VESTA INSURANCE GROUP INC
Form 424B4
June 21, 2001

FILED PURSUANT TO
RULE 424(b)(4)
FILE NO: 333-60634

PROSPECTUS

7,500,000 Shares
[Vesta Logo]

VESTA INSURANCE GROUP, INC.

Common Stock

Vesta Insurance Group, Inc. is offering 7,500,000 shares of its common stock.

Our common stock currently trades on the New York Stock Exchange under the symbol "VTA." On June 20, 2001, the last reported sale price of the common stock on the New York Stock Exchange was $8.55 per share.

Investing in our stock involves risks. See "Risk Factors" beginning on page 10.

Neither the U.S. Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined that this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public Offering Price	$8.00	$60,000,000
Underwriting Discount	$0.50	$ 3,750,000
Proceeds to Vesta	$7.50	$56,250,000

The underwriters may purchase up to an additional 1,125,000 shares at the public offering price, less the underwriting discount, from us within 30 days from the date of this prospectus to cover over-allotments.

William Blair & Company　　　Cochran, Caronia Securities LLC

The date of this prospectus is June 20, 2001.

You should rely only on the information contained in this prospectus. We have not authorized anyone to provide you with information different from that which is set forth in this prospectus. We are offering to sell shares of common stock and seeking offers to buy shares of common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of the prospectus or of any sale of common stock.

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This prospectus and the documents incorporated by reference into this prospectus contain "forward-looking statements" within the meaning of the federal securities laws. Generally, when we use terms such as "anticipate," "believe," "could," "estimate," "intend," "expect," "plan," "would," and similar expressions, we are making a forward-looking statement. Certain statements contained in this prospectus that are not historical facts, or that concern expected financial performance, on-going business strategies, and possible future action that we intend to pursue are also forward-looking statements. Factors that might cause actual results to differ from the forward-looking statements include the following:

- Catastrophic weather events;
- Our ability to achieve the earnings expectations related to the businesses that we have recently acquired or may acquire in the future, which in turn depends on numerous factors including the ability to achieve in a timely manner anticipated cost savings and revenue enhancements with respect to acquired operations and the assimilation of acquired operations into Vesta's corporate culture;
- Our inability to reinsure risks or collect on existing reinsurance for losses that occur;
- Changes in the laws or regulations affecting our operations;
- Changes in our relationship with independent agents;
- Changes in the retail marketplace, our competitors' business tactics or

strategies, or our industry ratings;

- Pending or future litigation or arbitration, including arbitration of reinsurance treaties, against us;
- Changing market forces that necessitate, in the opinion of our management, changes in our plans, strategies or tactics; and
- Other factors that we discuss in the section of this prospectus entitled "Risk Factors" beginning on page 10.

A forward-looking statement expresses our expectations on the date we make it. We will not update any forward-looking statement to reflect events or circumstances arising after the date on which we made it. Actual results, performance, or achievements can differ materially from results suggested by these forward-looking statements because of a variety of factors including those described in the section of this prospectus entitled "Risk Factors" beginning on page 10.

For North Carolina residents: the Commissioner of Insurance of the State of North Carolina has not approved or disapproved this offering nor has the Commissioner passed upon the accuracy or adequacy of this prospectus.

The laws of various states prohibit any person or entity from directly or indirectly acquiring 10% or more (5% or more in Alabama and Florida) of the voting control of any domestic insurance holding company without approval of such states' respective Commissioner of Insurance.

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PROSPECTUS SUMMARY

This summary highlights some of the information contained in this prospectus. It is not complete and may not contain all of the information that you should consider before investing in our common stock. You should read the entire prospectus carefully. When we refer to "Vesta," the "Company," "we," "us," or "our" in this prospectus, we are referring to Vesta Insurance Group, Inc., a Delaware corporation, and all of its subsidiaries.

The Company

Vesta is an insurance holding company that offers a wide range of personal insurance products. Our largest business segment is the standard property and casualty insurance segment, which underwrites and sells personal automobile and homeowners insurance products distributed through approximately 1,600 independent sales agencies. As of December 31, 2000, we reported consolidated assets of approximately $1.6 billion and stockholders' equity of approximately $215.1 million. For the year ended December 31, 2000, we reported net written premiums of approximately $210.7 million and income from continuing operations of approximately $8.3 million.

Business Strategy

Our strategy is to grow operating earnings and strengthen our capital position. We do this by aggressively managing our core property and casualty insurance business and pursuing strategic opportunities that permit us to offer

personal insurance products which complement our existing product lines and distribution channels. The principal elements of our strategy include:

- Focus on the Profitability of the Core Standard Property and Casualty Operations. We seek to establish disciplined underwriting programs that will result in sustainable underwriting profits. During the past two years, we have initiated a number of actions to improve the performance of our standard property and casualty operations. These include initiating rate increases in a number of key markets, reducing the number of active agencies from 2,800 to 1,600, migrating from multiple policy processing platforms to a primary integrated platform, and significantly reducing personnel and other expenses by consolidating regional offices into our principal office in Birmingham, Alabama. Management believes that these initiatives will result in lower loss and expense ratios as well as enhanced premium growth.

- Expansion into New Geographic Markets. We continuously seek expansion opportunities that allow us to leverage our underwriting capabilities and product expertise in new markets. While we are currently licensed in 48 states, ten core states accounted for over 70% of our premium volume during 2000. We believe there are significant opportunities to expand our homeowners programs outside the ten core states where established carriers are at capacity due to geographic concentrations. In April 2001, we entered into a definitive agreement to acquire Florida Select Insurance Holdings Inc. ("Florida Select"), the eighth largest insurer of residential property in Florida. We intend to use Florida Select's expertise in selecting and managing risk in catastrophe-prone areas to expand our homeowners program in such states as Texas, California, and various northeastern states.

- Expansion of New Personal Lines Products. Since June 2000, we have acquired or made significant investments in three insurance operations that will allow us to offer life and annuity, accident and health, and non-standard automobile insurance products. These strategic investments include:

  -- purchase of a 71% interest in American Founders Financial Corporation ("American Founders"), a holding company for two life insurance companies in Texas with approximately $2.1 billion of traditional life, universal life, and annuity products and policies in force as of December 31, 2000;

  -- acquisition of Aegis Financial Corporation, a holding company for an accident and health insurance company in Texas with approximately $16.5 million of accident and health premiums in force as of December 31, 2000; and

  -- purchase of a 52% interest in Instant Insurance Holdings, Inc. ("Instant Auto"), a holding company for a group of insurance agencies specializing in the direct marketing and distribution of non-standard auto insurance products written by other carriers.

- Expansion of Fee-Based Opportunities. We are positioned to generate fee-based income by acting as a fronting carrier for other insurers and reinsurers for fees and by marketing and distributing non-standard auto insurance products through an agency for commissions.

  -- Specialty Lines. As a holding company for 14 insurers licensed in 48

states, we seek opportunities to issue policies under our name and then reinsure substantially all of the risk back to another carrier or reinsurance company in exchange for a fee. We are focused on offering these "fronting" services, which we report as specialty lines, to insurance companies rated "A" or higher by the A.M. Best Company ("A.M. Best"). During 2000, we contracted for over $100 million in annual premiums under fronting arrangements, principally for auto policies. To strengthen our relationship with reinsurers who may purchase these services, we have acquired an approximate 9.9% interest in Chaucer Holdings PLC, the United Kingdom based, publicly-traded holding company of Chaucer Syndicates Limited, a managing agency at Lloyd's of London. We purchased approximately 8.3 million ordinary shares of Chaucer for approximately $8.2 million and we will have a seat on Chaucer Holdings' Board of Directors.

-- Non-Standard Auto Insurance. Our acquisition of Instant Auto provides us with a platform to earn commission income through the direct marketing and sale of other carriers' non-standard auto insurance products. This platform includes a highly-integrated call center to field customer inquiries, facilitate policy applications, and administer the issuance of new policies. We believe this processing platform will enable us to execute our growth strategy of acquiring other non-standard agencies and attracting reinsurers with seasoned books of business.

Strategic Repositioning

During the past three years, we have completed a strategic repositioning that will permit us to more aggressively pursue our business strategy. Our repositioning consisted of changing our senior management, exiting certain lines of business, and restructuring our balance sheet. Key events in this repositioning are highlighted below:

- Management Additions: Since 1998, we have made significant changes in our senior management. In July 1998, James E. Tait joined us as a Director, Executive Vice President, and Chief Financial Officer and was subsequently named Chairman in 2000 and occupies the Office of the Chairman with Norman W. Gayle, III. Mr. Tait is a former Partner at Coopers & Lybrand LLP, where he served as Managing Partner for the Midstates Region, responsible for all operations in the Business Assurance, Tax, and Financial Advisory Services segments delivered to regional clients. He also held a number of other positions at Coopers & Lybrand LLP, including Partner-in-Charge of its national Insurance Industry Team and Partner-in-Charge of the Central Region Financial Services Team.

  In 1998, William P. Cronin joined us as Senior Vice President and Controller and was subsequently named Chief Financial Officer in 2000. Mr. Cronin is a former Senior Manager with Ernst & Young LLP where he worked principally with insurance and healthcare clients.

  In addition, Norman W. Gayle, III, who served as our Executive Vice President and Chief Operating Officer from 1995 through 1998, was named President and elected a Director in 1998 and has occupied the Office of the Chairman with Mr. Tait since 2000.

- Exit from the Reinsurance and Commercial Property and Casualty Segments: During 1999 and 2000, we experienced downgrades in our A.M.

Best ratings. In light of these rating actions and the increasing competitiveness of the reinsurance and commercial marketplaces, we anticipated a significant loss of reinsurance premiums going forward, and we determined that the corrective actions necessary to return the commercial segment to profitability were not justifiable. Accordingly, during 1999 and 2000, we entered into a series of transactions in order to exit the reinsurance assumed and commercial property and casualty businesses.

- Debt Exchanges and Convertible Preferred Stock Repurchases: During 2000 and the first quarter of 2001, we engaged in a series of debt exchanges and repurchases to reduce our annual interest expense obligations and improve our debt-to-capital ratio. As a result of these transactions, we have reduced our outstanding debt by approximately $68.7 million, our ongoing annual interest obligations by approximately $7.5 million, and our debt-to-total capital ratio from approximately 48.5% as of December 31, 1999 to approximately 39.1% as of March 31, 2001. Additionally, during the first quarter of 2001, we repurchased 5.9 million shares of our common stock issued upon conversion of 2.95 million shares of our Series A convertible preferred stock with a face value of approximately $25.1 million, eliminating approximately $2.3 million in annual dividend payments.

- Improved Ratings: On February 25, 2000, we received an upgrade from A.M. Best in our insurance subsidiaries ratings to "B+" (Very Good) from "B" (Fair). The "B+" rating places us in the "secure" category of A.M. Best's classifications, reflecting our improved financial condition, including reduced debt and greater financial flexibility. Additionally, Moody's Investor Service recently revised its outlook for the ratings of the Company to "Positive" from "Negative."

We believe these positive developments have enabled us to overcome the challenges that arose in the spring of 1998. At that time, we discovered that certain reserves and premium estimates in our assumed reinsurance business may have been inappropriately recorded during the first quarter ended March 31, 1998 and the fourth quarter ended December 31, 1997. Following a voluntary internal investigation, we concluded that inappropriate amounts had, in fact, been recorded, and we decided to restate our financial statements for these two quarters. While not the subject of the investigation, we and our auditors at that time also reexamined during this time the method of accounting that we had historically used in computing the earned reinsurance premiums included in our financial statements. This reexamination led us to conclude that the method of accounting was not in accordance with generally accepted accounting principles, and to correct this error we restated our financial statements for 1997 and all prior periods. The cumulative effect of these restatements resulted in a decrease to stockholders' equity of approximately $75.2 million through March 31, 1998.

Following the restatement of our financial statements in 1998, several lawsuits were filed against Vesta and certain of its directors and officers, including federal class action suits that have been consolidated in the United States District Court for the Northern District of Alabama. We cannot predict the ultimate outcome of this litigation and have therefore not set aside any financial reserves. In addition, we are currently in arbitration with certain of our reinsurers. For more detailed information, see the section of this prospectus entitled "Risk Factors" beginning on page 10 as well as the section entitled "Business--Litigation" beginning on page 39.

Florida Select Acquisition

As part of our strategy to seek expansion opportunities that allow us to leverage our underwriting capabilities and grow our core property and casualty

business in new markets, on April 18, 2001, we and our wholly-owned subsidiary, Vesta Fire Insurance Corporation, an Illinois domiciled insurer ("Vesta Fire"), entered into a stock purchase agreement to acquire all of the issued and outstanding capital stock of Florida Select Insurance Holdings Inc. ("Florida Select"), the parent company of Florida Select Insurance Company, a Florida domiciled insurer that offers residential homeowners insurance. The majority of Florida Select

Insurance Company's policyholders are former customers of the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"), a state-sponsored insurer created by the Florida Legislature following Hurricane Andrew in 1992 to provide homeowners insurance coverage to customers who were otherwise unable to purchase it in the private market. By 1996, the JUA had issued almost one million policies insuring approximately $100 billion of residential property, and it initiated various incentive programs designed to encourage carriers to assume these policies and return these risks to the private market. These incentives included attractive rates and the promise of bonuses to be paid after the assuming company had renewed, or offered to renew, the policies for at least three years. Florida Select was originally organized for the purpose of assuming policies from the JUA pursuant to these incentive programs.

We or Vesta Fire (at our option) will purchase all of the issued and outstanding capital stock of Florida Select from that company's existing stockholders for a cash payment equal to approximately $61.5 million plus interest on this amount accumulating at a rate of 6% per annum from January 1, 2001 until the closing date. If we do not complete this offering or fail to raise at least $30 million in net proceeds from this offering prior to the closing of the Florida Select acquisition, we have the right to pay up to $30 million of the consideration in the form of unsecured promissory notes that mature 60 days after issuance and bear interest at a rate of prime plus 0.25%. As a condition precedent to closing, we agreed to make an additional cash payment of $3 million to Centre Insurance Company, an affiliate of Centre Solutions (Bermuda) Limited, one of the stockholders of Florida Select, in connection with the commutation of a reinsurance agreement between Centre Insurance Company and Florida Select Insurance Company.

As of the year ended December 31, 2000, Florida Select had consolidated assets of approximately $106.6 million, stockholders' equity of approximately $31.5 million, gross written premiums of approximately $63.5 million, and net income of approximately $6.6 million. Among other things, we expect our acquisition of Florida Select to supplement our income stream, provide opportunities in a market where we have not previously concentrated, and add expertise that will complement our business in other geographic markets, especially in the northeastern United States and Hawaii. For more detailed information, see the section of this prospectus entitled "Risk Factors" beginning on page 10 and the section entitled "Business--Florida Select Acquisition" beginning on page 22.

Recent Developments

We recently announced the results of operations for the quarter ended March 31, 2001. We had an approximate $3.4 million increase in net operating earnings from continuing operations for the first quarter of 2001 compared to the same period in 2000. Net operating earnings from continuing operations were approximately $1.7 million, or $0.08 per diluted share, for the quarter ended March 31, 2001 compared to a loss of approximately $1.7 million, or $0.07 per diluted share, for the corresponding period in 2000. We announced net income from continuing operations of approximately $2.7 million, or $0.13 per diluted

share in the first quarter of 2001, compared to an approximate $1.7 million loss, or a $0.07 per diluted share loss in the corresponding period in 2000.

In addition, our Board of Directors declared a quarterly cash dividend for the period ended March 31, 2001 of $0.025 per share, a 100% increase over the prior quarter. The dividend was paid on June 15, 2001 to stockholders of record on May 30, 2001.

On May 17, 2001, we announced that American Founders, our majority-owned life insurance subsidiary, agreed to acquire Washington Life Insurance Company of America for $7.5 million in cash, subject to regulatory approval. Washington Life has approximately $200 million (face value) of life insurance products in force.

Our principal offices are located at 3760 River Run Drive, Birmingham, Alabama 35243 and our telephone number at that address is (205) 970-7000.

The Offering

Total shares of common stock offered by this prospectus.......	7,500,000 shares (1)
Shares of common stock outstanding as of March 31, 2001............................	24,427,946 shares (2)
Shares of common stock to be outstanding after the offering...	31,927,946 shares (1)(2)
Use of proceeds..................	We intend to apply the proceeds to the acquisition of Florida Select. Any proceeds from this offering in excess of the amount applied to the purchase price of Florida Select will be used for general corporate purposes. See the section of this prospectus entitled "Use of Proceeds" beginning on page 15.
NYSE symbol......................	VTA

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(1) Excludes the issuance of 1,125,000 shares of common stock pursuant to the underwriters' over-allotment option.

(2) Includes 750,000 shares of issued and outstanding common stock held by the Vesta Agents Stock Incentive Plan Trust. Excludes (i) 2,322,061 shares of common stock authorized for future option awards or stock grants under our current Long Term Incentive Plan and our 2001 Incentive Compensation Plan as of March 31, 2001, and (ii) 221,478 additional shares of common stock reserved for issuance for stock options outstanding as of March 31, 2001.

Unless otherwise stated, all information in this prospectus assumes that the underwriters' over-allotment option is not exercised.

Summary Historical Financial and Operating Data

	Year Ended December 31,					Three Months March 31	
	1996	1997	1998	1999	2000(1)	2000	
						(unaudited)	(un
	(in thousands, except per share data and ratios)						
Statement of Operations Data: (2)							
Net Premiums Earned.....	$ 63,206	$ 132,333	$ 247,063	$248,076	$ 216,999	$56,565	$
Net Investment Income...	21,374	31,960	26,565	25,949	45,903	7,003	
Policy Fees............	--	--	--	--	2,209	239	
Other..................	188	2,094	5,473	4,527	2,103	88	
Realized Gains (Losses)..............	32	3,283	3,272	12,756	(2,061)	--	
Total Revenues.........	84,800	169,670	282,373	291,308	265,153	63,895	
Policyholder Benefits, Losses and LAE (3).....	25,631	69,645	167,413	165,014	135,042	39,779	
Policyholder Acquisition and Other Underwriting Expenses..............	35,366	63,702	132,032	87,451	95,821	22,428	
Loss on Asset Impairment............	--	--	65,496	--	--	--	
Goodwill and Other Intangible Amortization..........	484	3,065	5,177	2,118	1,591	151	
Interest on Debt........	10,059	10,859	14,054	13,215	15,105	3,403	
Total Operating Expenses.............	71,540	147,271	384,172	267,798	247,559	65,761	
Income (Loss) from Continuing Operations Before Taxes, Minority Interest and Deferrable Capital Securities.....	13,260	22,399	(101,799)	23,510	17,594	(1,866)	
Income Taxes (Benefit)..	4,307	7,973	(29,395)	7,129	5,664	(778)	
Minority Interest, Net of Tax................	--	--	--	--	1,595		
Deferrable Capital Securities, Net of Tax...................	--	5,051	5,449	5,632	1,986	571	
Net Income (Loss) from Continuing Operations..	$ 8,953	$ 9,375	$ (77,853)	$ 10,749	$ 8,349	$ (1,659)	$
Diluted Net Income (Loss) from Continuing Operations Per Share...	$ 0.47	$ 0.49	$ (4.20)	$ 0.53	$ 0.34	$ (0.07)	$
Net Operating Income (Loss) (4)............	8,932	7,241	(37,407)	2,457	9,689	(1,659)	
Net Operating Income (Loss) Per Diluted Share.................	0.47	0.38	(2.02)	0.12	0.40	(0.07)	
Shares Used in Diluted Per Share Calculation..	19,157	19,053	18,549	20,202	24,255	24,765	
Balance Sheet Data:							
Total Investments and							

Cash..................	$427,276	$ 656,816	$ 634,668	$483,997	$1,019,266	$406,878	$
Total Assets...........	871,385	1,636,859	1,347,702	915,809	1,621,999	823,662	1,
Reserves for Losses, LAE and Future Policy Benefits...............	173,275	596,797	504,911	354,709	923,973	331,221	
Outstanding Debt........	120,279	143,602	168,302	146,876	91,419	107,116	
Federal Home Loan Bank Advances..............	--	--	--	--	150,691	--	
Deferrable Capital Securities............	--	100,000	100,000	41,225	33,225	41,225	
Stockholders' Equity....	271,919	297,336	158,027	200,065	215,111	207,459	
Standard Property and Casualty Operating Data:							
Net Premiums Written....	$ 70,803	$ 150,526	$ 264,839	$227,807	$ 205,461	$ 49,127	$
Statutory Capital and Surplus (5)...........	352,695	317,875	213,251	271,986	275,270	283,155	
Net Premiums Written to Statutory Surplus......	0.20x	0.47x	2.31x	0.98x	0.76x	0.69x	
GAAP (6) Loss Ratio.....	40.1%	52.6%	67.8%	66.5%	58.6%	70.0%	
GAAP Expense Ratio......	56.0	48.1	48.5	30.3	37.1	34.8	
GAAP Combined Ratio.....	96.1%	100.7%	116.3%	96.8%	95.7%	104.8%	

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(1) Includes the results of American Founders for the third and fourth quarters of 2000.

(2) As a result of Vesta's decision in 2000 to discontinue its reinsurance assumed business and its decision in 1999 to discontinue its commercial lines segment, all periods presented have been reclassified to present operations on a continuing and discontinued basis.

(3) Loss adjustment expenses.

(4) Represents income (loss) from continuing operations excluding net realized investment gains or losses, net of federal income taxes.

(5) Statutory data have been derived from the financial statements of Vesta prepared in accordance with statutory accounting principles ("SAP") and filed with insurance regulatory authorities.

(6) Generally accepted accounting principles.

Summary Pro Forma Financial and Operating Data

	Historical Financial Information for the Year Ended December 31, 2000(1)	Pro Forma Financial Information for the Year Ended December 31, 2000(2)	Historical Financial Information for the Three Months Ended March 31, 2001	P I T
		(unaudited)	(unaudited)	
	(in thousands, except per share data and ratios			
Statement of Operations Data:				

(3)			
Net Premiums Earned	$ 216,999	$ 269,044	$ 65,395
Net Investment Income	45,903	71,013	15,603
Policy Fees	2,209	4,823	1,253
Other	2,103	5,261	2,146
Realized Gains (Losses)	(2,061)	(2,061)	1,706
Total Revenues	265,153	348,080	86,103
Policyholder Benefits, Losses and LAE (4)	135,042	167,802	46,758
Policyholder Acquisition and Other Underwriting Expenses	95,821	117,154	29,055
Goodwill and Other Intangible Amortization	1,591	4,261	526
Interest on Debt	15,105	20,846	4,658
Total Operating Expenses	247,559	310,063	80,997
Income (Loss) from Continuing Operations Before Taxes, Minority Interest and Deferrable Capital Securities	17,594	38,017	5,106
Income Taxes (Benefit)	5,664	13,512	1,787
Minority Interest, Net of Tax	1,595	3,240	249
Deferrable Capital Securities, Net of Tax	1,986	1,986	383
Net Income (Loss) from Continuing Operations	$ 8,349	$ 19,279	$ 2,687
Diluted Net Income (Loss) from Continuing Operations Per Share	$ 0.34	$ 0.61	$ 0.13
Net Operating Income (Loss) (5)	9,689	20,619	1,691
Net Operating Income (Loss) Per Diluted Share	0.40	0.65	0.08
Shares Used in Diluted Per Share Calculation	24,255	31,755	21,094
Balance Sheet Data:			
Total Investments and Cash	$1,019,266	$1,096,408	$ 994,612
Total Assets	1,621,999	1,753,667	1,610,542
Reserves for Losses, LAE and Future Policy Benefits	923,973	943,924	926,688
Outstanding Debt	91,419	91,419	101,420
Federal Home Loan Bank Advances	150,691	150,691	147,922
Deferrable Capital Securities	33,225	33,225	29,750
Stockholders' Equity	215,111	270,111	204,073
Standard Property and Casualty Operating Data:			
Net Premiums Written	$ 205,461	$ 265,392	$ 52,225
Statutory Capital and Surplus (6)	275,270	275,270	296,696
Net Premiums Written to Statutory Surplus	0.76x	0.97x	0.70x
GAAP (7) Loss Ratio	58.6%	55.5%	66.3%
GAAP Expense Ratio	37.1	35.7	32.2
GAAP Combined Ratio	95.7%	91.2%	98.5%

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(1) Includes the results of American Founders for the third and fourth quarters of 2000.
(2) Reflects the unaudited pro forma consolidated financial data of Vesta as of and for the year ended December 31, 2000 and as of and for the three months ended March 31, 2001, as if the Florida Select acquisition, the American Founders acquisition and the issuance of common stock had occurred at the beginning of each period. See Vesta's unaudited pro forma consolidated financial statements beginning on page F-2 and Florida Select's consolidated financial statements beginning on page F-7.
(3) As a result of Vesta's decision in 2000 to discontinue its reinsurance assumed business and its decision in 1999 to discontinue its commercial lines segment, all periods presented have been reclassified to present operations on a continuing and discontinued basis.
(4) Loss adjustment expenses.
(5) Represents income (loss) from continuing operations excluding net realized investment gains or losses, net of federal income taxes.
(6) Statutory data have been derived from the financial statements of Vesta prepared in accordance with statutory accounting principles ("SAP") and filed with insurance regulatory authorities.
(7) Generally accepted accounting principles.

