

ALFA CORP
Form 10-Q
August 07, 2003
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SECURITIES AND EXCHANGE COMMISSION

Washington, D. C. 20549

FORM 10-Q

QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For Quarter Ended June 30, 2003 Commission File Number 0-11773

ALFA CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State of Other Jurisdiction of
Incorporation or Organization)

063-0838024
(IRS Employer
Identification No.)

2108 East South Boulevard, Montgomery, Alabama 36116

(Mail: P. O Box 11000, Montgomery, Alabama 36191-0001)

(Address and Zip Code of Principal Executive Offices)

Registrant's Telephone Number Including Area Code (334) 288-3900

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None

Former name, former address and former fiscal year if changed since last report

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the close of the period covered by this report.

Class	Outstanding June 30, 2003
Common Stock, \$1.00 par value	79,833,758 shares

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Table of Contents**ALFA CORPORATION****CONSOLIDATED BALANCE SHEETS**

	June 30, 2003	December 31, 2002
	(Unaudited)	
Assets		
Investments:		
Fixed Maturities Held for Investment, at amortized cost (fair value \$233,189 in 2003 and \$320,145 in 2002)	\$ 213,541	\$ 294,633
Fixed Maturities Available for Sale, at fair value (amortized cost \$1,003,030,401 in 2003 and \$1,064,816,587 in 2002)	1,079,365,329	1,129,943,756
Equity Securities, at fair value (cost \$106,035,041 in 2003 and \$63,037,993 in 2002)	117,172,710	65,286,596
Mortgage Loans on Real Estate	14,451	38,332
Investment Real Estate (net of accumulated depreciation of \$1,624,313 in 2003 and \$1,575,711 in 2002)	2,561,424	2,594,545
Policy Loans	54,962,503	53,324,458
Collateral Loans	109,239,714	105,431,900
Commercial Leases	94,470,828	93,945,299
Goodwill	3,449,982	3,449,982
Other Long-term Investments	114,073,827	111,131,030
Short-term Investments	195,905,925	101,697,650
Total Investments	1,771,430,234	1,667,138,181
Cash	18,709,018	9,761,820
Accrued Investment Income	14,754,104	15,704,004
Accounts Receivable	8,779,628	12,745,349
Reinsurance Balances Receivable	4,172,762	3,417,121
Due from Affiliates	107,973	2,177,759
Deferred Policy Acquisition Costs	167,590,328	159,716,008
Other Assets	16,461,331	13,394,434
Total Assets	\$ 2,002,005,378	\$ 1,884,054,676
Liabilities		
Policy Liabilities and Accruals Property and Casualty Insurance	\$ 148,999,395	\$ 148,457,016
Policy Liabilities and Accruals Life Insurance Interest-Sensitive Products	493,792,148	461,915,553
Policy Liabilities and Accruals Life Insurance Other Products	159,997,934	152,897,184
Unearned Premiums	166,926,004	153,345,832
Dividends to Policyholders	10,635,076	10,558,507
Premium Deposit and Retirement Deposit Funds	6,279,917	6,353,594
Deferred Income Taxes	46,078,021	40,969,533
Other Liabilities	92,373,862	81,992,466
Due to Affiliates	16,019,739	15,555,574
Commercial Paper	136,499,389	133,422,926
Notes Payable	70,000,000	70,000,000
Notes Payable to Affiliates	45,559,841	42,488,787
Total Liabilities	1,393,161,326	1,317,956,972
Commitments and Contingencies		

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Stockholders' Equity		
Preferred Stock, \$1 par value		
Shares authorized: 1,000,000		
Issued: None		
Common Stock, \$1 par value		
Shares authorized: 110,000,000		
Issued: 83,783,024		
Outstanding: 2003 79,833,758; 2002 79,278,345	83,783,024	83,783,024
Capital in Excess of Par Value	7,611,582	5,531,384
Accumulated Other Comprehensive Income	43,586,676	32,832,254
Retained Earnings	510,038,786	484,454,615
Treasury Stock: at cost (2003 3,949,266 shares; 2002 4,504,679 shares)	(36,176,016)	(40,503,573)
	<hr/>	<hr/>
Total Stockholders' Equity	608,844,052	566,097,704
	<hr/>	<hr/>
Total Liabilities and Stockholders' Equity	\$ 2,002,005,378	\$ 1,884,054,676
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The accompanying notes are an integral part of these consolidated financial statements.

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ALFA CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Revenues				
Premiums Property and Casualty Insurance	\$ 225,328,837	\$ 209,411,645	\$ 113,852,038	\$ 106,020,678
Premiums Life Insurance	17,148,268	15,622,372	8,153,768	8,019,295
Policy Charges Life Insurance	16,555,644	16,040,454	7,839,604	7,533,502
Net Investment Income	42,991,083	43,970,149	21,337,096	21,877,803
Realized Investment Gains	1,366,006	1,209,549	3,161,916	303,324
Other Income	1,350,196	1,161,130	754,566	933,555
Total Revenues	304,740,034	287,415,299	155,098,988	144,688,157
Benefits and Expenses				
Benefits & Settlement Expenses	180,111,477	170,200,308	92,139,705	88,007,273
Dividends to Policyholders	1,937,883	1,885,785	915,370	897,831
Amortization of Deferred Policy				
Acquisition Costs	42,664,143	38,104,974	21,517,754	19,587,617
Other Operating Expenses	27,622,720	30,426,056	13,734,442	14,560,592
Total Expenses	252,336,223	240,617,123	128,307,271	123,053,313
Income Before Provision for Income Taxes	52,403,811	46,798,176	26,791,717	21,634,844
Provision for Income Taxes	14,486,362	12,798,690	7,603,896	6,103,504
Net Income	\$ 37,917,449	\$ 33,999,486	\$ 19,187,821	\$ 15,531,340
Earnings Per Share:				
Net Income				
Basic	\$ 0.48	\$ 0.43	\$ 0.24	\$ 0.20
Diluted	\$ 0.47	\$ 0.43	\$ 0.24	\$ 0.20
Average Shares Outstanding				
Basic	79,468,821	78,607,284	79,605,514	78,771,794
Diluted	80,065,414	79,432,866	80,226,873	79,605,279

The accompanying notes are an integral part of these consolidated financial statements.

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ALFA CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
Net Income	\$ 37,917,449	\$ 33,999,486	\$ 19,187,821	\$ 15,531,340
Other Comprehensive Income (Loss), net of tax:				
Change in Fair Value of Securities Available for Sale	5,006,146	(1,902,438)	6,212,467	4,857,707
Unrealized (Losses) on Interest Rate Swap Contracts	(2,302,735)	(1,018,030)	(1,503,316)	(1,018,030)
Less: Reclassification Adjustment for Realized Investment Gains	887,904	786,207	2,055,246	197,161
Total Other Comprehensive Income (Loss)	1,815,507	(3,706,675)	2,653,905	3,642,516
Total Comprehensive Income	\$ 39,732,956	\$ 30,292,811	\$ 21,841,726	\$ 19,173,856

The accompanying notes are an integral part of these consolidated financial statements.

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ALFA CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30,	
	2003	2002
Cash Flows From Operating Activities:		
Net Income	\$ 37,917,449	\$ 33,999,486
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities:		
Policy Acquisition Costs Deferred	(49,937,531)	(43,406,546)
Amortization of Deferred Policy Acquisition Costs	42,664,143	38,573,426
Depreciation and Amortization	181,603	(454,842)
Provision for Deferred Taxes	1,060,833	2,086,701
Interest Credited on Policyholders Funds	13,368,877	12,449,491
Net Realized Investment (Gains)/Losses	(1,365,981)	(1,209,551)
Other	(4,675,967)	(6,999,853)
Changes in Operating Assets and Liabilities:		
Accrued Investment Income	949,900	(1,842,528)
Accounts Receivable	3,965,721	2,988,986
Reinsurance Balances Receivable	(755,641)	1,054,791
Due from Affiliates	2,533,951	(269,167)
Other Assets	(3,066,897)	(6,910,957)
Liability for Policy Reserves	4,197,484	25,104,571
Liability for Unearned Premiums	13,580,172	12,126,252
Amounts Held for Others	2,892	646,787
Other Liabilities	7,824,134	(10,385,831)
Net Cash Provided by Operating Activities	68,445,142	57,551,216
Cash Flows from Investing Activities:		
Maturities and Redemptions of Fixed Maturities Held for Investment	80,764	68,612
Maturities and Redemptions of Fixed Maturities Available for Sale	354,904,442	66,915,269
Maturities and Redemptions of Other Investments	1,619,680	1,990,339
Sales of Fixed Maturities Available for Sale	24,684,645	10,877,495
Sales of Equity Securities	62,940,143	27,558,549
Sales of Other Investments	1,175,130	1,293,974
Purchases of Fixed Maturities Available for Sale	(315,894,850)	(216,262,984)
Purchases of Equity Securities	(105,680,045)	(32,394,625)
Purchases of Other Investments	(8,998,950)	(7,615,909)
Origination of Consumer Loans Receivable	(29,588,170)	(34,577,952)
Principal Payments on Consumer Loans Receivable	25,780,356	20,122,820
Origination of Commercial Leases Receivable	(23,925,133)	(16,149,290)
Principal Payments on Commercial Leases Receivable	23,399,604	15,081,959
Net Change in Short-term Investments	(94,208,275)	72,380,263
Net Change in Receivable/Payable on Securities	3,091,037	12,114,010
Net Cash Used in Investing Activities	(80,619,622)	(78,597,470)

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Cash Flows From Financing Activities:		
Change in Commercial Paper	3,076,463	(66,889,119)
Change in Notes Payable	0	70,000,000
Change in Notes Payable to Affiliates	3,071,054	(2,228,569)
Stockholder Dividends Paid	(12,333,277)	(11,612,276)
Purchases of Treasury Stock	(2,338,268)	(755,513)
Proceeds from Exercise of Stock Options	1,225,189	2,654,887
Proceeds from Dividend Reinvestment Plan	6,983,033	3,076,046
Deposits of Policyholders Funds	46,294,539	43,758,593
Withdrawal of Policyholders Funds	(24,857,055)	(24,284,927)
	<hr/>	<hr/>
Net Cash Provided by Financing Activities	21,121,678	13,719,122
	<hr/>	<hr/>
Net Change in Cash	8,947,198	(7,327,132)
Cash Beginning of Period	9,761,820	10,224,827
	<hr/>	<hr/>
Cash End of Period	\$ 18,709,018	\$ 2,897,695
	<hr/>	<hr/>
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Period for:		
Interest	\$ 3,383,959	\$ 2,216,194
Income Taxes	\$ 15,741,450	\$ 10,865,862

The accompanying notes are an integral part of these consolidated financial statements.

