

VESTA INSURANCE GROUP INC
Form 8-K
August 06, 2003

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
August 5, 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)

Item 7. Financial Statements and Exhibits.

(c) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
99.1	Press Release dated August 5, 2003.

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

On August 5, 2003, the Registrant reported its earnings for the quarter ended June 30, 2003. Attached to this Current Report on Form 8-K as Exhibit 99.1 is a copy of the Company's press release dated August 5, 2003, which is incorporated herein by reference.

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 August 5, 2003.

VESTA INSURANCE GROUP, INC.

By: /s/ John W. McCullough
Its: Vice President --
Associate General Counsel and Secretary

EXHIBIT 99.1

FOR IMMEDIATE RELEASE

Contact: Charles R. Lambert
Vice President Investor Relations
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VESTA REPORTS SECOND QUARTER RESULTS
*Non-Standard Auto Reports 96.7% Combined Ratio;
Incurs \$20.0 Million in Catastrophe Losses in Standard Operations*

BIRMINGHAM, Ala. - August 5, 2003 - Vesta Insurance Group, Inc. (NYSE: VTA) today reported a net operating loss from continuing operations of \$5.4 million, or \$(0.16) per share in the second quarter compared to a net operating loss from continuing operations of \$.6 million, or \$(0.02) per share for the corresponding period in 2002. The net loss from continuing operations was \$4.0 million, or \$(0.12) per share for the quarter ending June 30, 2003 compared to a net loss from continuing operations of \$1.6 million, or \$(0.05) per share in the second quarter of 2002. Net operating loss is a non-GAAP measure which excludes certain items, such as realized gains and losses and gains on debt extinguishments. (A reconciliation of net operating loss to net loss from continuing operations is included herein.) Net earned premium for the quarter was \$123.5 million compared to \$122.2 million in the second quarter of 2002.

For the six months ended June 30, 2003, the net operating loss from continuing operations was \$3.2 million, or \$(0.09) per share compared to a loss of \$.3 million, or \$(0.01) per share in 2002. For the first six months, the Company reported net income from continuing operations of \$.4 million, or \$0.01 per share compared to income of \$.016 million or \$0.00 per share in 2002. (A reconciliation of the net operating loss to net loss from continuing operations is included herein.)

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"Our core businesses are producing vastly improved fundamental results as evidenced by our underwriting margins excluding catastrophes," said Norman W. Gayle, III, President and CEO. "The risk of catastrophes is inherent in the insurance business and our standard property-casualty segment incurred \$20.0 million of catastrophe losses in the quarter, including \$17.3 million from the severe Texas hailstorms in early April. The hailstorm had a 21-point impact on our standard property-casualty combined ratio in the second quarter."

Vesta also announced that it has entered into a definitive agreement to sell its health insurance subsidiary, States General Life Insurance Company, for statutory surplus. The Company is continuing to explore other capital alternatives, including a possible divestiture of its life insurance business and portions of its property-casualty operations, but will not comment on the terms of any transaction until a definitive agreement is executed. Furthermore, Vesta is considering separating its non-standard and standard businesses, which could facilitate additional capital transactions.

The Company's non-standard auto underwriting business generated a GAAP combined ratio of 96.7% in the second quarter and 96.0% for the first six months of 2003 compared to a 96.4% and a 97.1% combined ratios for the respective corresponding periods in 2002. The non-standard agency operations produced a 10.2% pre-tax margin in the quarter on commission and fee revenue of \$33.9 million, before eliminations.

"Our non-standard agency operations has consistently provided healthy profitability based on commission and fee income," said Gayle. "Our non-standard underwriting margins also continue to be attractive. When you consider these two segments together, we believe we have a non-standard auto business with exciting earnings power."

The Company's life insurance operations posted net income from continuing operations of \$1.2 million in the second quarter compared to \$2.1 million in the corresponding period in 2002 as lower investment yield and reduced realized gains impacted results.

Vesta's standard property-casualty segment, which includes the residential property and standard auto businesses, posted a net loss from continuing operations of \$7.6 million in the second quarter of 2003. Below are the standard property-casualty segment GAAP operational ratios for the three and six months ended June 30, 2003 and 2002.

