VESTA INSURANCE GROUP INC
Form 10-Q
August 13, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

|X| **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2001

OR

|_| **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from
to
Commission file number 1-12338

VESTA INSURANCE GROUP, INC.
(Exact name of registrant as specified in its charter)

Delaware	**63-1097283**
(State of other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
3760 River Run Drive	**35243**
Birmingham, Alabama	*(Zip Code)*
(Address of principal executive offices)	

(205) 970-7000
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date.

The number of shares outstanding of the registrant's common stock,
$.01 par value, as of August 10, 2001
33,075,560

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Part I
Item 1. Financial Statements
Vesta Insurance Group, Inc.
Consolidated Balance Sheets
(amounts in thousands except share and per share data)

	June 30, 2001	De
	(unaudited)	
Assets:		
Investments:		
Fixed maturities available for sale - at fair value (cost: 2001 - $776,331; 2000 - $795,118)	$ 789,952	
Equity securities--at fair value:(cost: 2001-$24,507; 2000- $30,221)	24,965	
Mortgage and collateral loans	56,901	
Policy loans	62,996	
Short-term investments	43,632	
Other invested assets	37,791	
Total investments	1,016,237	
Cash	76,328	

Accrued investment income	18,668	
Premiums in course of collection (net of allowances for losses of $4,106 in 2001 and $3,937 in 2000)	42,224	
Reinsurance balances receivable	350,294	
Reinsurance recoverable on paid losses	68,680	
Deferred policy acquisition costs	50,952	
Deferred income taxes	17,902	
Other assets	143,232	
Total assets	$ 1,784,517	$
Liabilities:		
Policy liabilities	$ 664,137	
Losses and loss adjustment expenses	250,614	
Unearned premiums	138,804	
Federal Home Loan Bank advances	167,780	
Short term debt	5,000	
Long term debt	86,428	
Other liabilities	164,214	
Total liabilities	1,476,977	
Commitments and contingencies: See Note B		
Deferrable Capital Securities	29,750	
Stockholders' equity:		
Preferred stock, $.01 par value, 5,000,000 shares authorized, issued: 2001 - 0 and 2000 - 2,950,000		
Common stock, $.01 par value, 100,000,000 shares authorized, issued: 2001 - 33,489,322 and 2000 - 18,964,322	306	
Additional paid-in capital	214,423	
Accumulated other comprehensive income, net of tax expense of $4,019 and $1,453 in 2001 and 2000, respectively	7,464	
Retained earnings	66,938	
Treasury stock (413,762 shares and 166,294 shares at cost at June 30, 2001 and December 31, 2000, respectively)	(3,346)	
Unearned stock	(7,995)	
Total stockholders' equity	277,790	
Total liabilities, deferrable capital securities and stockholders' equity	$ 1,784,517	$

See accompanying Notes to Consolidated Financial Statements

Vesta Insurance Group, Inc.
Consolidated Statements of Income and Comprehensive Income
Statements of Income
(amounts in thousands except per share data)

Three months ended
June 30,

	2001	2000
	(unaudited)	
Revenues:		
Net premiums written	$ 74,255	$ 55,89
Change in unearned premiums	(64)	(3,75
Net premiums earned	74,191	52,13
Policy fees	1,728	23
Net investment income	17,110	5,25
Realized gains	2,522	-
Other	2,596	1,08
Total revenues	98,147	58,72
Expenses:		
Policyholder benefits	8,938	-
Losses and loss adjustment expenses incurred	39,071	25,81
Policy acquisition expenses	16,975	11,99
Operating expenses	15,236	8,94
Interest on debt	4,487	2,76
Goodwill and other intangible amortization	969	60
Total expenses	85,676	50,11
Income from continuing operations before taxes, minority interest, and deferrable capital securities	12,471	8,60
Income tax expense	4,341	2,96
Minority interest, net of tax	532	-
Deferrable capital security distributions, net of tax	383	57
Net Income from continuing operations	7,215	5,07
Income (loss) from discontinued operations, net of tax	(163)	(2,83
Extraordinary gain on debt extinguishments, net of tax	--	68
Net income	7,052	2,92
Preferred stock dividend	--	(56
Gain on redemption of preferred securities, net of tax	--	-
Net income available to common shareholders	$ 7,052	$ 2,35
Net income from continuing operations per share - Basic	$ 0.30	$ 0.2
Net income available to common shareholders per share - Basic	$ 0.30	$ 0.1
Net income from continuing operations per share - Diluted	$ 0.30	$ 0.2
Net income available to common shareholders per share - Diluted	$ 0.29	$ 0.1