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In the opinion of the Company, the accompanying consolidated unaudited financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly its financial position, results of operations and cash flows. The accompanying financial statements have been prepared on the basis of accounting principles generally accepted in the United States of America. A summary of the more significant accounting policies related to the Company's business is set forth in the notes to its audited consolidated financial statements for the fiscal year ended December 31, 2002. The results of operations for the six-month and three-month periods ended June 30, 2003 are not necessarily indicative of the results to be expected for the full year. Certain reclassifications have been made to conform previous classifications to June 30, 2003 classifications and descriptions.

The Company's annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and all related amendments can be found at www.alfains.com by first selecting "Invest in Alfa" and then selecting "Financial Reports."

2. Stock-Based Employee Compensation

At June 30, 2003, the Company has a stock-based employee compensation plan, which is described more fully in the notes to the Company's audited consolidated financial statements for the fiscal year ended December 31, 2002. The Company accounts for this plan using the recognition and measurement principles of the intrinsic value method. The following table illustrates the effect on net income and earnings per share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, Accounting for Stock-Based Compensation, to stock-based employee compensation.

	Six Months Ended June 30,		Three Months Ended June 30,	
	2003	2002	2003	2002
Net income as reported	\$ 37,917,449	\$ 33,999,486	\$ 19,187,821	\$ 15,531,340
Add: Total stock-based compensation expense included in reported net income, net of tax effect	40,507	97,835	15,851	21,114
Less: Total stock-based compensation expense determined under fair value based method for all awards, net of tax effect	(774,637)	(571,507)	(381,544)	(338,742)
Pro forma net income	\$ 37,213,319	\$ 33,525,814	\$ 18,822,128	\$ 15,213,712
Earnings per share, as reported Basic	\$ 0.48	\$ 0.43	\$ 0.24	\$ 0.20
Diluted	\$ 0.47	\$ 0.43	\$ 0.24	\$ 0.20

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Pro forma earnings per share	Basic	\$ 0.47	\$ 0.43	\$ 0.24	\$ 0.20
	Diluted	\$ 0.46	\$ 0.42	\$ 0.23	\$ 0.19

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Effective August 1, 1987, the Company entered into a property and casualty insurance Pooling Agreement (the "Pooling Agreement") with Alfa Mutual Insurance Company (Mutual), and other members of the Mutual Group (See Note 4). On January 1, 2001, Alfa Specialty Insurance Corporation (Specialty), a subsidiary of Mutual, also became a participant in the Pooling Agreement. The Mutual Group is a direct writer primarily of personal lines of property and casualty insurance in Alabama. The Company's subsidiaries similarly are direct writers in Georgia and Mississippi. Both the Mutual Group and the Company write preferred risk automobile, homeowner, farmowner and manufactured home insurance, fire and allied lines, standard risk automobile and homeowner insurance, and a limited amount of commercial insurance, including church and businessowner insurance. Specialty is a direct writer primarily of nonstandard risk automobile insurance. Under the terms of the Pooling Agreement, the Company cedes to Mutual all of its property and casualty business. Substantially all of the Mutual Group's direct property and casualty business (together with the property and casualty business ceded by the Company) is included in the pool. Mutual currently retrocedes 65% of the pool to the Company and retains 35% within the Mutual Group. Effective January 1, 2001, Specialty's property and casualty business likewise became included in the pool. On October 1, 1996, the Pooling Agreement was amended in conjunction with the restructuring of the Alfa Insurance Group's catastrophe protection program. Effective November 1, 1996, the allocation of catastrophe costs among the members of the pool was changed to better reflect the economics of catastrophe finance. The amendment limited Alfa Corporation's participation in any single catastrophic event or series of storms to its pool share (65%) of a lower catastrophe pool limit unless the loss exceeded an upper catastrophe pool limit. In cases where the upper catastrophe limit is exceeded on a 100% basis, the Company's share in the loss would be based upon its amount of surplus relative to other members of the group. Lower and upper catastrophe pool limits are adjusted periodically due to increases in insured property risks. The limits and participation levels since inception of the program are summarized below:

	Lower Catastrophe Pool Limit (millions)	Upper Catastrophe Pool Limit (millions)	Coinsurance Allocation of Catastrophes Exceeding Upper Catastrophe Pool Limit
November 1, 1996	\$ 10.0	\$ 249.0	13%
July 1, 1999	11.0	284.0	13%
January 1, 2001	11.4	284.0	14%
January 1, 2002	11.6	289.0	16%
January 1, 2003	12.1	301.5	18%

The Company's participation in the Pooling Agreement may be changed or terminated without the consent or approval of the Company's shareholders. The Pooling Agreement may be terminated by any party thereto upon 90 days notice.

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(Note 3., continued)

The following table sets forth the premiums and losses ceded to and assumed from the pool for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended		Three Months Ended	
	June 30,		June 30,	
	2003	2002	2003	2002
	(in thousands)			
Premiums ceded to pool	\$ 42,522	\$ 38,348	\$ 21,527	\$ 19,501
Premiums assumed from pool	\$ 225,329	\$ 210,268	\$ 113,852	\$ 106,456
Losses ceded to pool	\$ 33,424	\$ 28,387	\$ 19,466	\$ 15,147
Losses assumed from pool	\$ 139,986	\$ 131,633	\$ 72,761	\$ 68,921

The Company incurred \$7.9 million and \$5.2 million in storm losses in the second quarters of 2003 and 2002, respectively. These losses resulted in reductions to the Company's net income of approximately \$0.06 and \$0.04 per diluted share, after reinsurance and taxes, in 2003 and 2002, respectively. No catastrophe losses were incurred in the first quarter of either year.

4. Contingent Liabilities

The property and casualty subsidiaries have entered into the reinsurance pooling agreement with Alfa Mutual Insurance Company and its affiliates as discussed in Note 3. Should any member of the affiliated group be unable to meet its obligation on a claim for a policy written by the Company's property and casualty subsidiaries, the obligation to pay the claim would remain with the Company's subsidiaries.

The liability for estimated unpaid property and casualty losses and loss adjustment expenses is based upon an evaluation of reported losses and on estimates of incurred but not reported losses. Adjustments to the liability based upon subsequent developments are included in current operations.

Certain legal proceedings are in process at June 30, 2003. Costs for these and similar legal proceedings, including accruals for outstanding cases, totaled \$139,000 in the first six months of 2003, \$5.3 million in 2002, and \$930,000 in 2001. These proceedings involve alleged breaches of contract, torts, including bad faith and fraud claims, and miscellaneous other causes of action. These lawsuits involve claims for unspecified amounts of compensatory damages, mental anguish damages, and punitive damages.

Approximately 25 legal proceedings against Alfa Life Insurance Corporation (Life) were in process at June 30, 2003. Of the 25 proceedings, nine were filed in 2003, eight were filed in 2002, one was filed in 2001, one was filed in 2000, four were filed in 1999, one was filed in 1997, and one was filed in 1996. In a case tried in January 2001, in Barbour County, Alabama, the jury returned a verdict for the plaintiff against Life for \$500,000 in compensatory damages and \$5,000,000 in punitive damages. After Life filed post-trial motions, the trial court reduced the

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punitive damage award to \$1,500,000. Life has appealed the award to the Alabama Supreme Court. In a case tried in December 2001, in Bullock County, Alabama, the jury returned a verdict for the plaintiffs against Life for \$300,000 in compensatory damages and \$3,000,000 in punitive damages. After Life filed post-trial motions, the trial court reduced the punitive damage award to \$900,000. Life has appealed the award to the Alabama Supreme Court. One of the 25 pending legal proceedings against Life has been certified as a class action by the trial court. After the trial court certified the class action against Life, Life appealed the class certification order to the Alabama Supreme Court. In November 2001, the Alabama Supreme

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(Note 4., continued)

Court reversed the trial court, decertified the class, and remanded the case to the trial court for further proceedings. The trial court again certified the class and Life appealed the certification to the Alabama Supreme Court. In February 2003, the Supreme Court affirmed the trial court order certifying the case as a class action. Life has filed an application for rehearing with the Supreme Court, which has been stayed by the Supreme Court pending final resolution of settlement negotiations between the parties.