RISK FACTORS

You should carefully consider the risks described below before making an investment decision. The risks and uncertainties described below are not the only ones we may face. If any of the following risks actually occur, our business, financial condition, or results of operations could be materially and adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

We Are Vulnerable to Catastrophic Property Loss

The greatest risk of loss we face in the ordinary course of our business is property damage resulting from catastrophic events, particularly hurricanes and tropical storms affecting Hawaii and hurricanes affecting the northeastern United States. Our exposure to these sorts of risks will increase as a result of our proposed acquisition of Florida Select Insurance Holdings Inc. ("Florida Select"), whose subsidiary, Florida Select Insurance Company, specializes in writing residential homeowners insurance in Florida, an area historically known for hurricane risk. Because catastrophic loss events are by their nature unpredictable, historical results of operations may not be indicative of future results of operations. The occurrence of one or more major catastrophes in any given period could have a material and adverse impact on our results of operations and could result in substantial outflows of cash as losses are paid.

We May Be Unable to Consummate the Florida Select Acquisition or to Realize Expected Benefits from the Acquisition

We cannot guarantee that we will consummate our acquisition of Florida Select or, if we successfully consummate the transaction, that we will realize the financial benefits that we hope to realize from the acquisition. The consummation of the acquisition is subject to certain conditions that must be satisfied by both us and the sellers of Florida Select. Such conditions include, without limitation, our receipt of certain regulatory approvals, the absence of any material adverse changes to the net value of Florida Select and/or its subsidiaries, compliance by all parties to the stock purchase agreement with their respective covenants and performance of their respective obligations, the completion of certain payments by us and an affiliate of one of the selling stockholders, and the cancellation of certain agreements to

which Florida Select or the selling stockholders are parties prior to or on the closing date of the acquisition. Additionally, if the conditions are not satisfied by August 1, 2001, the stock purchase agreement may be terminated by any of the selling stockholders unless all parties to the agreement mutually agree to extend such termination date.

We expect the acquisition of Florida Select to have a positive impact on our operating results. Therefore, failure to consummate the acquisition of Florida Select may have an adverse effect on our operating results. However, even if we do consummate the acquisition of Florida Select, we might experience adverse effects to our operating results for numerous reasons. Acquisitions typically entail many risks and can result in difficulties in assimilating and integrating operations, personnel, technologies, products, and information systems and may require additional infusions of capital. Certain anticipated costs savings may or may not be realized. As a result, the acquisition could have an adverse impact on our financial condition and results of operations which will likely have an adverse effect on our stock price.

We Are Currently Defending Class Action Litigation Seeking Unspecified but Potentially Significant Damages

We are currently defending a consolidated stockholder class action lawsuit pending in the United States District Court for the Northern District of Alabama that alleges violations of certain provisions of the federal securities laws and also a derivative action pending in Alabama state court. See the section of this prospectus entitled "Business--Litigation--Securities Litigation" beginning on page 39. The consolidated class action is in the discovery stage with a current trial date of November 5, 2001. The damages claimed by the stockholder class are substantial. We are vigorously defending this litigation but there is no assurance of the outcome of the litigation or of the range of potential adverse damage judgments if the plaintiffs are successful. The parties have conducted settlement discussions, but have not been successful in reaching any resolution. The derivative action has been placed on the administrative docket.

We have several layers of directors' and officers' liability insurance coverage ("D&O insurance"), the terms of which may cover all or a portion of the damages or settlement costs of the class action. These policies provide up to $100 million in D&O insurance to cover damages or settlement costs and an additional policy provides another layer of $10 million to cover additional damages awarded by a court in these actions. The primary policy that provides the first $25 million of D&O insurance was issued by Cincinnati Insurance Company ("Cincinnati"). Federal Insurance Company (The Chubb Group of Insurance Companies) issued an excess D&O insurance policy which provides coverage for the second $25 million in losses, if necessary. The balance of the coverage is provided by a group of insurers and was purchased after the class actions comprising the consolidated class action were filed. After these actions were filed, Cincinnati, which provides the primary D&O insurance coverage, filed a lawsuit seeking to rescind the policy and avoid the coverage. That action was dismissed for lack of subject matter jurisdiction, and we then filed an action in state court against Cincinnati to enforce the policy and for damages. Cincinnati filed an answer and counterclaim in that action, seeking to rescind the policy and avoid the coverage. This action is in the early phases of discovery and the outcome is uncertain. There is no assurance that the primary insurance coverage will ultimately be available for any damages or settlement costs incurred. The outcome of this litigation may also materially affect the availability of the excess policy issued by The Chubb Group. The damages claimed by the stockholder plaintiffs in the consolidated class action are substantial. If the damages or settlement costs actually incurred in connection

with the consolidated class action and derivative action are ultimately determined not to be covered by our D&O insurance policies for any reason, or are in excess of our policy limits, we may incur a substantial and material loss that could have a material and adverse impact on our financial condition and results of operations.

For a more detailed discussion, see the section of this prospectus entitled "Business--Litigation" beginning on page 39.

We Face a Risk of Non-Collection of Reinsurance Recoverables Involving Substantial Amounts

Although we reinsure a significant portion of potential losses on the policies that we issue, we initially must pay all claims and then seek to recover the reinsured losses from our reinsurers. Although we report as assets the amount of claims paid that we expect to recover from reinsurers, we can never be certain that we will be able to ultimately collect those amounts. The reinsurer may be unable to pay the amounts recoverable, may dispute our calculation of the amounts recoverable, or may dispute the terms of the reinsurance treaty.

We are in disputes with several reinsurers concerning the amounts that we believe to be recoverable under three reinsurance treaties. These reinsurers have sought to rescind these treaties and therefore avoid their obligations under these treaties or, in the alternative, to dispute the terms of the contracts. The total amount disputed among the parties under these various treaties is substantial, and we are currently involved in arbitration proceedings in connection with each of the treaties. These arbitrations are in the early stages and there is no assurance as to their outcome or whether these amounts will ultimately be collected, in whole or in part. We are also involved in an arbitration proceeding with an insurance carrier where we assumed certain reinsurance risks from the carrier. The insurance company believes that we owe it funds for claims under the treaty and we are seeking recovery of all improper payments and expense allocations under the contract. The ultimate outcome of these various proceedings cannot be determined at this time. If the amounts recoverable under the relevant treaties are ultimately determined to be materially less than the amounts that we have reported as recoverable, we may incur a significant and material loss that could have a material and adverse impact on our financial condition and results of operations. See the section of this prospectus entitled "Business--Litigation--Arbitration" beginning on page 40.

Our Acquisition Strategy May Require Us to Make Significant Capital Infusions, May Be Dilutive to Our Existing Stockholders, and May Result in Difficulties in Assimilating and Integrating the Operations, Personnel, Technologies, Products, and Information Systems of Acquired Companies

We have implemented a strategy to maximize our returns through mergers, acquisitions, and strategic investments. Over the last 12 months we have completed four transactions that will serve as platforms for

growth in our life and health segment as well as our newly-established non-standard auto segment. These transactions include our acquisition of Aegis Financial Corporation and significant investments in American Founders Finance Corporation, Instant Insurance Holdings, Inc., and Chaucer Holdings PLC. In addition, we have entered into a stock purchase agreement to acquire Florida Select, and we plan to pursue similar opportunities in the future. See the sections of this prospectus entitled "Business--Florida Select Acquisition" beginning on page 22 and "Business--Business Segments" beginning on page 24.

Acquisitions may require significant capital infusions, and they typically entail many risks. These risks include difficulties in assimilating and integrating the operations, personnel, technologies, products, and information systems of the acquired company. We may also encounter unanticipated expenditures, changing or loss of relationships with customers, suppliers, and strategic partners, or contractual, intellectual property, or employment issues. In addition, the key personnel of the acquired company may decide not to work for us. The acquisition of another company or its products and technologies may also require us to enter into a geographic or business market in which we have little or no prior experience. These challenges could disrupt our ongoing business, distract our management and employees, and increase our expenses. In addition, acquisitions may materially and adversely affect our results of operations because they may require large one-time write-offs, increased debt and contingent liabilities, substantial depreciation or deferred compensation charges, or the amortization of expenses related to goodwill and other intangible assets. We may seek to account for acquisitions under the pooling-of-interests accounting method, but that method may not be available. Any of these events could cause the price of our common stock to decline. Furthermore, if we issue equity or convertible debt securities to pay for an acquisition, the issuance may be dilutive to our existing stockholders. Finally, the equity or debt securities that we may issue could have rights, preferences, or privileges senior to those of the holders of our common stock.

The Personal Lines Insurance Business is Highly Competitive, and We May Not Be Able to Compete Effectively Against Larger, Better Capitalized Companies

We compete with dozens of property and casualty insurance companies in the personal lines insurance business, many of which are better capitalized than us and have higher ratings from A.M. Best than us. We also believe that the superior capitalization of many of our competitors enables them to withstand lower profit margins and, therefore, to offer lower rates, which enables them to market their products more aggressively and to take advantage more quickly of new marketing opportunities, such as the Internet. Our competition may become increasingly better capitalized in the future as the traditional barriers between insurance companies and banks and other financial institutions erode and as the property and casualty industry continues to consolidate. We believe that our ability to compete against our larger, better capitalized competitors depends on our ability to deliver superior service and our strong relationships with our independent agency force.

Regulatory Actions Could Impair Our Business

Our insurance subsidiaries are subject to regulation under the insurance laws of states in which they operate. These laws provide safeguards for policyowners and are not intended to protect the interests of stockholders. Regulation and supervision of each insurance subsidiary is administered by a state insurance commissioner. State insurance commissioners have broad statutory powers to grant and revoke licenses, approve premium rates, forms of insurance contracts, and types and amounts of business which an insurance company may conduct in light of its statutory capital and surplus. The statutes of most states provide for filing premium rate schedules and other information with the insurance commissioner, either directly or through rating organizations. Insurance commissioners generally have the authority to disapprove filings. Insurance commissioners can also make changes to rates if rates are found to be excessive, inadequate, or unfairly discriminatory. The determination of rates is based on various factors, including loss and loss adjustment expense experience. The failure to obtain, or delay in obtaining, the required approvals from applicable departments of insurance could have a material adverse effect on the operations of our insurance subsidiaries.

The National Association of Insurance Commissioners has adopted a number of model laws and regulations which apply to both life and property and casualty

insurance companies. One model law attempts to ensure that all insurance companies have acceptably low expectations of becoming financially impaired. The

model law provides for increasing levels of regulatory intervention as the ratio of an insurer's total adjusted capital and surplus decreases relative to its capital which is at risk. A state department of insurance can take control of an insurance company domiciled in that state if the ratio is too low. Based on 2000 results, all of our insurance subsidiaries exceed the minimum applicable risk-based capital calculations. We cannot guarantee that all of our subsidiaries will continue to satisfy these requirements.

Our Subsidiaries May Be Unable to Pay Dividends

We are organized as a holding company. Almost all of our operations are conducted by subsidiaries, and we cannot pay dividends to our stockholders and meet our other obligations unless we receive dividends from our subsidiaries.

Payment of dividends by our insurance subsidiaries is regulated under state insurance laws. The regulations in the states where each insurance company subsidiary is domiciled limit the amount of dividends that can be paid without prior approval from state insurance regulators. Without regulatory approval, the maximum amount of dividends that can be paid in 2001 to us by our insurance company subsidiaries is approximately $27.3 million. The aggregate maximum amount of dividends permitted by law to be paid by an insurance company does not necessarily indicate an insurance company's actual ability to pay dividends. The actual ability to pay dividends may be further constrained by business and regulatory considerations, such as the impact of dividends on surplus, that could affect an insurance company's ratings, competitive position, amount of premiums that can be written, and ability to pay future dividends. In addition, state departments of insurance have broad discretion to limit the payment of dividends by insurance companies. A prolonged, significant decline in insurance subsidiary profits or regulatory action limiting dividends could subject us to shortages of cash because our subsidiaries will not be able to pay us dividends.

If We Cannot Maintain and Improve Our Ratings from A.M. Best, We May Not Be Able to Maintain Premium Volume in Our Insurance Operations Sufficient to Attain Our Financial Performance Goals

Our ability to retain our existing business or to attract new business in our insurance operations depends largely on our ratings from A.M. Best Company ("A.M. Best"). Although A.M. Best upgraded our rating to "B+" in February, 2000, we believe we must further improve our rating in order to more effectively compete in the highly competitive personal lines insurance market. Although we intend to work towards a higher rating, A.M. Best has ultimate discretion over its rating assignments. If we are unable to achieve a higher rating from A.M. Best, we may not be able to grow our premium volume sufficiently to attain our financial performance goals. If A.M. Best were to downgrade our rating, we could lose significant premium volume.

We Depend on Agents Who May Discontinue Sales of Our Policies at Any Time

Our relationship with our independent agents is perhaps the most important component of our current competitive profile. If these independent agents find it easier to do business with our competitors, it would be difficult to renew our existing business or attract new business in our personal lines business segment. Although we believe we enjoy good relationships with our independent agents and are striving to make doing business with us as easy as possible, we

cannot be sure that these agents will continue to sell our insurance to the individuals they represent.

If Our Competitors Decided to Target Our Customer Base by Offering Lower-Priced Insurance, We May Not Be Able to Respond Competitively

We price our insurance based on estimated profit margins, and we do not expect to be able to significantly reduce our current estimated profit margins in the near future. Many of our competitors, however, are better capitalized than we are and may be able to withstand significant reductions in their estimated profit margins. If our competitors decide to target our customer base by offering lower-priced insurance, we may not be able to respond competitively.

We May Be Unable to Reinsure Insurance Risks

We use reinsurance to attempt to limit the risks associated with our insurance products. The availability and cost of reinsurance are subject to prevailing market conditions. Poor conditions in the reinsurance market could cause us to reduce our volume of business and impact our profitability. If any of our reinsurers cannot pay their reinsurance obligations, we will still have to pay losses to our insureds.

If Loss Reserves Prove to Be Inadequate, then We Would Incur a Charge to Earnings

We maintain reserves to cover our estimated ultimate liability for losses and related expenses with respect to reported and unreported claims incurred. To the extent that reserves prove to be inadequate in the future, we would have to increase our reserves and incur a charge to earnings in the period such reserves are increased, which could have a material and adverse impact on our financial condition and results of operations. The establishment of appropriate reserves is an inherently uncertain process, and we cannot be sure that ultimate losses and related expenses will not materially exceed our reserves. Reserves are estimates involving actuarial and statistical projections at a given time of what we expect to be the cost of the ultimate settlement and administration of claims based on facts and circumstances then known, estimates of future trends in claims severity and other variable factors such as inflation. As of December 31, 2000, our aggregate loss reserves totaled approximately $264 million.

Anti-Takeover Effects of Provisions of the Restated Certificate of Incorporation and Bylaws

Certain provisions of our Restated Certificate of Incorporation (the "Certificate") and Bylaws may be deemed to have anti-takeover effects and may delay, defer, or prevent a takeover attempt that a stockholder might consider to be in its best interest. Such provisions also may adversely affect prevailing market prices for our common stock. These provisions, among other things, (i) classify the Board of Directors of Vesta into three classes, each of which serves for different three-year periods, (ii) provide that a director of Vesta may be removed only for cause and only by a vote of 80% of the common stock of Vesta then outstanding, (iii) provide that only the Board of Directors or the Chairman of the Board of Directors of Vesta may call special meetings of the stockholders, (iv) eliminate the ability of the stockholders to take any action without a meeting, and (v) provide that the stockholders may amend or repeal the Bylaws or any of the foregoing provisions of the Certificate only by a vote of 80% of the common stock of Vesta then outstanding. In addition, the Bylaws establish certain advance notice procedures for nomination of candidates

for election as directors and for stockholder proposals to be considered at stockholders' meetings. Finally, we recently instituted a preferred stock purchase rights plan to permit us to better manage potential strategic transactions which may have the effect of delaying, deferring, or preventing an unsolicited change in control of Vesta. The effect of this plan may be to discourage potential acquirors from attempting to acquire control of us without the consent of our Board of Directors.

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USE OF PROCEEDS

Vesta is selling 7,500,000 shares of its common stock. Vesta will receive net proceeds of approximately $55,000,000, (approximately $63,437,500 if the underwriters' over-allotment option is exercised in full) based on an offering price of $8.00 per share of common stock. The net proceeds are calculated by deducting the underwriting discount and the estimated offering expenses from the gross proceeds.

We intend to apply the proceeds to the acquisition of Florida Select. Any proceeds from this offering in excess of the amount applied to the purchase price of Florida Select will be used for general corporate purposes. For additional information on our Florida Select acquisition, see the section of this prospectus entitled "Business--Florida Select Acquisition" beginning on page 22.

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PRICE RANGE OF COMMON STOCK AND DIVIDENDS

Our common stock trades on the New York Stock Exchange under the symbol "VTA."

The following table sets forth the per share high and low trading prices of our common stock as reported by the New York Stock Exchange and the per share dividends paid on our common stock for the periods indicated:

	High	Low	Cash Dividends
1999			
First quarter	$8.38	$3.38	$0.0375
Second quarter	6.38	3.88	--
Third quarter	5.63	4.13	--
Fourth quarter	4.88	3.63	--
2000			
First quarter	$7.88	$3.44	$0.0125
Second quarter	7.19	4.56	0.0125
Third quarter	6.94	4.13	0.0125
Fourth quarter	5.81	4.25	0.0125
2001			
First quarter	$8.39	$4.50	$0.0125
Second quarter (through June 20, 2001)	9.98	6.00	0.0250

On June 20, 2001, the last reported sale price of the common stock on the New York Stock Exchange was $8.55 per share. As of March 31, 2001, Vesta had

192 holders of record of its common stock.

Our Board of Directors has discretion to declare and pay dividends. The payment of dividends depends on many factors, including our financial condition and earnings, the capital requirements of our operating subsidiaries, legal requirements, and regulatory constraints. See the section of this prospectus entitled "Risk Factors--Our Subsidiaries May Be Unable to Pay Dividends" beginning on page 13.

Illinois, Ohio, Hawaii, and Texas (and Florida, following the acquisition of Florida Select Insurance Holdings Inc.) impose restrictions on the payment of dividends to us by our insurance subsidiaries under their regulatory authority in excess of certain amounts without prior regulatory approval. See the section of this prospectus entitled "Business--Regulation--Restrictions on Dividends to Stockholders" beginning on page 38.

CAPITALIZATION

The following table sets forth the capitalization of Vesta as of March 31, 2001 on an actual basis, on an as adjusted basis to reflect the issuance of the 7,500,000 shares of common stock to be sold by Vesta in this offering (after deducting underwriting discounts and estimated offering expenses), and on a pro forma as adjusted basis to reflect both this stock offering and the acquisition of Florida Select Insurance Holdings Inc. You should read this table in conjunction with Vesta's consolidated financial statements and related notes contained in our Quarterly Report on Form 10-Q for the three months ended March 31, 2001, and with Vesta's consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2000, which are incorporated in this prospectus by reference, Vesta's unaudited pro forma consolidated financial statements included in this prospectus beginning on page F-2, and Florida Select's consolidated financial statements included in this prospectus beginning on page F-7. Also, see the section of this prospectus entitled "Selected Historical Financial and Operating Data" beginning on page 18.

	As of March 31, 2001		
	Actual	As Adjusted for this Offering	Pro Forma as Adjusted Including Florida Select
	(unaudited)	(unaudited) (in thousands)	(unaudited)
Short-term debt.....................	$ 14,997	$ 14,997	$ 14,997
Long-term debt......................	86,423	86,423	86,423
Total outstanding debt.............	101,420	101,420	101,420
Capital deferrable securities........	29,750	29,750	29,750
Stockholders' equity:			
Preferred stock, $.01 par value:			

5,000,000 shares authorized; no shares are issued and outstanding	--	--	--
Common stock, $.01 par value: 100,000,000 shares authorized; 24,864,322 shares issued and outstanding; 32,364,322 shares issued and outstanding, as adjusted (1)	249	324	324
Additional paid-in capital	150,464	205,389	205,389
Accumulated other comprehensive income	4,683	4,683	4,683
Retained earnings	60,503	60,503	60,503
Treasury stock, at cost	(3,397)	(3,397)	(3,397)
Unearned stock	(8,429)	(8,429)	(8,429)
Total stockholders' equity	204,073	259,073	259,073
Total capitalization	$335,243	$390,243	$390,243

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(1) Includes 750,000 shares of issued and outstanding common stock held by the Vesta Agents Stock Incentive Plan Trust. Excludes (i) the issuance of 1,125,000 shares of common stock pursuant to the underwriters' over-allotment option, (ii) 2,322,061 shares of common stock authorized for future option awards or stock grants under our current Long Term Incentive Plan and our 2001 Incentive Compensation Plan as of March 31, 2001, and (iii) 221,478 additional shares of common stock reserved for issuance for stock options outstanding as of March 31, 2001.

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SELECTED HISTORICAL FINANCIAL AND OPERATING DATA

The following table sets forth selected consolidated financial data of Vesta as of and for the years ended December 31, 1996 through 2000 and as of and for the three months ended March 31, 2000 and 2001. The financial data for 1996 and 1997 are derived from the financial statements audited by KPMG Peat Marwick LLP, independent certified public accountants. The financial data from 1998, 1999, and 2000 are derived from the financial statements audited by PricewaterhouseCoopers LLP, independent certified public accountants. The financial information for the interim period as of and for the three months ended March 31, 2000 and March 31, 2001 has not been audited and, in the opinion of management, reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of such information. Results for the three months ended March 31, 2001 are not necessarily indicative of results which may be expected for any other interim period or for the year as a whole. This table is a summary and should be read in conjunction with Vesta's consolidated financial statements and related notes contained in our Quarterly Report on Form 10-Q for the three months ended March 31, 2001 and Vesta's consolidated financial statements and related notes contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2000, which are incorporated in this prospectus by reference.