Statements of Comprehensive Income

Net income	$ 7,052	$ 2,92
Other comprehensive income, net of tax:		
Unrealized holding gains on available-for-sale securities net of tax expense of $2,380, $294, $4,046 and $1,050, respectively.	4,420	54
Less realized gains on available-for-sale securities net of tax expense of $883 and $1,480, respectively.	1,639	-
	2,781	54
Gain on extinuishment of preferred securities, net of tax expense of $305		
Comprehensive income	$ 9,833	$ 3,46

See accompanying Notes to Consolidated Financial Statements

Vesta Insurance Group, Inc.
Consolidated Statements of Cash Flows
(amounts in thousands)

	Six months ended J	
	2001	2
	(unaudited)	
Operating Activities:		
Net income	$ 9,687	$
Adjustments to reconcile net income to cash used in operations		
Changes in:		
Loss and LAE reserves, and future policy liabilities	(36,700)	(
Unearned premium reserves	(1,766)	(
Reinsurance balances receivable	17,795	
Premiums in course of collection	(15,368)	
Reinsurance recoverable on paid losses	(11,355)	
Other assets and liabilities	16,779	(
Policy acquisition costs deferred	31,478	(
Policy acquisition costs amortized	(31,377)	
Realized gains	(4,228)	
Amortization and depreciation	4,347	
Extraordinary gain	--	
Net cash used in operations	(20,708)	(
Investing Activities:		
Investments sold, matured, and called:		
Fixed maturities available for sale	221,900	
Investments acquired:		
Fixed maturities available for sale	(159,860)	(
Equity securities	(10,376)	
Other invested assets	(8,448)	
Net cash paid for acquisition	--	
Net (increase) decrease in short-term investments	(14,178)	
Additions to property and equipment	(3,554)	
Net cash provided from investing activities	25,484	1
Financing Activities:		
Net change in FHLB borrowings	16,336	
Net deposits and withdrawals to (from) insurance liabilities	(2,732)	
Retirement of long term debt and preferred securities	--	(
Issuance of common stock	96,381	
Acquisition of common stock	(50,788)	(
Dividends paid	(1,019)	
Net cash provided by (used in) financing activities	58,178	(
Increase in cash	62,954	
Cash at beginning of period	13,374	

Cash at end of period	$ 76,328	$
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See accompanying Notes to Consolidated Financial Statements

Vesta Insurance Group, Inc.
Notes to Consolidated Financial Statements
(Amounts in thousands except per share amounts)

Note A Significant Accounting Policies

Basis of Presentation: The accompanying unaudited interim financial statements 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 which have been issued by the Company and filed with the Securities and Exchange Commission.

Reclassifications: Certain amounts in the financial statements presented have been reclassified from amounts previously reported in order to be comparable between years. These reclassifications have no effect on previously reported stockholders equity or net income during the periods involved.

New Accounting Standards: In June 2001, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets* (Statement 142). Statement 142 supercedes Accounting Principles Board Opinion 17, *Intangible Assets*, and addresses how intangible assets acquired individually or within a group of other assets are accounted for in financial statements upon their acquisition. Statement 142 is effective for fiscal years beginning after December 15, 2001.

In June 2001, the FASB issued Statement of Financial Accounting Standards No. 141, Business Combinations (Statement 141). Statement 141 requires the use of the purchase method for all business combinations. Statement 141 is effective for all business combinations occurring after June 30, 2001.

The Company is currently evaluating the impact of these statements on our operating results and financial condition.

In June 1998, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 133 and subsequent amendments standardize the accounting for derivative instruments, including certain derivative instruments embedded in other contracts, by requiring that an entity recognize those items as assets or liabilities in the financial statements and measure them at fair value. Management has evaluated our activities and has determined that Vesta does not currently have any material derivative exposures and that the adoption of the SFAS No. 133 on January 1, 2001 did not have a material impact on the financial statements.

Change in compensation plan: Effective June 30, the Board of Directors approved a change to the Executive Officer Incentive Compensation Plan such that Messrs. Gayle, Tait, and Thornton agreed to accept 1.25 million shares of restricted stock and a $5.0 million loan as satisfaction of Vesta s obligations under the terms of the plan. The restrictions on the stock award and the loan repayments are lifted over a 10 year vesting period in accordance with the terms of the plan.

Income per share. Basic EPS is computed by dividing income available to common shareholders by the weighted average common shares outstanding for the period. Diluted EPS is calculated by adding to shares outstanding the additional net effect of potentially dilutive securities or contracts which could be exercised or converted into common shares except when the additional shares would produce anti-dilutive results.

