VESTA INSURANCE GROUP INC
Form 8-K
July 18, 2001

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 8-K

CURRENT REPORT

PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934

Date of Report
July 10, 2001
(Date of earliest event reported)

VESTA INSURANCE GROUP, INC.

(Exact name of registrant as specified in its charter)

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

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

Item 2. Acquisition and Disposition of Assets.

On July 10, 2001, Vesta Fire Insurance Corporation, an Illinois corporation ("Vesta Fire") and a wholly owned subsidiary of Vesta Insurance Group, Inc. completed its acquisition of 100% of the outstanding shares of capital stock of Florida Select Insurance Holdings, Inc. for approximately $64.5 million in cash. Vesta Fire acquired the stock of FSIH from FSIH's four stockholders - Centre Solutions (Bermuda) Limited, Mynd Corporation, Orienta Point Group, L.L.C., and Kamehameha Schools Bernice Pauahi Bishop Estate. The purchase price resulted from arms' length negotiation which took into consideration various factors, including Florida Select's book value at December 31, 2000 of approximately $31.5 million and net income for the twelve months ended December 31, 2001 of approximately $6.6 million. Vesta funded the acquisition with the proceeds of its recently completed supplemental stock offering, which raised net proceeds of approximately $64.7 million before offering expenses.

Item 7. Financial Statements and Exhibits.

(a) Financial Statements of Business Acquired.

See Index on page 2.

(b) Pro Forma Financial Information.

See Index on page 2.

(c) Exhibits.

Exhibit Number	Description
2	Stock Purchase Agreement by and among Vesta, Vesta Fire, Centre Solutions (Bermuda) Limited, Mynd Corporation, Orienta Point Group, L.L.C., and Kamehameha Schools Bernice Pauahi Bishop Estate, dated April 18, 2001 (incorporated by reference from Exhibit 2 to Form S-3, registration number 333-60634, filed May 10, 2001).
23	Consent of Ernst & Young LLP

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, hereunto duly authorized.

Dated as of July 18, 2001

VESTA INSURANCE GROUP, INC.

By: /s/ Donald W. Thornton
Its: Senior Vice President --
General Counsel and Secretary

Index to Financial Statements

Consolidated Financial Statements of Florida Select Insurance Holdings Inc. as of December 31, 2000 and 1999 and for each of the three years ended December 31, 2000.

Report of Independent Auditors..
Consolidated Balance Sheets..
Consolidated Statements of Income..
Consolidated Statements of Shareholders' Equity..
Consolidated Statements of Cash Flows..
Notes to Consolidated Financial Statements..

Consolidated Financial Statements of Florida Select Insurance Holdings Inc. as of March 31, (unaudited) and December 31, 2000 and for the three months ended March 31, 2001 and 2000 (unau

Consolidated Balance Sheets (unaudited)..
Consolidated Statements of Income (unaudited)..
Consolidated Statements of Cash Flows (unaudited)..
Notes to Consolidated Financial Statements (unaudited)..

Unaudited Pro Forma Consolidated Financial Statements of Vesta Insurance Group, Inc as of an the three months ended March 31, 2001 and for the year ended December 31, 2000.

General Information..
Unaudited Pro Forma Consolidated Statements of Operations for the three months ended March 31, 2001..
Unaudited Pro Forma Consolidated Balance Sheet as of March 31, 2001..
Unaudited Pro Forma Consolidated Statements of Operations for the year ended December 31, 2000..
Notes to Unaudited Pro Forma Consolidated Financial Statements..

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

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ASSETS	
INVESTMENTS:	
Fixed maturities, held-to-maturity	$ 2,48
Fixed maturities, available-for-sale	46,62
Preferred stock	4,25
Total investments	53,36
Cash and cash equivalents	10,37
Premiums receivable (net of allowance for doubtful accounts of $160,391 and $152,423, . respectively)	3,96
Amounts due from FRPCJUA in accordance with take-out agreement	1,97
REINSURANCE RECOVERABLES:	
On paid losses and loss adjustment expenses	1,96
On unpaid losses and loss adjustment expenses	9,97
Prepaid reinsurance premiums	20,67
Receivable from affiliates	
Accrued investment income	82
Deferred policy acquisition costs	1,81
Property and equipment (net of accumulated depreciation and amortization of $403,933 and $211,939, ... respectively)	33
Deferred taxes	1,09
Other assets	28