In addition, one purported class action lawsuit is pending against both Alfa Builders, Inc. and Alfa Mutual Fire Insurance Company. Additionally, five purported class action lawsuits are pending against the property and casualty mutual companies involving a number of issues and allegations which could affect the Company because of a pooling agreement between the companies. No class has been certified in any of these six purported class action cases.

Management believes adequate reserves have been established in these known cases. However, it should be noted that in Alabama, where the Company has substantial business, the likelihood of a judgment in any given suit, including a large mental anguish and/or punitive damage award by a jury, bearing little or no relation to actual damages, continues to exist, creating the potential for unpredictable material adverse financial results.

Based upon information presently available, contingent liabilities arising from any other threatened litigation are not presently considered by management to be material.

The Company periodically invests in partnerships that invest in affordable housing tax credits. At June 30, 2003, the Company had committed to fund a partnership of this type in the amount of approximately \$17.5 million.

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In evaluating the performance of the Company's segments, management believes operating income serves as a meaningful tool for assessing the profitability of the Company's ongoing operations. Operating income, a non-GAAP financial measure, is defined by the Company as net income excluding net realized investment gains and losses, net of applicable taxes. Realized investment gains and losses are somewhat controllable by the Company through the timing of decisions to sell securities. Therefore, realized investment gains and losses are not indicative of future operating performance.

The table below summarizes net income by its components of operating income by segment, net realized gains and losses, and corporate expenses for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended June 30,			Three Months Ended June 30,		
	2003	2002	% Change	2003	2002	% Change
(in thousands, except share and per share data)						
Net income						
Property and casualty insurance	\$ 27,534	\$ 24,065	14%	\$ 12,397	\$ 10,856	14%
Life insurance	8,569	8,634	(1%)	4,653	4,275	9%
Total insurance operations	36,103	32,699	10%	17,050	15,131	13%
Noninsurance operations income	2,178	1,972	10%	757	853	(11%)
Net realized investment gains	888	786	13%	2,056	197	943%
Corporate expenses	(1,252)	(1,458)	(14%)	(675)	(650)	4%
Net income	\$ 37,917	\$ 33,999	12%	\$ 19,188	\$ 15,531	24%
Net income per share						
Basic	\$ 0.48	\$ 0.43	10%	\$ 0.24	\$ 0.20	22%
Diluted	\$ 0.47	\$ 0.43	11%	\$ 0.24	\$ 0.20	23%
Weighted average shares outstanding						
Basic	79,468,821	78,607,284		79,605,514	78,771,794	
Diluted	80,065,414	79,432,866		80,226,873	79,605,279	

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(Note 5., continued)

The following table sets forth the components of property and casualty insurance earned premiums, net underwriting income, GAAP basis loss, expense and combined ratios, underwriting margin, net investment income, other income, reinsurance assumed, operating income, net realized investment gains and net income for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended June 30,			Three Months Ended June 30,		
	2003	2002	% Change	2003	2002	% Change
	(in thousands)					
Earned premiums						
Personal lines	\$ 216,530	\$ 200,696	8%	\$ 109,676	\$ 101,682	8%
Commercial lines	7,531	7,299	3%	3,548	3,634	(2%)
Pools, associations and fees	2,363	2,273	4%	1,182	1,140	4%
Reinsurance ceded	(1,095)	(856)	(28%)	(554)	(435)	(27%)
Total	\$ 225,329	\$ 209,412	8%	\$ 113,852	\$ 106,021	7%
Net underwriting income	\$ 22,454	\$ 15,566	44%	\$ 9,124	\$ 5,676	61%
Loss ratio	61.6%	63.0%		63.4%	65.3%	
LAE ratio	3.9%	4.5%		3.9%	4.1%	
Expense ratio	24.5%	25.1%		24.7%	25.2%	
GAAP basis combined ratio	90.0%	92.6 %		92.0%	94.6%	
Underwriting margin	10.0%	7.4 %		8.0%	5.4%	
Net investment income	\$ 14,564	\$ 16,123	(10%)	\$ 7,654	\$ 8,376	(9%)
Other income	\$ 93	\$ 13	615%	\$ 24	\$ 253	(91%)
Reinsurance assumed	\$ (28)	\$ (7)	(367%)	\$ 5	\$ (3)	160%
Pre-tax operating income	\$ 37,083	\$ 31,695	17%	\$ 16,807	\$ 14,302	18%
Operating income, net of tax	\$ 27,534	\$ 24,065	14%	\$ 12,397	\$ 10,856	14%
Realized investment gains, net of tax	\$ 315	\$ 530	(41%)	\$ 682	\$ 312	119%
Net income	\$ 27,849	\$ 24,595	13%	\$ 13,079	\$ 11,168	17%

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(Note 5., continued)

The following table sets forth life insurance premiums and policy charges, by type of policy, net investment income, benefits and expenses, amortization of deferred policy acquisition costs, life insurance operating income, net realized investment gains and losses, and net income for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended June 30,			Three Months Ended June 30,		
	2003	2002	% Change	2003	2002	% Change
	(in thousands)					
Premiums and policy charges						
Universal life policy charges	\$ 9,355	\$ 8,684	8%	\$ 4,732	\$ 4,382	8%
Universal life policy charges COLI	2,085	1,997	4%	575	577	0%
Interest sensitive life policy charges	5,115	5,359	(5%)	2,532	2,574	(2%)
Traditional life insurance premiums	16,607	14,911	11%	8,327	7,649	9%
Group life insurance premiums	542	712	(24%)	(173)	371	(147%)
Total	\$ 33,704	\$ 31,663	6%	\$ 15,993	\$ 15,553	3%
Net investment income	\$ 22,483	\$ 23,156	(3%)	\$ 10,948	\$ 11,674	(6%)
Benefits and expenses	\$ 39,910	\$ 37,994	5%	\$ 18,599	\$ 18,605	0%
Amortization of deferred policy acquisition costs	\$ 4,575	\$ 4,292	7%	\$ 2,270	\$ 2,128	7%
Pre-tax operating income	\$ 11,702	\$ 12,533	(7%)	\$ 6,072	\$ 6,494	(6%)
Operating income, net of tax	\$ 8,569	\$ 8,634	(1%)	\$ 4,653	\$ 4,275	9%
Realized investment gains/(losses), net of tax	\$ 596	\$ 256	132%	\$ 1,396	\$ (116)	1303%
Net income	\$ 9,165	\$ 8,890	3%	\$ 6,049	\$ 4,159	45%

6. Note Payable and Interest Rate Swap Contract

The Company uses variable-rate debt to partially fund its consumer loan and commercial lease portfolios. In particular, it has issued variable-rate long-term debt and commercial paper. These debt obligations expose the Company to variability in interest payments due to changes in interest rates. If interest rates increase, interest expense increases. Conversely, if interest rates decrease, interest expense also decreases.

As part of its funding efforts, the Company issued a \$70 million long-term obligation with a life of fifteen years in the second quarter of 2002. Management believes it is prudent to limit the variability of a portion of its interest payments. It is the Company's objective to hedge 100 percent

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of its variable-rate long-term interest payments over the first five years of the life of the debt obligation.

To meet this objective, management entered into an interest rate swap to manage fluctuations in cash flows resulting from interest rate risk. The interest rate swap changes the variable-rate cash flow exposure of the variable-rate long term debt obligation to fixed-rate cash flows by entering into a receive-variable, pay-fixed interest rate swap. Under the interest rate swap, the Company receives variable interest payments and makes

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(Note. 6., continued)

fixed interest rate payments, thereby creating fixed-rate long-term debt. The Company also uses derivative instruments through its covered call option program as a means of generating income.

The Company assesses interest rate cash flow risk by continually identifying and monitoring changes in interest rate exposures that may adversely impact expected future cash flows and by evaluating hedging opportunities.

The Company maintains risk management control systems to monitor interest rate cash flow risk attributable to both the Company's outstanding or forecasted debt obligations as well as the Company's offsetting hedge position. The risk management control systems involve the use of analytical techniques, including cash flow sensitivity analysis, to estimate the expected impact of changes in interest rates on the Company's future cash flows.

Interest expense for the six months ended June 30, 2003 includes no gains or losses from the interest rate swap. Changes in fair value of the interest rate swap designated as a hedging instrument of the variability of cash flows associated with floating-rate, long-term debt obligation are reported in accumulated other comprehensive income. The interest rate swap involves a LIBOR for LIBOR exchange and meets the criteria for short-cut accounting. Therefore, the interest rate swap has no ineffectiveness, thereby eliminating the reclassification of this amount to interest expense in subsequent periods.

7. Financial Accounting Developments

In December 2002, the FASB issued SFAS No. 148, *Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123*. While the Company continues to use the intrinsic value method to account for its stock options, notes contained in this filing for the six-month and three-month periods ended June 30, 2003 have been enhanced to comply with the requirements set forth by this statement.

Also, during 2002, the FASB issued FASB Interpretation No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees*. This interpretation clarifies the requirements of SFAS No. 5, *Accounting for Contingencies* relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Company complied with the provisions of the interpretation and it did not have a significant impact on the Company's financial position or income.

In January 2003, the FASB issued FASB Interpretation No. 46, *Consolidation of Variable Interest Entities*. This interpretation addresses consolidation and disclosure issues associated with variable interest entities. The effective date for the interpretation was July 1, 2003. The Company has evaluated the provisions of this interpretation and its requirements had no significant impact on the Company's financial position or income.

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(Note. 7., continued)

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The changes in this statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. These changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. At this time, the Company does not anticipate this standard having a significant impact on the Company's financial position or income.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and is effective for financial instruments entered into or modified after May 31, 2003. The Company did not experience a significant impact on the Company's financial position or income from this statement.