Reconciliation of income available to common shareholders and average shares outstanding for the six months ending June 30, 2001 and 2000 and the three months ending June 30, 2001 and 2000 are as follows:

	Six months ended June 30, 2001	2000
Net income available to common shareholders	$ 10,089	$ 8,616
Preferred stock dividends on convertible preferred stock	163	1,126
Adjusted net income available to common shareholders	$ 10,252	$ 9,742
Weighted average shares outstanding-basic (1)	21,334	18,387
Stock options and restricted stock	452	234
Weighted average convertible preferred stock (1)	945	5,900
Weighted average shares outstanding-diluted (1)	22,731	24,521

	Three months ended June 30, 2001	2000
Net income available to common shareholders	$ 7,052	$ 2,359
Preferred stock dividends on convertible preferred stock	--	563
Adjusted net income available to common shareholders	$ 7,052	$ 2,922
Weighted average shares outstanding-basic (1)	23,784	18,099
Stock options and restricted stock	498	250
Weighted average convertible preferred stock (1)	--	5,900
Weighted average shares outstanding-diluted (1)	24,282	24,249

(1) Reflects weighted averages. At June 30, 2001, Vesta had 33.1 million shares outstanding and zero shares of convertible preferred stock outstanding. Weighted average shares outstanding for earnings per share purposes do not include shares held by the Agent s Stock Incentive Plan Trust that have not been allocated to participants, and shares issued as restricted stock that represent unearned amounts.

Earnings per share for discontinued operations and extraordinary gains for the three and six months ended June 30, 2001 and 2000 are as follows:

	2001		2000	
	3 month	6 month	3 month	6 month
Basic Earnings per share:				
Discontinued Operations	$ (0.01)	$ (0.01)	$ (0.02)	$ 0.06
Extraordinary Gain	--	--	$ 0.04	$ 0.29
Diluted Earnings per share:				
Discontinued Operations	$ (0.01)	$ (0.01)	$ 0.01	$ 0.04

Extraordinary Gain	--	--	$ 0.03	$ 0.21

Note B Commitments and Contingencies

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 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.

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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 to date. 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, 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 with a current trial date of November 5, 2001 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 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 June 30, 2001. We have collected approximately $48.5 million from the drawdown 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 preventing us from drawing down approximately $34.5 million of collateral. 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. Vesta reached an agreement with NRMA to collect the $34.5 million of collateral in exchange for posting a $25 million letter of credit in favor of NRMA to fund any amounts NRMA may recover as a result of the arbitration. We filed for arbitration against the other two participants in the treaty and all of these arbitrations are in their discovery stages. While management believes its interpretation of the treaty s terms and computations based thereon are correct, the ultimate outcome of these arbitrations is uncertain 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

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recoverable of approximately $28.2 million as of June 30, 2001 and December 31, 2000 related to these two treaties. This arbitration is in its early stage and the ultimate outcome cannot be determined at this time.

We are in arbitration 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 the discovery stage 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.

Note C Segment Information

In 2000, we changed our segments to reflect our entering new lines of business, and exiting old lines of business. We operate several segments, which are distinguishable by their product offerings. The accounting policies of the operating segments are the same as used in preparing the consolidated financial statements. Segment pre-tax income is generally income before income tax, and minority interest, if any. Premiums, policy fees, other income, loss and benefit expenses, and amortization of deferred acquisition costs are attributed directly to each operating segment. Operating expenses are allocated to the segments in a manner which most appropriately reflects the operations of that segment. Net investment income and interest expense are allocated only to those segments for which such amounts are considered an integral part of the financial results for that segment.

A brief description of each segment is as follows:

Standard Property-Casualty

The standard property-casualty segment primarily consists of the marketing and distribution of personal lines products including Homeowners and Personal Auto coverages. Vesta s products are distributed through approximately 1,900 independent agencies in 24 states. Our personal auto line targets drivers over age thirty-five with above average driving records and our homeowners products cover the full range of homes.

Life and Health Insurance

On June 30, 2000, we entered the life and annuity business through a 71% investment in American Founders Financial Corporation, a holding company for two life insurance companies domiciled in Texas and we entered the health insurance business through the acquisition of Aegis Financial Corporation in December 2000. American Founders and Aegis have approximately $2.2 billion (face value) of life and annuity products in force and $22.5 million of health insurance premiums in force at June 30, 2001. American Founders markets traditional life products, universal life products, fixed-rate annuities, pension contracts and related products through independent agents throughout the majority of the United States. Aegis Financial markets health insurance through captive agents throughout the United States.

