VESTA INSURANCE GROUP INC
Form 11-K
June 28, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 11-K

|X| **Annual Report Pursuant To Section 15(d) of the Securities Exchange Act Of 1934**

For the Fiscal Year Ended December 31, 2000

Commission file number 1-12338

J. GORDON GAINES, INC.
RETIREMENT SAVINGS PLAN
(Full Title of the Plan)

VESTA INSURANCE GROUP, INC.
3760 River Run Drive
Birmingham, Alabama 35243
(Name of Issuer of the Securities Held
Pursuant to the Plan and the Address
of its Principal Executive Office

REQUIRED INFORMATION

(a) Financial Statements for the J. Gordon Gaines, Inc. Retirement Savings Plan

(b) Exhibits

The following exhibit is filed herewith as a part of this annual report:

Exhibit Number	Description of Exhibit
23.1	Consent of Independent Accountants

SIGNATURES

THE PLAN. Pursuant to the requirements of the Securities Act of 1934, the Administrator of the J. Gordon Gaines, Inc. Retirement Savings Plan has duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

J. GORDON GAINES, INC.
RETIREMENT SAVINGS PLAN

By: J. Gordon Gaines, Inc.,
Administrator of the Plan

/s/ Donald W. Thornton

Donald W. Thornton
Senior Vice President
General Counsel and Secretary

Date: June 28, 2001

J. Gordon Gaines, Inc. Retirement Savings Plan

Financial Statements and Supplemental Schedules

As of December 31, 2000 and 1999 and For the Year Ended December 31, 2000

J. Gordon Gaines, Inc. Retirement Savings Plan
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Report of Independent Accountants

To the Administrative Committee J. Gordon Gaines, Inc. Retirement Savings Plan

In our opinion, the accompanying statements of net assets available for plan benefits and the related statement of changes in net assets available for plan benefits present fairly, in all material respects, the net assets available for plan benefits of the J. Gordon Gaines, Inc. Retirement Savings Plan (the Plan) at December 31, 2000 and 1999 and the changes in net assets available for plan benefits for the year ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for the opinion expressed above.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules listed in the table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements but are supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee

Retirement Income Security Act of 1974. These supplemental schedules are the responsibility of the Plan s management. The supplemental schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

June 22, 2001

J. Gordon Gaines, Inc. Retirement Savings Plan
Statements of Net Assets Available for Plan Benefits

December 31, 2000 and 1999

	2000	1999
Investments at fair value:		
Vesta Insurance Group, Inc. (Vesta) common stock	$ 988,197	$ 474,901
Mutual funds and trusts	4,619,312	3,922,124
Loans to participants	157,017	112,051
Total investments	5,764,526	4,509,076
Cash	9,683	2,403
Accrued income receivable	5,439	3,407
Employee contributions receivable	75,060	31,481
Employer contributions receivable	37,264	17,393
Total other assets	127,446	54,684
Net assets available for plan benefits	$5,891,972	$4,563,760

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

J. Gordon Gaines, Inc. Retirement Savings Plan
Statement of Changes in Net Assets Available for Plan Benefits

For the Year Ended December 31, 2000

Additions to net assets available for plan benefits:	
Dividend income (includes dividends from Vesta common stock of $9,131)	$ 405,359
Interest income	7,759
Net depreciation in fair value of investments	(167,702)

Employee contributions	1,030,367
Employer contributions	550,120
Rollover contributions	590,150
Other	8,506
Total additions	2,424,559
Deductions from net assets available for plan benefits:	
Distributions to participants	1,092,594
Administrative expenses	3,753
Total deductions	1,096,347
Net increase	1,328,212
Net assets available for plan benefits:	
Beginning of year	4,563,760
End of year	$ 5,891,972

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

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J. Gordon Gaines, Inc. Retirement Savings Plan
Notes to Financial Statements
For the Year Ended December 31, 2000

1. Summary of Significant Accounting Policies

Organization - The J. Gordon Gaines, Inc. Retirement Savings Plan (the Plan) was adopted on November 15, 1993. The Plan includes a salary reduction feature which permits employees who participate (participants) in the Plan to defer and save part of their compensation, as provided for under Section 401(k) of the Internal Revenue Code. The Plan is subject to the applicable provisions of the Employee Retirement Income Security Act of 1974, as amended, (ERISA) and is funded by discretionary employee and employer contributions.