	Year Ended December 31,	Three Months Ended March 31,

(in thousands, except per share data and ratios)

	1996	1997	1998	1999	2000(1)	2000	2001
						(unaudited)	(unaudited
Statement of Operations Data: (2)							
Net Premiums Earned.....	$63,206	$132,333	$ 247,063	$248,076	$216,999	$56,565	$65,395
Net Investment Income...	21,374	31,960	26,565	25,949	45,903	7,003	15,603
Policy Fees............	--	--	--	--	2,209	239	1,253
Other..................	188	2,094	5,473	4,527	2,103	88	2,146
Realized Gains (Losses)..............	32	3,283	3,272	12,756	(2,061)	--	1,706
Total Revenues.........	84,800	169,670	282,373	291,308	265,153	63,895	86,103
Policyholder Benefits, Losses and LAE (3).....	25,631	69,645	167,413	165,014	135,042	39,779	46,758
Policyholder Acquisition and Other Underwriting Expenses..............	35,366	63,702	132,032	87,451	95,821	22,428	29,055
Loss on Asset Impairment............	--	--	65,496	--	--	--	--
Goodwill and Other Intangible Amortization...........	484	3,065	5,177	2,118	1,591	151	526
Interest on Debt........	10,059	10,859	14,054	13,215	15,105	3,403	4,658
Total Operating Expenses..............	71,540	147,271	384,172	267,798	247,559	65,761	80,997
Income (Loss) from Continuing Operations Before Taxes, Minority Interest and Deferrable Capital Securities.....	13,260	22,399	(101,799)	23,510	17,594	(1,866)	5,106
Income Taxes (Benefit)..	4,307	7,973	(29,395)	7,129	5,664	(778)	1,787
Minority Interest, Net of Tax................	--	--	--	--	1,595	--	249
Deferrable Capital Securities, Net of Tax...................	--	5,051	5,449	5,632	1,986	571	383
Net Income (Loss) from Continuing Operations..	8,953	9,375	(77,853)	10,749	8,349	(1,659)	2,687
Income (Loss) from Discontinued Operations, Net of Tax............	27,860	27,485	(63,331)	12,706	(2,397)	3,913	5
Extraordinary Gain on Debt Extinguishments, Net of Tax............	--	--	--	--	5,250	4,567	--
Preferred Stock Dividend..............	--	--	--	(563)	(3,670)	(563)	(163)
Gain on Redemption of Preferred Securities, Net of Tax............	--	--	--	9,548	9,190	--	565
Net Income (Loss) Available to Common Stockholders...........	$36,813	$ 36,860	$ (141,184)	$ 32,440	$ 16,722	$ 6,258	$ 3,094
Diluted Net Income (Loss) from Continuing							

Operations Per Share...	$ 0.47	$ 0.49	$ (4.20)	$ 0.53	$ 0.34	$ (0.07)	$ 0.13
Diluted Net Income (Loss) Available to Common Stockholders Per Share..................	1.92	1.93	(7.61)	1.63	0.78	0.28	0.15
Net Operating Income (Loss) (4)............	8,932	7,241	(37,407)	2,457	9,689	(1,659)	1,691
Net Operating Income (Loss) Per Diluted Share..................	0.47	0.38	(2.02)	0.12	0.40	(0.07)	0.08
Shares Used in Diluted Per Share Calculation..	19,157	19,053	18,549	20,202	24,255	24,765	21,094

	Year Ended December 31,					Three Months March 31	
	1996	1997	1998	1999	2000(1)	2000	
						(unaudited)	(un
	(in thousands, except per share data and ratios)						
Balance Sheet Data:							
Total Investments and Cash..................	$427,276	$ 656,816	$ 634,668	$483,997	$1,019,266	$406,878	$
Total Assets...........	871,385	1,636,859	1,347,702	915,809	1,621,999	823,662	1,
Reserves for Losses, LAE and Future Policy Benefits..............	173,275	596,797	504,911	354,709	923,973	331,221	
Outstanding Debt........	120,279	143,602	168,302	146,876	91,419	107,116	
Federal Home Loan Bank Advances..............	--	--	--	--	150,691	--	
Deferrable Capital Securities............	--	100,000	100,000	41,225	33,225	41,225	
Stockholders' Equity....	271,919	297,336	158,027	200,065	215,111	207,459	
Standard Property and Casualty Operating Data:							
Net Premiums Written....	$ 70,803	$ 150,526	$ 264,839	$227,807	$ 205,461	$ 49,127	$
Statutory Capital & Surplus (5)...........	352,695	317,875	213,251	271,986	275,270	283,155	
Net Premiums Written to Statutory Surplus......	0.20x	0.47x	2.31x	0.98x	0.76x	0.69x	
GAAP (6) Loss Ratio.....	40.1%	52.6%	67.8%	66.5%	58.6%	70.0%	
GAAP Expense Ratio......	56.0	48.1	48.5	30.3	37.1	34.8	
GAAP Combined Ratio.....	96.1%	100.7%	116.3%	96.8%	95.7%	104.8%	

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(1) Includes the results of American Founders for the third and fourth quarters of 2000.

(2) As a result of Vesta's decision in 2000 to discontinue its reinsurance

assumed business and its decision in 1999 to discontinue its commercial lines segment, all periods presented have been reclassified to present operations on a continuing and discontinued basis.

(3) Loss adjustment expenses.

(4) Represents income from continuing operations excluding net realized investment gains or losses, net of federal income taxes.

(5) Statutory data have been derived from the financial statements of Vesta prepared in accordance with statutory accounting principles ("SAP") and filed with insurance regulatory authorities.

(6) Generally accepted accounting principles.

SELECTED PRO FORMA FINANCIAL AND OPERATING DATA

The following table sets forth selected unaudited pro forma financial information of Vesta as of and for the year ended December 31, 2000 and as of and for the three months ended March 31, 2001. The pro forma financial information presented below should be read in conjunction with Vesta's unaudited pro forma consolidated financial statements beginning on page F-2 and Florida Select's consolidated financial statements beginning on page F-7. The pro forma financial information is not necessarily indicative of the results of operations that would have resulted had the relevant transactions been consummated at the periods indicated, nor is it necessarily indicative of the results of operations of future periods.

	Historical Financial Information for the Year Ended December 31, 2000(1)	Pro Forma Financial Information for the Year Ended December 31, 2000(2)	Historical Financial Information for the Three Months Ended March 31, 2001	Pro Forma Financial Information for the Three Months Ended March 31, 2001(2)
		(unaudited)	(unaudited)	(unaudited)
	(in thousands, except per share data and ratios)			
Statement of Operations Data: (3)				
Net Premiums Earned.....	$216,999	$269,044	$65,395	$78,343
Net Investment Income...	45,903	71,013	15,603	16,870
Policy Fees............	2,209	4,823	1,253	1,253
Other..................	2,103	5,261	2,146	4,872
Realized Gains (Losses)..............	(2,061)	(2,061)	1,706	1,706
Total Revenues.........	265,153	348,080	86,103	103,044
Policyholder Benefits, Losses and LAE (4).....	135,042	167,802	46,758	52,737
Policyholder Acquisition and Other Underwriting Expenses..............	95,821	117,154	29,055	33,404
Goodwill and Other				

Intangible Amortization...........	1,591	4,261	526	1,136
Interest on Debt........	15,105	20,846	4,658	4,658
Total Operating Expenses..............	247,559	310,063	80,997	91,935
Income (Loss) from Continuing Operations Before Taxes, Minority Interest and Deferrable Capital Securities.....	17,594	38,017	5,106	11,109
Income Taxes (Benefit)..	5,664	13,512	1,787	4,074
Minority Interest, Net of Tax.................	1,595	3,240	249	249
Deferrable Capital Securities, Net of Tax....................	1,986	1,986	383	383
Net Income (Loss) from Continuing Operations..	8,349	19,279	2,687	6,403
Income (Loss) from Discontinued Operations, Net of Tax............	(2,397)	(2,397)	5	5
Extraordinary Gain on Debt Extinguishments, Net of Tax............	5,250	5,250	--	--
Preferred Stock Dividend...............	(3,670)	(3,670)	(163)	(163)
Gain on Redemption of Preferred Securities, Net of Tax............	9,190	9,190	565	565
Net Income (Loss) Available to Common Stockholders...........	$ 16,722	$ 27,652	$ 3,094	$ 6,810
Diluted Net Income (Loss) from Continuing Operations Per Share...	$ 0.34	$ 0.61	$ 0.13	$ 0.22
Diluted Net Income (Loss) Available to Common Stockholders Per Share..................	0.78	0.94	0.24	0.24
Net Operating Income (Loss) (5)............	9,689	20,619	1,691	5,294
Net Operating Income (Loss) Per Diluted Share..................	0.40	0.65	0.08	0.19
Shares Used in Diluted Per Share Calculation..	24,255	31,755	21,094	28,594

	Historical Financial Information for the	Pro Forma Financial Information	Historical Financial Information for the Three	Pro Forma Financial Information for the Three

	Year Ended December 31, 2000(1)	for the Year Ended December 31, 2000(2)	Months Ended March 31, 2001	Months Ended March 31, 2001(2)
		(unaudited)	(unaudited)	(unaudited)
	(in thousands, except per share data and ratios)			
Balance Sheet Data:				
Total Investments and Cash..................	$1,019,266	$1,096,408	$ 994,612	$1,069,714
Total Assets...........	1,621,999	1,753,667	1,610,542	1,737,028
Reserves for Losses, LAE and Future Policy Benefits..............	923,973	943,924	926,688	946,821
Outstanding Debt........	91,419	91,419	101,420	101,420
Federal Home Loan Bank Advances..............	150,691	150,691	147,922	147,922
Deferrable Capital Securities............	33,225	33,225	29,750	29,750
Stockholders' Equity....	215,111	270,111	204,073	259,073
Standard Property and Casualty Operating Data:				
Net Premiums Written....	$ 205,461	$ 265,392	$ 52,225	$ 65,892
Statutory Capital & Surplus (6)...........	275,270	275,270	296,696	296,696
Net Premiums Written to Statutory Surplus......	0.76x	0.97x	0.70x	0.89x
GAAP (7) Loss Ratio.....	58.6%	55.5%	66.3%	61.7%
GAAP Expense Ratio......	37.1	35.7	32.2	32.0
GAAP Combined Ratio.....	95.7%	91.2%	98.5%	93.7%

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(1) Includes the results of American Founders for the third and fourth quarters of 2000.

(2) Reflects the unaudited pro forma consolidated financial data of Vesta as of and for the year ended December 31, 2000 and as of and for the three months ended March 31, 2001, as if the Florida Select acquisition, the American Founders acquisition and the issuance of common stock had occurred at the beginning of each period. See Vesta's unaudited pro forma consolidated financial statements beginning on page F-2 and Florida Select's consolidated financial statements beginning on page F-7.

(3) As a result of Vesta's decision in 2000 to discontinue its reinsurance assumed business and its decision in 1999 to discontinue its commercial lines segment, all periods presented have been reclassified to present operations on a continuing and discontinued basis.

(4) Loss adjustment expenses.

(5) Represents income from continuing operations excluding net realized investment gains or losses, net of federal income taxes.

(6) Statutory data have been derived from the financial statements of Vesta prepared in accordance with statutory accounting principles ("SAP") and filed with insurance regulatory authorities.

(7) Generally accepted accounting principles.

BUSINESS

The following information should be read together with the management's discussion and analysis of financial condition and results of operations, financial statements, and other information contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2000, and our Quarterly Report on Form 10-Q for the three months ended March 31, 2001, which are incorporated in this prospectus by reference, the financial information contained in Vesta's unaudited pro forma consolidated financial statements included in this prospectus beginning on page F-2, and Florida Select's consolidated financial statements included in this prospectus beginning on page F-7.

Business Overview

Vesta is an insurance holding company that offers a wide range of personal insurance products. Our largest business segment is the standard property and casualty insurance segment, which underwrites and sells personal automobile and homeowners insurance products distributed through approximately 1,600 independent sales agencies. Since 1999, we have developed and actively pursued a number of strategic initiatives to grow operating earnings and strengthen our capital position.

During the past three years, we have completed a strategic repositioning that will permit us to more aggressively pursue our business strategy. Our repositioning included changing our senior management, exiting certain lines of business, and restructuring our balance sheet.

Our strategy is to grow operating earnings and strengthen our capital position by aggressively managing our core property and casualty insurance business and pursuing strategic opportunities that permit us to offer personal insurance products which complement our existing product lines and distribution channels. We have taken the following steps to implement our strategy:

- In our standard property and casualty insurance segment, we have initiated rate increases in a number of key markets, reduced the number of active agencies from approximately 2,800 to approximately 1,600, migrated from multiple policy processing platforms to a primary integrated platform, and reduced the number of employees and other expenses by consolidating regional offices into our principal office in Birmingham, Alabama.

- We have sought and will continue to seek expansion into new geographic markets.

- We have acquired or made significant investments in three insurance operations: a life insurer, an accident and health insurer, and a non-standard automobile insurance agency, which we intend to use as platforms for long-term growth.

- We have positioned ourselves to generate fee-based income by acting as a "fronting" carrier for other insurers and reinsurers for fees and by marketing and distributing non-standard auto insurance products through an agency for commissions.

Vesta, a Delaware corporation, was founded in 1993 as a subsidiary of Torchmark Corporation ("Torchmark") to be the holding company for Torchmark's property and casualty subsidiaries. We completed our initial public offering in 1993, and, at that time, Torchmark retained ownership of approximately 25% of

our shares of capital stock and was our largest stockholder. Torchmark divested its remaining shares of our capital stock in 2000.

Florida Select Acquisition

Company Overview

On April 18, 2001, we and our wholly-owned subsidiary, Vesta Fire Insurance Corporation ("Vesta Fire"), entered into a stock purchase agreement to acquire all of the issued and outstanding capital stock of Florida Select Insurance Holdings Inc. ("Florida Select") from its four stockholders, Centre Solutions (Bermuda) Limited, Mynd Corporation, Orienta Point Group, L.L.C., and Kamehameha Schools Bernice Pauahi Bishop Estate.

Florida Select is the parent company of Florida Select Insurance Company, a Florida domiciled insurer that offers residential homeowners insurance. The majority of Florida Select Insurance Company's policyholders are former customers of the Florida Residential Property and Casualty Joint Underwriting Association ("JUA"), a state-sponsored insurer created by the Florida Legislature following Hurricane Andrew in 1992 to provide homeowners insurance coverage to customers who were otherwise unable to purchase it in the private market. By 1996, the JUA had issued almost one million policies insuring approximately $100 billion of residential property, and it initiated various incentive programs designed to encourage carriers to assume these policies and return these risks to the private market. These incentives included attractive rates and the promise of bonuses to be paid after the assuming company had renewed, or offered to renew, the policies for at least three years.

Florida Select was originally organized for the purpose of assuming policies from the JUA pursuant to these incentive programs. As one of the first "take out" companies to assume policies from the JUA, Florida Select achieved a critical mass of premiums with its first assumption of policies, and it has operated profitably since its inception. In addition to renewals of policies assumed from the JUA, Florida Select produces new business through Florida Select Insurance Agency Inc., a managing general agency that markets, solicits, produces, underwrites, and binds policies on behalf of Florida Select Insurance Company. As of and for the year ended December 31, 2000, Florida Select had consolidated assets of approximately $106.6 million, stockholders' equity of approximately $31.5 million, net income of approximately $6.6 million, and gross written premiums of approximately $63.5 million.

Florida Select also owns all of the capital stock of Florida Select Insurance Agency, Inc., and, indirectly through its ownership of Florida Select Insurance Agency, Inc., Florida Select also owns Select Insurance Services Inc. Select Insurance Services Inc. is the attorney-in-fact for Texas Select Lloyds Insurance Company, which is a Texas unincorporated association.

Almost all of Florida Select's exposure is in Florida, an area that is extremely vulnerable to catastrophic losses arising from hurricane events. Florida Select has procured reinsurance coverage that its management believes to be adequate to cover the probable maximum loss ("PML") arising from a 1-in-250 year hurricane event, based on various modeling tools. This approach to reinsurance is consistent with ours, and we believe that we will be able to consolidate Florida Select's reinsurance program with ours at a significant cost savings.

We believe that Florida Select's management team has developed an expertise in selecting and managing risk in catastrophe-prone areas. This expertise has contributed to Florida Select's strong historical underwriting results in

Florida, and we believe that this expertise may be applied to other catastrophe prone areas where we do business, particularly in the northeastern United States. We may also apply this expertise to other areas into which we may expand in the future. We have entered into a two-year employment and non-compete agreement with Stephen A. Korducki, President of Florida Select, to be effective upon closing of the proposed transaction. We also expect to retain the services of the other members of Mr. Korducki's executive management team after the closing of the proposed transaction.

Stock Purchase Agreement

Pursuant to the terms of the stock purchase agreement, we or Vesta Fire (at our option) will purchase all of the issued and outstanding capital stock of Florida Select from that company's existing stockholders for a cash payment equal to approximately $61.5 million plus interest on this amount accumulating at a rate of 6% per annum from January 1, 2001 until the closing date. If we do not complete this offering or fail to raise at least $30 million in net proceeds in this offering prior to the closing of the Florida Select acquisition, we have the right to pay up to $30 million of the consideration in the form of unsecured promissory notes that mature 60 days after issuance and bear interest at a rate of prime plus 0.25%. As a condition precedent to closing, we agreed to pay an additional $3 million commutation fee to Centre Insurance Company, an affiliate of Centre Solutions (Bermuda) Limited, one of the stockholders of Florida Select, in connection with the commutation of a reinsurance agreement between Centre Insurance Company and Florida Select Insurance Company.

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The closing of the acquisition is to occur three business days following the satisfaction or waiver of all conditions to closing described in the stock purchase agreement. However, the acquisition will not occur prior to July 15, 2001 unless this offering has been completed or we agree to consummate the acquisition before the completion of this offering. The stock purchase agreement may be terminated by the selling stockholders if the closing has not occurred by August 1, 2001, unless extended by mutual agreement of the parties.

We and the stockholders of Florida Select are required to complete the acquisition only after the satisfaction (or waiver) of various conditions including, but not limited to, the following conditions:

- We must receive regulatory approvals of the Florida Department of Insurance and the Texas Department of Insurance, as well as approval under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

- Our and Vesta Fire's representations and warranties set forth in the stock purchase agreement must be true and accurate in all material respects as of the closing date. The sellers' representations and warranties set forth in the stock purchase agreement must be true and accurate as of the closing date unless the effect of any and all inaccuracies of their representations and warranties would not reasonably be expected to cause us aggregate losses in excess of $5 million. The parties must perform all obligations and comply with all covenants set forth in the stock purchase agreement, in all material respects.

- There must be no action or proceeding, whether instituted or threatened, against Florida Select or any of its subsidiaries or us, which would either (i) prevent the consummation of the acquisition or

(ii) reasonably be expected to cause a material adverse change to Florida Select or any of its subsidiaries.

- There must not be a material adverse change in Florida Select or any of its subsidiaries' operations. A material adverse change will be deemed to have occurred if the net diminution in value of Florida Select and its subsidiaries exceeds, in the aggregate, $4 million prior to August 1, 2001 or $6 million thereafter, or if the net diminution in value of an individual subsidiary or Florida Select exceeds $3 million prior to August 1, 2001 or $4.5 million thereafter. Conversely, if we pay part of the purchase price by promissory note, then there must be an absence of any material adverse change in our operations, defined as a diminution of our stockholders' equity of $28 million.

- Certain agreements to which Florida Select or the sellers are parties shall be canceled prior to or as of the closing date of the acquisition.

- We and Centre Insurance Company, an affiliate of Centre Solutions (Bermuda) Limited, will have performed certain obligations under a commutation and settlement agreement, effective as of January 1, 2001, relating to the commutation of a reinsurance agreement between Centre Insurance Company and Florida Select Insurance Company. These obligations include the payment by us to Centre Insurance Company of a $3 million commutation fee and the reassumption by Florida Select Insurance Company of all covered losses subject to that reinsurance agreement. In addition, Centre Insurance Company will transfer to Florida Select Insurance Company approximately $22.9 million, representing all outstanding balances of unpaid losses and unearned premium ceded to Centre Insurance Company under the reinsurance agreement.

Business Segments

In 2000, we changed our segment reporting to reflect the start-up of the specialty lines business and the entry into the life insurance markets. Each segment is discussed in detail on the following pages.

Standard Property and Casualty

Overview. Beginning in 1999 and continuing through 2000, we pursued a more disciplined approach to our standard property and casualty business, accomplishing the following:

- State-by-state review of our product offering;

- Consolidation of the operations of our Shelby, Ohio office into our Birmingham, Alabama office;

- Consolidation of information platforms resulting in a streamlined policy processing system;

- Reduction in the number of employees; and

- Reduction of our independent agency force to approximately 1,600 core agencies that have historically produced our most profitable business.

Through these actions, we believe we are positioned to achieve improved operating results from our standard property and casualty segment, strengthen our relationships with our most profitable independent agencies, and leverage

our capital and surplus to enter other lines of business that may generate greater returns on equity.

The following table sets forth key operational ratios reflecting losses and loss adjustment expenses ("LAE") and underwriting expenses, respectively, as a percentage of net written premium.

Selected Operational Ratios for Standard Property and Casualty Segment

	For the Year Ended December 31,		
	1998	1999	2000
Loss and LAE ratio......	67.8%	66.5%	58.6%
Underwriting expense ratio.................	48.5	30.3	37.1
Combined ratio..........	116.3%	96.8%	95.7%
Net premiums written to surplus ratio..........	2.31x	0.98x	0.76x

The following table sets forth the principal geographic distribution of our gross premiums written in our standard property and casualty business for the three years indicated. The geographic balance reflected allows for greater profit protection and more cost effective management of the property catastrophe exposures. The states listed below comprise the ten states with the largest gross premiums written for the year ended December 31, 2000 and their comparative amounts for prior years.

Standard Property and Casualty Segment
Gross Written Premiums

	For the Year Ended December 31,					
	1998		1999		2000	
	(in thousands, except percentages)					
Pennsylvania....................	$ 50,185	14.5%	$ 48,822	19.1%	$ 40,305	18.0%
West Virginia...................	27,593	8.0	26,677	10.5	25,258	11.3
Hawaii..........................	25,175	7.3	18,425	7.2	17,187	7.7
Ohio............................	17,942	5.2	19,307	7.6	15,126	6.8
Tennessee.......................	24,924	7.2	20,065	7.9	14,971	6.7
Illinois........................	20,029	5.8	15,936	6.2	11,642	5.2
North Carolina..................	11,966	3.4	10,426	4.1	9,910	4.4
Alabama.........................	14,641	4.2	11,375	4.5	9,896	4.4
New York........................	37	0.1	1,983	0.8	9,877	4.4
Mississippi.....................	11,398	3.3	9,883	3.9	6,164	2.8
All other.......................	143,102	41.2	72,092	28.3	63,000	28.2
Total........................	$346,992	100.0%	$254,991	100.0%	$223,337	100.0%

Products. In our standard property and casualty segment, we write primarily personal auto and homeowners insurance products along with other miscellaneous products targeted for specific markets. The following table illustrates the source of our premium revenue from our standard property and casualty lines operations.

Standard Property and Casualty Segment
Gross Written Premiums

	For the Year Ended December 31,					
	1998		1999		2000	
	(in thousands, except percentages)					
Personal Auto	$223,425	64%	$141,868	56%	$ 98,449	44%
Homeowners	93,762	27	107,025	42	121,483	54
Other	29,805	9	6,098	2	3,405	2
Total	$346,992	100%	$254,991	100%	$223,337	100%

Personal Auto. Our standard personal auto products target drivers over age thirty-five with above average driving records. Generally, we write policies with liability limits up to $500,000, but personal umbrella liability coverage is available up to $5 million. The vast majority of our personal umbrella coverage is written with liability limits of $1 million or $2 million. We write the majority of our standard personal auto policies in Ohio, Pennsylvania, Tennessee, West Virginia, and Illinois through our subsidiary The Shelby Insurance Company ("Shelby") and its affiliated companies. For the year ended December 31, 2000, the renewal rate for our personal auto policies was approximately 85%, and new policy applications among our active agencies increased compared to our 1999 levels.