Specialty Lines

In 2000, we began utilizing our licences to write business for the benefit of certain reinsurance companies. In this segment, we enter into arrangements whereby we write targeted property-casualty insurance coverages and reinsure substantially all of the risks to reinsurers in exchange for fees. This business takes advantage of our certificates of authority granting us license to write insurance in many states. Income in this segment is primarily generated on a fee-for-service basis.

Non-Standard

In December 2000, we acquired a 52% economic interest in Instant Auto Insurance Holdings, Inc. Instant Auto operates as a non-standard insurance agency. Its principal revenue stream is agents fees and commissions.

Corporate and Other

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

A summary of segment results for the six months ended June 30, 2001 and 2000 is as follows:

2001

	Standard Property Casualty	Life and Health Insurance	Specialty Lines
			(in thousands)
Revenues:			
Premiums earned	$121,553	$ 14,947	$ 3,086
Net investment income	--	21,790	--
Policy fees	1,031	1,950	--
Realized gains	--	1,398	--
Other	420	235	1,804
Total revenues	123,004	40,320	4,890
Expenses:			
Loss, LAE and policyholder benefits	75,475	16,995	2,297
Policy acquisition costs	26,577	4,157	643
Operating expenses	14,405	6,567	157
Interest on debt	--	4,628	--
Goodwill and other intangible amortization	--	--	--
Total expenses	116,457	32,347	3,097
Pre-tax income (loss) from continuing operations	$ 6,547	$ 7,973	$ 1,793
Operating segment assets:			
Investments and other assets	$333,458	$ 925,653	$ 11,493
Deferred acquisition costs	32,140	1,573	253
	$365,598	$ 927,226	$ 11,746

2000

	Standard Property Casualty	Life and Health Insurance	Specialty Lines
		(in thousands)	
Revenues:			
Premiums earned	$108,703	--	--
Net investment income	--	--	--
Policy fees	239	--	--
Realized losses	--	--	--

Other	--	--	--
Total revenues	108,942	--	--
Expenses:			
Loss, LAE and policyholder benefits	65,594	--	--
Policy acquisition costs	24,437	--	--
Operating expenses	13,127	--	--
Interest on debt	--	--	--
Goodwill and other intangible amortization	--	--	--
Total expenses	103,158	--	--
Pre-tax income (loss) from continuing operations	$ 5,784	--	--
Operating segment assets:			
Investments and other assets	$268,517	$ 697,223	--
Deferred acquisition costs	27,784	32,713	--
	$296,301	$ 729,936	

Note D Stock Transactions

In the first quarter of 2001, we engaged in a number of stock transactions. On January 20, 2001, we issued approximately 380,000 shares of common stock in exchange for $3.475 million face amount of Deferrable Capital Securities. On January 26, 2001, the holders of our Series A Convertible Preferred Stock converted their shares into 5.9 million shares of common stock pursuant to their original conversion terms. We repurchased that common stock for approximately $47.2 million. In separate transactions, we sold 5.5 million shares of common stock to a number of investors for approximately $32.3 million. These transactions and other transactions resulted in Vesta repurchasing 6.4 million shares of its common stock for approximately $50.8 million and issuing 5.9 million shares of its common stock for approximately $32.3 million of cash and $3.475 million face amount of Deferrable Capital Securities.

In the second quarter of 2001, we engaged in a follow-on offering of our common stock. We sold 8.625 million shares of common stock for approximately $64.0 million after expenses.

Note E Acquisition of Florida Select Insurance Holdings, Inc.

Effective April 1, 2001, we acquired Florida Select Insurance Holdings Inc, the parent company of Florida Select Insurance Company. Florida Select is the 8th largest residential homeowners insurer in the State of Florida with approximately $140.0 million of assets and $60.0 of annual gross written premium. The transaction has been accounted for as a purchase. Summarized below is a preliminary allocation of assets and liabilities acquired and the consolidated results of operations for the six-month periods ended June 30, 2001 and 2000 on an unaudited pro forma basis as if the acquisition had occurred as of January 1, 2000. The pro forma information is based on our consolidated results of operations for the six-months ended June 30, 2001 and 2000 and on data provided by the acquired company, after giving effect to certain pro-forma adjustments, including the issuance of 8.625 million shares of common stock. The pro forma financial information does not purport to be indicative of results of operations that would have occurred had the transactions occurred on the basis assumed above nor are they indicative of results of the future operations of the combined enterprises.