8. Stock Split

On April 25, 2002, the Company's Board of Directors approved a two-for-one stock split to be effected as a 100% stock dividend. The new shares were issued on June 17, 2002 to stockholders of record on June 3, 2002. Financial statements presented for 2002 within this filing reflect the impact of the stock split. Financial statements for prior periods reflect the impact of the stock split only in share and per share disclosures.

9. Dissolution of Alfa Investment Corporation

On April 24, 2003, the Company's Board of Directors approved a written consent to dissolve Alfa Investment Corporation. The Company was the only stockholder of this entity which was consolidated in its financial statements. Alfa Investment Corporation had served as the parent of Alfa Builders, Inc. which will continue to operate as the Company's wholly-owned construction subsidiary. Therefore, the Company does not anticipate that this change in corporate structure which took place during the second quarter of 2003 will have a significant impact on the Company's financial position or income.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

The Board of Directors and Shareholders

Alfa Corporation:

We have reviewed the accompanying consolidated balance sheet of Alfa Corporation and subsidiaries as of June 30, 2003, the related consolidated statements of income and comprehensive income for the and six-months and three-months ended June 30, 2003 and 2002, and the related consolidated statements of cash flows for the six-months ended June 30, 2003 and 2002. These consolidated financial statements are the responsibility of the Company's management.

We conducted our review in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the consolidated financial statements referred to above for them to be in conformity with accounting principles generally accepted in the United States of America.

We have previously audited, in accordance with auditing standards generally accepted in the United States of America, the consolidated balance sheet of Alfa Corporation and subsidiaries as of December 31, 2002, and the related consolidated statements of income and comprehensive income, stockholders' equity, and cash flows for the year then ended (not presented herein); and in our report dated January 31, 2003, except as to note 9, which is as of February 14, 2003, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of December 31, 2002, is fairly stated in all material respects, in relation to the consolidated balance sheet from which it has been derived.

KPMG LLP

Atlanta, Georgia

August 7, 2003

Table of Contents**MANAGEMENT'S DISCUSSION AND ANALYSIS****RESULTS OF OPERATIONS**

In evaluating the performance of the Company's segments, management believes operating income serves as a meaningful tool for assessing the profitability of the Company's ongoing operations. Operating income, a non-GAAP financial measure, is defined by the Company as net income excluding net realized investment gains and losses, net of applicable taxes. Realized investment gains and losses are somewhat controllable by the Company through the timing of decisions to sell securities. Therefore, realized investment gains and losses are not indicative of future operating performance.

The following table sets forth consolidated summarized income statement information for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended June 30,			Three Months Ended June 30,		
	2003	2002	% Change	2003	2002	% Change
Revenues						
Property and casualty insurance premiums	\$ 225,329	\$ 209,412	8%	\$ 113,852	\$ 106,021	7%
Life insurance premiums and policy charges	33,704	31,663	6%	15,993	15,553	3%
Total premium and policy charges	\$ 259,033	\$ 241,075	7%	\$ 129,845	\$ 121,574	7%
Net investment income	\$ 42,991	\$ 43,970	(2%)	\$ 21,337	\$ 21,878	(2%)
Total revenues	\$ 304,740	\$ 287,415	6%	\$ 155,099	\$ 144,688	7%
Net income						
Property and casualty insurance	\$ 27,534	\$ 24,065	14%	\$ 12,397	\$ 10,856	14%
Life insurance	8,569	8,634	(1%)	4,653	4,275	9%
Total insurance operations	36,103	32,699	10%	17,050	15,131	13%
Noninsurance operations	2,178	1,972	10%	757	853	(11%)
Net realized investment gains	888	786	13%	2,056	197	943%
Corporate expenses	(1,252)	(1,458)	(14%)	(675)	(650)	4%
Net income	\$ 37,917	\$ 33,999	12%	\$ 19,188	\$ 15,531	24%
Net income per share						
Basic	\$ 0.48	\$ 0.43	10%	\$ 0.24	\$ 0.20	22%
Diluted	\$ 0.47	\$ 0.43	11%	\$ 0.24	\$ 0.20	23%

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Weighted average shares outstanding Basic	79,468,821	78,607,284	79,605,514	78,771,794	
Diluted	80,065,414	79,432,866	80,226,873	79,605,279	

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Total premiums and policy charges increased 7% in the first six months of 2003 as a result of increased premium production in both property casualty and life business and continued good persistency. Net investment income decreased 2% in the six months of 2003 while invested assets have grown 6.3% in the six months since December 31, 2002.

Operating income increased by 14% in the property casualty subsidiaries due primarily to an improved loss ratio and a reduction in the loss adjustment expenses ratio during the first six months of 2003. The 1% decrease in operating income in the life subsidiary is largely due to an increased mortality ratio of 96% compared to 86% during the first six months of 2002. Mortality, a non-GAAP financial measure used by management, represents the percentage of actuarially expected claims paid. Therefore, in the first six months of 2003, the Company experienced less favorable financial results when compared to 2002 due to the higher mortality ratio. Noninsurance operations were up 10% due to earnings growth from the finance subsidiary. Growth in both the consumer loan and commercial lease portfolios combined with earnings from the finance subsidiary's investment in MidCountry Financial produced an increase in income of approximately \$424,000.

The Company's net income was positively impacted by realized investment gains during the first six months of 2003. Corporate expenses decreased in the first six months of 2003 due to lower borrowing costs resulting from a decline in interest rates and a reduction in other general corporate operating expenses.

Table of Contents**PROPERTY AND CASUALTY INSURANCE OPERATIONS**

The following table sets forth the components of property and casualty insurance earned premiums, net underwriting income, GAAP basis loss, expense and combined ratios, underwriting margin, net investment income, other income, reinsurance assumed, operating income, net realized investment gains and net income for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended June 30,			Three Months Ended June 30,		
	2003	2002	% Change	2003	2002	% Change
	(in thousands)					
Earned premiums						
Personal lines	\$ 216,530	\$ 200,696	8%	\$ 109,676	\$ 101,682	8%
Commercial lines	7,531	7,299	3%	3,548	3,634	(2%)
Pools, associations and fees	2,363	2,273	4%	1,182	1,140	4%
Reinsurance ceded	(1,095)	(856)	(28%)	(554)	(435)	(27%)
Total	\$ 225,329	\$ 209,412	8%	\$ 113,852	\$ 106,021	7%
Net underwriting income	\$ 22,454	\$ 15,566	44%	\$ 9,124	\$ 5,676	61%
Loss ratio	61.6%	63.0%		63.4%	65.3%	
LAE ratio	3.9%	4.5%		3.9%	4.1%	
Expense ratio	24.5%	25.1%		24.7%	25.2%	
GAAP basis combined ratio	90.0%	92.6%		92.0%	94.6%	
Underwriting margin	10.0%	7.4%		8.0%	5.4%	
Net investment income	\$ 14,564	\$ 16,123	(10%)	\$ 7,654	\$ 8,376	(9%)
Other income	\$ 93	\$ 13	615%	\$ 24	\$ 253	(91%)
Reinsurance assumed	\$ (28)	\$ (7)	(367%)	\$ 5	\$ (3)	160%
Pre-tax operating income	\$ 37,083	\$ 31,695	17%	\$ 16,807	\$ 14,302	18%
Operating income, net of tax	\$ 27,534	\$ 24,065	14%	\$ 12,397	\$ 10,856	14%
Realized investment gains, net of tax	\$ 315	\$ 530	(41%)	\$ 682	\$ 312	119%
Net income	\$ 27,849	\$ 24,595	13%	\$ 13,079	\$ 11,168	17%

Earned premiums increased 8% in the first two quarters of 2003 due to greater homeowner production and the positive impact of homeowner rate increases which took effect in November 2001. Continued good persistency in the automobile and homeowner lines also contributed to

premium increases.

The overall loss ratio decreased to 61.6% for the first two quarters of 2003 as the Company continued to experience favorable core loss ratios. The Company incurred \$7.9 million and \$5.2 million in storm losses in the second quarters of 2003 and 2002, respectively. No storm losses were recorded in the first quarters of either

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2003 or 2002. Loss adjustment expenses in the first six months of 2003 were 3.9% of earned premiums compared to 4.5% in the same period of 2002. This decline in loss adjustment expenses was primarily due to changes in reserve levels. Another factor in the improved underwriting margin was a decrease in the expense ratio from 2002 levels despite additional expenses related to the Company's implementation of new financial reporting systems. The Company has implemented changes to its processes in an effort to minimize staffing additions and capitalize on technological capabilities.

Net investment income decreased 10% in the first six months of 2003 in the property casualty subsidiaries due to declines in partnership income. Invested assets increased 8.9% since June 30, 2002.