Homeowners. Our homeowner and dwelling insurance products cover the full range of homes, with values ranging from $10,000 to $10 million. The majority of our homeowners business covers properties valued between $40,000 and $250,000. We write homeowners insurance through various insurance subsidiaries, but we generally divide it into three books of business:

Property Plus Homeowners. We acquired this large book of homeowners business from CIGNA Property and Casualty Insurance Company ("CIGNA") in 1997 through a reinsurance arrangement, coupled with CIGNA's commitment to use reasonable efforts to cause policyholders to renew their coverage with us. Our Property Plus book of business covers mid-to-high valued homes primarily in the northeastern sections of the United States as well as a limited amount across the entire country. In the northeastern United States, we have attempted to minimize our exposure on the coastal regions. Since we entered into this arrangement with CIGNA in 1997, approximately nine out of every ten policyholders with policies coming up for renewal have elected to renew coverage with us, for a renewal rate on these Property Plus homeowners policies of approximately 88%. We expect the process of conversion to our direct written policies to be completed in the third quarter of 2001. For the year ended December 31, 2000, we wrote approximately $45.0 million in annual premiums in this book of business.

Shelby Homeowners. We acquired this book of business in connection with our acquisition of Shelby and its affiliates in 1997. This Shelby homeowners business is concentrated in the midwestern and mid-Atlantic sections of the United States, primarily covering homes from $100,000 to $250,000 in value. For the year ended December 31, 2000, we had a renewal rate on these Shelby homeowners policies of approximately 86%, and we wrote approximately $94.7 million in annual premiums.

Hawaiian Homeowners. Our Hawaiian homeowners policies are primarily written by our wholly-owned subsidiary, The Hawaiian Insurance and Guaranty Company, Ltd., which we acquired in 1995. These policies generally cover higher-valued dwellings against fire and other catastrophic loss. Until recently, we did not underwrite significant wind or hurricane risk of loss policies in Hawaii, because most policyholders procured that coverage through a state-sponsored insurance pool. In 2000, the state insurance pool disbanded, and many of our policyholders began purchasing wind, or hurricane, coverage from us. Although this increases the total risk in our Hawaiian portfolio, we have managed this risk through reinsurance coverage procured in the capital markets as well as the traditional reinsurance

markets. For the year ended December 31, 2000, we wrote approximately $14.7 million in annual premiums in this book of business.

Other Personal Lines Products. We provide miscellaneous products to specific target markets. The majority of these products are designed to protect the interests of financial institutions in various instances in which the borrower fails to insure a car or a home serving as collateral in accordance with a loan or mortgage agreement with the financial institution, as well as coverage for properties that are in the process of foreclosure. We also provide fire and allied lines coverage on low-value dwelling, mobile home, and household contents.

Marketing. We have chosen to distribute our products through independent insurance agents. We strive to develop and maintain relationships with agencies in rural or suburban areas and provide them with above-average compensation when policies are issued through our companies. Our product offerings in the standard property and casualty market fit the needs of a wide range of consumers. We support our agency force through advertising and promotions aimed to create top-of-mind awareness of the agencies and our companies as well as creating business-to-business technology that has the potential to increase agent productivity while decreasing our operating expenses.

We believe that the independent agent is best able to sell and service the needs of consumers in our target markets because of the agent's close relationship with customers. Consumers who use independent agents typically keep using the services of the same independent agent. Consequently, once we acquire a new customer, the likelihood that this particular customer will renew his or her policy with us the following year is very high. We believe that this will help to minimize our policy acquisition expenses over time.

Our agency force has a voice in Vesta through the Agency Advisory Council ("Council"). The Council was created to foster ideas and give the agents the opportunity to suggest new initiatives to improve our businesses. In 2001, we created the Vesta Agents Stock Incentive Plan so that top-performing agents have the opportunity to acquire our common stock at a 10% discount to market prices.

Our independent agents have limited authority to bind insurance coverages without prior approval from us, so long as such coverages fit within our

established guidelines. However, our underwriting staff reviews all coverages bound by these agents and ultimately decides whether to continue such coverages. Because of the broad base of our independent agency force, the contractual limitation on their authority to bind coverage, and our underwriting review procedures, we do not believe that the authority of our agents to bind us presents any material risk to our operations.

Underwriting. The goal of our underwriting operations is to manage the quality of our book of business. Working in concert with our agency force, our underwriting staff supports our agents on a daily basis. Our agency force understands our underwriting philosophy and goals and, in turn, we rely on our agents to exercise a high degree of underwriting knowledge in the field.

Our target market profile is a family with multiple insurance policies that owns more than one automobile and that lives in a home valued between $100,000 and $250,000. Our underwriting staff is highly trained and operates in an efficient manner in order to maintain and manage our underwriting expenses.

Claims. Claim costs represent actual payments made and changes in estimated future payments to be made to or on behalf of policyholders, including expenses required to settle claims and losses. These costs include a loss estimate for future assignments and assessments. Claims arising under our policies are managed by our claims department. When we receive notice of a loss, our claims personnel open a claim file and establish a reserve with respect to the loss. All claims are reviewed and all payments are made by our employees, with the exception of claims on certain products, which are adjusted by a managing general agency and periodically audited by our claims personnel. Management believes that utilizing our trained employee adjusters permits faster, more efficient service at a lower cost. In 2000, we added a reinspection manager and a fraud examiner to our staff to increase controls and monitor our loss notices.

Claims settlement authority levels are established for each adjuster or manager based upon each employee's ability and level of experience. Upon loss notification, each claim is reviewed and assigned to an adjuster or manager based upon the type of claim. Home office litigation supervisors monitor claims-related litigation. We emphasize prompt, fair, and equitable settlement of meritorious claims, adequate reserving for claims, and controlling of claims adjustment and legal expenses.

Management of Catastrophe Risk. In our standard property and casualty segment, the greatest risk of loss we face in the ordinary course of business is property damage resulting from catastrophic events, particularly hurricanes and tropical storms affecting Hawaii and Florida (following our acquisition of Florida Select) and hurricanes affecting the northeastern United States. Our exposure to loss from other catastrophic events, such as tornadoes and earthquakes, is not as significant, because we do not insure significant levels of property in areas traditionally affected by these events. While we seek to reinsure a significant portion of our risk of catastrophic losses, there can be no assurance that our losses will be within the coverage limits of our reinsurance programs.

We seek to manage our risk in our standard property and casualty insurance segment through the purchase of reinsurance. We obtain reinsurance principally to reduce our net liability on individual risks and to provide protection for individual loss occurrences, including catastrophic losses, in order to stabilize our underwriting results. In exchange for reinsurance, we pay to our reinsurers a portion of the premiums received under the reinsured policies.

In addition to our traditional catastrophe reinsurance program, we have obtained additional catastrophe coverage for potential hurricane and tropical storm loss in Hawaii and hurricane loss in the northeastern United States through a securitization transaction effected through the INEX insurance exchange. We purchase traditional excess of loss reinsurance for our standard property and casualty business up to a 100-year PML reinsured by traditional reinsurance. The securitization transaction placed through INEX provides us with more conservative coverage for a 250-year PML.

Although we reinsure a significant portion of potential losses on the policies that we issue, we initially pay all claims and seek to recover the reinsured losses from our reinsurers. Although we report as assets the amount of claims paid which we expect to recover from reinsurers, there is no guarantee that we will be able to collect those amounts. The possibility exists that the reinsurer may be unable to pay the amounts recoverable, may dispute our calculation of the amounts recoverable, or may dispute the terms of the reinsurance treaty. In any of these circumstances, we will not have the anticipated liquidity to pay the claims on the reinsured policies. We believe that our procurement of a portion of our reinsurance through the capital markets in the manner described above mitigates these credit and collection risks inherent in the traditional reinsurance market.

Systems. Almost all of our policy administration functions are performed on our own information systems. In recent years, we have upgraded our core infrastructure and expanded the scope of our capabilities. While this work has been our chief focus for several years, it was greatly accelerated in 2000 when we determined that we should move all of our policy management systems in-house. The policy information that is housed with a vendor is being converted to our in-house mainframe system. The conversion began in the second quarter of 2000 and we anticipate that the project will be completed in 2001.

During the last year, we have intensified our efforts in e-commerce and increased the resources devoted to Internet-based technology. To assist the marketing and servicing capabilities of our agency force, we introduced Internet-based programs that give agents the ability to quote, enter new business, perform endorsements, and perform inquiries on policies, billing, and claims. This information is exchanged through Vesta Internet Access ("VIA"), which is located on our web site--www.vesta.com--and provides our agents with fast, convenient access to product, policy, and claims information. In addition, we initiated a video training program designed to assist our agents in learning to operate the VIA Internet system. We are committed to utilizing the latest electronic technology to allow our agency force to securely conduct transactions, access information, and communicate with our insurance subsidiaries.

Life and Health

We expanded our product offering by entering the life and health insurance segment through several strategic acquisitions in 2000. In June 2000, we acquired a 71% ownership interest in American Founders Financial Corporation ("American Founders"), a holding company for two life insurance companies domiciled in Texas. We invested approximately $25 million in convertible preferred stock and other instruments of American Founders, and we now hold four of the seven seats on American Founders' board of directors. American Founders offers traditional life products, universal products, and annuity products and had policies with an aggregate face value of approximately $2.1 billion in force as of December 31, 2000.

We have also recently acquired Aegis Financial Corporation ("Aegis"), a

holding company for an accident and health insurance company domiciled in Texas. We acquired all of the capital stock of Aegis for approximately $7.5 million in cash and approximately 950,000 shares of Vesta common stock. See the section of this prospectus entitled "Business--Changes in Capitalization--Acquisition of Shares Held by Torchmark" beginning on page 35. Aegis had approximately $16.5 million of accident and health premiums in force as of December 31, 2000.

Similar to the property and casualty insurance industry, life and health insurance is a mature industry experiencing consolidation. One major difference, however, is that as the overall population ages, individuals will focus on efficiently transferring wealth between generations. As a result, we believe that consumers will be attracted to savings-oriented products with tax-advantaged status, such as annuity products, to both fund their retirement years and protect their accumulated savings.

Even though the demand for life, annuity, and health products has increased in recent years, this business remains extremely competitive. Access and retention of distribution channels is a key factor to success in this business, and we utilize an independent agency force to distribute these products.

Our life and health insurance segment is expected to have a different impact on our earnings stream as compared to our property and casualty business. Losses in the property and casualty segment are difficult to predict due to potential catastrophes, such as hurricanes, tornadoes, and other weather-related events. In addition, losses in the property and casualty segment can take years to ultimately determine due to litigation and other factors. On the other hand, financial results from our life and health insurance segment are easier to predict, and the ultimate results from such segment can be reported sooner. Accordingly, we believe that our earnings from our life and health segment should be more predictable and consistent than our property and casualty segment.

Primary Products. The primary products of our life and health segment consist of traditional life products, universal life products, annuity and pension contracts, and related products. Fixed-rate and variable annuities are a substantial portion of our offerings. We also intend to offer a critical illness product, a relatively new product that we believe is gaining acceptance in the marketplace. The critical illness product is designed to bridge the gap between disability insurance and life insurance by paying the face amount of the policy at death or earlier in the event of the occurrence of certain non-fatal critical illnesses, such as Alzheimer's disease, organ transplants, or loss of sight.

Strategy. We believe our life and health insurance business is well positioned for growth. We intend to grow this business by acquisitions, joint ventures, and internal sales. The main drivers of these strategies are an efficient and flexible operating and administrative system and maintaining seasoned management with industry expertise to identify potential targets and successfully integrate blocks of policies efficiently into the current administrative system.

Marketing. We distribute our life and health products through agents recruited and contacted directly by our life and health insurance subsidiaries, American Founders and Aegis. The agents that have historically served these companies are geographically diversified without any one dominant producer.

Reinsurance Ceded. We utilize reinsurance for our life insurance products to

appropriately spread reinsurance-ceded risks among reinsurers. American Founders maintains excess of loss reinsurance agreements for more than $50,000 on policies issued prior to October 24, 1990 and for more than $250,000 on policies issued subsequent to that date.

Systems. One of the key criteria in our strategy to grow our life and health segment is to acquire effective information systems to support new products offered. We believe that both American Founders and Aegis have efficient and flexible administrative systems that have demonstrated the ability to quickly and efficiently assimilate and provide administration for acquired blocks of policies. The result is ongoing low-cost administration for our insurance and annuity policies.

Specialty Lines

As a holding company for 14 insurance subsidiaries, we hold certificates of authority to write various types of insurance in 48 states. In many states, we have several insurance company subsidiaries licensed to write the same types of insurance business, and we are licensed to write business in other states where we are not actively underwriting business. We use our authority to write business in these circumstances, which would otherwise go unused, to write certain lines of business and reinsure the risks in exchange for fees. This can be a valuable asset to reinsurance companies desiring to underwrite insurance business in these states but which do not hold certificates of authority to do so. We may also decide to retain some underwriting risk on selected business at our discretion, and we report the underwriting results of that retention in this segment. We pursue opportunities to provide this "specialty" type of insurance primarily for reinsurance companies.

During 2000, our specialty lines operations contracted for approximately $100 million in annualized premium, primarily in the private passenger auto insurance segment. In addition, given our certificates of authority and infrastructure, we believe we are well positioned internally to provide specialty insurance for certain additional coverages. Due to external market requirements, however, we believe our opportunities to provide additional types of specialty insurance depends, in large part, on improved ratings from our various rating agencies, including A.M. Best Company.

Non-Standard Auto

In December 2000, we acquired a 52% interest in Instant Insurance Holdings, Inc. ("Instant Auto"), the parent of a group of insurance agencies specializing in the distribution of non-standard auto insurance products written by other carriers. We invested approximately $10 million in cash in Instant Auto in exchange for 10 million shares of a newly created series of Instant Auto's convertible preferred stock. We also acquired an additional three million shares of Instant Auto's convertible preferred stock from one of its existing stockholders in exchange for approximately 550,000 shares of Vesta common stock. See the section of this prospectus entitled "Business--Changes in Capitalization--Acquisition of Shares Held by Torchmark" beginning on page 35. In addition to its on-line policy application capabilities, Instant Auto has developed a highly integrated call center to field customer inquiries, facilitate policy applications, and administer the process of issuing new policies. We intend to use the Instant Auto platform to acquire a series of traditional non-standard auto agencies and to build an efficient and centralized processing platform.

Unlike the business of American Founders and Aegis, Instant Auto's principal business is not underwriting insurance. Instant Auto operates as a non-standard auto agency, distributing the insurance products of other carriers. Thus, Instant Auto's principal revenue stream is agents' fees and commissions. Non-standard auto insurance covers owners and drivers seeking to purchase insurance

as required by law, drivers with accidents or violations on their driving records, new drivers, and drivers who own high-performance vehicles. Non-standard auto insurance customers traditionally are higher risks than standard customers and, therefore, non-standard customers' premiums are higher. According to a recent A.M. Best Company ("A.M. Best") report, the non-standard segment is approximately 18% of the overall personal auto insurance industry. In recent years, the non-standard auto segment has become extremely concentrated, putting additional financial pressure on

companies as they compete for market share. This industry shakeout has caused high-cost operators to seek merger partners and has created an opportunity for growth.

Although our investment in Instant Auto does not immediately diversify our product offering, we believe that it is a necessary and important step towards growing our existing insurance business through state of the art distribution and processing methods. We also believe that it provides us with a platform to develop fee income, both through traditional agency commissions and specialty lines fees (as discussed above). Instant Auto has two fundamental assets that we believe will enable us to accomplish these strategic goals:

- valuable technological assets which we believe can serve as a growth engine for various types of insurance products; and

- seasoned management to build a significant non-standard auto general agency.

We believe that having access to Instant Auto's call center is an important step towards significant growth in our newly-acquired life and annuity businesses. In addition, we believe this call center may ultimately be an effective tool with which all of our independent agents may effectively cross-market all of our personal lines products.

Corporate and Other

Our corporate and other segment primarily consists of net investment income on capital, interest on debt, and certain overhead expenses not directly associated with a particular segment.

Reserves

Our insurance subsidiaries maintain reserves to cover their estimated ultimate liability for losses with respect to reported and unreported claims incurred. To the extent that current reserves prove to be inadequate in the future, we would have to increase such reserves and incur a charge to earnings in the period such reserves are increased, which could have a material adverse effect on our results of operations and financial condition. The establishment of appropriate reserves is an inherently uncertain process, and there can be no assurance that ultimate losses will not materially exceed our estimates. Reserves are estimates involving actuarial and statistical projections at a given point in time of what we expect to be the cost of the ultimate settlement and administration of claims based on facts and circumstances then known, estimates of future trends in claims severity, and other variable factors such as inflation.

Reserves for Property and Casualty Business

With respect to reported claims, reserves are established on a case-by-case basis. The reserve amounts on each reported claim are determined by taking into

account the circumstances surrounding each claim and policy provisions relating to the type of loss. We review loss reserves on a regular basis, and as new data becomes available, we make appropriate adjustments to our reserves.

With respect to losses that have been incurred but not yet reported to us, a variety of methods have been developed in the insurance industry for determining estimates of loss reserves. One common method of actuarial evaluation, which we use, is the loss development method. This method uses the pattern by which losses have been reported over time and assumes that each accident year's experience will develop in the same pattern as the historical loss development. We also rely on industry data to provide the basis for reserve analysis on newer lines of business (lines written by us for less than three years).

Provisions for inflation are implicitly considered in the reserving process. Our reserves are carried at the total estimate for ultimate expected loss without any discount to reflect the time value of money.

Reserves are computed based upon actuarial principles and procedures applicable to the lines of business written by us. These reserve calculations are reviewed regularly by management, and, as required by state law,

we engage an independent actuary to render opinions as to the adequacy of statutory reserves established by management. The actuarial opinions are filed with the various jurisdictions in which we are licensed. Based on our practices and procedures, management believes that our reserves were adequate as of the valuation date.

The following table provides a reconciliation of beginning and ending property and casualty liability balances based on generally accepted accounting principles ("GAAP") for the periods indicated:

	For the Year Ended December 31,		
	1998	1999	2000
	(in thousands)		
Gross losses and LAE reserves at beginning of year	$ 596,797	$ 504,911	$ 354,709
Reinsurance receivable	(204,336)	(206,139)	(186,559)
Net losses and LAE reserves at beginning of year	392,461	298,772	168,150
Increases (decreases) in provisions for losses and LAE claims incurred:			
Current year	396,091	268,931	169,333
Prior year	(769)	(22,167)	(5,862)
Losses and LAE payments for claims incurred:			
Current year	(269,369)	(198,503)	(120,888)
Prior year	(219,642)	(178,883)	(117,094)
Net losses and LAE reserves at end of year	298,772	168,150	93,639
Reinsurance receivable	206,139	186,559	170,050
Gross loss and LAE reserves	$ 504,911	$ 354,709	$ 263,689

The reconciliation between statutory basis and GAAP basis reserves for each of the three years in the period ended December 31, 2000, is shown below:

	For the Year Ended December 31,		
	1998	1999	2000
	(in thousands)		
Statutory reserves	$363,139	$207,351	$142,116
Adjustments for salvage and subrogation (1)	(11,250)	--	--
Retroactive reinsurance and other amounts	(53,117)	(39,201)	(48,477)
Gross-up of amounts netted against reinsurance recoverable	206,139	186,559	170,050
Reserves on a GAAP basis	$504,911	$354,709	$263,689

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(1) Salvage and subrogation recoverable amounts were included in the 2000 and 1999 statutory reserves in accordance with Illinois Department of Insurance regulations. Prior to 1999, we reported our statutory reserves under Alabama regulations which do not allow such adjustments.

The following table shows the development of the reserves for unpaid losses and LAE from 1990 through 2000 for our insurance subsidiaries on a GAAP basis net of reinsurance recoveries. The top line of the table shows the liabilities at the balance sheet date for each of the indicated years. This reflects the estimated amounts of losses and LAE for claims arising in that year and all prior years that are unpaid at the balance sheet date, including losses incurred but not yet reported to us. The upper portion of the table shows the cumulative amounts subsequently paid as of successive years with respect to the liability. The lower portion of the table shows the reestimated amount of the previously recorded liability based on experience as of the end of each succeeding year. The estimates change as more information becomes known about the frequency and severity of claims for individual years. A redundancy (deficiency) exists when the reestimated liability as of each December 31 is less (greater) than the prior liability estimate. The "cumulative redundancy (deficiency)"

depicted in the table, for any particular calendar year, represents the aggregate change in the initial estimates over all subsequent calendar years.

	For the Year Ended December 31,							
	1990	1991	1992	1993	1994	1995	1996	199
	(in thousands)							
Liability for unpaid								

losses and LAE...	$27,823	$21,919	$ 21,976	$ 29,688	$ 66,648	$118,733	$112,932	$392,
Paid (cumulative) as of								
One year later..	11,864	13,166	20,517	20,761	51,527	88,377	86,978	197,
Two years later..	14,949	17,054	20,272	28,766	65,360	116,388	114,704	253,
Three years later...........	17,096	16,810	20,281	34,776	66,490	125,299	131,342	287,
Four years later...........	18,093	16,622	23,272	33,139	72,273	137,081	137,926	
Five years later...........	19,206	18,140	20,994	38,222	81,156	139,485		
Six years later..	20,683	16,218	22,964	46,298	82,336			
Seven years later...........	20,391	17,922	31,006	47,185				
Eight years later...........	22,284	25,941	31,776					
Nine years later...........	30,299	26,417						
Ten years later..	30,772							
Liability reestimated as of end of year..	27,823	21,919	21,976	29,688	66,648	118,733	112,932	392,
One year later...	28,779	21,853	28,530	28,930	61,033	127,790	99,708	391,
Two years later..	29,431	19,009	27,914	34,219	66,582	110,437	144,986	353,
Three years later...........	29,130	19,817	26,120	38,940	66,713	118,657	132,761	344,
Four years later...........	29,578	16,470	30,435	41,517	76,863	146,090	140,775	
Five years later...........	26,291	19,862	33,845	50,993	88,770	144,256		
Six years later..	29,493	23,760	40,317	53,330	86,357			
Seven years later...........	36,400	29,574	37,953	51,482				
Eight years later...........	40,568	33,388	35,850					
Nine years later...........	37,804	30,973						
Ten years later..	35,298							
Cumulative redundancy/ (deficiency).....	(7,475)	(9,054)	(13,874)	(21,794)	(19,709)	(25,523)	(27,843)	47,

We reinsured a number of casualty risks in the early 1980's which could result in claims for coverage of asbestos-related and other environmental impairment liabilities to the extent that such liabilities were not excluded from the underlying policies. Our exposure to a significant loss from an asbestos or environmental claim is minimal due to the fact that our participation in the reinsurance treaties relating to these risks is only at the higher levels and our percentage participation in those layers is relatively low. In addition, we carry reinsurance which would mitigate the effect of any losses under these treaties. While there exists a possibility that we could suffer a material loss in the event of a high number of large losses under these treaties, this is unlikely in management's judgment.

Life Insurance Reserves

Reserves for traditional life insurance contracts are generally calculated using the net level premium method, based on assumptions as to mortality, withdrawals, dividends, and investment yields ranging from 2.5% to 6.5%. These assumptions are generally made at the time the contract is issued or at the purchase date. These assumptions are based on projections from past experience, making allowance for possible unfavorable deviation.

Our reserves for investment-type contracts are based either on the contract account balance (if future benefit payments in excess of the account balance are not guaranteed) or on the present value of future benefit payments (if such payments are guaranteed).