Assets and liabilities acquired (in thousands except per share amounts and unaudited):

Assets acquired:	
Invested assets	$ 56,707
Cash	20,764
Other assets	27,107
Goodwill	35,288

Total assets	139,866
Liabilities acquired:	
Loss and LAE reserves	22,019
Unearned premiums	35,100
Other liabilities	16,334
	73,453

Pro forma consolidated results of operations are as follows: (unaudited)

	Six months ended June 30, 2001	2000
Total revenues	$ 200,831	$ 149,199
Income available to common shareholders	13,889	13,137
Income available to common shareholders per share - basic	$ 0.46	$ 0.49
Income available to common shareholders per share - diluted	$ 0.45	$ 0.43

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Results of Operations

Vesta writes insurance on selected personal lines risks only. Our Standard-Property Casualty writings are balanced between risks of property damage (faster determination of ultimate loss but highly unpredictable) and casualty exposure (more predictable but takes longer to determine the ultimate loss). We also write life, annuity, and health insurance business. Additionally, we are actively involved in the writing of insurance on our policies for the benefit of reinsurance companies, commonly referred to as servicing carrier or fronting, which generates fee-for-service income.

Our revenues from operations are derived primarily from net premiums earned on risks written by our insurance subsidiaries, investment income and investment gains or losses. Our expenses consist primarily of payments for claims and underwriting expenses, including agents commissions and operating expenses.

Comparison of Second Quarter 2001 to Second Quarter 2000

Income available to common shareholders increased by $4.7 million, or 195.8% to $7.1 million for the quarter ended June 30, 2001, from $2.4 million for the quarter ended June 30, 2000. On a diluted per share basis, income available to common shareholders for the second quarter of 2001 was $0.29 per share versus net income of $0.12 per share for the second quarter of 2000. The increase in income available to common shareholders is primarily attributable to improved underwriting results from our standard property-casualty segments and the positive contributions to income of our new business segments entered into since the prior year period, each of which is discussed below.

Standard Property-Casualty

Net premiums written for standard property-casualty lines increased by $8.9 million, or 16.0%, to $64.8 million for the quarter ended June 30, 2001, from $55.9 million for the quarter ended June 30, 2000. Net premiums earned for standard property-casualty lines increased $12.6 million, or 24.2% to $64.7 million for the quarter ended June 30, 2001, from $52.1million for the quarter ended June 30, 2000. The increase in net premiums written and net premiums earned are primarily attributable to the acquisition of Florida Select, continued rollover from other segments of certain policies acquired in prior years, and an increase in new policy applications.

Loss and loss adjustment expenses (LAE) for standard property-casualty lines increased by $ 11.8 million, or 45.7%, to $37.6 million for the quarter ended June 30, 2001, from $25.8 million for the quarter ended June 30, 2000. The loss and LAE ratio for property-casualty lines for the quarter ended June 30, 2001 was 58.1% as compared to 49.5% at June 30, 2000. The increase in the loss and LAE incurred and the loss and LAE ratio is primarily attributable to estimated salvage and subrogation recoverables recorded in the prior period, offset by improved underwriting results in the current period..

Policy acquisition expenses remained flat for the quarter-to-quarter comparison, consistent with earned premium. Operating expenses increased by $1.5 million, or 23.1% to $8.0 million for the quarter ended June 30, 2001, from $6.5 million for the quarter ended June 30, 2000, due to the acquisition of Florida Select.

Life and Health Insurance

In June, 2000, we entered the life and annuity business through a 71% investment in American Founders Financial Corporation, a holding company for two life insurance companies domiciled in Texas and we entered the health insurance business through the acquisition of Aegis Financial Corporation, a holding company for two life and health insurance companies domiciled in Texas, in December, 2000. American Founders and Aegis have approximately $2.2 billion (face value) of life and annuity products in force and $22.5 million of health insurance premiums in force at June 30, 2001. Life insurance premiums and policy fees were $3.5 million for the quarter ended June 30, 2001 compared to zero for the comparable prior period due to the acquisition of American Founders on June 30, 2000 and Aegis in December 2000. Health insurance premiums totaled $5.1 million for the quarter ended June 30, 2001 versus zero for the comparable prior period. Health insurance benefits incurred totaled $2.7 million for the quarter and health insurance commission expense was $1.3 million.

Specialty Lines

In 2000, we began utilizing our licenses to write business for the benefit of reinsurance companies. In this segment, we enter into arrangements whereby we write targeted property-casualty insurance coverages and reinsure substantially all of the risks to reinsurers in exchange for fees. This business takes advantage of our certificates of authority granting us license to write insurance in many states. Income in this segment is primarily generated on a fee-for-service basis. For the quarter ended June30, 2001, this segment reported break even underwriting results on net premiums written of $2.0 million and net premiums earned of $2.0 million. Additionally, we earned approximately $1.0 million of fees for the quarter ended June 30, 2001.