Basis of Presentation - The accompanying financial statements of the Plan have been prepared on an accrual basis in accordance with accounting principles generally accepted in the United States of America. J. Gordon Gaines, Inc. (the Company or Sponsor) is a wholly owned subsidiary of Vesta Insurance Group, Inc. (Vesta).

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of additions and deductions during the reporting periods. Actual results could differ from these estimates.

Risks and Uncertainties - The Plan provides for various investment options in a combination of stocks, mutual funds and other investment securities. Generally all investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments and the level of uncertainty related to changes in the value of investments, it is at least reasonably possible that changes in risks in the near term could materially affect participants account balances, and the amounts reported in the statements of net assets available for plan benefits and the statement of changes in net assets available for plan benefits.

Investments Valuation - Investments in mutual funds and in Vesta common stock are stated at fair value, based on quotations obtained from national securities exchanges. The Merrill Lynch Retirement Preservation Trust Fund is valued at cost plus interest earned, which approximates market. Purchase and sales of securities are recorded on a trade-date basis. Realized gains and losses are calculated using the average cost method.

For cash and receivables, the carrying amounts approximate fair value because of the short-term nature of these instruments.

Loans to participants are valued at cost, which approximates fair value.

Plan Expenses - Merrill Lynch Trust Company serves as the trustee and administrator of the Plan. Administration fees paid to the trustee and all other administrative expenses are paid by the Sponsor.

Net Appreciation (Depreciation) - The Plan presents in the statement of changes in net assets available for plan benefits the net appreciation (depreciation) in the fair value of its investments, which consists of the realized gains or losses and the unrealized appreciation (depreciation) on those investments.

Reclassifications - Certain reclassifications have been made in the previously reported financial statements and accompanying notes to make the prior year amounts comparable to those of the current year. Such reclassifications had no effect on previously reported net assets available for plan benefits.

2. Description of Plan

The following description of the Plan provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions. The Plan was approved to provide retirement benefits for eligible employees of Vesta and its subsidiaries.

Participant Contributions - Effective July 1, 1998, all employees are eligible to participate in the Plan upon employment and may elect to have from 1% to 15% of their compensation deferred and contributed to the Plan. There were 575 participants as of December 31, 2000. Participants are fully vested upon their enrollment in the Plan.

Investment Options - As of December 31, 2000, participants may allocate their contributions (and the corresponding employer matching contributions), in multiples of 5%, to any of the investment funds offered by the Plan. There are a total of 36 options available to participants, which consist of investment in the Company s common stock, thirty-one various mutual fund portfolios, one collective trust fund, and three managed investment models. Plan participants may choose to allocate plan assets in any variety of these funds.

Employer Matching Contributions Vesta and its subsidiaries (the Employer), at its sole discretion, may make matching contributions in an amount determined by the board of directors of the Company. For 2000, the matching contribution was 100% of employee contributions up to 3% and 50% of employee contributions from 3% to 5% not to exceed a maximum of 4% of the employee s compensation.

Participant Accounts - Each participant s account is credited with the Employer s corresponding matching contribution and an allocable share of investment earnings or loss. Allocations are based on contribution rates specified in the Plan and the time-weighted value of account balances. Participants are entitled to the benefits that can be provided from the distributable value of their participant accounts.

Vesting - The Plan was amended on January 1, 1999 to provide for 100% immediate vesting of Employer contributions for all participants and all future plan participants. Participant contributions and income thereon are fully vested at all times.