Investments

Our consolidated investment portfolio consists primarily of investment grade fixed income securities. Our portfolio is managed subject to investment policies and guidelines established by management and the Board of

Directors. Our cash and investments as of December 31, 2000 totaled approximately $1.0 billion and were classified as follows:

Type of Investment	Amount at which Shown on Balance Sheet	% of Portfolio
	(in thousands)	
Cash and short-term investments	$ 35,960	3.5%
Fixed maturity portfolio	798,205	78.3
Equity securities	31,285	3.1
Mortgage and collateral loans	63,060	6.2
Policy loans	61,413	6.0
Other invested assets	29,343	2.9
Total	$1,019,266	100.0%

The value of the fixed maturities portfolio, classified by category, as of December 31, 2000, was as follows:

	Amortized Cost	Fair Value
	(in thousands)	
United States government securities	$ 80,235	$ 82,689
Asset-backed securities	381,099	377,383
Corporate	312,412	315,533
Municipals	21,372	22,600
Total	$795,118	$798,205

The National Association of Insurance Commissioners ("NAIC") has a bond rating system that assigns securities to classes called "NAIC designations" that are used by insurers when preparing their annual statutory financial statements. The NAIC assigns designations to publicly-traded as well as privately-placed securities. The designations assigned by the NAIC range from class one to class six, with a rating in class one being of the highest

quality. We invest our fixed maturities portfolio primarily in class one or two securities as rated by the NAIC, which are considered investment grade. The maturity and duration of our portfolio are managed to match the maturity and duration of the underlying life insurance and property and casualty reserves.

Changes in Capitalization

Debt Exchanges and Repurchases

During the last 18 months, we have engaged in several transactions to reduce annual interest expense obligations and improve our debt-to-capital ratio. As of November 30, 1999, we had outstanding approximately $100 million face amount of our 8.75% Senior Debentures due 2025, and Vesta Capital Trust I, our single purpose finance subsidiary, had outstanding approximately $100 million liquidation amount of its 8.525% Deferrable Capital Securities due 2027.

On December 30, 1999, we issued approximately $44.1 million face amount of our 12.5% Senior Notes due 2005 in exchange for approximately $58.8 million liquidation amount of the 8.525% Deferrable Capital Securities. In connection with this exchange, we paid all accrued and unpaid distributions then owed on the 8.525% Deferrable Capital Securities surrendered and issued certain warrants to purchase shares of our common stock (which subsequently terminated pursuant to their terms). In connection with these transactions, we recorded a one-time after-tax gain of approximately $9.5 million and we reduced our outstanding long-term indebtedness by approximately $14.7 million.

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In March and April of 2000, we redeemed all $44.1 million principal amount of our 12.5% Senior Notes for approximately $38.2 million plus accrued interest. We funded these cash redemptions with internally-generated sources. As a result of these redemptions, the warrants previously issued to the holders of the 12.5% Senior Notes terminated pursuant to their terms.

Also during the first quarter of 2000, we redeemed approximately $13.1 million face amount of our 8.75% Senior Debentures for approximately $9.8 million plus accrued interest. We funded this cash redemption with internally generated sources. As of December 31, 2000, approximately $86.9 million of these 8.75% Senior Debentures remained outstanding.

Following our December 30, 1999 purchase of approximately $58.8 million liquidation amount of Vesta Capital Trust I's 8.525% Deferrable Capital Securities discussed above, approximately $41.2 million face amount of the 8.525% Deferrable Capital Securities remained outstanding. In the fourth quarter of 2000 and the first quarter of 2001, we exchanged approximately 1.6 million shares of our common stock for approximately $11.5 million liquidation amount of the 8.525% Deferrable Capital Securities in six separate transactions. At the time of each transaction, we delivered shares from our treasury having a market value (based on the five trading days preceding the closing date of each transaction) equal to 75% of the total liquidation amount of the 8.525% Deferrable Capital Securities exchanged. As of March 31, 2001, approximately $29.7 million of the 8.525% Deferrable Capital Securities were outstanding.

As a result of the series of transactions we undertook in 2000 and the first quarter of 2001, we reduced our outstanding debt by approximately $68.7 million and decreased our annual ongoing interest obligations by approximately $7.5 million. These transactions also helped reduce our debt-to-total capital ratio from 48.5% as of December 31, 1999, to 36.7% as of December 31, 2000.

Acquisition of Shares Held by Torchmark

In 2000, we acquired approximately 5.1 million shares of our common stock from Torchmark Corporation ("Torchmark") in two transactions for an aggregate purchase price of approximately $32.7 million. This acquisition eliminated Torchmark's holdings in Vesta. In one transaction, we acquired 1.38 million shares from Torchmark, which we later reissued in privately negotiated transactions for approximately $9 million. In another transaction, we acquired 3.75 million shares from Torchmark, which we later reissued to three institutional investors for $23.6 million at the end of June 2000. At that time, we entered into an agreement that gave us the right to repurchase all 3.75 million of these shares within six months. In December of 2000, we exercised our right to repurchase all 3.75 million shares for $23.6 million plus interest and reissued most of these shares in four separate transactions completed in December 2000. These transactions included:

- Approximately 1.2 million shares issued in exchange for approximately $8 million liquidation amount of our 8.525% Deferrable Capital Securities;

- Approximately 950,000 shares issued in connection with our acquisition of Aegis;

- 750,000 shares held in trust for allocation to our independent agents pursuant to the Vesta Agents Stock Incentive Plan; and

- Approximately 550,000 shares issued in connection with our acquisition of Instant Auto.

Conversion of Preferred Stock and Sale of Common Stock

On January 26, 2001, the holder of all 2.95 million shares of our Series A Convertible Preferred Stock converted the preferred stock into 5.9 million shares of common stock, and we then repurchased those shares of common stock for approximately $15 million cash and a note for approximately $32.2 million. This conversion eliminated an annual preferred stock dividend obligation of approximately $2.3 million. We subsequently resold

5.5 million of the common shares in a registered supplemental offering to new investors. We received proceeds from this offering of approximately $33.8 million and repaid the $32.2 million note in full on March 14, 2001.

Regulation

General

Our insurance companies are subject to regulation by governmental agencies in the states in which they do business. The nature and extent of such regulation varies by jurisdiction, but typically involves prior approval of the acquisition of control of an insurance company or of any company controlling an insurance company, regulation of certain transactions entered into by an insurance company with any of its affiliates, approval of premium rates for many lines of insurance, standards of solvency and minimum amounts of capital and surplus which must be maintained, limitations on types and amounts of investments, restrictions on the size of risks which may be insured by a single company, licensing of insurers and agents, deposits of securities for the benefit of policyholders, and reports with respect to financial condition and other matters. In addition, state regulatory examiners perform periodic examinations of insurance companies. Such regulation is generally intended for the protection of policyholders rather than security holders.

In addition to the regulatory supervision of our insurance subsidiaries, we are also subject to regulation under the Ohio, Illinois, Hawaii, Florida (following our acquisition of Florida Select), and Texas Insurance Holding Company System Regulatory Acts (collectively, the "Holding Company Acts"). These Holding Company Acts contain certain reporting requirements including those requiring us to file information relating to our capital structure, ownership, and financial condition and general business operations of our insurance subsidiaries. These Holding Company Acts contain special reporting and prior approval requirements with respect to transactions among affiliates. The Illinois Holding Company Act is generally the most significant to us since it governs our relationship with Vesta Fire, our principal insurance subsidiary.

The federal government does not directly regulate the insurance business. However, federal legislation and administrative policies in several areas, including pension regulation, age and sex discrimination, financial services regulation, and federal taxation, do affect the insurance business. Recently, a number of state legislatures have considered or have enacted legislative proposals that alter, and in many cases increase, the authority of state agencies to regulate insurance companies and holding company systems. In addition, legislation has been introduced from time to time in recent years which, if enacted, could result in the federal government assuming a more direct role in the regulation of the insurance industry.

The insurance laws of most states generally provide that all property and casualty insurance companies which do business in these states must belong to a statutory property and casualty guaranty association. The purpose of these guaranty associations is to protect policyholders by requiring solvent property and casualty insurance companies to pay certain insurance claims of insolvent insurers. The rules of such guaranty associations assess insurers proportionately to such insurer's share of voluntary premiums written in the given state in order to pay these claims. While most guaranty associations provide a procedure for recoupment of assessments through rate increases, rate surcharges, or premium tax credits, there is no assurance that insurers will recover these assessments, and the time value of money becomes a cost to the insurer assessed. Vesta's share of these assessments is not expected to have a material impact on the business of Vesta's insurance subsidiaries.

Many states have formed statutory residual market associations or plans to write certain higher risk property and casualty insurance. These associations cover such risks as wind and water in coastal areas and assigned risk for automobile. By statute, each private insurer writing voluntary business of the type written under the residual market plans in the state must be a member of these associations and, depending on the plan, may be required to accept certain of these risks and also may be required to participate in the profit or loss of the association or plan. Exposures under these plans are higher than voluntary writings because the plans accept

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higher risk business and rates charged for this business are often lower than actuarially required due to political influence of the governmental agency operating these plans.

Insurers also are required by the states to provide coverage to insureds who would not otherwise be considered eligible by the insurers. Each state dictates the types of insurance and the level of coverage which must be provided to such involuntary risks. The rules of the programs in each state govern how involuntary risks are shared on a pro rata basis by the companies who underwrite similar risks voluntarily in the applicable states.

NAIC

In 1998, the NAIC adopted the Codification of Statutory Accounting Principles ("Codification") which, effective as of January 1, 2001, replaced the NAIC Annual Statement Instructions and Accounting Practices and Procedures manual as the NAIC's primary guidance on statutory accounting. The Codification provides guidance for areas where statutory accounting has been silent and changes current statutory accounting in other areas. Management does not believe that the impact of the new Codification will be significant.

State insurance regulators and the NAIC periodically re-examine existing laws and regulations and their application to insurance companies. In recent years, the NAIC has approved and recommended to the states for adoption and implementation several regulatory initiatives designed to decrease the risk of insolvency of insurance companies. These initiatives include risk-based capital requirements for determining the levels of capital and surplus an insurer must maintain in relation to its insurance and investment risks. Other NAIC regulatory initiatives impose restrictions on an insurance company's ability to pay dividends to its stockholders. These initiatives may be adopted by the various states in which our subsidiaries are licensed. The ultimate content and timing of any statutes and regulations adopted by the states cannot be determined at this time. It is not possible to predict the future impact of changing state and federal regulation on our operations, and there can be no assurance that existing insurance-related laws and regulations will not become more restrictive in the future or that laws and regulations enacted in the future will not be more restrictive.

Risk-Based Capital

The NAIC's risk-based capital rules require insurance companies to calculate and report information under a risk-based formula that attempts to measure statutory capital and surplus needs based on the risks in a company's mix of products and investment portfolio. The formula is designed to allow state insurance regulators to identify weakly capitalized companies. Under the formula, a company determines its "risk-based capital" by taking into account certain risks related to the insurer's assets (including risks related to its investment portfolio and ceded reinsurance) and the insurer's liabilities (including underwriting risks related to the nature and experience of its insurance business). Risk-based capital rules provide for different levels of regulatory attention depending on the ratio of a company's total adjusted capital to its "authorized control level" of risk-based capital.

The NAIC's risk-based capital requirements are intended to be used as an early warning tool to help insurance regulators identify deteriorating or weakly capitalized companies in order to initiate regulatory action. Such requirements are not intended as a mechanism for ranking adequately capitalized companies. The formula defines a minimum capital standard which supplements the low, fixed minimum capital, and surplus requirements previously implemented on a state-by-state basis.

As of December 31, 2000, the total adjusted risk-based capital as a percentage of authorized control level were as follows for our principal insurance subsidiaries:

Vesta Fire Insurance Corporation....................................	630%
American Founders Life Insurance Company............................	492%

Restrictions on Dividends to Stockholders

Our insurance subsidiaries are subject to various state statutory and regulatory restrictions, generally applicable to each insurance company in its state of incorporation, which limit the amount of dividends or distributions by an insurance company to its stockholders. The restrictions are generally based on certain levels of surplus, and operating income, as determined under statutory accounting practices. Ohio, Illinois, and Texas laws permit dividends in any year which, together with other dividends or distributions made within the preceding 12 months, do not exceed the greater of (i) 10% of statutory surplus as of the end of the preceding year or (ii) the net income for the preceding year, with larger dividends payable only after receipt of prior regulatory approval. Hawaii law limits dividends to the lesser of (i) and (ii) without prior approval. Certain other extraordinary transactions between an insurance company and its affiliates also are subject to prior approval by the department of insurance for the applicable states. Future dividends from our subsidiaries may be limited by business and regulatory considerations.

IRIS Ratios

The NAIC has developed its Insurance Regulatory Information System ("IRIS") to assist state insurance departments in identifying significant changes in the operations of an insurance company, such as changes in its product mix, large reinsurance transactions, increases or decreases in premiums received, and certain other changes in operations. Such changes may not result from any problems with an insurance company but merely indicate changes in certain ratios outside ranges defined as normal by the NAIC. When an insurance company has four or more IRIS ratios falling outside "normal ranges," state regulators may investigate to determine the reasons for the variance and whether corrective action is warranted. In 2000, Vesta Fire had three ratios which varied unfavorably from the "usual value" range and American Founders had four ratios which varied unfavorably from the "usual value" range. As of May 1, 2001, neither Vesta Fire nor American Founders had received any notice of anticipated action as a result of these variances.

A.M. Best Rating

A.M. Best, which rates insurance companies based upon factors of concern to policyholders, raised its rating on our property and casualty insurance subsidiaries to "B+" (Very Good, in the Secure Rating Category) from "B" (Good, in the Vulnerable Rating Category) in February, 2000. Some of the factors noted by A.M. Best as contributing to the upgrade include our improved financial condition, debt restructuring, elimination of non-core business units, and our focus on our personal lines business. We believe that our current A.M. Best rating of "B+" will assist us in increasing the number of new policy applications and strengthen our retention ratios on our existing policies as they come up for renewal. American Founders is also rated "B+" by A.M. Best.

To further strengthen our ability to increase new policy applications and retain our existing policies, and to open up other opportunities, we believe we must continue to work towards a higher rating from A.M. Best. To accomplish that, we will focus on:

- Expanding our core book of business;

- Continuing to lower our debt-to-capital ratio; and

- Continuing to demonstrate the ability to operate profitably.

Each of these three goals is related to our future operating performance which is subject to a host of uncertainties and risk factors more fully discussed in the section of this prospectus entitled "Risk Factors" beginning on page 10.

Competition

Direct writers are making a strong push in the personal lines arena. These companies compete almost exclusively based on price. While there is a segment of the population that is driven exclusively by price, we believe that many consumers desire the advice and counsel of a professional agent. We have developed a business strategy that focuses on this segment of the market. Accordingly, our relationship with our independent agencies is perhaps the most important component of our current competitive profile. In order to develop and retain the independent agencies' loyalty, we have reaffirmed our commitment to independent agency distribution by providing innovative solutions to agencies' daily business issues, as well as by responding to agencies' needs as quickly as possible. As another mechanism to maintain agency loyalty, we have created a stock incentive plan for our top-performing agencies.

The property and casualty insurance industry is highly competitive on the basis of both price and service. We compete for direct business with other stock companies, specialty insurance organizations, mutual insurance companies, and other underwriting organizations, some of which are substantially larger and have greater financial resources than we have. In recent years, there has been a trend in the property and casualty industry toward consolidation which could result in even more competitive pricing. In the future, the industry, including us, will face increasing insurance underwriting competition from banks and other financial institutions.

Employees

As of January 10, 2001, we employed 486 persons. Our employees are neither represented by labor unions nor are they subject to any collective bargaining agreements. Management knows of no current efforts to establish labor unions or collective bargaining agreements.

Litigation

Securities Litigation

Subsequent to the filing of our quarterly report on Form 10-Q for the period ended March 31, 1998 with the U.S. Securities and Exchange Commission ("SEC" or "Commission"), we commenced an internal investigation to determine the exact scope and amount of certain reductions of reserves and overstatement of premium income in our reinsurance assumed business that had been recorded in the fourth quarter of 1997 and the first quarter of 1998. This investigation concluded that inappropriate amounts had, in fact, been recorded and we determined that we should restate our previously issued 1997 financial statements and first quarter 1998 Form 10-Q. Additionally, during our internal investigation we were advised by our then outside auditors that there was an error in the accounting methodology used to recognize earned premium income in our reinsurance business. We had historically reported certain assumed reinsurance premiums as earned in the year in which the related reinsurance contracts were entered even though the terms of those contracts frequently bridged two years. We determined that reinsurance premiums should be recognized as earned over the contract period and corrected the error in our accounting methodology by restating previously issued financial statements. On June 1, 1998 and June 29, 1998, we

issued press releases, which were filed with the Commission, regarding the matters addressed in this section.

We restated our previously-issued financial statements for 1995, 1996, and 1997 and our first quarter 1998 Form 10-Q for the above items by issuance of a current report on Form 8-K dated August 19, 1998. These restatements resulted in a cumulative decrease to stockholders' equity of approximately $75.2 million through March 31, 1998. Commencing in June 1998, we and several of our current and former officers and directors were named as defendants in several purported class action lawsuits filed in the United States District Court for the Northern District of Alabama. Several of our officers and directors also have been named in a derivative action lawsuit in the Circuit Court of Jefferson County, Alabama, in which Vesta is a nominal defendant. In addition, we received various inquiries and requests for information from various state departments of insurance and other regulatory authorities, including a subpoena issued to Vesta on August 24, 1998 by the

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Commission as part of a formal, non-public order of investigation. We fully responded to such requests in 1998, and no further requests for information from Vesta have been made by the Commission.

In March 1999, the actions filed in the United States District Court for the Northern District of Alabama were consolidated into a single action in that district and certified as a class action. Torchmark Corporation and KPMG Peat Marwick LLP, our outside auditor at the time, were added as additional defendants in the consolidated class action. The consolidated amended complaint alleges violations of certain federal securities laws and seeks unspecified but potentially substantial damages. The court has denied all motions to dismiss and the class action is presently in discovery, with a trial date set for November 5, 2001. We are vigorously defending this litigation but there is no assurance of its outcome. The parties have conducted settlement discussions, but have not been successful in reaching any resolution. The derivative case has been stayed and placed on the administrative docket.

We have several layers of directors' and officers' liability insurance coverage ("D&O insurance"), the terms of which may cover all or a portion of the damages or settlement costs of the class action. These policies provide up to $100 million in D&O insurance to cover damages or settlement costs and an additional policy provides another layer of $10 million D&O insurance to cover any damages awarded by a court in these actions. Cincinnati Insurance Company ("Cincinnati") issued the primary policy that provides the first $25 million of D&O insurance. Federal Insurance Company (The Chubb Group of Insurance Companies) issued an excess D&O insurance policy which provides coverage for the second $25 million in losses, if necessary. The balance of the coverage is provided by a group of insurers and was purchased after the class actions comprising the consolidated class action were filed. In September 1998, after these actions were filed, Cincinnati, which provides the primary insurance policy, filed a lawsuit in the United States District Court for the Northern District of Alabama seeking to rescind the policy and avoid the coverage. That action was dismissed for lack of subject matter jurisdiction, and we then filed an action against Cincinnati in the Circuit Court of Jefferson County, Alabama, to enforce the policy and to recover damages arising out of Cincinnati's actions. Cincinnati filed an answer and counterclaim in that action, seeking to rescind the policy and avoid the coverage. This action is in the discovery stage and the outcome is uncertain. There is no assurance that the primary insurance coverage will ultimately be available for any damages or settlement costs incurred. The outcome of this litigation may also materially affect the availability of the excess policy issued by The Chubb Group. The damages sought by stockholder plaintiffs in the consolidated class action, either at trial or

through settlement, may be substantial. If the damages or settlement costs incurred in connection with the consolidated class action and derivative action are ultimately determined not to be covered by our D&O insurance policies for any reason, or are in excess of our policy limits, we may incur a significant and material loss which could have a material and adverse impact on our financial condition and results of operation.

The consolidated class action is in the discovery stage and the derivative action has been placed on the administrative docket. The ultimate outcome of these matters is uncertain. Accordingly, we have not currently set aside any financial reserves relating to any of the above-referenced actions.

Indemnification Agreements and Liability Insurance

Pursuant to Delaware law and our Bylaws, we are obligated to indemnify our current and former officers and directors for certain liabilities arising from their employment with or services to Vesta, provided that their conduct complied with certain requirements. Pursuant to these obligations, we have agreed to advance costs of defense and other expenses on behalf of certain current and former officers and directors, subject to an undertaking from such individuals to repay any amounts advanced in the event a court determines that they are not entitled to indemnification.

Arbitration

As discussed above, we corrected our accounting for assumed reinsurance business through restatement of our previously-issued financial statements. Similar corrections were made on a statutory accounting basis by recording cumulative adjustments in Vesta Fire's 1997 statutory financial statements. The impact of this

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correction has been reflected in amounts ceded under our 20% whole account quota share treaty which was terminated on June 30, 1998 on a run-off basis. We believe such treatment is appropriate under the terms of this treaty and have calculated the quarterly reinsurance billings presented to the three treaty participants accordingly. The aggregate amount included herein as recoverable from such reinsurers totaled approximately $55.2 million as of December 31, 2000. In addition, we have previously collected approximately $48.5 million from the draw down of collateral on hand.

NRMA Insurance, Ltd. ("NRMA"), one of the participants in the 20% whole account quota share treaty, filed a lawsuit in the United States District Court for the Northern District of Alabama contesting our billings. NRMA sought rescission of the treaty and a temporary restraining order to prevent us from collecting approximately $34.5 million of the total $48.5 million of collateral. In connection with the settlement of the temporary restraining order and the related proceeding for an injunction, we collected the $34.5 million of drawn-down collateral in dispute and entered into a $25.0 million letter of credit in favor of NRMA to fund any amounts NRMA may recover as a result of the arbitration. We filed a demand for arbitration as provided for in the treaty and also filed a motion to compel arbitration which was granted in the United States District Court action. We have also filed for arbitration against the other two participants in the treaty and all of these arbitrations are in their early stages. While management believes its interpretation of the treaty's terms and computations based thereon are correct, these matters are in their early stages and their ultimate outcome cannot be determined at this time.

During 1999, F&G Re (on behalf of USF&G), filed for arbitration under two

aggregate stop loss reinsurance treaties whereby F&G Re assumed certain risk from us. F&G Re is seeking to rescind the treaties and avoid its obligation. Under the terms of the two treaties, we believe we will be entitled to recoveries of approximately $28.2 million as losses mature from prior accident years. Vesta has recorded a reinsurance recoverable of approximately $28.2 million as of December 31, 2000 and 1999 related to these two treaties. This arbitration is in its early stage and the ultimate outcome cannot be determined at this time.

A dispute has also arisen with CIGNA Property and Casualty Insurance Company ("CIGNA") (now ACE USA) under a personal lines insurance quota share reinsurance agreement, whereby we assumed certain risks from CIGNA. During September 2000, CIGNA filed for arbitration under the reinsurance agreement, seeking payment of the balances that CIGNA claims are due under the terms of the treaty. In addition, during the fourth quarter, the treaty was terminated on a cut-off basis. Vesta is seeking recoupment of all improper claims payments and excessive expense allocations and charges from CIGNA. This arbitration is in its early stages and the ultimate outcome cannot be determined at this time.

If the amounts recoverable under the relevant treaties are ultimately determined to be materially less than the amounts that we have reported as recoverable, we may incur a significant, material, and adverse impact on our financial condition and results of operations.

Other Litigation

Vesta, through its subsidiaries, is routinely a party to pending or threatened legal proceedings and arbitration relating to the regular conduct of its insurance business. These proceedings involve alleged breaches of contract, torts (including bad faith and fraud claims), and miscellaneous other specified relief. Based upon information presently available, and in light of legal and other defenses available to us and our subsidiaries, management does not consider liability from any threatened or pending litigation regarding routine matters to be material.