Non-Standard

In December 2000, we acquired a 52% economic interest in Instant Auto Insurance Holdings, Inc. Instant Auto operates as a non-standard insurance agency. Its principal revenue stream is agents fees and commissions. Fees and commissions totaled $.5 million for the three months ended June 30, 2001 as Instant Auto began executing its strategy of building its agency business.

Net Investment Income

Net investment income increased by $.7 million, or 13.2%, to $6.0 million for the quarter ended June 30, 2001, from $5.3 million for the quarter ended June 30, 2000. The weighted average yield on invested assets (excluding realized and unrealized gains) was 6.7% for the quarter ended June 30, 2001, compared with 6.0% for the quarter ended June 30, 2000. The increase in investment income is primarily attributable to an increase in average invested assets resulting from our acquisitions, particularly American Founders.

Federal Income Taxes

Federal income taxes increased by $1.3 million to $4.3 million of expense for the quarter ended June 30, 2001 as a result of more income in the current period compared to the prior period.

Comparison of Six Months Ended June 30, 2001 with Six Months Ended June 30, 2000

Income available to common shareholders increased by $1.5 million, or 17.4% to $10.1 million for the six months ended June 30, 2001, from $8.6 million for the six months ended June 30, 2000. On a diluted per share basis, income available to common shareholders for the six months ended June 30, 2001 was $.45 per share versus income of available to common shareholders of $.40 per share for the corresponding period of 2000. The increase in income available to common shareholders is primarily attributable to improved underwriting results from our standard property-casualty segments and the impact of acquisition and new lines of business entered into since the prior year period.

Standard Property-Casualty

Net premiums written for standard property-casualty lines increased by $30.5 million, or 29.0%, to $135.5 million for the six months ended June 30, 2001, from $105.0 million for the six months ended June 30, 2000. Net premiums earned for standard property-casualty lines increased $30.9 million, or 29.4% to $139.6 million for the six months ended June 30, 2001, from $108.7 million for the six months ended June 30, 2000. The increase in net premiums written and net premiums earned are primarily attributable to the acquisition of Florida Select, the continued rollover from other segments of certain policies acquired in prior years, and an increase in new policy applications.

Loss and loss adjustment expenses (LAE) for standard property-casualty lines increased by $9.9 million, or 15.1%, to $75.5 million for the six months ended June 30, 2001, from $65.6 million for the corresponding period ended June 30, 2000. The loss and LAE ratio for property-casualty lines for the six months ended June 30, 2001 was 61.5% as compared to 60.2% at June 30, 2000. The increase in the loss and LAE incurred and the loss and LAE ratio is primarily attributable to an increased in earned premium, estimated salvage and subrogation recoverable recorded in the prior year, partially offset by improved underwriting results.

Policy acquisition expenses increased for the period-to-period comparison, consistent with earned premium. Operating expenses increased by $1.3 million, or 9.9% to $14.4 million for the six months ended June 30, 2001, from $13.1 million for the six months ended June 30, 2000, due to increased expenses related to Florida Select.

Life and Health Insurance

In June, 2000, we entered the life and annuity business through a 71% investment in American Founders Financial Corporation, a holding company for two life insurance companies domiciled in Texas and we entered the health insurance business through the acquisition of Aegis Financial Corporation, a holding company for two life and health insurance companies domiciled in Texas, in December, 2000. American Founders and Aegis have approximately $2.2 billion (face value) of life and annuity products in force and $22.5 million of health insurance premiums in force at June 30, 2001. Life insurance premiums and policy fees were $6.6 million for the six months ended June 30, 2001 compared to zero for the comparable prior period due to the acquisition of American Founders on June 30, 2000 and Aegis in December 2000. Health insurance premiums totaled $10.3 million for the six months ended June 30, 2001 versus zero for the comparable prior period. Health insurance benefits incurred totaled $5.8 million for the six months and Health insurance commission expense was $2.5 million.

Specialty Lines

In 2000, we began utilizing our licenses to write business for the benefit of reinsurance companies. In this segment, we enter into arrangements whereby we write targeted property-casualty insurance coverages and reinsure substantially all of the risks to reinsurers in exchange for fees. This business takes advantage of our certificates of authority granting us license to write insurance in many states. Income in this segment is primarily generated on a fee-for-service basis. For the six months ended June 30, 2001, the segment reported breakeven underwriting results on net premiums written of $3.5 million and net premiums earned of $3.1 million. Additionally, we earned approximately $1.8 million of fees for the six months ended June 30, 2001.