Forfeitures - At December 31, 2000, forfeited nonvested amounts totaled approximately $80,800. These amounts, which relate to nonvested participant accounts prior to January 1, 1999, will be reallocated to participants in the same manner as employee contributions.

Loans - Participants are able to borrow up to the lesser of one half of their account balances or $50,000 minus the highest outstanding loan balance from the Plan during the past year in accordance with the plan provisions. Only one loan outstanding is allowed. Repayment periods do not exceed five years unless the loan proceeds are used to purchase a home. The interest rates on the loans are at least equal to the prime rate as published in the Wall Street Journal at the time of application or some higher rate that reflects current commercial lending rates as determined by the plan administrator. Repayments are made in equal installments collected through payroll deductions. Loans are valued at cost, which approximates fair value.

Withdrawal Provisions - Participants may request that all or part of their accounts attributable to elective contributions be paid to them to meet an immediate and extreme financial hardship for which funds are not reasonably available to them from other sources. The amount paid to a participant in this fashion will be taxable and may not be repaid to the Plan. Such a withdrawal would require the participant to cease making contributions to the Plan for a period of at least twelve months following the receipt of the hardship withdrawal.

Benefit Payments - Participants are eligible for benefit payments upon reaching age sixty-five (65). The Plan also provides for distributions to participants, or their beneficiaries, upon death, disability, early retirement at or after age fifty-five with seven years of service, and termination of employment. Participants may choose to have benefits paid directly to them or to another qualified retirement plan or individual retirement arrangement on their behalf. Benefits are recorded when paid.

Priorities Upon Termination - Upon termination of the Plan, all participants funds shall become fully vested. The trust will continue until the plan benefits of each participant has been distributed.

3. Income Tax Status

The Plan is exempt from federal income taxes under Section 401(a) of the Internal Revenue Code. The Plan obtained its latest determination letter on June 29, 1993, in which the Internal Revenue Service stated that the Plan, as then designed, was in compliance with the applicable requirements of the Internal Revenue Code. The Plan has been amended since receiving the determination letter. However, the plan administrator and the Plan s tax counsel believe that the Plan is currently designed and being operated in compliance with the applicable

requirements of the Internal Revenue Code. Therefore, no provision for income taxes has been included in the Plan s financial statements.

4. Investments

The investments of the Plan as of December 31, 2000 and 1999 are summarized as follows:

	2000		1999	
	Market	Cost	Market	Cos
Vesta Insurance Group, Inc. common stock	$ 988,197	$ 1,373,199	$ 474,901	$ 1,06
Mutual funds	3,898,965	4,007,838	3,461,086	3,21
Collective trust fund	720,347	720,347	461,038	46
Loans to participants	157,017	157,017	112,051	11
	$ 5,764,526	$ 6,258,401	$4,509,076	$ 4,85

The following is a summary of assets held in excess of 5% of the Plan's net assets at December 31:

	2000	1999
Vesta Insurance Group, Inc.	$ 988,197	$ 474,901
Merrill Lynch Retirement Preservation Trust Fund	$ 720,347	$ 461,038
Merrill Lynch Corporate Bond Fund (Intermediate Term Portfolio)		$ 236,217
Davis New York Venture Fund	$ 1,770,135	$ 1,724,812
Merrill Lynch Global Allocation Fund	$ 671,375	$ 600,977
Merrill Lynch S&P 500 Index Fund	$ 585,359	$ 357,471

During 2000, the Plan s investments (including gains and losses on investments bought and sold as well as held during the year) appreciated/(depreciated) in value by $(167,702) as follows:

Vesta common stock	$ 209,146
Mutual funds and trust fund	(376,848)
	$ (167,702)

5. Related Party Transactions

The Sponsor pays administrative expenses on behalf of the Plan, including legal, trust, administrative and accounting fees. During 2000, the Plan acquired and sold Vesta common stock as follows:

	Shares	Cost	Selling Price/ Fair Value
Acquired	99,869	$ 505,235	$ 505,235
Sold	27,205	201,085	132,239
	72,664	$ 304,150	$ 372,996

6. Comparison of Financial Statements to Form 5500

Annually, the Company files, on behalf of the Plan, an information return (Form 5500) that includes financial information prepared on the basis of cash receipts and disbursements. The accompanying financial statements differ from the Form 5500 primarily due to the accruals reflected in the financial statements.