	3 Months Ended June 30, 2003	3 Months Ended June 30, 2002	6 Months Ended June 30, 2003	6 Months Ended June 30, 2002
Residential property combined ratio	118.8%	106.8%	113.4%	103.0%
Standard auto combined ratio	97.6%	103.1%	96.6%	111.0%
Standard property-casualty combined ratio	114.1%	106.0%	109.6%	105.0%
Total catastrophe losses incurred (in millions)	\$ 20.0	\$ 6.2	\$ 23.3	\$ 7.9
Impact of catastrophes on standard property-casualty combined ratio	24.1%	7.7%	14.3%	5.3%

"Our standard auto results have produced four consecutive quarters of profitability and our frequency and severity trends point to continued profitability," said Gayle. "We are enthusiastic about the future of our residential property business and its long-term profitability, recognizing that it will experience short-term volatility in quarters with significant catastrophe losses. The Texas hailstorm was the largest single catastrophe in the Company's history and our claims operation handled approximately 7,300 claims related to this storm, of which only 250 claims remain open."

Vesta also incurred \$7.6 million in net losses relating to discontinued operations in the quarter. The net losses relate, in part, to an adjustment of our estimated expense recoveries in an arbitration with Cigna Property and Casualty Insurance Company (n/k/a ACE Property and Casualty Insurance Company.) The adjustment is based on an ongoing audit of the expenses charged to Vesta under an assumed reinsurance treaty, and is subject to further modification at the conclusion of the audit.

E. Murray Meadows, CPA, has joined Vesta Insurance Group as Vice President and Controller. A graduate of Millsaps College in Jackson, Mississippi, Meadows was previously a senior manager with KPMG LLP in Nashville, Tenn.

Vesta management will hold its quarterly conference call to discuss second quarter 2003 results on August 6, 2003 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/ajwz384680311gf12.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.

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This news release contains statements concerning management's beliefs, plans or objectives for Vesta's future operations or financial performance, including potential transactions described herein, 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 the forward-looking statements contained herein we may be unable to reach definitive agreements or obtain the requisite regulatory approval for the potential transactions described herein, that frequency and severity of insured losses in our standard property-casualty segment and/or our non-standard underwriting segment are greater than expected or that unfavorable developments in various arbitrations with reinsurers causes us to adjust our estimates of reinsurance recoverables. 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,
2nd Quarter 2003 Segment Com
(amounts in thousands)

	Life Insurance		Standard Property-Casualty		Non-Standard Agency	
	2003	2002	2003	2002	2003	2002
Revenues:						
Net premiums written	\$2,317	\$2,476	\$81,509	\$103,536	--	--
(Increase) decrease in unearned premiums	--	--	(2,161)	(24,394)	--	--
Net premiums earned	2,317	2,476	79,348	79,142	--	--
Net investment income	7,078	9,230	--	--	--	--
Policy fees	632	1,133	2,892	1,290	--	--
Agents fees and commissions	--	--	--	--	\$ 33,936	\$26,172
Other	719	320	164	225	--	--
Total revenues	10,746	13,159	82,404	80,657	33,936	26,172
Expenses:						
Policyholder benefits	5,214	6,923	--	--	--	--
Loss and LAE expenses incurred	--	--	64,997	59,336	--	--
Policy acquisition expenses	81	17	17,785	16,405	--	--
Operating expenses	2,407	2,646	11,264	9,735	30,142	22,671
Interest on debt	1,436	1,588	--	--	332	454
Other intangible amortization	--	--	--	--	--	--
Total expenses	9,138	11,174	94,046	85,476	30,474	23,125
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	1,608	1,985	(11,642)	(4,819)	3,462	3,047
Income tax expense (benefit)	563	695	(4,075)	(1,686)	1,212	1,066
Deferrable capital securities, net of tax	--	--	--	--	--	--
Minority interest in subsidiary, net of tax	--	115	--	--	93	182
Net operating earnings (loss) from continuing operations	\$1,045	\$1,175	\$ (7,567)	\$ (3,133)	\$2,157	\$1,799
Realized gains (loss), net of tax	183	919	-	-	-	-

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Gain on debt extinguishments, net of tax	-	-	-	-	-	-
Net income (loss) from continuing operations	\$1,228	\$2,094	\$(7,567)	\$(3,133)	\$2,157	\$1,799