Non-Standard

In December 2000, we acquired a 52% economic interest in Instant Auto Insurance Holdings, Inc. Instant Auto operates as a non-standard insurance agency. Its principal revenue stream is agents fees and commissions. Fees and commissions totaled $.8 million for the six months ended June 30, 2001 as Instant Auto began executing its strategy of building its agency business.

Net Investment Income

Net investment income increased by $20.4 million, or 165.9%, to $32.7 million for the six months ended June 30, 2001, from $12.3 million for the six months ended June 30, 2000. The weighted average yield on invested assets (excluding realized and unrealized gains) was 6.5% for the six months ended June 30, 2001, compared with 5.9% for the six months ended June 30, 2000. The increase in investment income is primarily attributable to an increase in average invested assets resulting from our acquisitions, particularly American Founders.

Federal Income Taxes

Federal income taxes increased by $4.0 million to $6.2 million of expense for the six months ended June 30, 2001 as a result of more income in the current period compared to the prior period.

Liquidity and Capital Resources

Vesta is a holding company whose principal asset is its investment in the capital stock of the companies constituting the Vesta Insurance Group, a group of wholly owned insurance companies including Vesta Fire and a majority ownership in a life insurance holding company which includes American Founders Life Insurance Company. The insurance subsidiaries comprising the Vesta Group are individually supervised by various state insurance regulators. Vesta Fire and American Founders are our principal operating subsidiaries.

Dividends and Management Fees

The principal uses of funds at the holding company level are to pay operating expenses, principal and interest on outstanding indebtedness and deferrable capital securities and dividends to stockholders if declared by the Board of Directors. During the last three years, our insurance subsidiaries have produced operating results and paid management fees and dividends sufficient to fund our needs. As a holding company with no other business operations, we rely primarily on fees generated by our management agreement with our insurance subsidiaries and dividend payments from Vesta Fire to meet our cash requirements (including our debt service) and to pay dividends to our stockholders

Transactions between Vesta and its insurance subsidiaries, including the payment of dividends and management fees to Vesta by such subsidiaries, are subject to certain limitations under the insurance laws of those subsidiaries domiciliary states. The insurance laws of the state of Illinois, where Vesta Fire is domiciled, permit the payment of dividends in any year which, together with other dividends or distributions made within the preceding 12 months, do not exceed the greater of 10% of statutory surplus as of the end of the preceding year or the net income for the preceding year, with larger dividends payable only after receipt of prior regulatory approval. Except for the regulatory restrictions described above, we are not aware of any demands or commitments of the insurance subsidiaries that would prevent them from paying dividends sufficient to meet our anticipated needs (including debt service) for at least the next twelve months. See, Business Regulation.

Credit Facilities

On March 3, 2000, we established a revolving credit facility with First Commercial Bank, Birmingham, Alabama (First Commercial). In May, 2001 we increased the amounts available and increased the term of the credit facility to the following:

- a $15 million unsecured line which bears interest at First Commercial's prime rate +1/4%;
- an additional $15 million line which bears interest at First Commercial's prime rate, secured by a pledge of the management contract between our wholly owned management company, J. Gordon Gaines, Inc., and our operating insurance subsidiaries.

Each of these credit facilities mature on December 31, 2002. In addition, the credit agreements related to these facilities contain typical financial covenants which require us to maintain certain financial standards. As of June 30, 2001, $25.0 million of credit line was available.

Long Term Debt and Preferred Stock

Annual distribution obligations for the Company s long-term debt and preferred stock outstanding at June 30, 2001 are as follows:

Security	Principal	Annual Interest Obligation
8.75% Senior Debentures due 2025	$87 million	$7.6 million
8.525% Deferrable Capital Securities due 2027	$29.8 million	$2.5 million
Subsidiary Preferred Stock	$7 million	$.5 million

Cash flows

The principal sources of funds for our insurance subsidiaries are premiums, investment income and proceeds from the sale or maturity of invested assets. Such funds are used principally for the payment of claims, operating expenses, commissions and the purchase of investments. As is typical in the insurance industry, we collect cash in the form of premiums and invest that cash until claims are paid. Cash collected from premiums and cash paid for claims is included in cash flow from operations, while the cash impact from our investing activities is included in cash flow from investing activities. In periods such as 2001 and 2000, where we are exiting certain lines of business such as commercial lines and reinsurance assumed lines we are funding the payout of commercial and reinsurance assumed claims through the liquidation of invested assets, consistent with the historical insurance business model. However, this generates cash outflows from operations that can be misleading.