LIFE INSURANCE OPERATIONS

The following table sets forth life insurance premiums and policy charges, by type of policy, net investment income, benefits and expenses, amortization of deferred policy acquisition costs, life insurance operating income, net realized investments gains and losses, and net income for the six-month and three-month periods ended June 30, 2003 and 2002:

	Six Months Ended June 30,			Three Months Ended June 30,		
	2003	2002	% Change	2003	2002	% Change
(in thousands)						
Premiums and policy charges						
Universal life policy charges	\$ 9,355	\$ 8,684	8%	\$ 4,732	\$ 4,382	8%
Universal life policy charges COLI	2,085	1,997	4%	575	577	0%
Interest sensitive life policy charges	5,115	5,359	(5%)	2,532	2,574	(2%)
Traditional life insurance premiums	16,607	14,911	11%	8,327	7,649	9%
Group life insurance premiums	542	712	(24%)	(173)	371	(147%)
Total	\$ 33,704	\$ 31,663	6%	\$ 15,993	\$ 15,553	3%
Net investment income	\$ 22,483	\$ 23,156	(3%)	\$ 10,948	\$ 11,674	(6%)
Benefits and expenses	\$ 39,910	\$ 37,994	5%	\$ 18,599	\$ 18,605	0%
Amortization of deferred policy acquisition costs	\$ 4,575	\$ 4,292	7%	\$ 2,270	\$ 2,128	7%
Pre-tax operating income	\$ 11,702	\$ 12,533	(7%)	\$ 6,072	\$ 6,494	(6%)
Operating income, net of tax	\$ 8,569	\$ 8,634	(1%)	\$ 4,653	\$ 4,275	9%
Realized investment gains/ (losses), net of tax	\$ 596	\$ 256	132%	\$ 1,396	\$ (116)	1303%
Net income	\$ 9,165	\$ 8,890	3%	\$ 6,049	\$ 4,159	45%

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The Company's life insurance premiums and policy charges increased 6% in the first six months of 2003 due to new business and good persistency. First year collected premiums in the first six months of 2003 were unchanged from the same period in 2002 despite continued strong sales of term products and favorable response to an accidental death benefit promotion. Total new annualized premium increased 1.6% in the first six months of 2003 and 4.2% in all of 2002.

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Life insurance operating income decreased approximately 1% in the first six months of 2003. This decrease was primarily the result of an increase in the mortality ratio of actual to expected death claims from 86% in the first six months of 2002 to 96% in the first two quarters of 2003. Despite the decline in earnings, positive cash flows resulted in a 10.0% increase in invested assets while investment income decreased 3% from the first half of 2002.

NONINSURANCE OPERATIONS

Noninsurance operations were up 10% due primarily to improved operating results in the finance subsidiary. The finance subsidiary's recent investment in MidCountry Financial yielded pre-tax income of approximately \$552,000 during the first six months of 2003. Overall, the finance subsidiary's operating income increased \$424,000 during the first six months of 2003 when compared to the same period in 2002. Increased commercial and residential closings led to a \$237,000 improvement in the operating income of the real estate sales subsidiary. A reduction in commercial construction activity produced an \$84,000 decline in operating income from the construction subsidiary while income from the Company's subsidiary covering certain employee benefits decreased by approximately \$372,000 to \$105,000.

CORPORATE

Corporate expenses decreased 14%, or approximately \$206,000, due primarily to a reduction in general corporate operating expenses and lower interest expense related to the Company's commercial paper borrowing. Favorable trends in short-term interest rates allowed the Company's interest expense to decline slightly from levels experienced in the first half of 2002.

INVESTMENTS

The Company has historically produced positive cash flow from operations which has resulted in increasing amounts of funds available for investment and, consequently, higher investment income. Investment income is also affected by yield rates. Information about cash flows, invested assets and yield rates is presented below for the six months ended June 30, 2003 and 2002:

	Six Months Ended June 30,	
	2003	2002
Increase in invested assets since January 1, 2003 and 2002	6.3%	6.0%
Investment yield rate (annualized)	5.9%	6.7%
(Decrease)/increase in net investment income since June 30, 2002 and 2001	(2.2%)	11.2%

As a result of the overall positive cash flows from operations, invested assets grew 6.3% since January 1, 2003 and 12.1% since June 30, 2002 (based on amortized cost, which excludes the impact of SFAS 115) while net investment income decreased 2.2%. The positive cash flow from operations is due primarily to the improved operating results in the Company's property and casualty subsidiaries, which had \$22.5 million in underwriting income in the first six months of 2003 which was somewhat offset by the slight decline in profitability of the Company's life subsidiary, which had \$8.6 million in operating income in the same period. The premium from the COLI plan in the life insurance subsidiary is

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collected in February and provided positive cash flow in the first quarter of both periods. Net increases in cash resulting from increased borrowings were primarily used to support

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growth in the loan and lease portfolios of the finance subsidiary. During the first six months of 2003, the Company also increased its investment in short-term securities by over \$94 million. Despite an overall decrease in investment income, the Company had improved investment income results from its finance subsidiary of approximately \$1.3 million due partially to earnings on its investment in MidCountry Financial. The overall yield rate, calculated using amortized cost, declined to 5.9%. The Company had net realized investment gains of approximately \$900,000 and \$800,000 in the first six months of 2003 and 2002, respectively. These net gains are primarily from sales of equity securities. Such realized gains are the result of market conditions and therefore can fluctuate from period to period.

The composition of the Company's investment portfolio is as follows at June 30, 2003 and December 31, 2002:

	June 30, 2003	December 31, 2002
Fixed maturities		
Taxable		
Mortgage backed (CMO's)	22.7%	27.0%
Corporate bonds	21.4	24.0
Total taxable	44.1	51.0
Tax exempts	16.9	16.8
Total fixed maturities	61.0	67.8
Equity securities	6.6	3.9
Real estate	0.1	0.2
Policy loans	3.1	3.2
Collateral loans	6.2	6.3
Commercial leases	5.3	5.6
Other long term investments	6.6	6.9
Short term investments	11.1	6.1
	100.0%	100.0%

The majority of the Company's investment portfolio consists of fixed maturities which are diverse as to both industry and geographic concentration. Since year end, the overall mix of investments has remained relatively stable with changes due to a shift to short term investments from fixed maturities and to market value fluctuations in fixed maturities.

The rating of the Company's portfolio of fixed maturities using the Standard & Poor's rating categories is as follows at June 30, 2003 and December 31, 2002:

	June 30, 2003	December 31, 2002
RATING		
AAA to A-	89.6%	88.9%

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BBB+ to BBB-	10.0	10.8
BB+ and Below (Below investment grade)	0.4	0.3
	<u> </u>	<u> </u>
	100.0%	100.0%
	<u> </u>	<u> </u>

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The fixed maturity portfolio was rated by an outside rating service. No securities were rated by Company management. The Company considers bonds with a quality rating of BB+ and below to be below investment grade or high yield bonds (also called junk bonds).

At June 30, 2003, approximately 37.2% of fixed maturities were mortgage-backed securities. Such securities are comprised of Collateralized Mortgage Obligations (CMOs) and pass through securities. Based on reviews of the Company's portfolio of mortgage-backed securities, the impact of prepayment risk on the Company's financial position is not believed to be significant. At June 30, 2003, the Company's total portfolio of fixed maturities had gross unrealized gains of \$78,784,390 and gross unrealized losses of \$2,437,025. Securities are priced by nationally recognized pricing services or by broker/dealer securities firms. No securities were priced by the Company.

During the first six months of 2003, the Company sold approximately \$24.7 million in fixed maturities available for sale. These sales resulted in gross realized gains of \$570,577 and gross realized losses of \$260,266. During the same period in 2002, the Company sold approximately \$10.9 million in fixed maturities available for sale. These sales resulted in gross realized gains of \$363,597 and gross realized losses of \$3,976,523.

The Company monitors its level of investments in high yield fixed maturities and equity investments held in issuers of high yield debt securities. Management believes the level of such investments is not significant to the Company's financial condition. At June 30, 2003, the Company had unrealized gains of approximately \$1,357,000 in such investments. During the first six months of 2003, the Company did not dispose of any high yield debt securities. At June 30, 2003, the Company had unrealized gains of approximately \$1,116,000 in such investments.

In the first six months of 2003, the Company wrote down six equities totaling \$953,349, whose declines in value were deemed to be other than temporary and were recorded as a reduction in realized investment gains.

The Company's other investments consist primarily of assets leased under operating leases, investments in partnerships and joint ventures in addition to consumer loans and commercial leases originated by the finance subsidiary. These loans and leases are collateralized by automobiles, equipment and other property. At June 30, 2003, the delinquency ratio on the loan portfolio was 1.37% or \$1.4 million, down from 1.67% or \$1.6 million at December 31, 2002. The delinquency ratio on the lease portfolio at June 30, 2003 was 4.84% or \$4.7 million, down from 5.62% or \$6.1 million at December 31, 2002. Credit losses of approximately \$204,800 were incurred in the first six months of 2003 including an increase of approximately \$32,126 in general reserves attributable to growth of the consumer loan portfolio. Leases charged off in the first two quarters of 2003 were approximately \$448,068. At June 30, 2003, the Company maintained an allowance for loan losses of \$1,108,611 or approximately 1.1% of the outstanding loan balance. In addition, at June 30, 2003, the Company maintained an allowance for lease losses of \$2,169,882 or approximately 2.3% of the outstanding lease balance.

During the third quarter of 2002, the Company's finance subsidiary, Alfa Financial Corporation, invested \$13.5 million in MidCountry Financial, a financial services holding company with one wholly-owned subsidiary, Heights Finance Corp. Heights Finance Corp. was acquired by MidCountry Financial on August 30, 2002 and is a consumer finance company doing business in five Midwestern states. Alfa Financial's investment gave it a 42 percent ownership in the newly formed entity. As a result of this significant ownership percentage, Alfa Financial accounts for earnings from MidCountry Financial using the equity method of accounting. Pre-tax operating income of approximately \$552,000 positively impacted the first six months of 2003.