Total assets	$106,64
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES:	
Loss and loss adjustment expense reserves	$19,95
Unearned premium reserve	36,32
Other policyholders' funds	3,56
Reinsurance balance payable	7,63
Accounts payable and accrued expenses	4,47
Payable to affiliate	32
Dividends payable	
Income taxes payable	2,89
Total liabilities	75,16
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	
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	
Class D, $.01 par value; 2,000 shares authorized; 60 shares issued and outstanding	
Additional paid in capital	10,60
Treasury stock	(10
Retained earnings (see Note 6 for dividend preference on Common Stock Class D)	20,82
Accumulated other comprehensive income (deficit), net of deferred income tax (expense) benefit of $(94,724) and $416,042, respectively	15
Total shareholders' equity	31,47
Total liabilities and shareholders' equity	$106,64

See accompanying notes.

FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended Dece	
	2000	**1999**
REVENUE:		

Premiums earned, net	$26,348,381	$24,042,02
Net investment income	2,936,095	2,251,64
Other income	1,064,703	4,669,65
Total revenue	30,349,179	30,963,33
LOSSES AND EXPENSES:		
Losses and loss adjustment expenses	11,367,207	11,526,37
Other underwriting, general and administrative expenses	7,813,637	6,129,12
Amortization and depreciation	298,556	369,63
Total losses and expenses	19,479,400	18,025,13
Income before income taxes and cumulative effect of a change in accounting principle	10,869,779	12,938,20
Income tax expense	4,280,891	4,877,66
Net income after tax and before cumulative effect of a change in accounting principle	6,588,888	8,060,54
Cumulative effect of change in accounting principle (net of tax benefit of $150,067)	--	(238,956
Net income	$6,588,888	$7,821,58

See accompanying notes.

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FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-In Capital	Treasury Stock	Retained Earnings	Accumul Othe Compreh Income(
Balance at January 1, 1998	$ 10	$10,606,051	$ --	$6,161,292	$

Net income........................	--	--	--	6,251,577	
Change in net unrealized appreciation (depreciation) of available for sale investments, net of tax of $581.	--	--	--	--	
Comprehensive income..............					
Purchase of treasury stock.........	--	--	(105,000)	--	
Balance at December 31, 1998.........	10	10,606,051	(105,000)	12,412,869	
Net income........................	--	--	--	7,821,589	
Change in net unrealized appreciation (depreciation) of available-for-sale investments, net of tax of $510,766..	--	--	--	--	(7
Comprehensive income..............					
Cash dividends to shareholders--$600 per share..........................	--	--	--	(6,000,348)	
Balance at December 31, 1999...........	10	10,606,051	(105,000)	14,234,110	(6
Net income..........................	--	--	--	6,588,888	
Change in net unrealized appreciation of available-for-sale investments, net of tax of $468,443..............					8
Comprehensive income.................					
Balance at December 31, 2000...........	$ 10	$10,606,051	$(105,000)	$20,822,998	$ 1

See accompanying notes.

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FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31		
	2000	1999	
OPERATING ACTIVITIES:			
Net income..	$6,588,888	$7,821,589	$
Adjustments to reconcile net income to net cash provided by operating activities:			
Amortization and depreciation................................	596,469	652,265	
Deferred income taxes..	(1,282,887)	1,964,304	
Policy acquisition costs deferred............................	(6,769,927)	(4,451,711)	(
Policy acquisition costs amortized............................	5,814,596	4,700,325	
Net loss on sale of investments..............................	190,721	100,815	