MANAGEMENT

Directors and Executive Officers

Vesta's Board of Directors is divided into three classes with the members of each class serving three-year terms expiring at the third annual meeting of the stockholders after their elections, upon the election and qualification of their successors. The following table sets forth information as of the date of this prospectus concerning Vesta's directors and executive officers.

Name	Age	Position	Term as Director Expires
James E. Tait..............	51	Chairman of the Board of Directors	2002
Norman W. Gayle, III........	47	President, Director	2002
Robert B.D. Batlivala.......	61	Director	2004
Walter M. Beale, Jr.	55	Director	2003
Ehney A. Camp, III.........	58	Director	2004
Alan S. Farrior............	47	Director	2003
Stephen R. Windom...........	51	Director	2003

K. Gerald Barron...........	51	Senior Vice President--Insurance Operations of Vesta Fire Insurance Corporation
William P. Cronin..........	41	Senior Vice President--Chief Financial Officer
John W. McCullough.........	35	Vice President--Associate General Counsel
Hopson B. Nance............	30	Vice President--Controller
Stephen P. Russell.........	41	Senior Vice President--Actuarial of Vesta Fire Insurance Corporation
Stephen P. Solimine........	50	Senior Vice President--Marketing of Vesta Fire Insurance Corporation
Donald W. Thornton.........	53	Senior Vice President--General Counsel and Secretary

James E. Tait has served as a Director of Vesta since 1998. Mr. Tait was named the Chairman of the Board of Directors in 2000 and has occupied the Office of Chairman with Norman W. Gayle, III since 2000. Mr. Tait served as Executive Vice President and Chief Financial Officer of Vesta from 1998 to 2000. Mr. Tait is also currently President of Tait Advisory Services, LLC, a subsidiary of Vesta. Previously, Mr. Tait served as President of Inex Insurance Exchange from 1996 to 1999, and was a Partner at Coopers & Lybrand LLP from 1980 to 1996.

Norman W. Gayle, III has served as a Director and President of Vesta since 1998 and has occupied the Office of the Chairman with Mr. Tait since 2000. Previously, Mr. Gayle was Executive Vice President and Chief Operating Officer of Vesta from 1995 to 1998.

Robert B.D. Batlivala, Ph.D. has served as a Director of Vesta since 1999. Mr. Batlivala retired on October 1, 1999 from the position of Director, Regulatory Economics and Corporate Strategic Planning for BP Amoco, where he served in various capacities since 1964.

Walter M. Beale, Jr. has served as a Director of Vesta since 1993. Mr. Beale is a Partner in the law firm of Balch & Bingham LLP and has been in that position since 1976.

Ehney A. Camp, III has served as a Director of Vesta since 1993. Mr. Camp has been a Principal of Addison Investments, L.L.C. since 1996. From 1975 to 1996, Mr. Camp was the President and Chief Executive Officer of Camp & Company, a mortgage banking company located in Birmingham, Alabama.

Alan S. Farrior has served as a Director of Vesta since 2000. Mr. Farrior is the President of Lowder New Homes/Colonial Homes and has been in that position since 1978.

Stephen R. Windom has served as a Director of Vesta since 2000. Mr. Windom is a Partner in the law firm of Sirote & Permutt, P.C. and has been in that position since prior to 1996. Mr. Windom currently serves as Lieutenant Governor of the State of Alabama. Prior to becoming Lieutenant Governor in 1999, Mr. Windom served as a member of the Alabama State Senate.

K. Gerald Barron has served as Senior Vice President--Insurance Operations of Vesta Fire Insurance Corporation since 1999. From March 1997 to October 1999, Mr. Barron was Executive Vice President of Audubon Insurance Group in Baton Rouge, Louisiana. From March of 1993 to March of 1997, Mr. Barron was Vice President of Hanover Insurance Company in Worcester, Massachusetts.

William P. Cronin has served as Senior Vice President and Chief Financial Officer of Vesta since 2000. Mr. Cronin has also served as Senior Vice President--Controller of Vesta from 1998 to 2000. Mr. Cronin has served as President of Tait Advisory Services, LLC, a subsidiary of Vesta, since March 2001. From 1997 to 2001, Mr. Cronin was Vice President, Audit and Regulatory Affairs of Tait Advisory Services, LLC. Prior to joining Vesta, Mr. Cronin was a Senior Manager at Ernst & Young LLP from 1993 to 1997.

John W. McCullough has served as Vice President and Associate General Counsel of Vesta since 2000. From 1996 to 2000, Mr. McCullough was an Associate and Partner with the law firm of Balch & Bingham LLP.

Hopson B. Nance has served as Vice President and Controller of Vesta since 2000. Prior to joining Vesta, Mr. Nance was an Audit Manager and held other positions with PricewaterhouseCoopers LLP from 1993 to 2000.

Stephen P. Russell has served as Senior Vice President--Actuarial of Vesta Fire Insurance Corporation since 1998. From 1982 to 1998, Mr. Russell was a Director and Senior Actuary of Allstate Insurance Company, Northbrook, Illinois.

Stephen P. Solimine has served as Senior Vice President--Marketing of Vesta Fire Insurance Corporation since 2000. From 1995 to 2000, Mr. Solimine was Vice President--Marketing of Vesta Fire Insurance Corporation.

Donald W. Thornton has served as Senior Vice President, General Counsel and Secretary of Vesta since 1995.

There are no family relationships between any of the directors or executive officers of Vesta.

SECURITY OWNERSHIP OF MANAGEMENT AND PRINCIPAL STOCKHOLDERS

Security Ownership of Management

The following table sets forth certain information regarding the beneficial ownership of our common stock as of March 31, 2001 and as adjusted to reflect the sale of our common stock offered hereby, with respect to: (i) each of our directors and each of our named executive officers; and (ii) all our directors and our named executive officers as a group. As of March 31, 2001, Vesta had 24,427,946 shares of common stock outstanding. Except as otherwise indicated, each of the stockholders listed below has sole voting and investment power over the shares beneficially owned.

Name	Shares Owned	Percentage of Shares Owned	
		Prior to Offering	After Offering

K. Gerald Barron..............................	0	*	*
Robert B.D. Batlivala.........................	5,000(1)	*	*
Walter M. Beale, Jr...........................	45,499(2)	*	*
Ehney A. Camp, III............................	47,830(3)	*	*
William P. Cronin.............................	52,806(4)	*	*
Alan S. Farrior...............................	6,789(5)	*	*
Norman W. Gayle, III..........................	345,514(6)	1.4%	1.1%
James E. Tait.................................	293,835(7)	1.2%	*
Donald W. Thornton............................	181,085(8)	*	*
Stephen R. Windom.............................	5,000(9)	*	*
All Directors and Executive Officers as a Group (14 persons).................................	1,012,416	4.1%	3.2%

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* Less than 1%

(1) Includes 5,000 shares subject to the exercise of options exercisable on or prior to June 30, 2001 granted pursuant to our Non-Employee Director Stock Plan.

(2) Includes (i) 5,000 shares subject to the exercise of options exercisable on or prior to June 30, 2001, granted pursuant to our Non-Employee Director Stock Plan, and (ii) 30,000 shares of restricted stock.

(3) Includes (i) 5,000 shares subject to the exercise of options exercisable on or prior to June 30, 2001 and 3,325 shares of restricted stock granted pursuant to our Non-Employee Director Stock Plan, (ii) 5,150 shares held in the name of Sterne, Agee & Leach, Inc., custodian for Ehney A. Camp, III Individual Retirement Account, and (iii) 22,500 shares of restricted stock.

(4) Includes 1,556 shares allocated to Mr. Cronin's 401(k) plan account and 50,000 shares of restricted stock awarded under our Long Term Incentive Plan.

(5) Includes 5,000 shares subject to the exercise of options exercisable on or prior to June 30, 2001 and 1,789 shares of restricted stock granted pursuant to our Non-Employee Director Stock Plan.

(6) Includes (i) 52,500 shares subject to the exercise of options exercisable on or prior to June 30, 2001 granted under, and 198,032 shares of restricted stock awarded under our Long Term Incentive Plan and (ii) 10,080 shares allocated to Mr. Gayle's 401(k) plan account.

(7) Includes (i) 52,500 shares subject to the exercise of options exercisable on or prior to June 30, 2001 granted under, and 195,000 shares of restricted stock awarded under, our Long Term Incentive Plan, and (ii) 11,279 shares allocated to Mr. Tait's 401(k) plan account.

(8) Includes (i) 27,500 shares subject to the exercise of options exercisable on or prior to June 30, 2001 granted under, and 123,479 shares of restricted stock awarded under our Long Term Incentive Plan and (ii) 10,617 shares allocated to Mr. Thornton's 401(k) plan account.

(9) Includes 5,000 shares subject to the exercise of options exercisable on or prior to June 30, 2001 granted pursuant to our Non-Employee Director Stock Plan.

Business Relationships between Vesta and Management

We have used the legal services of the law firm Balch & Bingham LLP, of which Walter M. Beale, Jr., one of our directors, is a partner, from the beginning of 2001 to the date of this prospectus, including legal services provided to us in preparing this registration statement. We expect that Balch & Bingham LLP will continue to render various legal services to us for the remainder of 2001. We have used the legal services of the law firm Sirote &

Permutt, P.C., of which Stephen R. Windom, one of our directors, is a partner, from the beginning of 2001 to the date of this prospectus. We expect that Sirote & Permutt, P.C. will continue to render various legal services to us for the remainder of 2001.

Principal Stockholders

The following table lists all persons known to us to be the beneficial owner of more than 5% of our common stock as of March 31, 2001, and as adjusted to reflect the sale of shares offered hereby, assuming no exercise of the underwriters' over-allotment option.

Name and Address	Shares Owned	Percentage of Shares Owned: Prior to Offering	Percentage of Shares Owned: After Offering
Wellington Management Company, LLP............. 75 State Street Boston, MA 02109	2,000,000(1)	8.2%	6.3%
R.K. Carvill (International Holdings), Ltd. .... Peerman Holdings, Ltd. Clarendon House 2 Church Street Hamilton HMCX, Bermuda	1,380,000(2)	5.6	4.3
Dimensional Fund Advisors, Inc. .... 1299 Ocean Avenue Santa Monica, CA 90401	1,309,650(3)	5.4	4.1

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(1) Wellington Management Company, LLP, acting as investment adviser on behalf of several accounts, acquired these shares of our common stock directly from us in March 2001.

(2) The information on the number of shares of our common stock beneficially owned by R.K. Carvill (International Holdings), Ltd. and Peerman Holdings, Ltd. set forth herein is based on Schedule 13D/A, filed January 30, 2001 by R.K. Carvill (International Holdings), Ltd., and Peerman Holdings, Ltd.

(3) The information on the number of shares of our common stock beneficially owned by Dimensional Fund Advisors, Inc. set forth herein is based on Schedule 13G filed February 2, 2001 by Dimensional Fund Advisors Inc.

UNDERWRITING

The several underwriters named below, for which William Blair & Company, L.L.C., and Cochran, Caronia Securities LLC are acting as representatives, have severally agreed, subject to the terms and conditions set forth in the underwriting agreement by and between Vesta and the underwriters, to purchase from Vesta the respective number of shares of common stock set forth opposite each underwriter's name in the table below.

Underwriter	Number of Shares
William Blair & Company, L.L.C.	5,575,000
Cochran, Caronia Securities LLC	1,125,000
Friedman, Billings, Ramsey & Co., Inc.	200,000
Keefe, Bruyette & Woods, Inc.	200,000
Legg Mason Wood Walker, Incorporated	200,000
The Robinson-Humphrey Company, LLC	200,000
Total	7,500,000

This offering will be underwritten on a firm commitment basis. In the underwriting agreement, the underwriters have agreed, subject to the terms and conditions set forth therein, to purchase the shares of common stock being sold pursuant thereto at a price per share equal to the public offering price less the underwriting discount specified on the cover page of this prospectus. According to the terms of the underwriting agreement, the underwriters will either purchase all of the shares or none of them. In the event of default by any underwriter, in certain circumstances the purchase commitments of the non-defaulting underwriters may be increased or the underwriting agreement may be terminated.

The representatives of the underwriters have advised Vesta that the underwriters propose to offer the common stock to the public initially at the public offering price set forth on the cover page of this prospectus and to selected dealers at such price less a concession of not more than $0.30 per share. The underwriters may allow, and such dealers may re-allow, a concession not in excess of $0.10 per share to certain other dealers. The underwriters will offer the shares subject to prior sale and subject to receipt and acceptance of the shares by the underwriters. The underwriters may reject any order to purchase shares in whole or in part. The underwriters expect that Vesta will deliver the shares to the underwriters through the facilities of The Depository Trust Company in New York, New York on or about June 26, 2001. At that time, the underwriters will pay Vesta for the shares in immediately available funds. If all of the shares are not sold at the initial offering price, the public offering price and other selling terms may be changed by the representatives.

Vesta has granted to the underwriters an option, exercisable within 30 days after the date of this prospectus, to purchase up to an aggregate of 1,125,000 additional shares of common stock at the same price per share to be paid by the underwriters for the other shares offered hereby for the purpose of covering the sale of shares in excess of the shares initially allocated in the offering. If the underwriters purchase any such additional shares pursuant to this option, each of the underwriters will be committed to purchase such additional shares in approximately the same proportion as set forth in the table above. The underwriters may exercise the option only for the purpose of covering excess sales, if any, made in connection with the distribution of the shares of common stock offered hereby.

The following table summarizes the underwriting discount to be paid by Vesta to the underwriters. This information assumes either no exercise or full exercise by the underwriters of their over-allotment option:

Total

	Per Share	Without Over-Allotment	With Over-Allotment
Public offering price..................	$8.00	$60,000,000	$69,000,000
Underwriting discount paid by Vesta.....	$0.50	$ 3,750,000	$ 4,312,500

Vesta estimates that its share of the total expenses of this offering, excluding the underwriting discount, will be approximately $1,250,000.

Vesta's directors and certain executive officers have agreed that for a period of 180 days after the date of this prospectus, without the prior written consent of William Blair & Company, L.L.C., they will not, directly or indirectly, offer, sell, assign, transfer, encumber, pledge, contract to sell, grant an option to purchase, or otherwise dispose of, other than by operation of law, any shares of common stock or securities convertible or exchangeable into, or exercisable for, common stock. Vesta may grant options and issue common stock under existing stock option or stock purchase plans and issue unregistered shares in connection with any outstanding convertible securities or options during this lock-up period.

Vesta has agreed to indemnify the underwriters and their controlling persons against certain liabilities, including liabilities under the Securities Act, or to contribute to payments the underwriters may be required to make in respect thereof.

In connection with this offering, the underwriters and other persons participating in this offering may engage in transactions which affect the market price of the common stock. These may include stabilizing and over-allotment transactions and purchases to cover syndicate short positions. Stabilizing transactions consist of bids or purchases for the purpose of pegging, fixing or maintaining the price of the common stock. Over-allotment involves selling more shares of the common stock in this offering than are specified on the cover page of this prospectus, which results in a syndicate short position. The underwriters may cover this short position by purchasing common stock in the open market or by exercising all or part of their over-allotment option. In addition, the representatives may impose a penalty bid. This allows the representatives to reclaim the selling concession allowed to an underwriter or selling group member if common stock sold by such underwriter or selling group member in this offering is repurchased by the representatives in stabilizing or syndicate short covering transactions. These transactions, which may be effected on the New York Stock Exchange or otherwise, may stabilize, maintain or otherwise affect the market price of the common stock and could cause the price to be higher than it would be without these transactions. The underwriters and other participants in this offering are not required to engage in any of these activities and may discontinue any of these activities at any time without notice. Vesta and the underwriters make no representation or prediction as to whether the underwriters will engage in such transactions or choose to discontinue any transactions engaged in or as to the direction or magnitude of any effect that these transactions may have on the price of the common stock.

From time to time, Cochran, Caronia & Co., an affiliate of Cochran, Caronia Securities LLC, has provided, and continues to provide, investment banking services to Vesta for which it has received customary fees and commissions. Cochran, Caronia & Co. has also provided certain investment banking services to Florida Select Insurance Holdings Inc. with respect to its proposed acquisition

by Vesta. Cochran, Caronia & Co. has received, and will receive when the proposed acquisition is completed, customary fees from Florida Select for these services.

LEGAL MATTERS

The validity of the issuance of the common stock offered hereby and certain other legal matters related to the offering will be passed upon for Vesta by Balch & Bingham LLP, Birmingham, Alabama. Walter M. Beale, Jr., a director of Vesta, is a partner of Balch & Bingham LLP. As of March 31, 2001, Mr. Beale was the beneficial owner of 45,499 shares of our common stock.

Certain legal matters related to the offering will be passed upon for the underwriters by Alston & Bird LLP, Washington, D.C.

EXPERTS

The financial statements of Vesta Insurance Group, Inc. incorporated in this prospectus by reference to our Annual Report on Form 10-K for the year ended December 31, 2000, have been so incorporated in reliance on the report of PricewaterhouseCoopers LLP, independent accountants, given on the authority of said firm as experts in auditing and accounting.

The financial statements of Florida Select Insurance Holdings Inc. as of December 31, 2000 and 1999, and for each of the three years in the period ended December 31, 2000, appearing in this prospectus, have been audited by Ernst & Young LLP, independent auditors, as set forth in their report thereon appearing elsewhere herein, and are included in reliance upon such report given on the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Securus Financial Corporation (the predecessor of American Founders Financial Corporation) and subsidiaries as of December 31, 1999 and 1998 and for each of the three years in the period ended December 31, 1999, incorporated in this prospectus by reference to our Current Report on Form 8-K/A filed September 12, 2000, have been so incorporated in reliance on the report of Grant Thornton LLP, independent certified public accountants, given on the authority of said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

We are subject to the informational requirements of the Securities Exchange Act of 1934, as amended. Therefore, we file annual, quarterly and special reports, proxy statements, and other information with the U.S. Securities and Exchange Commission ("SEC"). Our SEC filings are available to the public over the internet at the SEC's web site at http://www.sec.gov. You may also read and copy any document we file at the SEC's public reference rooms at 450 Fifth Street, N.W., Washington, D.C. 20549, and at the SEC's regional offices at 500 West Madison Street, Suite 1400, Chicago, Illinois 60661 and Seven World Trade Center, 13th Floor, New York, New York 10048. Copies of such material can also be obtained for a fee by writing to the SEC's Public Reference Section at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

The SEC allows us to "incorporate by reference" the information we file with them. This means that we can disclose important information to you by referring you to documents we file with the SEC. The information incorporated by reference is an important part of this prospectus. Information that we file later with the SEC will automatically update and supersede this information.

The following documents (File No. 1-12338) are incorporated by reference in this prospectus:

(a) Our Annual Report on Form 10-K for the fiscal year ended December 31, 2000, filed March 29, 2001;

(b) Our Current Reports on Form 8-K filed January 11, 2001, January 31, 2001, March 5, 2001, April 10, 2001, April 23, 2001, May 9, 2001, May 16, 2001, May 17, 2001, and June 19, 2001 and our amended Current Report on Form 8-K/A filed September 12, 2000;

(c) Our Quarterly Report on Form 10-Q for the three months ended March 31, 2001; and

(d) The description of our common stock set forth in our registration statement on Form 8-A/A, filed November 16, 1993, as supplemented by the rights registered on Form 8-A, filed June 21, 2000, as amended on July 13, 2000 and September 1, 2000.

All documents filed by Vesta under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 after the date of this prospectus will be deemed incorporated by reference into this prospectus and to be a part of this prospectus from the date of filing of the documents.

If you request by writing or telephoning us at the following address or telephone number, we will provide you with a copy of any of these documents we are incorporating by reference at no cost.

Charles Lambert
Manager of Investor Relations
Vesta Insurance Group, Inc.
3760 River Run Drive
Birmingham, Alabama 35243
(205) 970-7000

You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone else to provide you with any other information or any different information. We are not making an offer of common stock in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date on the front of this document.

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VESTA INSURANCE GROUP, INC.

GENERAL INFORMATION

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

The following presentation sets forth the unaudited pro forma consolidated financial statements of Vesta as of and for the three months ended March 31, 2001 and as of and for the year ended December 31, 2000, giving effect to our proposed acquisition of Florida Select Insurance Holdings Inc. ("Florida Select"), our acquisition of American Founders Financial Corporation ("American Founders") on June 30, 2000, and the issuance of 7.5 million shares of common stock pursuant to this offering as if the transactions had occurred at the beginning of each period. The acquisitions are accounted for as purchases.

The following consummated and proposed transactions have been reflected in the accompanying unaudited pro forma consolidated balance sheet for March 31, 2001 and the unaudited pro forma consolidated statements of operations as of the three months ended March 31, 2001 and as of the year ended December 31, 2000 as if those transactions had occurred at the beginning of each respective period:

- On January 31, 2000, American Founders acquired Securus Financial Corporation ("Securus"). Prior to the acquisition of Securus, American Founders had no material operations. As a part of the transaction, Securus paid approximately $43.9 million to its former parent, which included effectively repaying the $33.5 million surplus note payable. American Founders accounted for the acquisition under the purchase method of accounting and, accordingly, the purchase price has been allocated to the tangible and identifiable intangible assets acquired and liabilities assumed on the basis of their respective fair values on the acquisition date. The purchase price of Securus and Subsidiaries included 50,000 shares of convertible preferred stock (Series A) with a stated value of $50 million and an estimated fair value of approximately

$39.3 million and common stock warrants with an estimated fair value of approximately $5.7 million.

- On June 30, 2000, we acquired a controlling interest in American Founders (approximately 71% voting control). American Founders received $25 million in cash in exchange for $25 million of 9.5% convertible subordinated notes (immediately convertible into common stock of American Founders) and 25 shares of special voting preferred stock. This preferred stock does not provide for dividends; however, it does allow Vesta to vote the number of shares of common stock that the convertible subordinated notes are convertible into. We accounted for the transaction under the purchase method of accounting and, accordingly, the purchase price has been allocated to the tangible and identifiable intangible assets and liabilities of American Founders on the basis of their respective fair values on the acquisition date.

- On April 18, 2001, Vesta agreed to acquire, subject to regulatory approval, Florida Select for a cash payment equal to approximately $61.5 million. Vesta also agreed to pay an additional $3 million commutation fee to Centre Insurance Company, an affiliate of one of the stockholders of Florida Select, in connection with the commutation of a reinsurance agreement between Florida Select and Centre Insurance Company. Vesta will account for the transaction under the purchase method of accounting, and accordingly, the purchase price will be allocated to the tangible and identifiable intangible assets and liabilities of Florida Select on the basis of their respective fair values on the acquisition date.

- In connection with the proposed transaction, Florida Select will commute its 50% quota share reinsurance treaty with Centre Insurance Company as of January 1, 2001.

The pro forma information should be read in conjunction with the historical financial statements of Vesta, Securus, American Founders and Florida Select and the related notes thereto. The following presentation is not necessarily indicative of the results of operations that would have resulted had the relevant transactions been consummated at the periods indicated, nor is it necessarily indicative of the results of operations of future periods.

