president and controller following seven years in the Assurance and Business Advisory Services practice at PricewaterhouseCoopers, LLP.

"Hopson's financial expertise and knowledge of the insurance industry make him an excellent choice to assume the CFO responsibilities," said Gayle. "We look forward to his continued contributions."

Vesta management will hold its quarterly conference call to discuss fourth quarter 2002 results on February 28, 2003 at 10 AM EST. The conference call will be simultaneously webcast live online through Vesta's corporate website, [www.vesta.com](http://www.vesta.com) and <http://www.firstcallevts.com/service/ajwz374631450gf12.html>.

#### **About Vesta Insurance Group, Inc.**

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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 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 the forward-looking statements contained herein are that frequency and severity of insured losses in our standard property-casualty segment or specialty underwriting segment could increase beyond expected levels and policyholder benefits in our life insurance 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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	Life Insurance		Standard Property-Casualty	
	2002	2001	2002	2001
Revenues:				
Net premiums written	\$ 2,338	\$ 2,625	\$ 60,491	\$ 7,759
(Increase) decrease in unearned premiums	--	--	28,433	(1,369)
Net premiums earned	2,338	2,625	88,924	6,390
Net investment income	7,759	11,199	--	--
Policy fees	622	1,045	1,369	--
Agents fees and commissions	--	--	--	--
Other	581	614	58	--
Total revenues	11,300	15,483	90,351	6,390
Expenses:				
Policyholder benefits	4,048	5,776	--	--
Loss and LAE expenses incurred	--	--	55,457	4,048
Policy acquisition expenses	1,221	1,295	21,465	1,369
Operating expenses	1,912	1,577	11,396	1,369
Interest on debt	1,548	1,889	--	--
Goodwill and other intangible amortization	--	--	--	--
Total expenses	8,729	10,537	88,318	6,390
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	2,571	4,946	2,033	(2,000)
Income tax expense (benefit)	900	1,732	712	(1,369)
Deferrable capital securities, net of tax	--	--	--	--
Minority interest in subsidiary, net of tax	236	711	--	--

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Net operating earnings (loss) from continuing operations \$ 1,435 \$ 2,503 \$ 1,321 \$ (

	Life Insurance		Standard Property Casualty	
	2002	2001	2002	
<b>Revenues:</b>				
Net premiums written	\$ 10,506	\$ 9,769	\$ 360,309	\$ 26
(Increase) in unearned premiums	--	--	(34,335)	(1
Net premiums earned	10,506	9,769	325,974	24
Net investment income	36,020	42,987	--	
Policy fees	3,536	3,971	5,306	
Agents fees and commissions	--	--	--	
Other	1,602	1,020	405	
<b>Total revenues</b>	<b>51,664</b>	<b>57,747</b>	<b>331,685</b>	<b>25</b>
<b>Expenses:</b>				
Policyholder benefits	23,283	24,092	--	
Loss and LAE expenses incurred	--	--	224,028	16
Policy acquisition expenses	2,720	1,937	73,478	5
Operating expenses	9,721	9,350	41,211	3
Interest on debt	6,304	8,584	--	
Goodwill and other intangible amortization	--	--	--	
<b>Total expenses</b>	<b>42,028</b>	<b>43,963</b>	<b>338,717</b>	<b>24</b>
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	9,636	13,784	(7,032)	
Income tax expense (benefit)	3,420	4,824	(2,461)	
Deferrable capital securities, net of tax	--	--	--	
Minority interest in subsidiary, net of tax	742	2,307	--	
<b>Net operating earnings (loss) from continuing operations</b>	<b>\$ 5,474</b>	<b>\$ 6,653</b>	<b>\$ (4,571)</b>	<b>\$</b>