Supplemental Schedules

J. Gordon Gaines, Inc. Retirement Savings Plan
Schedule of Assets Held for Investment Purposes

December 31, 2000

a.	b. Identity of Issuer, Borrower, Lessor, or Similar Party	c. Description of Investment Including Maturity Date, Rate of Interest, Collateral, Par or Maturity Value	d.Cost
*	Vesta Insurance Group, Inc	Common Stock	$1,373,
*	Merrill Lynch Retirement Preservation Trust Fund	Collective Trust	720,
*	Merrill Lynch S&P 500 Index Fund	Mutual Fund	617,
	GAM International Fund	Mutual Fund	77,
	PIMCO Small Cap Value Fund	Mutual Fund	91,
	Davis New York Venture Fund	Mutual Fund	1,649,
*	Merrill Lynch Basic Value Fund	Mutual Fund	131,
*	Merrill Lynch Corporate Bond Fund (High Income Portfolio)	Mutual Fund	104,
*	Merrill Lynch Corporate Bond Fund (Intermediate Term Portfolio)	Mutual Fund	256,
*	Merrill Lynch Global Allocation Fund	Mutual Fund	722,
	Morgan Stanley U.S. Real Estate Fund	Mutual Fund	2,
	GAM Global Fund	Mutual Fund	1,
	Davis Convertible Securities Fund	Mutual Fund	1,
	MFS Total Return Fund	Mutual Fund	21,
	Davis Real Estate Fund	Mutual Fund	
	Alger MidCap Growth Portfolio Fund	Mutual Fund	33,
	John Hancock Financial Industries Fund	Mutual Fund	8,
	Van Kampen Focus Equity Fund	Mutual Fund	17,
	Seligman Henderson Global Technology Fund	Mutual Fund	113,
*	Merrill Lynch Pacific Fund	Mutual Fund	5,
	Van Kampen Latin America Fund	Mutual Fund	5,
	Oppenheimer Developing Markets Fund	Mutual Fund	8,
	Oppenheimer International Bond Fund	Mutual Fund	
	Seligman Communication and		

	Information Fund	Mutual Fund	57,
	Alliance Worldwide Privatization Fund	Mutual Fund	
	AIM Constellation Fund	Mutual Fund	14,
	Alliance New Europe Fund	Mutual Fund	3,
	AIM Global Telecommunications Fund	Mutual Fund	54,
	ING Pilgrim Small Cap Growth Fund	Mutual Fund	6,
*	Loans to participants	Loans, interest rates range from 8.75% to 10.5%	157,
			$6,258,

* Party-in-interest to the Plan.

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J. Gordon Gaines, Inc. Retirement Savings Plan
Schedule of Reportable Transactions
For the Year Ended December 31, 2000

I. Single transactions exceeding 5% of assets.

NONE

II. Series of transactions involving property other than securities.

NONE

III. Series of transactions of same issue exceeding 5% of assets.

Schedule Attached

IV. Transactions in conjunction with same person involved in reportable single transactions.

NONE

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J. Gordon Gaines, Inc. Retirement Savings Plan
Schedule of Reportable Transactions
For the Year Ended December 31, 2000

No schedule of reportable transactions would be prepared as investments are participant-directed. Only nonparticipant-directed transactions are required to be reported.

Consent of Independent Accountants

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 33-8114) of Vesta Insurance Group, Inc. of our report dated June 22, 2001 related to the financial statements and supplemental schedules of J. Gordon Gaines, Inc. Retirement Savings Plan, which appear in this Form 11-K.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Birmingham, Alabama
June 27, 2001