Increase in premiums receivable..................................	(739,245)	(2,202,841)	
Decrease (increase) in amounts due from the FRPCJUA............	7,248,047	(9,227,838)	
(Increase) decrease in reinsurance recoverable.................	(3,093,251)	386,243	(
(Increase) decrease in accrued investment income...............	(304,711)	147,525	
Decrease (increase) in receivable from affiliate...............	426,985	(87,905)	
(Increase) decrease in other assets............................	(179,262)	327,960	
Increase in loss and loss adjustment expenses..................	1,404,146	1,288,212	
Increase (decrease) in unearned premium reserve................	3,496,180	(2,023,444)	
(Decrease) increase in other policyholders' funds..............	(463,820)	(1,082,701)	
(Decrease) increase in reinsurance balance payable.............	(2,391,650)	4,421,366	
Increase (decrease) in accounts payable and accrued expenses...	1,343,349	(845,474)	
Increase (decrease) in income tax payable......................	2,443,499	348,293	
Net cash provided by operating activities..........................	14,328,127	2,236,983	1
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)	(3
Proceeds from securities held-to-maturity..........................	300,000	--	
Proceeds from sale of securities available-for-sale................	17,572,164	35,422,726	1
Decrease in note receivable from affiliate.........................	--	--	
Proceeds from sale of property and equipment.......................	--	2,400	
Purchase of property and equipment.................................	(326,048)	(163,749)	
Net cash used in investing activities..............................	(15,912,476)	(34,619)	(1
Financing activities			
Repurchase of Treasury Stock.......................................	--	--	
Dividends paid...	(6,000,348)	--	
Net cash used in financing activities..............................	(6,000,348)	--	
Net (decrease) increase in cash and cash equivalents...............	(7,584,697)	2,202,364	(
Beginning cash and cash equivalents................................	17,964,448	15,762,084	2
Ending cash and cash equivalents...................................	$ 10,379,751	$17,964,448	$1

See accompanying notes.

FLORIDA SELECT INSURNACE 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.

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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
At December 31, 2000			
Available-for-sale securities:			
U.S. Treasury....................................	$5,957,106	$23,269	$79,079
State and municipal obligations..................	1,813,479	30,814	382
Mortgage-backed/asset backed securities...........	26,398,525	121,197	135,784
Industrial and miscellaneous securities...........	12,318,360	182,866	3,156
Total fixed maturity investments available-for-sale...	$46,487,470	$358,146	$218,401
Held-to-maturity securities:			
U.S. Treasury....................................	$ 164,793	$ --	$ 1,654
State and municipal obligations..................	1,325,655	87,996	--
Mortgage-backed/asset backed securities...........	251,680	8,715	--
Industrial and miscellaneous securities...........	742,809	25,732	--

Total held-to-maturity securities:	$2,484,937	$122,443	$1,654
Preferred stocks	$4,145,065	$117,966	$12,580

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses
At December 31, 1999			
Available-for-sale securities:			
U.S. Treasury	$8,546,309	$ --	$ 447,840
State & municipal obligations	5,250,949	--	79,805
Mortgage-backed/asset-backed securities	15,643,092	--	427,423
Industrial and miscellaneous securities	7,967,547	--	95,328
Total fixed maturity investments available-for-sale	$37,407,897	$ --	$1,050,396
Held-to-maturity securities:			
U.S. Treasury	$ 167,956	$ --	$ 11,487
State & municipal obligations	302,108	--	773
Total held-to-maturity securities	$ 470,064	$ --	$ 12,260
Preferred stocks	$ 149,278	$ --	$ 15,877

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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.

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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	1
Gross direct and assumed premiums written............	$63,490,752	$53,264,029	$62,
Reinsurance ceded..................................	(36,625,185)	(30,059,630)	(35,
Net premiums written...............................	$26,865,567	$23,204,399	$26,
Direct and assumed premiums earned..................	$59,994,567	$55,287,481	$61,
Reinsurance ceded..................................	(33,646,186)	(31,245,452)	(35,
Net premiums earned................................	$26,348,381	$24,042,029	$25,

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2000	1999	
Direct losses and loss adjustment expenses...........	$23,262,986	$23,225,197	$
Reinsurance ceded...................................	(11,895,779)	(11,698,826)	(
Net losses and loss adjustment expenses incurred.....	$11,367,207	$11,526,371	$

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.