On a consolidated basis, net cash used in operations for the six months ended June 30, 2001 and 2000, was $20.7 million and $42.4 million, respectively. Cash flow from operations was negative for the current period due to the continued payout of claims from our discontinued operations, the payout of standard-property casualty claims incurred in prior periods, and the timing of payment of certain payables and other operational items. Net cash provided by investing activities was $25.5 million and $109.9 million for the six months ended June 30, 2001 and 2000, respectively as we funded the discontinuance of the reinsurance assumed and commercial lines of business. Net cash provided by (used in) financing activities was $ 58.2 million and $(51.4) million for the six month periods ending June 30, 2001 and 2000, respectively as we engaged in a number of stock transactions in the six month period ended June 30, 2001 including the issuance of 8.625 million shares of stock in a follow on offering for approximately $64.0 million, net of underwriting discount and expenses and repurchased outstanding debt in the six month period ending June 30, 2000.

Market Risk of Financial Instruments

Vesta s principal assets are financial instruments, which are subject to the market risk of potential losses from adverse changes in market rates and prices. Our primary risk exposures are interest rate risk on fixed maturity investments, mortgages and collateral loans and annuity liabilities and equity price risk for stocks. Vesta manages its exposure to market risk by selecting investment assets with characteristics such as duration, yield and liquidity to reflect the underlying characteristics of the related insurance.

Special Note Regarding Forward-Looking Statements

Any statement contained in this report which is not a historical fact, or which might otherwise be considered an opinion or projection concerning the Company or its business, whether express or implied, is meant as and should be considered a forward-looking statement as that term is defined in the Private Securities Litigation Reform Act of 1996. Forward-looking statements are based on assumptions and opinions concerning a variety of known and unknown risks, including but not necessarily limited to changes in market conditions, natural disasters and other catastrophic events, increased competition, changes in availability and cost of reinsurance, changes in governmental regulations, and general economic conditions, as well as other risks more completely described in our filings with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K. If any of these assumptions or opinions prove incorrect, any forward-looking statements made on the basis of such assumptions or opinions may also prove materially incorrect in one or more respects.

PART II
Item 1. Legal Proceedings

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 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 to date. 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, 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 with a current trial date of November 5, 2001 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 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 June 30, 2001. We have collected approximately $48.5 million from the drawdown 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 preventing us from drawing down approximately $34.5 million of collateral. 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. Vesta reached an agreement with NRMA to collect the $34.5 million of collateral in exchange for posting a $25 million letter of credit in favor of NRMA to fund any amounts NRMA may recover as a result of the arbitration. We filed for arbitration against the other two participants in the treaty and all of these arbitrations are in their discovery stages. While management believes its interpretation of the treaty s terms and computations based thereon are correct, the ultimate outcome of these arbitrations is uncertain 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 June 30, 2001 and December 31, 2000 related to these two treaties. This arbitration is in its early stage and the ultimate outcome cannot be determined at this time.

We are in arbitration 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 the discovery stage 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.

Item 2. Changes in Securities

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Submission of Matters to a Vote of Security Holders

At the annual meeting of stockholders held May 7, 2001, the following matters were submitted to a vote of stockholders. (Shares Eligible to Vote 24,427,946)

1. Election of Directors

Messrs. Robert B. D. Batlivala and Ehney A. Camp III were elected to additional three year

	For
Batlivala	20,757,725
Camp	20,760,003

2. Approval of 2001 Incentive Compensation Plan

The Company's 2001 Incentive Compensation Plan was approved.

	For	Again
Approval of 2001 Incentive Compensation Plan	10,940,711	5,506,

3. Election of Auditors

PricewaterhouseCoopers was appointed as the principal independent auditor of the Compa year ending December 31, 2001.

	For	Agains
PricewaterhouseCoopers LLP	22,566,817	306,42

Item 5. Other information

None.

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Item 6. Exhibits and Reports on Form 8-K

a) EXHIBITS

10.25 Employment agreement between the registrant and William P. Cronin, dated as of February 5, 2001.

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b) Reports on Form 8-K.

Current reports were filed on Form 8-K on April 10, 2001, April 23, 2001, May 9, 2001, May 16, 2001 and May 17, 2001 in connection with press releases and a Form 8-K on June 19, 2001 attaching the form of Underwriting Agreement in connection with a stock offering.

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Signatures

Pursuant to the requirements of the Securities Act of 1933, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Vesta Insurance Group, Inc.

Date: August 13, 2001

/s/ W. Perry Cronin

W. Perry Cronin
Senior Vice President
and Chief Financial Officer
(Principal Financial Officer)

Date: August 13, 2001

/s/ Hopson B. Nance

Hopson B. Nance
Vice President and Controller
(Principal Accounting Officer)

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