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

	Life Insurance		Standard Property-Casualty		Non-Standard Agency	
	2003	2002	2003	2002	2003	2002
Revenues:						
Net premiums written	\$ 4,727	\$ 5,533	\$163,082	\$199,779	--	--
(Increase) decrease in unearned premiums	--	--	(7,322)	(54,271)	--	--
Net premiums earned	4,727	5,533	155,760	145,508	--	--
Net investment income	14,773	18,536	--	--	--	--
Policy fees	1,125	2,116	4,954	2,592		
Agents fees and commissions	--	--	--	--	\$ 72,858	\$ 58,734
Other	1,361	657	406	225	--	--
Total revenues	21,986	26,842	161,120	148,325	72,858	58,734
Expenses:						
Policyholder benefits	10,304	14,751	--	--	--	--
Loss and LAE expenses incurred	--	--	117,991	105,726	--	--
Policy acquisition expenses	450	160	36,413	31,469	--	--
Operating expenses	4,859	5,104	22,269	18,621	64,111	52,381
Interest on debt	2,889	3,164	--	--	332	574
Other intangible amortization	--	--	--	--	--	--
Total expenses	18,502	23,179	176,673	155,816	64,443	52,955
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	3,484	3,663	(15,553)	(7,491)	8,415	5,779
Income tax expense (benefit)	1,219	1,282	(5,444)	(2,622)	2,945	2,022
Deferrable capital securities, net of tax	--	--	--	--	--	--
Minority interest in subsidiary, net of tax	--	151	--	--	379	427
Net operating earnings (loss) from continuing operations	\$2,265	\$2,230	\$(10,109)	(4,869)	\$5,091	\$3,330

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Realized gains (loss), net of tax	178	1,262			
Gain on debt extinguishments, net of tax					

Net income (loss) from continuing operations	\$2,443	\$3,492	\$(10,109)	\$(4,869)	\$5,091 \$3,330
	=====				

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

	3 Months Ended June 30, 2003	2002	6 Months Ended June 30, 2003	2002
	-----	-----	-----	-----
Revenues:				
Net premiums written	\$ 129,868	\$ 149,396	\$ 260,814	\$ 293,999
(Increase) decrease in unearned premiums	(6,408)	(27,212)	(19,861)	(66,518)
	-----	-----	-----	-----
Net premiums earned	123,460	122,184	240,953	227,481
Net investment income	9,871	13,691	21,486	27,259
Policy fees	9,073	5,505	16,711	8,923
Agents fees and commissions	16,854	13,353	37,731	31,733
Other	1,859	2,389	3,802	4,524
	-----	-----	-----	-----
Total revenues	161,117	157,122	320,683	299,920
Expenses:				
Policyholder benefits	5,214	6,923	10,304	14,751
Loss and LAE expenses incurred	93,589	83,526	173,095	153,531
Policy acquisition expenses	23,516	23,769	45,300	43,086
Operating expenses	43,317	38,892	88,955	79,486
Interest on debt	3,153	3,895	6,311	7,846
Other intangible amortization	84	84	168	168
	-----	-----	-----	-----
Total expenses	168,873	157,089	324,133	298,868
Income (loss) from continuing operations before income taxes, deferrable capital securities, and minority interest	(7,756)	33	(3,450)	1,052
Income taxes	(2,714)	12	(1,209)	367
Deferrable capital securities, net of tax	311	322	622	451
Minority interest in subsidiary, net of tax	93	297	379	578
	-----	-----	-----	-----
Net operating earnings (loss) from continuing operations	(5,446)	(598)	(3,242)	(344)
Realized gains (losses), net of tax and minority interest	1,398	(973)	3,678	(537)
Gain on debt extinguishments, net of tax	--	--	--	897
	-----	-----	-----	-----
Net income (loss) from continuing operations	(4,048)	(1,571)	436	16
Gain (loss) from health insurance discontinued operations, net of tax	(612)	(479)	(1,210)	(476)
Gain (loss) from consulting discontinued operations, net of tax	(14)	71	(405)	218
Loss from discontinued property-casualty operations, net of tax	(6,927)	(9,504)	(6,746)	(9,492)
	-----	-----	-----	-----
Net income (loss)	(11,601)	(11,483)	(7,925)	(9,734)

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	3 Months Ended June 30,		6 Months Ended June 30,	
	2003	2002	2003	2002
Gain on redemption of preferred securities, net of tax	--	--	--	210
Income (loss) available to common shareholders	\$ (11,601)	\$ (11,483)	\$ (7,925)	\$ (9,524)
Weighted average shares outstanding for the period	34,896	33,780	34,880	33,394
Net operating earnings (loss) from continuing operations earnings per share	\$ (0.16)	\$ (0.02)	\$ (0.09)	\$ (0.01)
Realized gains (losses) per share	\$ 0.04	\$ (0.03)	\$ 0.10	\$ (0.02)
Net income (loss) from continuing operations per share	\$ (0.12)	\$ (0.05)	\$ 0.01	\$ 0.00
Income (loss) available to common shareholders per share	\$ (0.33)	\$ (0.34)	\$ (0.23)	\$ (0.29)