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

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	3 Months Ended Dec 2002	2002
Revenues:		
Net premiums written	\$ 110,306	
(Increase) decrease in unearned premiums	24,008	
	-----	-----
Net premiums earned	134,314	
Net investment income	11,846	
Policy fees	5,727	
Agents fees and commissions	22,719	
Other	1,660	
	-----	-----
Total revenues	176,266	
Expenses:		
Policyholder benefits	4,048	
Loss and LAE expenses incurred	81,852	
Policy acquisition expenses	30,323	
Operating expenses	48,149	
Interest on debt	3,500	
Goodwill and other intangible amortization	84	
	-----	-----
Total expenses	167,956	
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	8,310	
Income taxes	2,908	
Deferrable capital securities, net of tax	308	
Minority interest in subsidiary, net of tax	591	
	-----	-----
Net operating earnings (loss) from continuing operations	4,503	
Litigation settlement and arbitration award (loss), net of tax	9,471	
Realized gains (losses), net of tax and minority interest	(13,420)	
Severance payment	(2,714)	
Gain on debt extinguishments, net of tax	3,301	
	-----	-----
Net income (loss) from continuing operations	1,141	
Gain (loss) from health insurance discontinued operations, net of tax	(6,254)	
Gain (loss) from consulting discontinued operations, net of tax	(1,081)	
Loss from assumed reinsurance and commercial lines, net of tax	(4,684)	
	-----	-----
Net (loss)	(10,878)	
Gain on redemption of preferred securities, net of tax	350	
Preferred stock dividend	-	
	-----	-----
Income (loss) available to common shareholders	\$ (10,528)	
	=====	=====
Weighted average shares outstanding for the period	34,190	
Net operating earnings (loss) from continuing operations earnings per share	\$ 0.13	

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Realized (losses) per share	\$ (0.39)
Net income (loss) from continuing operations per share	\$ 0.03
Loss available to common shareholders per share	\$ (0.31)

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

	December -----
Assets:	
Invested assets	
Cash	
Other assets	-----
Total assets	=====
Liabilities:	
Future policy benefits	
Losses and loss adjustment expenses	
Unearned premiums	
Debt	
Other liabilities	-----
Total liabilities	
Deferrable capital securities	
Stockholders' equity	-----
Total liabilities and stockholders' equity	=====
Equity per share	
Equity per share excluding unrealized investment gains and losses	
Shares outstanding at period end	

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

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	3 Months Ended Dec 2002	2001
Net operating earnings (loss)	\$ 4,503	
Special items:		
Litigation settlement and arbitration award (loss), net of tax	9,471	
Realized (losses), net of tax and minority interest	(13,420)	
Severance payment	(2,714)	
Gain on debt extinguishments, net of tax	3,301	
Net income (loss) from continuing operations	\$ 1,141	
Gain (loss) from health insurance discontinued operations, net of tax	(6,254)	
Gain (loss) from consulting discontinued operations, net of tax	(1,081)	
Loss from assumed reinsurance and commercial lines, net of tax	(4,684)	
Net (loss)	\$ (10,878)	
Gain on redemption of preferred securities, net of tax	350	
Preferred stock dividend	-	
Loss available to common shareholders	\$ (10,528)	
Diluted earnings per share:		
Net operating earnings (loss)	\$ 0.13	
Special items:		
Litigation settlement and arbitration award (loss), net of tax	\$ 0.28	
Realized (losses), net of tax and minority interest	\$ (0.39)	
Severance payment	\$ (0.08)	
Gain on debt extinguishments, net of tax	\$ 0.10	
Net income (loss) from continuing operations	\$ 0.03	
Gain (loss) from health insurance discontinued operations, net of tax	\$ (0.18)	
Gain (loss) from consulting discontinued operations, net of tax	\$ (0.03)	
Loss from assumed reinsurance and commercial lines, net of tax	\$ (0.14)	
Gain on redemption of preferred securities, net of tax	\$ 0.01	
Preferred stock dividend	\$ -	
Loss available to common shareholders	\$ (0.31)	
Shares used in computing per share amounts:		
Weighted average shares outstanding for the period	34,190	

*The above table reconciles the Company's GAAP results to net operating earnings. Management believes that net operating earnings 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.*