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INCOME TAXES

The effective tax rate in the first six months of 2003 was 27.6% compared to 27.8% for the full year 2002 and 27.3% for the first six months of 2002. The decrease in the effective tax rate in the first six months of 2003 from the overall effective rate in 2002 is due primarily to increased credits from investments in affordable housing partnerships. Based on information available at June 30, 2003, the Company currently anticipates the effective tax rate for all of 2003 to be approximately 27.6%.

IMPACT OF INFLATION

Inflation increases consumers' needs for both life and property and casualty insurance coverage. Inflation increases claims incurred by property and casualty insurers as property repairs, replacements and medical expenses increase. Such cost increases reduce profit margins to the extent that rate increases are not maintained on an adequate and timely basis. Since inflation has remained relatively low in recent years, financial results have not been significantly impacted by inflation.

LIQUIDITY AND CAPITAL RESOURCES

The Company receives funds from its subsidiaries consisting of dividends, payments for funding federal income taxes, and reimbursement of expenses incurred at the corporate level for the subsidiaries. These funds are used for paying dividends to stockholders, corporate interest and expenses, federal income taxes, and for funding additional investments in its subsidiaries' operations.

The Company's subsidiaries require cash in order to fund policy acquisition costs, claims, other policy benefits, interest expense, general operating expenses, and dividends to the Company. The major sources of the Company's liquidity are operations and cash provided by maturing or liquidated investments. A significant portion of the Company's investment portfolio consists of readily marketable securities which can be sold for cash. Based on a review of the Company's matching of asset and liability maturities and on the interest sensitivity of the majority of policies in force, management believes the ultimate exposure to loss from interest rate fluctuations is not significant.

Net cash provided by operating activities for the first six months of 2003 and 2002 approximated \$67.7 million and \$57.6 million, respectively. Such net positive cash flows provide the foundation of the Company's assets/liability management program and are the primary drivers of the Company's liquidity. As previously discussed, the Company also maintains a diversified portfolio of fixed maturity and equity securities which provide a secondary source of liquidity should net cash flows from operating activities prove inadequate to fund current operating needs. Management believes that such an eventuality is unlikely given the Company's product mix (primarily short-duration personal lines property and casualty products), its ability to adjust premium rates (subject to regulatory oversight) to reflect emerging loss and expense trends and its catastrophe reinsurance program, amongst other factors.

The Company has a limited number of contractual obligations in the form of operating leases and debt obligations. These leases have primarily been originated by its commercial leasing and real estate sales subsidiaries. Operating leases supporting the corporate headquarters are the responsibility of Alfa Mutual Insurance Company (Mutual), an affiliate. In turn, the Company reimburses Mutual monthly for a portion of these and other expenses based on a management and operating agreement. There are currently no plans to change the

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structure of this agreement. Included in the Company's contractual obligations is the repayment of a \$70 million debt obligation. This note, issued in the second quarter of 2002, is payable at the end of fifteen years. While the note carries a variable interest rate, the Company has entered into an interest rate swap contract to hedge interest rate variability and fix the interest rate for the first five years of the debt obligation at 4.945%.

The Company's contractual obligations at June 30, 2003 are summarized below:

	Payments Due by Period				
	Total	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating Lease Obligations	\$ 420,032	\$ 183,554	\$ 236,478	\$	\$
Capital Lease Obligations					
Purchase Obligations					
Long-Term Debt Obligations	70,000,000				70,000,000
Other Long-Term Liabilities Reflected on the Registrant's Balance Sheet under GAAP					
Total Contractual Obligations	\$ 70,420,032	\$ 183,554	\$ 236,478	\$	\$ 70,000,000

The Company maintains a variety of funding agreements in the form of lines of credit with affiliated entities. The chart below depicts, at June 30, 2003, the cash outlay by the Company representing the potential full repayment of lines of credit it has outstanding with others. Also included with the amounts shown as lines of credit are the potential amounts the Company would have to supply to other affiliated entities if they made full use of their existing lines of credit during 2003 with the Company's finance subsidiary, Alfa Financial Corporation. Other commercial commitments of the Company shown below include commercial paper outstanding, scheduled fundings of partnerships, funding of a policy administration system project of the life subsidiary and loans sold to members of the Alfa Mutual Group through which recourse against the finance subsidiary is available if repayment by the customer fails to occur.

	Amount of Commitment Expiration Per Period				
	Total Amounts Committed	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Lines of Credit	\$ 28,515,000	\$	\$ 8,515,000	\$ 20,000,000	\$
Standby Letters of Credit					
Guarantees	4,701,086	575,000	4,126,086		
Standby Repurchase Obligations					
Other Commercial Commitments	203,545,239	186,904,455	14,640,975	1,872,060	127,749
Total Commercial Commitments	\$ 236,761,325	\$ 187,479,455	\$ 27,282,061	\$ 21,872,060	\$ 127,749

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Assessment of credit risk is a critical factor in the Company's consumer loan and commercial leasing subsidiary. All credit decisions are made by personnel trained to limit loss exposure from unfavorable risks. In attempting to manage risk, the Company regularly reviews delinquent accounts and adjusts reserves for potential loan losses and potential lease losses. To the extent these reserves are inadequate at the time an account is written off, income would be negatively impacted. In addition, the Company monitors interest rates relative to the

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portfolio duration. Rising interest rates on commercial paper issued, a major source of funding portfolio growth, could reduce the interest rate spread if the Company failed to adequately adjust interest rates charged to customers.

Total borrowings increased approximately \$6.1 million in the first six months of 2003 to \$252.1 million. The majority of the short-term debt is commercial paper issued by the Company. At June 30, 2003, the Company had approximately \$136.5 million in commercial paper at rates ranging from 1.07% to 1.29% with maturities ranging from July 1, 2003 to August 6, 2003. The Company intends to continue to use the commercial paper program as a major source to fund the consumer loan portfolio, commercial lease portfolio and other corporate short-term needs. Backup lines of credit are in place up to \$300 million. The backup lines agreements contain usual and customary covenants requiring the Company to meet certain operating levels. The Company has maintained full compliance with all such covenants. The Company has A-1+ and P-1 commercial paper ratings from Standard & Poor's and Moody's Investors Service, respectively. The commercial paper is guaranteed by two affiliates, Alfa Mutual Insurance Company and Alfa Mutual Fire Insurance Company. In addition, the Company had \$45.6 million in short-term debt outstanding to affiliates at June 30, 2003.

Included in total borrowings is a variable rate note issued by the Company during the second quarter of 2002 in the amount of \$70 million. This note is payable in its entirety at the end of fifteen years with interest payments due monthly. The Company is using the proceeds of this note to partially fund the consumer loan and commercial lease portfolios of its finance subsidiary. The Company has entered into an interest rate swap contract in order to achieve its objective of economically hedging 100 percent of its variable-rate long-term interest payments over the first five years of the note. Under the interest rate swap, the Company receives variable interest payments and makes fixed interest rate payments, thereby fixing the rate on such debt at 4.945%.

On October 25, 1993, the Company established a Stock Option Plan, pursuant to which a maximum aggregate of 4,000,000 shares of common stock were reserved for grant to key personnel. On April 26, 2001, the plan was amended to increase the maximum aggregate number of shares available for grant to 6,400,000 shares. Under the plan, options ratably become exercisable annually over three years and may not be exercised after ten years from the date of the award. During March 2003, the Company issued 433,000 options.

The Company's Board of Directors has approved stock repurchase programs authorizing the repurchase of up to 12,000,000 shares of its outstanding common stock in the open market or in negotiated transactions in such quantities and at such times and prices as management may decide. During the first six months of 2003, the Company repurchased 194,849 shares at a cost of \$2,338,268. At June 30, 2003, the total repurchased was 7,043,446 shares at a cost of \$48,923,325. The Company has reissued 1,798,264 treasury shares as a result of option exercises. In May 2002, the Company began selling treasury shares as a means of meeting provisions of stockholder participation in the Company's dividend reinvestment plan. At June 30, 2003, the total sold was 1,311,916 shares at a cost of \$7,070,306.

All share information presented in this section has been adjusted to reflect the impact of the two-for-one stock split effected in the form of a 100% stock dividend which was paid on June 17, 2002.

Due to the sensitivity of the products offered by the life subsidiary to interest rates fluctuations, the Company must assess the risk of surrenders exceeding expectations factored into its pricing program. Internal actuaries are used to determine the need for modifying the Company's policies on surrender charges and assessing the Company's competitiveness with regard to rates offered.

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Cash surrenders paid to policyholders on a statutory basis totaled \$8.0 million in the first six months of 2003 and \$7.5 million for the same period in 2002. This level of surrenders is within the Company's pricing expectations. Historical persistency rates indicate a normal pattern of surrender activity. The structure of the surrender charges is such that persistency is encouraged. The majority of the policies in force have surrender charges which grade downward over a 12 to 15 year period. In addition, the majority of the in-force business is interest sensitive type policies which generally have lower rates of surrender. At June 30, 2003, the total amount of cash that would be required to fund all amounts subject to surrender was approximately \$530.9 million.

The Company's business is concentrated geographically in Alabama, Georgia and Mississippi. Accordingly, unusually severe storms or other disasters in these contiguous states might have a more significant effect on the Company than on a more geographically diversified insurance company. Unusually severe storms, other natural disasters and other events could have an adverse impact on the Company's financial condition and operating results. However, the Company's current catastrophe protection program, which began November 1, 1996, reduced the earnings volatility caused by such catastrophe exposures.