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

	June 30, 2003	December 31, 2002
Assets:		
Invested assets	\$ 1,044,886	\$ 1,010,590
Cash	55,939	140,593
Other assets	941,860	891,675
Total assets	\$ 2,042,685	\$ 2,042,858
Liabilities:		
Future policy benefits	\$ 672,593	\$ 678,419
Losses and loss adjustment expenses	337,571	322,320
Unearned premiums	345,084	306,782
Debt	85,643	85,795
Other liabilities	348,676	391,236
Total liabilities	1,789,567	1,784,552
Deferrable capital securities	22,445	22,445
Stockholders' equity	230,673	235,861
Total liabilities and stockholders' equity	\$ 2,042,685	\$ 2,042,858
Equity per share*	\$ 6.47	\$ 6.61
Shares outstanding at period end	35,678	35,678

* At June 30, 2003 and December 31, 2002, unrealized gains and losses on fixed income securities, after-tax totaled approximately \$19.2 and \$15.1 million, respectively, which represents \$0.54 and \$0.42, respectively of book value per share.

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

	3 Months Ended June 30,		6 Months Ended June 30,	
	2003	2002	2003	2002
Net operating earnings (loss)	\$ (5,446)	\$ (598)	\$ (3,242)	\$ (344)
Special items:				
Realized gains (losses), net of tax and minority interest	1,398	(973)	3,678	(537)
Gain on debt extinguishments, net of tax	--	--	--	897
Net income (loss) from continuing operations	\$ (4,048)	\$ (1,571)	\$ 436	\$ 16

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	3 Months Ended June 30,		6 Months Ended June 30,	
Gain (loss) from health insurance discontinued operations, net of tax	(612)	(479)	(1,210)	(476)
Gain (loss) from consulting discontinued operations, net of tax	(14)	71	(405)	218
Loss from discontinued property-casualty operations, net of tax	(6,927)	(9,504)	(6,746)	(9,492)
Net income (loss)	<u>\$ (11,601)</u>	<u>\$ (11,483)</u>	<u>\$ (7,925)</u>	<u>\$ (9,734)</u>
Gain on redemption of preferred securities, net of tax	<u>--</u>	<u>--</u>	<u>--</u>	<u>210</u>
Income (loss) available to common shareholders	<u>\$ (11,601)</u>	<u>\$ (11,483)</u>	<u>\$ (7,925)</u>	<u>\$ (9,524)</u>
Diluted earnings per share:				
Net operating earnings (loss)	\$ (0.16)	\$ (0.02)	\$ (0.09)	\$ (0.01)
Special items:				
Realized gains (losses), net of tax and minority interest	\$ 0.04	\$ (0.03)	\$ 0.10	\$ (0.02)
Gain on debt extinguishments, net of tax	\$ --	\$ --	\$ --	\$ 0.03
Net income (loss) from continuing operations	<u>\$ (0.12)</u>	<u>\$ (0.05)</u>	<u>\$ 0.01</u>	<u>\$ 0.00</u>
Gain (loss) from health insurance discontinued operations, net of tax	\$ (0.02)	\$ (0.01)	\$ (0.04)	\$ (0.01)
Gain (loss) from consulting discontinued operations, net of tax	\$ (0.00)	\$ 0.00	\$ (0.01)	\$ 0.01
Loss from discontinued property-casualty operations, net of tax	\$ (0.19)	\$ (0.28)	\$ (0.19)	\$ (0.29)
Net income (loss)	<u>\$ (0.33)</u>	<u>\$ (0.34)</u>	<u>\$ (0.23)</u>	<u>\$ (0.29)</u>
Gain on redemption of preferred securities, net of tax	<u>\$ --</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 0.00</u>
Income (loss) available to common shareholders	<u>\$ (0.33)</u>	<u>\$ (0.34)</u>	<u>\$ (0.23)</u>	<u>\$ (0.29)</u>
Shares used in computing per share amounts:				
Weighted average shares outstanding for the period	<u>34,896</u>	<u>33,780</u>	<u>34,880</u>	<u>33,394</u>

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.