VESTA INSURANCE GROUP, INC.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	For the Three Months Ended March 31, 2001			
	Historical		Pro Forma	
	Vesta	Florida Select	Pro Forma Adjustments	Pro Forma Vesta
REVENUES:				
Net premiums earned.................	$65,395	$6,780	$6,168(1)	$ 78,343
Policy fees.........................	1,253	--	--	1,253

Net investment income	15,603	954	313(2)	16,870
Realized (losses) gains	1,706	--	--	1,706
Other	2,146	1,363	1,363(1)	4,872
Total revenues	86,103	9,097	7,844	103,044
EXPENSES:				
Policyholder benefits	8,057			8,057
Losses and loss adjustment expenses incurred	38,701	3,051	2,928(1)	44,680
Policy acquisition expenses	14,402	1,101	1,611(1)	17,114
Operating expenses	14,653	1,138	499(1)	16,290
Interest on debt	4,658	--		4,658
Goodwill and other intangible amortization	526	85	525(4)	1,136
Total expenses	80,997	5,375	5,563	91,935
Income (loss) from continuing operations before taxes, minority interest, and deferrable capital securities	5,106	3,722	2,281	11,109
Income tax expense (benefit)	1,787	1,408	879(5)	4,074
Minority interest, net of tax	249			249
Deferrable capital security distributions, net of tax	383			383
Income (loss) from continuing operations	$ 2,687	$2,314	$1,402	$ 6,403
Income from continuing operations per share--basic	0.14			0.24(7)
Income from continuing operations per share--diluted	0.13			0.22(7)

See accompanying notes.

VESTA INSURANCE GROUP, INC.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

	March 31, 2001			
	Vesta	Florida Select	Purchase Accounting Adjustments	Pro Forma Vesta
ASSETS				
INVESTMENTS:				
Fixed maturities available for sale--at fair value (cost: 2001--$760,245)	$ 766,386	$ 47,001		$ 813,387
Equity securities--at				

fair value: (cost: 2001--$15,520).........	16,584	5,273			21,857
Mortgage and collateral loans.................	59,272				59,272
Policy loans...........	61,952				61,952
Short-term investments..	21,573				21,573
Other invested assets...	37,741				37,741
Total investments....	963,508	52,274			1,015,782
Cash...................	31,104	9,428	13,400	(8)	53,932
Accrued investment income................	14,551	756			15,307
Premiums in course of collection (net of allowances for losses of $3,937 in 2001).....	26,847	2,973			29,820
Reinsurance balances receivable............	354,067	28,877	(22,900)	(9)	360,044
Reinsurance recoverable on paid losses.........	59,572	3,936			63,508
Deferred policy acquisition costs......	44,208	1,780			45,988
Deferred income taxes...	17,376	767			18,143
Other assets...........	99,309	3,371	31,824	(10)	134,504
Total assets.........	$1,610,542	$104,162	$22,324		$1,737,028
	LIABILITIES				
Policy liabilities......	$ 664,214				$ 664,214
Losses and loss adjustment expenses....	262,474	$ 20,133			282,607
Unearned premiums.......	104,110	35,101			139,211
Federal Home Loan Bank advances..............	147,922				147,922
Short-term debt.........	14,997				14,997
Long-term debt..........	86,423				86,423
Other liabilities.......	96,579	14,752	$ 1,500	(11)	112,831
Total liabilities....	1,376,719	69,986	1,500		1,448,205
Commitments and contingencies					
Deferrable Capital Securities.............	29,750				29,750
STOCKHOLDERS' EQUITY:					
Preferred stock, $.01 par value, 5,000,000 shares authorized, issued: 2001--0........	0				--
Common stock, $.01 par value, 100,000,000 shares authorized, issued: 2001-- 24,864,322............	249		75	(12)	324
Additional paid-in capital...............	150,464	10,606	44,319	(12),(13)	205,389
Accumulated other comprehensive income, net of tax (benefit) expense of $2,522......	4,683	(538)	(538)	(13)	4,683
Retained earnings.......	60,503	23,137	(23,137)	(13)	60,503
Treasury stock (439,576 shares at cost) at					

March 31, 2001.........	(3,397)	(105)	105 (13)	(3,397)
Unearned stock..........	(8,429)			(8,429)
Total stockholders' equity.............	204,073	34,176	20,824	259,073
Total liabilities, deferrable capital securities and stockholders' equity.............	$1,610,542	$104,162	$22,324	$1,737,028

See accompanying notes.

VESTA INSURANCE GROUP, INC.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS)

	For the Year Ended December 31, 2000				
	Historical			Pro Forma	
	Vesta	Florida Select	American Founders/Securus(a)	Pro Forma Adjustments	Pro Forma Vesta
REVENUES:					
Net premiums earned...	$216,999	$26,348	$ 1,954	$23,743 (1)	$269,044
Investment product policy fees..........	2,209	--	2,614	--	4,823
Net investment income...............	45,903	2,936	21,784	390 (2)	71,013
Realized (losses) gains................	(2,061)	--	(1,298)	1,298 (3)	(2,061)
Other.................	2,103	1,065	1,153	940 (1)	5,261
Total revenues......	265,153	30,349	26,207	26,371	348,080
EXPENSES:					
Policyholder benefits.............	9,610	--	10,026	--	19,636
Losses and loss adjustment expenses incurred............	125,432	11,367		11,367 (1)	148,166
Policy acquisition expenses............	52,247	3,292	1,039	5,602 (1)	62,180
Operating expenses....	43,574	4,522	4,956	1,922 (1)	54,974
Interest on debt......	15,105	--	6,029	(288)(2)	20,846
Goodwill and other intangible amortization.........	1,591	298		2,372 (4)	4,261
Total expenses......	247,559	19,479	22,050	20,975	310,063
Income from continuing					

operations before taxes, minority interest, and deferrable capital securities	17,594	10,870	4,157	5,396	38,017
Income tax expense	5,664	4,281	1,781	1,786 (5)	13,512
Minority interest, net of tax	1,595	--		1,645 (6)	3,240
Deferrable capital security distributions, net of tax	1,986	--		--	1,986
Income from continuing operations	$ 8,349	$ 6,589	$ 2,376	$ 1,965	$ 19,279
Income from continuing operations per share--basic	$ 0.46				$ 0.75 (7)
Income from continuing operations per share--diluted	$ 0.34				$ 0.61 (7)

(a) Represents the historical results of American Founders and its predecessor for the period January 1, 2000 through June 30, 2000.

See accompanying notes.

VESTA INSURANCE GROUP, INC.

NOTES TO UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL STATEMENTS

(1) Eliminates the effect of the 50% quota share with Centre Insurance Company.

(2) Adds investment income earned on assets received from the stock offering, net of assets transferred to third parties, based on an assumed rate of 7%, and eliminates interest expense on the $33.5 million note repaid by American Founders on January 31, 2000.

(3) Eliminates realized losses based on marking the securities to market as part of purchase accounting.

(4) Recognizes amortization of goodwill recorded as part of the Florida Select and American Founders transactions over a 15-year life.

(5) Recognizes the tax effects of the adjustments as if they had occurred at the beginning of the period using a blended tax rate of 33% as of December 31, 2000 and 38.6% as of March 31, 2001.

(6) Recognizes minority interest as if it had been applicable from beginning of period.

(7) Calculated as if this 7.5 million share offering had occurred at the beginning of the period. Pro forma basic shares outstanding are approximately 25.7 million shares and 26.4 million shares for the year ended December 31, 2000 and for the three months ended March 31, 2001, respectively, and pro forma diluted shares outstanding are approximately 31.8 million shares and 28.6 million shares for the year ended December 31, 2000 and for the three months ended March 31, 2001, respectively.

(8) Reflects net cash effect to Vesta following the completion of this offering and the closing of the acquisition of Florida Select.

Florida Select Acquisition..................................	$(64.5 million)
Less common stock offering net proceeds (see footnote 12)..	$ 55.0 million
Less settlement of balances pursuant to commutation of Centre Insurance Company and Florida Select treaty........	$ 22.9 million
Net cash impact..	$ 13.4 million

(9) Reflects commutation of 50% quota share with Centre Insurance Company.

(10) Recognition of goodwill.

(11) Recognition of accrued expenses attributable to the Florida Select transaction.

(12) Net proceeds of offering 7.5 million shares of common stock, less the paid in capital attributable to Florida Select. The net proceeds of the offering are calculated based on the sale price of $8.00 per share, or an aggregate of $60,000,000, less underwriting discounts of $3,750,000 and estimated offering expenses of $1,250,000.

(13) Recognition of removing historical equity accounts to reflect purchase accounting.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2001	December 31, 2000
	(unaudited)	
ASSETS		
INVESTMENTS:		
Fixed maturities..................................	$ 47,000,561	$ 49,112,152
Preferred stock...................................	5,273,153	4,250,451
Total investments.................................	52,273,714	53,362,603
Cash and cash equivalents.........................	9,427,953	10,379,751
Premiums receivable (net of allowance for doubtful accounts of $178,766 and $160,391, respectively)..................................	2,972,758	3,961,825
Amounts due from FRPCJUA in accordance with take-out agreement..................................	2,624,831	1,979,791
REINSURANCE RECOVERABLES:		
On paid losses and loss adjustment expenses......	3,935,667	1,961,275
On unpaid losses and loss adjustment expenses....	10,088,742	9,977,986
Prepaid reinsurance premiums.....................	18,788,153	20,676,350
Accrued investment income........................	755,838	820,429

Deferred policy acquisition costs	1,779,960	1,814,789
Property and equipment	320,605	333,171
Deferred taxes	767,563	1,092,362
Other assets	426,234	284,988
Total assets	$104,162,018	$106,645,320
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Loss and loss adjustment expense reserves	$ 20,132,974	$ 19,951,410
Unearned premium reserve	35,100,504	36,321,138
Other policyholders' funds	1,435,483	3,569,868
Reinsurance balance payable	7,357,828	7,639,665
Accounts payable and accrued expenses	2,655,084	4,473,200
Income taxes payable	3,303,669	2,892,790
Total liabilities	69,985,542	75,168,371
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 2,000 shares authorized; no shares issued and outstanding	--	--
Common stock:		
Class A, $.01 par value; 2,000 shares authorized; 784 shares issued--779 shares outstanding	8	8
Class B, $.01 par value; 2,000 shares authorized; no shares issued and outstanding	--	--
Class C, $.01 par value; 2,000 shares authorized; 156 shares issued and outstanding	1	1
Class D, $.01 par value; 2,000 shares authorized; 60 shares issued and outstanding	1	1
Additional paid in capital	10,606,051	10,606,051
Treasury stock	(105,000)	(105,000)
Retained earnings	23,137,202	20,822,998
Accumulated other comprehensive income (deficit)	538,213	(152,890)
Total shareholders' equity	34,176,476	31,476,949
Total liabilities and shareholders' equity	$104,162,018	$106,645,320

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME
(UNAUDITED)

	For the Three Months Ended March 31,	
	2001	2000
REVENUE:		
Premiums earned, net	$6,780,130	$6,267,496
Net investment income	954,193	746,553

Other income	1,363,137	376,281
Total revenue	9,097,460	7,390,330
LOSSES AND EXPENSES:		
Losses and loss adjustment expenses	3,051,384	2,744,988
Other underwriting, general and administrative expenses	2,238,641	1,679,653
Amortization and depreciation	85,027	92,410
Total losses and expenses	5,375,052	4,517,051
Income before income taxes	3,722,408	2,873,279
Income tax expense	1,408,204	1,088,217
Net income	$2,314,204	$1,785,062

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
(UNAUDITED)

	For the Three Months Ended March 31,	
	2001	2000
OPERATING ACTIVITIES:		
Net income	$ 2,314,204	$ 1,785,062
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization and depreciation	80,882	127,134
Deferred income taxes	92,324	(1,492,711)
Policy acquisition costs	34,830	1,885,022
Net (gain) loss on sale of investments	(17,363)	13,259
Increase in premiums receivable	989,067	661,530
Decrease (increase) in amounts due from the FRPCJUA	(645,040)	7,538,377
(Increase) decrease in reinsurance recoverable	(196,951)	(13,997)
(Increase) decrease in accrued investment income	64,591	(118,269)
Decrease (increase) in receivable from affiliate	(320,300)	106,097
(Increase) decrease in other assets	(141,246)	(150,605)
Increase in loss and loss adjustment expenses	181,564	590,392
Increase (decrease) in unearned premium reserve	(1,220,634)	593,768
Decrease in other policyholders' funds	(2,134,385)	(2,870,608)

(Decrease) increase in reinsurance balance payable	(281,837)	(7,907,734)
Increase (decrease) in accounts payable and accrued expenses	(1,818,116)	(1,120,132)
Increase in income tax payable	410,879	2,025,927
Net cash provided by operating activities	(2,607,531)	1,652,512
INVESTING ACTIVITIES:		
Purchase of investment securities	(6,428,216)	(10,651,007)
Proceeds from sale and maturity of investment securities	8,098,694	4,436,111
Purchase of property and equipment	(14,745)	(1,172)
Net cash used in investing activities	1,655,733	(6,216,068)
FINANCING ACTIVITIES:		
Dividends paid	--	(6,000,348)
Net cash used in financing activities	--	(6,000,348)
Net (decrease) increase in cash and cash equivalents	(951,798)	(10,563,904)
Beginning cash and cash equivalents	10,379,751	17,964,448
Ending cash and cash equivalents	$ 9,427,953	$ 7,400,544

FLORIDA SELECT INSURANCE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. Basis of Presentation

The accompanying unaudited interim financial statements include the accounts of Florida Select Insurance Holdings Inc. and have been prepared in conformity with accounting principles generally accepted in the United States and, in the opinion of management, reflect all adjustments (consisting of normal recurring accruals) necessary for a fair presentation of results for such periods. The results of operations and cash flows for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the financial statements and related notes in the Company's audited consolidated balance sheet as of December 31, 2000 and 1999 and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in period ended December 31, 2000.

REPORT OF INDEPENDENT AUDITORS

Board of Directors
Florida Select Insurance Holdings Inc.

We have audited the accompanying consolidated balance sheets of Florida Select Insurance Holdings Inc. and subsidiaries (the "Company") as of December

31, 2000 and 1999, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2000. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards 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. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2000 and 1999, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States.

As described in Note 1, the Company changed its method of accounting for organizational costs.

/s/ Ernst & Young LLP

March 16, 2001
Tampa, Florida

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2000	1999
ASSETS		
INVESTMENTS:		
Fixed maturities, held-to-maturity	$ 2,484,937	$ 470,064
Fixed maturities, available-for-sale	46,627,215	36,357,501
Preferred stock	4,250,451	133,401
Total investments	53,362,603	36,960,966
Cash and cash equivalents	10,379,751	17,964,448
Premiums receivable (net of allowance for doubtful accounts of $160,391 and $152,423, respectively)	3,961,825	3,222,580
Amounts due from FRPCJUA in accordance with take-out agreement	1,979,791	9,227,838
REINSURANCE RECOVERABLES:		
On paid losses and loss adjustment expenses	1,961,275	2,532,007
On unpaid losses and loss adjustment expenses	9,977,986	9,293,001
Prepaid reinsurance premiums	20,676,350	17,697,352
Receivable from affiliates	--	106,685

Accrued investment income	820,429	515,718
Deferred policy acquisition costs	1,814,789	859,458
Property and equipment (net of accumulated depreciation and amortization of $403,933 and $211,939, respectively)	333,171	305,679
Deferred taxes	1,092,362	305,479
Other assets	284,988	105,726
Total assets	$106,645,320	$99,096,937
LIABILITIES AND SHAREHOLDERS' EQUITY		
LIABILITIES:		
Loss and loss adjustment expense reserves	$ 19,951,410	$18,547,264
Unearned premium reserve	36,321,138	32,824,958
Other policyholders' funds	3,569,868	4,033,688
Reinsurance balance payable	7,639,665	10,031,315
Accounts payable and accrued expenses	4,473,200	3,129,851
Payable to affiliate	320,300	--
Dividends payable	--	6,000,348
Income taxes payable	2,892,790	449,291
Total liabilities	75,168,371	75,016,715
SHAREHOLDERS' EQUITY:		
Preferred stock, $.01 par value; 2,000 shares authorized; no shares issued and outstanding	--	--
COMMON STOCK:		
Class A, $.01 par value; 2,000 shares authorized; 784 shares issued--779 shares outstanding	8	8
Class B, $.01 par value; 2,000 shares authorized; no shares issued and outstanding	--	--
Class C, $.01 par value; 2,000 shares authorized; 156 shares issued and outstanding	1	1
Class D, $.01 par value; 2,000 shares authorized; 60 shares issued and outstanding	1	1
Additional paid in capital	10,606,051	10,606,051
Treasury stock	(105,000)	(105,000)
Retained earnings (see Note 6 for dividend preference on Common Stock Class D)	20,822,998	14,234,110
Accumulated other comprehensive income (deficit), net of deferred income tax (expense) benefit of $(94,724) and $416,042, respectively	152,890	(654,949)
Total shareholders' equity	31,476,949	24,080,222
Total liabilities and shareholders' equity	$106,645,320	$99,096,937

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,		
	2000	1999	1998

REVENUE:			
Premiums earned, net	$26,348,381	$24,042,029	$25,964,902
Net investment income	2,936,095	2,251,649	2,442,223
Other income	1,064,703	4,669,659	45,072
Total revenue	30,349,179	30,963,337	28,452,197
LOSSES AND EXPENSES:			
Losses and loss adjustment expenses	11,367,207	11,526,371	13,504,355
Other underwriting, general and administrative expenses	7,813,637	6,129,120	4,385,557
Amortization and depreciation	298,556	369,639	339,887
Total losses and expenses	19,479,400	18,025,130	18,229,799
Income before income taxes and cumulative effect of a change in accounting principle	10,869,779	12,938,207	10,222,398
Income tax expense	4,280,891	4,877,662	3,970,821
Net income after tax and before cumulative effect of a change in accounting principle	6,588,888	8,060,545	6,251,577
Cumulative effect of change in accounting principle (net of tax benefit of $150,067)	--	(238,956)	--
Net income	$ 6,588,888	$ 7,821,589	$ 6,251,577

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income (Deficit)	Total
Balance at January 1, 1998	$10	$10,606,051	$ --	$ 6,161,292	$ 83,606	$16,580,959
Net income	--	--	--	6,251,577	--	6,251,577
Change in net unrealized appreciation (depreciation) of available for sale investments, net of tax of $581	--	--	--	--	(871)	(871)

Comprehensive income...						6,250,706
Purchase of treasury stock................	--	--	(105,000)	--	--	(105,000)
Balance at December 31, 1998..................	10	10,606,051	(105,000)	12,412,869	82,735	22,996,665
Net income............	--	--	--	7,821,589	--	7,821,589
Change in net unrealized appreciation (depreciation) of available-for-sale investments, net of tax of $510,766.......	--	--	--	--	(737,684)	(737,684)
Comprehensive income...						7,083,905
Cash dividends to shareholders--$600 per share................	--	--	--	(6,000,348)	--	(6,000,348)
Balance at December 31, 1999..................	10	10,606,051	(105,000)	14,234,110	(654,949)	24,080,222
Net income............	--	--	--	6,588,888	--	6,588,888
Change in net unrealized appreciation of available-for-sale investments, net of tax of $468,443.......		--		--	807,839	807,839
Comprehensive income...						7,396,727
Balance at December 31, 2000..................	$10	$10,606,051	$(105,000)	$20,822,998	$ 152,890	$31,476,949

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
	2000	1999	1998
OPERATING ACTIVITIES:			
Net income............................	$ 6,588,888	$ 7,821,589	$ 6,251,577
Adjustments to reconcile net income to net cash provided by operating activities:			

Amortization and depreciation........	596,469	652,265	515,507
Deferred income taxes...............	(1,282,887)	1,964,304	331,785
Policy acquisition costs deferred....	(6,769,927)	(4,451,711)	(5,667,012)
Policy acquisition costs amortized...	5,814,596	4,700,325	5,275,929
Net loss on sale of investments......	190,721	100,815	(272,745)
Increase in premiums receivable......	(739,245)	(2,202,841)	767,647
Decrease (increase) in amounts due from the FRPCJUA...................	7,248,047	(9,227,838)	--
(Increase) decrease in reinsurance recoverable.......................	(3,093,251)	386,243	(3,919,202)
(Increase) decrease in accrued investment income..................	(304,711)	147,525	(181,724)
Decrease (increase) in receivable from affiliate.....................	426,985	(87,905)	3,041
(Increase) decrease in other assets..	(179,262)	327,960	33,923
Increase in loss and loss adjustment expenses..........................	1,404,146	1,288,212	4,377,584
Increase (decrease) in unearned premium reserve....................	3,496,180	(2,023,444)	775,831
(Decrease) increase in other policyholders' funds................	(463,820)	(1,082,701)	1,180,545
(Decrease) increase in reinsurance balance payable....................	(2,391,650)	4,421,366	1,367,587
Increase (decrease) in accounts payable and accrued expenses........	1,343,349	(845,474)	(115,277)
Increase (decrease) in income tax payable............................	2,443,499	348,293	(307,616)
Net cash provided by operating activities...........................	14,328,127	2,236,983	10,417,380
INVESTING ACTIVITIES:			
Purchase of securities held-to-maturity............................	(2,318,946)	(168,717)	--
Purchase of securities available-for-sale................................	(31,139,646)	(35,127,279)	(32,556,281)
Proceeds from securities held-to-maturity............................	300,000	--	--
Proceeds from sale of securities available-for-sale...................	17,572,164	35,422,726	16,225,632
Decrease in note receivable from affiliate............................	--	--	1,893,026
Proceeds from sale of property and equipment...........................	--	2,400	11,972
Purchase of property and equipment.....	(326,048)	(163,749)	(294,414)
Net cash used in investing activities..	(15,912,476)	(34,619)	(14,720,065)
Financing activities			
Repurchase of Treasury Stock...........	--	--	(105,000)
Dividends paid........................	(6,000,348)	--	--
Net cash used in financing activities..	(6,000,348)	--	(105,000)
Net (decrease) increase in cash and cash equivalents.....................	(7,584,697)	2,202,364	(4,407,685)
Beginning cash and cash equivalents....	17,964,448	15,762,084	20,169,769
Ending cash and cash equivalents.......	$10,379,751	$17,964,448	$15,762,084

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Nature of Operations and Significant Accounting Policies

Organization

Florida Select Insurance Holdings Inc. (the "Company") is incorporated in Delaware and has two wholly-owned subsidiaries: Florida Select Insurance Company ("FSIC"), a Florida domiciled property and casualty insurer, and Florida Select Insurance Agency Inc. ("FSIA"), a managing general agency. FSIA has two wholly-owned subsidiaries: Select Insurance Services Inc. ("SIS"), and Texas Select Lloyds Insurance Company ("TSLIC"), a Texas domiciled property and casualty insurer.

FSIC is licensed to underwrite homeowners, fire, allied lines, earthquake, other liability, glass, burglary and theft, and mobile home multiple peril and physical damage business. TSLIC is licensed to write fire, allied lines, rain, inland marine, automobile liability and physical damage, liability other than automobile, glass, burglary and theft, boiler and machinery, and reinsurance on all lines authorized to be written on a direct basis. Computer Science Corporation ("CSC") formerly known as Policy Management Systems Corporation, a shareholder of the Company, provides policy management services for FSIC and TSLIC including policy issuance, premium billing and collection, accounting, and various other services. Claims administration is provided by Risk Enterprise Management Limited, an affiliate of Centre Solutions (Bermuda) Ltd., a shareholder of the Company. The Zurich Group, which owns Centre Solutions (Bermuda) Ltd., provides quota share reinsurance coverage to the Company through its affiliates Centre Insurance Company (fiscal years ended 1999 and 2000) and Zurich Reinsurance (North America), Inc. (fiscal years 1996 through 1998). The Zurich Group also provides the Company certain excess of loss coverage through its affiliate Zurich Reinsurance (North America), Inc.

FSIA provides underwriting, production and marketing services for FSIC as their managing general agent. SIS provides similar services for TSLIC.

Consolidation and Presentation

The accompanying consolidated financial statements include the accounts, after intercompany eliminations, of the Company and its wholly-owned subsidiaries and have been prepared in conformity with accounting principles generally accepted in the United States ("GAAP"), which differ from statutory accounting practices prescribed or permitted by the respective Departments of Insurance.