The Company's management uses estimates in determining loss reserves for inclusion in its financial statements. Periodic reviews are conducted by the Company's internal actuaries to determine a range of reasonable loss reserves. In addition, the Company's current catastrophe protection program, which began November 1, 1996, was established to address the economics of catastrophe finance. This plan limits the Company's exposure to catastrophes which might otherwise deplete the Company's surplus through the combination of shared catastrophe exposure within the Alfa Group and the purchase of reinsurance coverage from external reinsurers.

Reinsurance contracts do not relieve the Company from its obligations to policyholders. Failure of reinsurers to honor their obligations could result in losses to the Company; therefore, allowances are established if amounts are determined to be uncollectible. The Company evaluates the financial condition of its reinsurers and monitors concentration of credit risk arising from similar geographic regions, activities, or economic characteristics of the reinsurance to minimize exposure to significant losses from reinsurer insolvencies. At June 30, 2003, the Company does not believe there to be a significant concentration of credit risk related to its reinsurance program.

Lawsuits brought by policyholders or third-party claimants can create volatility in the Company's earnings. The Company maintains in-house legal staff and, as needed, secures the services of external legal firms to present and protect its position. Certain legal proceedings are in process at June 30, 2003. These proceedings involve alleged breaches of contract, torts, including bad faith and fraud claims, and miscellaneous other causes of action. These lawsuits involve claims for mental anguish and punitive damages. Costs for these and similar proceedings, including accruals for outstanding cases, are included in the financial statements of the Company. Management periodically reviews reserves established to cover potential costs of litigation including legal fees and potential damage assessments and adjusts them based on their best estimates. It should be noted that in Alabama, where the Company has substantial business, the likelihood of a judgment in any given suit, including a large mental anguish and/or punitive damage award by a jury, bearing little or no relation to actual damages, continues to exist, creating the potential for unpredictable material adverse financial results.

Increased public interest in the availability and affordability of insurance has prompted legislative, regulatory and judicial activity in several states. This includes efforts to contain insurance prices, restrict underwriting practices and risk classifications, mandate rate reductions and refunds, eliminate or reduce exemptions from antitrust laws and generally expand regulation. In 1999, the Alabama legislature passed a tort reform package that

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should help to curb some of the excessive litigation experienced in recent years. In addition, a mandatory insurance bill was passed to require motorists to obtain insurance coverage beginning in June 2000. While this requirement will affect both the revenues and losses incurred by the Company in the future, the full extent or impact is not possible to predict and the Company believes any impact on future results will not be significant.

APPLICATION OF CRITICAL ACCOUNTING POLICIES

The Company's Summary of Significant Accounting Policies is presented in the notes to its audited consolidated financial statements for the fiscal year ended December 31, 2002. As the Company operates in the property and casualty and life insurance industries, its accounting policies are well defined with industry-specific accounting literature governing the recognition of insurance-related revenues and expenses.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the Company's management to make significant estimates and assumptions based on information available at the time the financial statements are prepared. In addition, management must ascertain the appropriateness and timing of any changes in these estimates and assumptions. Certain accounting estimates are particularly sensitive because of their significance to the Company's financial statements and because of the possibility that subsequent events and available information may differ markedly from management's judgments at the time financial statements are prepared. For the Company, the areas most subject to significant management judgments include reserves for property and casualty losses and loss adjustment expenses, reserves for future policy benefits, deferred policy acquisition costs, valuation of investments, and reserves for pending litigation. The application of these critical accounting estimates impacts the values at which 68% of the Company's assets and 58% of the Company's liabilities are reported and therefore have a direct effect on net earnings and stockholders' equity.

Management has discussed the Company's critical accounting policies and estimates, together with any changes therein, with the Audit Committee of the Company's Board of Directors. The Company's Audit Committee has also reviewed the disclosures contained herein.

RESERVES FOR PROPERTY CASUALTY LOSSES AND LOSS ADJUSTMENT EXPENSES

The estimated liabilities for losses and loss adjustment expenses include the accumulation of estimates of losses for claims reported prior to the balance sheet dates, estimates of losses for claims incurred but not reported and the development of case reserves to ultimate values, and estimates of expenses for investigating, adjusting and settling all incurred claims. Amounts reported are estimates of the ultimate costs of settlement, net of estimated salvage and subrogation. The estimates are necessarily subject to the outcome of future events, such as changes in medical and repair costs as well as economic, political and social conditions that impact the settlement of claims. In addition, time can be a critical part of reserving determinations since the longer the span between the incidence of a loss and the payment or settlement of the claim, the more variable the ultimate settlement amount can be. Accordingly, short-tail claims, such as property damage claims, tend to be more reasonably predictable than long-tail liability claims. Due to the Company's current mix of exposures, the majority of claims are settled within twelve months of the date of loss. The amount of loss reserves for reported claims is based primarily upon a case-by-case evaluation of the risk involved, knowledge of the circumstances surrounding each claim and the insurance policy provisions related to the type of loss. The amounts of loss reserves for unreported claims and loss adjustment expenses are determined using historical information by line of business as adjusted to current

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conditions. Inflation is implicitly provided for in the reserving function through analysis of costs, trends and reviews of historical reserving results. Organized by accident year and evaluation dates, historical data on paid losses, loss adjustment expenses, case reserves, earned premium, catastrophe losses and carried reserves is provided to the Company's actuaries and actuaries employed by the Company's independent auditors. The Company's actuaries apply standard actuarial techniques to estimate a range of reasonable reserves. The carried reserve is then compared to these estimates to determine whether it is reasonable and whether any adjustments need to be recorded. The Company's appointed actuary conducts his own analysis that serves as the basis for the property and casualty subsidiaries' Annual Statement Actuarial Opinions as required by insurance industry regulations. Reserve estimates are closely monitored and are rolled forward quarterly using the most recent information on reported claims. Each quarter, after the rolled forward analysis has been completed, a meeting is held to discuss the actuarial data. Management evaluates reserve level estimates across various segments and adjustments are made as deemed necessary. It is expected that such estimates will be more or less than the amounts ultimately paid when the claims are settled. Changes in these estimates are reflected in current operating results. Given the inherent variability in the estimates, management believes the aggregate reserves are within a reasonable and acceptable range of adequacy.

RESERVES FOR POLICYHOLDER BENEFITS

Benefit reserves for traditional life products are determined according to the provisions of Statement of Financial Accounting Standard (SFAS) No. 60, Accounting and Reporting by Insurance Enterprises. The methodology used requires that the present value of future benefits to be paid to or on behalf of policyholders less the present value of future net premiums (that portion of the gross premium required to provide for all future benefits and expenses) be determined. Such determination uses assumptions, including provision for adverse deviation, for expected investment yields, mortality, terminations and maintenance expenses applicable at the time the insurance contracts are issued.

Benefit reserves for universal life products are determined according to the provisions of SFAS No. 97, Accounting and Reporting by Insurance Enterprises for Certain Long-Duration Contracts and for Realized Gains and Losses from the Sale of Investments. This standard directs that, for policies with an explicit account balance, the benefit reserve is the account balance without reduction for any applicable surrender charge. Benefit reserves for the Company's annuity products, like those for universal life products, are determined using the requirements of SFAS No. 97.

In accordance with the provisions of SFAS No. 60 and the AICPA Audit and Accounting Guide, credit insurance reserves are held as unearned premium reserves calculated using the rule of 78 method. Reserves for supplementary contracts with life contingencies are determined using the 1971 Individual Annuity Mortality Table and an interest rate of 7.5%. Likewise, reserves for accidental death benefits are determined predominately by using the 1959 Accidental Death Benefit Mortality Table and an interest rate of 3%. Reserves for disability benefits, both active and disabled lives, are calculated primarily from the 1952 Disability Study and a rate of 2.5%. A small portion of the Company's disabled life reserves are calculated based on the 1970 Intercompany Group Disability Study and a rate of 3%.

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Reserves for all other benefits are computed in accordance with presently accepted actuarial standards. Management believes that reserve amounts reflected in the Company's balance sheet related to life products:

are consistently applied and fairly stated in accordance with sound actuarial principles;

are based on actuarial assumptions which are in accordance with contract provisions;

make a good and sufficient provision for all unmatured obligations of the Company guaranteed under the terms of its contracts;

are computed on the basis of assumptions consistent with those used in computing the corresponding items of the preceding year end; and

include provision for all actuarial reserves and related items which ought to be established.

VALUATION OF INVESTMENTS

Unrealized investment gains or losses on investments carried at fair value, net of applicable income taxes, are reflected directly in stockholders equity as a component of accumulated other comprehensive income (loss) and, accordingly, have no effect of net income. Fair values for fixed maturities are based on quoted market prices. The cost of investment securities sold is determined by the specific identification method. The Company monitors its investment portfolio and conducts quarterly reviews of investments that have experienced a decline in fair value below cost to evaluate whether the decline is other than temporary. Such evaluations involve judgment and consider the magnitude and reasons for a decline and the prospects for the fair value to recover in the near term. Declines in value created by market conditions or industry related events are considered to be temporary if it is determined that the Company has the intent to hold the investment for a period of time believed to be sufficient to allow a market recovery or to maturity. Future adverse investment market conditions, or poor operating results of underlying investments, could result in an impairment charge in the future. Where a decline in fair value of an investment below its cost is deemed to be other than temporary, a charge is reflected in income for the difference between the cost or amortized cost and the estimated net realizable value. As a result, writedowns of approximately \$953,000 were recorded in the first six months of 2003 on equity securities.

POLICY ACQUISITION COSTS

Policy acquisition costs, such as commissions, premium taxes and certain other underwriting and marketing expenses that vary with and are directly related to the production of business, are deferred and amortized over the effective period of the related insurance policies. The method followed in computing deferred policy acquisition costs limits the amount of such deferred costs to their estimated realizable value, which gives effect to the premium to be earned, related investment income, losses and loss adjustment expenses, and certain other costs expected to be incurred as the premium is earned. Future changes in estimates, the most significant of which is expected losses and loss adjustment expenses, may require adjustments to deferred policy acquisition costs.

RESERVES FOR LITIGATION

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The Company is subject to proceedings, lawsuits and claims in the normal course of business related to its insurance and noninsurance products. At the time a case becomes known, management evaluates the merits of the claimant and determines the need for establishing estimated reserves for potential settlements or judgments as well as reserves for potential costs of defending the Company against the claim. On a quarterly basis, management assesses all pending cases as a basis for evaluating reserve levels. At that point, any necessary adjustments are

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made to applicable reserves as determined by management and are included in current operating results. Management believes adequate reserves have been established in known cases. However, due to the uncertainty of future events, there can be no assurance that actual outcomes will not differ from the assessments made by management.

FINANCIAL ACCOUNTING DEVELOPMENTS

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure-an amendment of FASB Statement No. 123. While the Company continues to use the intrinsic value method to account for its stock options, notes contained in this filing for the six months ended June 30, 2003 have been enhanced to comply with the requirements set forth by this statement.

Also, during 2002, the FASB issued FASB Interpretation No. 45, Guarantor's Accounting and Disclosure Requirements for Guarantees. This interpretation clarifies the requirements of SFAS No. 5, Accounting for Contingencies relating to the guarantor's accounting for, and disclosure of, the issuance of certain types of guarantees. The Company complied with the provisions of the interpretation and it did not have a significant impact on the Company's financial position or income.

In January 2003, the FASB issued FASB Interpretation No. 46, Consolidation of Variable Interest Entities. This interpretation addresses consolidation and disclosure issues associated with variable interest entities. The effective date for the interpretation will be July 1, 2003. The Company has evaluated the provisions of this interpretation and its requirements had no significant impact on the Company's financial position or income.

In April 2003, the FASB issued SFAS No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities. The changes in this statement improve financial reporting by requiring that contracts with comparable characteristics be accounted for similarly. These changes will result in more consistent reporting of contracts as either derivatives or hybrid instruments. This statement is effective for contracts entered into or modified after June 30, 2003 and for hedging relationships designated after June 30, 2003. At this time, the Company does not anticipate this standard having a significant impact on the Company's financial position or income.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. This statement establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity and is effective for financial instruments entered into or modified after May 31, 2003. The Company did not experience a significant impact on the Company's financial position or income from this statement.

INFORMATION ABOUT FORWARD-LOOKING STATEMENTS

Any statement contained in this report which is not a historical fact, or which might otherwise be considered an opinion or projection concerning the Company or its business, whether expressed or implied, is meant as and should be considered a forward-looking statement as that term is defined in the Private Securities Litigation Reform Act of 1995. Forward-looking statements are based on assumptions and opinions concerning a variety of known and unknown risks, including but not necessarily limited to changes in market conditions, natural disasters and other catastrophic events, increased competition, changes in availability and cost of reinsurance,

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changes in governmental regulations, technological changes, political and legal contingencies and general economic conditions, as well as other risks and uncertainties more completely described in the Company's filings with the Securities and Exchange Commission. If any of these assumptions or opinions prove incorrect, any forward-looking statements made on the basis of such assumptions or opinions may also prove materially incorrect in one or more respects and may cause actual future results to differ materially from those contemplated, projected, estimated or budgeted in such forward-looking statements.

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Item 3. MARKET RISK DISCLOSURES

The Company's objectives in managing its investment portfolio are to maximize investment income and investment returns while minimizing overall credit risk. Investment strategies are developed based on many factors including underwriting results, overall tax position, regulatory requirements, and fluctuations in interest rates. Investment decisions are made by management and approved by the Board of Directors. Market risk represents the potential for loss due to adverse changes in the fair value of securities. The market risk related to the Company's fixed maturity portfolio are primarily interest rate risk and prepayment risk. The market risk related to the Company's equity portfolio is equity price risk. For further information, reference is made to Management's Discussion and Analysis of Results of Operations in Alfa Corporation's Annual Report on Form 10-K for the year ended December 31, 2002.

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Item 4. CONTROLS AND PROCEDURES

The Company has evaluated the effectiveness of its disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. The evaluation was performed under the supervision and with the participation of the Company's Disclosure Committee and Management, including the Chief Executive Officer and the Chief Financial Officer, within 90 days prior to the date of the filing of this quarterly report. Based on this evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion.

Subsequent to the date of their evaluation, there were no significant changes in internal controls or other factors that could significantly affect internal controls, including any corrective actions with regard to significant deficiencies and material weaknesses.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

Certain legal proceedings are in process at June 30, 2003. Costs for these and similar legal proceedings, including accruals for outstanding cases, totaled \$139,000 in the first six months of 2003, \$5.3 million in 2002, and \$930,000 in 2001. These proceedings involve alleged breaches of contract, torts, including bad faith and fraud claims, and miscellaneous other causes of action. These lawsuits involve claims for unspecified amounts of compensatory damages, mental anguish damages, and punitive damages.

Approximately 25 legal proceedings against Alfa Life Insurance Corporation (Life) were in process at June 30, 2003. Of the 25 proceedings, nine were filed in 2003, eight were filed in 2002, one was filed in 2001, one was filed in 2000, four were filed in 1999, one was filed in 1997, and one was filed in 1996. In a case tried in January 2001, in Barbour County, Alabama, the jury returned a verdict for the plaintiff against Life for \$500,000 in compensatory damages and \$5,000,000 in punitive damages. After Life filed post-trial motions, the trial court reduced the punitive damage award to \$1,500,000. Life has appealed the award to the Alabama Supreme Court. In a case tried in December 2001, in Bullock County, Alabama, the jury returned a verdict for the plaintiffs against Life for \$300,000 in compensatory damages and \$3,000,000 in punitive damages. After Life filed post-trial motions, the trial court reduced the punitive damage award to \$900,000. Life has appealed the award to the Alabama Supreme Court. One of the 25 pending legal proceedings against Life has been certified as a class action by the trial court. After the trial court certified the class action against Life, Life appealed the class certification order to the Alabama Supreme Court. In November 2001, the Alabama Supreme Court reversed the trial court, decertified the class, and remanded the case to the trial court for further proceedings. The trial court again certified the class and Life appealed the certification to the Alabama Supreme Court. In February 2003, the Supreme Court affirmed the trial court order certifying the case as a class action. Life has filed an application for rehearing with the Supreme Court, which has been stayed by the Supreme Court pending final resolution of settlement negotiations between the parties.

In addition, one purported class action lawsuit is pending against both Alfa Builders, Inc. and Alfa Mutual Fire Insurance Company. Additionally, five purported class action lawsuits are pending against the property and casualty mutual companies involving a number of issues and allegations which could affect the Company because of a pooling agreement between the companies. No class has been certified in any of these six purported class action cases.

Management believes adequate reserves have been established in these known cases. However, it should be noted that in Alabama, where the Company has substantial business, the likelihood of a judgment in any given suit, including a large mental anguish and/or punitive damage award by a jury, bearing little or no relation to actual damages, continues to exist, creating the potential for unpredictable material adverse financial results.

Based upon information presently available, contingent liabilities arising from any other threatened litigation are not presently considered by management to be material.

Table of Contents**Item 2. CHANGES IN SECURITIES AND USE OF PROCEEDS**

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

The 2003 Annual Meeting of Stockholders of the Company was held on April 24, 2003. At the meeting, stockholders elected eleven directors.

	Number of shares Of Voted For	Number of Shares Withheld
Boyd E. Christenberry	67,827,831	795,359
Steve Dunn	68,236,313	386,877
C. Lee Ellis	67,859,403	763,787
James I. Harrison, Jr.	66,941,995	1,681,195
Hal F. Lee	68,236,313	386,877
Jerry A. Newby	67,847,529	775,661
B. Phil Richardson	66,898,513	1,724,677
John Russell Thomas	66,938,193	1,684,997
James A. Tolar, Jr.	67,921,649	701,541
Russell R. Wiggins	68,236,413	386,777
Dean Wysner	68,229,581	393,609

Item 5. OTHER INFORMATION

None

Table of Contents**Item 6. EXHIBITS AND REPORTS ON FORM 8-K**

(a) Exhibits:

- 11 Statement of Computation of Per Share Earnings
- 15 Letter Regarding Unaudited Interim Financial Information
- 31.1 Certification of Alfa Corporation's Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 31.2 Certification of Alfa Corporation's Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
- 32.1 Certification of Alfa Corporation's Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
- 32.2 Certification of Alfa Corporation's Chief Financial Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K:

<u>Date of Report</u>	<u>Date Filed</u>	<u>Description</u>
April 16, 2003	April 23, 2003	Regulation FD disclosure of Alfa Corporation's press release regarding its results of operations for the first quarter of 2003.

Items other than those listed above are omitted because they are not required or are not applicable.

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SIGNATURES

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 thereunto duly authorized.

ALFA CORPORATION

Date 8/7/03

By:

/S/ Jerry A. Newby

Jerry A. Newby

President

(Chief Executive Officer)

Date 8/7/03

By: /S/ Stephen G. Rutledge

Stephen G. Rutledge

Senior Vice President

(Chief Financial Officer and Chief Investment Officer)