Segment Information

The Company operates in the United States of America and in only one reportable segment, which is the provider of personalized property and casualty insurance coverage.

Use of Estimates and Assumptions

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect amounts reported in the financial statements and accompanying notes. Such estimates and assumptions

could change in the future as more information becomes known which could impact the amounts reported and disclosed herein.

Recognition of Revenue

Premium revenue is generally recognized ratably over the life of the related policies with a liability for unearned premiums established for the unexpired portion of the written premiums applicable to those policies.

Reinsurance premiums ceded are recognized on a pro rata basis over the life of the contract.

Cash and Cash Equivalents

The Company considers all highly-liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2000 and 1999, FSIC had a certificate of deposit of $250,000 and $500,000, respectively, which was included in cash and cash equivalents that collateralizes a letter of credit held by the Florida Residential Property and Casualty Joint Underwriting Association ("FRPCJUA").

Investments

Fixed maturity investments are designated at purchase as held-to-maturity or available-for-sale. Held-to-maturity investments are reported at amortized cost. Investments classified as available-for-sale are reported at fair value with unrealized appreciation and depreciation, net of deferred taxes, included as a component of other comprehensive income. The Company has the intent and ability to hold to maturity those investments designated as held-to-maturity.

Realized gains and losses on sales of investments are recognized in operations on the specific identification basis.

Deferred Policy Acquisition Costs

Policy acquisition costs are expenses that vary with, and are directly related to, the production of new or renewal business, such as commissions, premium taxes, and other costs. These costs are deferred to the extent recoverable and are amortized over the period during which the related premiums are earned.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Expenditures for improvements are capitalized, and expenditures for maintenance and repairs are charged to operations as incurred. Upon sale or retirement, the cost and related accumulated depreciation and amortization are removed from the accounts and the resulting gain or loss, if any, is reflected in operations. Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets of three to five years.

Organizational Costs

The Company had capitalized certain organizational costs associated with

start up and formation of the Company and was amortizing those costs over five years. During 1998, the American Institute of Certified Public Accountants issued Statement of Position ("SOP") 98-5, Reporting on the Costs of Start-Up Activities. SOP 98-5 requires companies to expense start-up costs as incurred; this includes start-up costs previously capitalized and was effective for fiscal years beginning after December 15, 1998. The Company has adopted SOP 98-5 as of January 1, 1999. The unamortized asset was expensed and reported as the cumulative effect of a change in accounting principle, net of income tax, in the 1999 consolidated statement of operations.

Loss and Loss Adjustment Expenses

Loss and loss adjustment expense reserves represent the estimated ultimate net cost of all reported and unreported losses incurred through December 31. The Company does not discount loss and loss adjustment expense reserves. The reserves for unpaid losses and loss adjustment expenses are estimated using individual case-basis valuations and industry statistical analyses. Those estimates are subject to the effects of trends in loss severity and frequency. Although considerable variability is inherent in such estimates, management believes that the reserves for losses and loss adjustment expenses are adequate. The estimates are continually reviewed and adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current income.

Income Taxes

Income taxes have been provided using the liability method. Under the liability method, deferred tax assets and liabilities are determined based on the differences between financial reporting and tax bases of assets and liabilities and are measured using enacted tax rates.

Guaranty Fund and Residual Market Pool Assessments

FSIC and TSLIC are subject to assessments by several guaranty funds and residual market pools. The activities of these funds and pools include collecting funds from solvent insurance companies to cover losses resulting from the insolvency or rehabilitation of other insurance companies or deficits generated by residual market pools. There were no guaranty fund or residual market pool assessments levied on FSIC or TSLIC during 2000, 1999, or 1998. The Company's policy is to recognize its obligation for guaranty fund assessments when it writes the premiums that are subject to the guaranty fund assessments and to recognize its obligation for residual market pool assessments when the Company has the information available to reasonably estimate its liability.

Concentrations of Credit or Financial Risk

The Company's insurance subsidiaries are currently licensed to write policies in the states of Florida, South Carolina and Texas. Accordingly, the Company could be adversely affected by economic downturns, natural disasters, and other conditions that may occur from time to time in Florida, South Carolina and Texas which may not as significantly affect more geographically diversified competitors.

Reclassification

Certain amounts in the financial statements as of and for the period ended December 31, 1999 and 1998 have been reclassified to conform with the presentation of the financial statements as of and for the year ended December 31, 2000.

2. Investments

The amortized cost and the fair value of fixed maturity investments are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
At December 31, 2000				
Available-for-sale securities:				
U.S. Treasury..................	$ 5,957,106	$ 23,269	$ 79,079	$ 5,901,296
State and municipal obligations...................	1,813,479	30,814	382	1,843,911
Mortgage-backed/asset backed securities....................	26,398,525	121,197	135,784	26,383,938
Industrial and miscellaneous securities....................	12,318,360	182,866	3,156	12,498,070
Total fixed maturity investments available-for-sale.............	$46,487,470	$358,146	$218,401	$46,627,215
Held-to-maturity securities:				
U.S. Treasury..................	$ 164,793	$ --	$ 1,654	$ 163,139
State and municipal obligations...................	1,325,655	87,996	--	1,413,651
Mortgage-backed/asset backed securities....................	251,680	8,715	--	260,395
Industrial and miscellaneous securities....................	742,809	25,732	--	768,541
Total held-to-maturity securities:....................	$ 2,484,937	$122,443	$ 1,654	$ 2,605,726
Preferred stocks................	$ 4,145,065	$117,966	$ 12,580	$ 4,250,451

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

At December 31, 1999				
Available-for-sale securities:				
U.S. Treasury..................	$ 8,546,309	$--	$ 447,840	$ 8,098,469
State & municipal obligations..	5,250,949	--	79,805	5,171,144
Mortgage-backed/asset-backed securities....................	15,643,092	--	427,423	15,215,669
Industrial and miscellaneous securities....................	7,967,547	--	95,328	7,872,219
Total fixed maturity investments available-for-sale.............	$37,407,897	$--	$1,050,396	$36,357,501
Held-to-maturity securities:				
U.S. Treasury..................	$ 167,956	$--	$ 11,487	$ 156,469
State & municipal obligations..	302,108	--	773	301,335
Total held-to-maturity securities.....................	$ 470,064	$--	$ 12,260	$ 457,804
Preferred stocks................	$ 149,278	$--	$ 15,877	$ 133,401

The amortized cost and estimated fair value of fixed maturity investments at December 31, 2000, by contractual maturity, are shown in the following table. Actual maturities may differ from contractual maturities because certain borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
Available-for-sale:		
Years to maturity:		
One or less......................................	$ 1,499,410	$ 1,502,200
After one through five...........................	15,980,616	16,078,135
After five through ten...........................	2,608,919	2,662,942
Mortgage-backed/asset-backed securities..........	26,398,525	26,383,938
Total available-for-sale securities................	$46,487,470	$46,627,215
Held-to-maturity:		
Years to maturity:		
After one through five...........................	$ 907,602	$ 931,680
After five through ten...........................	506,091	532,582
After ten through fifteen........................	819,564	881,069
Mortgage-backed/asset-backed securities............	251,680	260,395
Total held-to-maturity securities..................	$ 2,484,937	$ 2,605,726

Proceeds from the sales and maturities of available-for-sale fixed maturity investments during the years ended December 31, 2000, 1999, and 1998 were $17,872,164, $35,422,726, and $16,225,632, respectively. Gross gains of $13,471, $84,595, and $278,168 and gross losses of $204,192, $184,595, and $5,423 were realized in 2000, 1999, and 1998, respectively, on those sales and maturities.

FLORIDA SELECT INSURANCE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

Major categories of the Company's investment income are summarized as follows:

	December 31,		
	2000	1999	1998
Income:			
Bonds	$2,266,694	$1,860,906	$1,729,046
Preferred stocks	166,786	--	--
Cash and cash equivalents	652,178	580,109	914,295
Other	1,134	6,962	--
Gross investment income	3,086,792	2,447,977	2,643,341
Investment expenses	150,697	196,328	201,118
Net investment income	$2,936,095	$2,251,649	$2,442,223

At December 31, 2000, FSIC and TSLIC had investments with a carrying value $2,786,769 held on deposit with their respective Departments of Insurance to satisfy regulatory requirements.

3. Reinsurance

Certain premiums and losses are ceded to other insurance companies under quota share reinsurance agreements and various excess of loss reinsurance agreements. The ceded reinsurance agreements are intended to provide the Company's insurance subsidiaries with the ability to maintain its exposure to loss within its capital resources. These reinsurance agreements do not relieve FSIC or TSLIC from their primary obligation to policyholders, as they remain liable to their policyholders to the extent that any reinsurer does not meet its obligations for reinsurance ceded to it under reinsurance contracts. Therefore, the Company is subject to credit risk with respect to the obligations of its reinsurers, and any failure on the part of these reinsurers could have a material adverse effect on the Company's business, financial condition, and results of operations.

The Company minimizes its exposure to catastrophe through various excess of loss agreements in addition to FSIC's mandatory participation in the Florida Hurricane Catastrophe Fund, ("FHCF"). The first layer of excess of loss is composed of two contracts. The first contract provides $18 million of coverage in excess of $2.35 million (33%), and the second contract provides $14.85 million of coverage in excess of $5.5 million (67%). The annual limit (after reinstatement) for each contract is $36 million at 33% and $29.7 million at 67%, respectively. This layer covers up to the attachment point of the FHCF, plus the Company's 10% retention from the FHCF layer. The FHCF provides coverage for named hurricanes up to a maximum limit of 90% of the amount of the ultimate losses in the layer as determined by a premium formula. Additional layers of excess catastrophe reinsurance provide coverage up to the estimated

loss from a 250 year event. Currently, such excess coverage amounts to 100% of $95 million per occurrence. The coverage attaches after recovery from the FHCF. The Company also maintains a 50% quota share agreement with its affiliate, Centre Insurance Company. All excess of loss and quota share coverage is provided by "A" rated reinsurers or better.

All excess of loss contracts inure to the benefit of the quota share treaty, so all amounts disclosed are shown before reductions for quota share cessions.

The Company's catastrophe reinsurance is intended to provide the following coverage in the event of a named hurricane:

Loss Layer	Portion of Layer Retained by Company	Potential Recoveries from FHCF	Ceded Under Excess of Loss Treaties	Total Potential Losses in Layer
$0-$2,350,000	$2,350,000	$ --	$ --	$ 2,350,000
$2,350,000-$20,350,000	2,110,500	2,691,000	13,198,500	18,000,000
$20,350,000-$86,670,000	3,941,000	59,688,000	2,691,000	66,320,000
$86,670,000-$111,670,000	--	--	25,000,000	25,000,000
$111,670,000-$161,670,000	--	--	50,000,000	50,000,000
$161,670,000-$171,670,000	--	--	10,000,000	10,000,000
$171,670,000-$181,670,000	--	--	10,000,000	10,000,000
Total	$8,401,500	$62,379,000	$110,889,500	$181,670,000

Direct and assumed, ceded and net insurance premiums on a written and earned basis, for the years ended December 31, are summarized as follows:

	2000	1999	1998
Gross direct and assumed premiums written	$ 63,490,752	$ 53,264,029	$ 62,505,747
Reinsurance ceded	(36,625,185)	(30,059,630)	(35,872,547)
Net premiums written	$ 26,865,567	$ 23,204,399	$ 26,633,200
Direct and assumed premiums earned	$ 59,994,567	$ 55,287,481	$ 61,729,916
Reinsurance ceded	(33,646,186)	(31,245,452)	(35,765,014)
Net premiums earned	$ 26,348,381	$ 24,042,029	$ 25,964,902

Losses and loss adjustment expenses incurred for the years ended December 31, are summarized as follows:

	2000	1999	1998
Direct losses and loss adjustment expenses..........................	$ 23,262,986	$ 23,225,197	$ 27,087,856
Reinsurance ceded..................	(11,895,779)	(11,698,826)	(13,583,501)
Net losses and loss adjustment expenses incurred.................	$ 11,367,207	$ 11,526,371	$ 13,504,355

4. Income Taxes

The Company and its subsidiaries file a consolidated federal income tax return. The Company will collect from, or refund to, its subsidiaries the amount of income tax or benefit which would result if the entities filed separate returns.

The Company's income tax expense for the years ended December 31, is summarized as follows:

	2000	1999	1998
Federal:			
Current............................	$ 4,718,997	$2,341,372	$3,156,811
Deferred...........................	(1,102,462)	1,593,697	236,000
State:			
Current............................	844,781	421,919	482,225
Deferred...........................	(180,425)	370,607	95,785
Total..............................	$ 4,280,891	$4,727,595	$3,970,821

Income taxes paid by the Company totaled $2,183,000, $2,125,000, and $3,946,849 in 2000, 1999, and 1998, respectively.

The reconciliation of income tax expense for the years ended December 31, 2000 and 1999 attributable to continuing operations to the amount of income tax expense that would result from applying the U.S. Federal Statutory Tax rate is summarized as follows:

	2000	1999	1998
Income tax at U.S. Federal Statutory Tax................................	$ 3,638,523	$4,393,213	$3,577,839
Nontaxable/deductible income.........	(52,098)	(63,919)	(3,809)

State income taxes	388,466	537,193	375,707
Other	306,000	(138,892)	21,084
Income tax expense	$ 4,280,891	$4,727,595	$3,970,821

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of the Company's deferred tax assets and liabilities as of December 31, are summarized as follows:

	2000	1999
Deferred tax assets:		
Unearned premium reserve adjustment	$1,177,427	$1,167,095
Discount on loss and loss adjustment expense reserves	411,771	371,886
Advance premium collected	205,145	244,600
Reinsurance commission	372,774	1,846,300
Allowance for doubtful accounts	60,355	58,797
Employee long-term incentives	354,450	--
Unrealized loss--available-for-sale investments	--	416,042
Organizational costs	33,056	91,977
Total deferred tax assets	2,614,978	4,196,697
Deferred tax liabilities:		
Deferred acquisition expense	682,895	331,579
Amounts due from FRPCJUA in accordance with take-out agreement	744,997	3,559,639
Unrealized gain--available-for-sale investments	94,724	--
Total deferred tax liabilities	1,522,616	3,891,218
Net deferred tax assets	$1,092,362	$ 305,479

The Company's management believes that no valuation allowance on the deferred tax assets is necessary at December 31, 2000 and 1999. The Company is currently under examination by the Internal Revenue Service for 1996 through 1999. The ultimate determination of this examination has not been reached.

5. Losses and Loss Adjustment Expenses

The following table provides a reconciliation of the beginning and ending reserve balances for losses and loss adjustment expenses ("LAE"):

	2000	1999	1998
Reserve for losses and LAE, at the beginning of year, gross of reinsurance recoverable on unpaid losses and LAE.......................	$18,547,264	$17,259,052	$12,881,468
Less reinsurance recoverable on unpaid losses and LAE.......................	(9,293,001)	(8,664,739)	(6,440,734)
Reserves for losses and LAE, at beginning of year, net of reinsurance..........................	9,254,263	8,594,313	6,440,734
Add provision for claims occurring in:			
The current year, net of reinsurance..	14,697,560	15,644,533	15,566,043
The prior years, net of reinsurance...	(3,330,353)	(4,118,162)	(2,061,688)
Total incurred claims during year, net of reinsurance.................	11,367,207	11,526,371	13,504,355
Deduct payments for claims occurring in:			
The current year, net of reinsurance..	8,020,332	7,908,934	8,979,002
The prior years, net of reinsurance...	2,627,714	2,957,487	2,371,774
Total claims paid during the year, net of reinsurance.................	10,648,046	10,866,421	11,350,776
Reserves for losses and LAE, at end of year, net of reinsurance.............	9,973,424	9,254,263	8,594,313
Reinsurance recoverable on unpaid losses and LAE.......................	9,977,986	9,293,001	8,664,739
Reserve for losses and LAE, gross of reinsurance recoverable on unpaid losses and LAE.......................	$19,951,410	$18,547,264	$17,259,052

The Company's estimate of required reserves for unpaid losses and LAE, net of related reinsurance recoverables for prior years were decreased during the years ended December 31, 2000, 1999, and 1998 by $3,330,353, $4,118,162, and $2,061,688, respectively. This change in estimate is due to the Company's actual loss experience emerging more favorably than expected. The Company's reserves for losses and loss adjustment expenses are estimated using individual case-basis valuations and statistical analyses. These estimates are subject to the effects of trends in loss severity and frequency. Due to the Company's lack of significant historical loss experience, the Company's reserves for losses and LAE are subject to significant variability. However, management believes that the reserves for losses and loss adjustment expenses are adequate. These estimates are reviewed regularly by management, and annually by an independent consulting actuary, and are adjusted as necessary as experience develops or new information becomes known; such adjustments are included in current operations.

6. Shareholders' Equity

Common Stock

The Common Stock Class A and Class D have voting rights equal to one vote for each share of stock held. The Common Stock Class B and Class C are nonvoting.

The Common Stock Class D has a dividend preference equal to 50% of any dividends that are paid by FSIA to the Company. The amount of the dividend preference will accrue interest at 6% from the date the dividends are paid by FSIA to the Company, until the dividend preference is paid to the holders of the Common Stock Class D. At December 31, 1999, FSIA declared a dividend payment of $3,023,805 to FSIH, which was subsequently paid in January 2000.

In addition, FSIC declared dividends to FSIH in 2000, 1999, and 1998 of $3,010,462, $2,976,543, and $0, respectively. Payments were subsequently made in January 2001 and 2000 respectively.

Common Stock Warrants

The Company has issued a warrant to purchase 1,000 shares of the Common Stock Class B to Centre Solutions (Bermuda) Ltd. The warrant allows the holder of the warrant to purchase the shares for the book value of the stock on the date of exercise. In the event that the holder exercises the warrant, the holder is required to reduce the affiliated quota share reinsurance agreement accordingly.

The Company has also issued a warrant to purchase 60 shares of Common Stock Class B to the holder of the Common Stock Class D. This warrant is exercisable upon cancellation of the Common Stock Class D for a price equal to the book value of the Common Stock prior to cancellation of the Common Stock Class D.

Statutory Information

Policyholders' surplus and net income for FSIC as determined in accordance with statutory accounting practices as of and for the years ended December 31, 2000, 1999, and 1998 were $18,640,356, $15,257,192, and $14,484,621 and $1,816,066, $3,684,943, and $3,040,681, respectively.

Policyholders' surplus and net income for TSLIC (incorporated in 2000) as determined in accordance with statutory accounting practices as of and for the year ended December 31, 2000 were $2,611,627 and $71,732.

In order to improve the regulation of insurer solvency, the National Association of Insurance Commissioners ("NAIC") issued a model law to implement risk-based capital ("RBC") requirements, which is expected to be adopted by Florida and Texas, the Company's insurance subsidiaries' states of domicile. These

requirements are designed to assess capital adequacy and to raise the level of protection that statutory equity provides for policyholder obligations. The RBC formula for property and casualty insurance companies measures the following major areas of risk facing property and casualty insurers: (i) underwriting,

which encompasses the risk of adverse loss development and inadequate pricing; (ii) declines in asset values arising from credit risk; and (iii) declines in asset values arising from investment risks. Pursuant to the RBC requirements, insurers having less statutory equity than required by the RBC calculation will be subject to varying degrees of regulatory action, depending on the level of capital inadequacy. At December 31, 2000, FSIC and TSLIC exceeded the minimum risk-based capital requirements and no corrective action was required.

The NAIC revised the Accounting Practices and Procedures Manual in a process referred to as Codification. The revised manual will be effective January 1, 2001. The domiciliary states of the Company's insurance subsidiaries have adopted or are anticipating adopting the provisions of the revised manual. The revised manual has changed, to some extent, prescribed statutory accounting practices and will result in changes to the statements. Management believes that there will not be a negative impact from these changes to the Company and its insurance subsidiaries' statutory-basis capital and surplus as of January 1, 2001.

7. Fair Values of Financial Instruments

The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments:

- Cash and cash equivalents, short-term investments: The carrying amounts reported in the balance sheet for these instruments approximate fair values.

- Investment securities: Fair values for debt security investments are based on quoted market prices.

- Reinsurance recoverable: The carrying amounts of the Company's recoverables approximate fair values.

- Premiums receivable: The carrying amounts of the Company's receivables approximate fair values.

The Company's fair values of its financial instruments are summarized below:

	December 31,			
	2000		1999	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents.....	$10,379,751	$10,379,751	$17,964,448	$17,964,448
Investments available-for-sale.........................	46,627,215	46,627,215	36,357,501	36,357,501
Investments held-to-maturity..	2,484,937	2,605,726	470,064	457,804
Reinsurance recoverable.......	32,615,611	32,615,611	29,522,360	29,522,360
Premiums receivable...........	3,961,825	3,961,825	3,222,580	3,222,580

8. Related Party Transactions

As discussed in Note 3, FSIC has a 50% quota share agreement with an affiliate of the Company and had ceded premiums of approximately $24,260,000, $20,806,000, and $23,200,000, losses of $11,367,000, $11,526,000, and $13,500,000 and has earned ceding commissions of $7,356,000, $6,986,000, and

$8,028,000 under this agreement during 2000, 1999, and 1998, respectively.

As discussed in Note 1, CSC, an affiliate of the Company, provides policy management services to FSIC. Policy management fee expense incurred during 2000, 1999, and 1998 was approximately $3,104,000,

$3,775,000, and $6,018,000 respectively. Amounts due to CSC for policy management fees at December 31, 2000 and 1999 were approximately $1,185,000 and $120,000, respectively. An affiliate of the Company, Risk Enterprise Management Limited, provides claims management services for the Company. The Company incurred approximately $1,812,000, $1,813,000, and $1,500,000 in claims management fees related to this arrangement during 2000, 1999, and 1998, respectively.

9. FRPCJUA Take-Out Agreement

During 1996, FSIC entered into an agreement with the FRPCJUA to assume certain policies and associated risk pursuant to a depopulation plan. Under the terms of the agreement, FSIC receives a specific amount for each policy removed from the FRPCJUA. The amount is to be held by an escrow agent for three years. The Company has recognized revenue of approximately $1,880,000, $9,228,000, and $0 in 2000, 1999, and 1998, respectively, related to the take-out agreement. FSIC collected approximately $9,129,000 of the amounts recorded as of December 31, 2000.

Under the terms of the 50% quota share agreement with Centre Insurance Company, an affiliate, FSIC is required to cede 50% of the revenue recognized from the take-out agreement. The Company ceded approximately $940,000, $4,614,000, and $0 during 2000, 1999, and 1998, respectively.

10. Stock Appreciation Rights

The Company has implemented a long-term incentive plan in the form of an unfunded Stock Appreciation Rights ("SARs") plan for a select group of management or highly compensated employees of FSIH and its affiliates. This plan provides for vesting of the SARs upon the later of (i) the Participant's fifth anniversary of commencement of employment with the Employer or (ii) the third anniversary of the grant of the award. The plan allows that upon exercise of an award, the employer may deliver to the Participant a specified number of shares of Stock or a specified amount of cash, as determined in the sole discretion of the Employer. The Company granted 12,500 SARs in 2000 and 62,500 in 1999. Total compensation expense related to the SARs was approximately $348,000, $594,000, and $316,000 in 2000, 1999, and 1998, respectively.

11. Commitments and Contingencies

The Company, in the normal course of business, is involved in various legal actions arising principally from the settlement of claims made under insurance policies and contracts. Those actions are considered by the Company in estimating the loss and LAE reserves. The Company's management believes that the resolution of those actions will not have a material effect on the Company's financial position or results of operations.

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7,500,000 Shares

[Vesta Logo]

VESTA INSURANCE GROUP, INC.

Common Stock

PROSPECTUS

June 20, 2001

William Blair & Company
Cochran, Caronia Securities LLC