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	2000	
Deferred tax assets:		
Unearned premium reserve adjustment	$1,177,427	$1,
Discount on loss and loss adjustment expense reserves	411,771	
Advance premium collected	205,145	
Reinsurance commission	372,774	1,
Allowance for doubtful accounts	60,355	
Employee long-term incentives	354,450	
Unrealized loss--available-for-sale investments	--	
Organizational costs	33,056	
Total deferred tax assets	2,614,978	4,
Deferred tax liabilities:		
Deferred acquisition expense	682,895	
Amounts due from FRPCJUA in accordance with take-out agreement	744,997	3,
Unrealized gain--available-for-sale investments	94,724	
Total deferred tax liabilities	1,522,616	3,
Net deferred tax assets	$1,092,362	$

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
Reserve for losses and LAE, at the beginning of year, gross of reinsurance recoverable on unpaid losses and LAE	$18,547,264	$17,259,0
Less reinsurance recoverable on unpaid losses and LAE	(9,293,001)	(8,664,7
Reserves for losses and LAE, at beginning of year, net of reinsurance	9,254,263	8,594,3
Add provision for claims occurring in:		

The current year, net of reinsurance	14,697,560	15,644,5
The prior years, net of reinsurance	(3,330,353)	(4,118,1
Total incurred claims during year, net of reinsurance	11,367,207	11,526,3
Deduct payments for claims occurring in:		
The current year, net of reinsurance	8,020,332	7,908,9
The prior years, net of reinsurance	2,627,714	2,957,4
Total claims paid during the year, net of reinsurance	10,648,046	10,866,4
Reserves for losses and LAE, at end of year, net of reinsurance	9,973,424	9,254,2
Reinsurance recoverable on unpaid losses and LAE	9,977,986	9,293,0
Reserve for losses and LAE, gross of reinsurance recoverable on unpaid losses and LAE	$19,951,410	$18,547,2

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

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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:

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                                          December 31,
                              -----------------------------------------------
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	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.

FLORIDA SELECT INSURNACE HOLDINGS INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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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FLORIDA SELECT INSURANCE HOLDINGS INC.

CONSOLIDATED BALANCE SHEETS

	March 31, 2001 (unaudited)
ASSETS	
INVESTMENTS:	
Fixed maturities	$47,000,56
Preferred stock	5,273,15
Total investments	52,273,71
Cash and cash equivalents	9,427,95
Premiums receivable (net of allowance for doubtful accounts of $178,766 and $160,391, respectively)	2,972,75
Amounts due from FRPCJUA in accordance with take-out agreement	2,624,83
REINSURANCE RECOVERABLES:	
On paid losses and loss adjustment expenses	3,935,66
On unpaid losses and loss adjustment expenses	10,088,74
Prepaid reinsurance premiums	18,788,15
Accrued investment income	755,83
Deferred policy acquisition costs	1,779,96
Property and equipment	320,60
Deferred taxes	767,56
Other assets	426,23
Total assets	$104,162,01
LIABILITIES AND SHAREHOLDERS' EQUITY	
LIABILITIES:	
Loss and loss adjustment expense reserves	$20,132,97
Unearned premium reserve	35,100,50
Other policyholders' funds	1,435,48
Reinsurance balance payable	7,357,82
Accounts payable and accrued expenses	2,655,08
Income taxes payable	3,303,66
Total liabilities	69,985,54

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	
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	
Class D, $.01 par value; 2,000 shares authorized; 60 shares issued and outstanding	
Additional paid in capital	10,606,05
Treasury stock	(105,00
Retained earnings	23,137,20
Accumulated other comprehensive income (deficit)	538,21
Total shareholders' equity	34,176,47
Total liabilities and shareholders' equity	$104,162,01

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)

	Three Month
	2001
OPERATING ACTIVITIES:	
Net income	$2,314,
Adjustments to reconcile net income to net cash provided by operating activities:	
Amortization and depreciation	80,
Deferred income taxes	92,
Policy acquisition costs	34,
Net (gain) loss on sale of investments	(17,
Increase in premiums receivable	989,
Decrease (increase) in amounts due from the FRPCJUA	(645,
(Increase) decrease in reinsurance recoverable	(196,
(Increase) decrease in accrued investment income	64,
Decrease (increase) in receivable from affiliate	(320,
(Increase) decrease in other assets	(141,
Increase in loss and loss adjustment expenses	181,
Increase (decrease) in unearned premium reserve	(1,220,
Decrease in other policyholders' funds	(2,134,
(Decrease) increase in reinsurance balance payable	(281,
Increase (decrease) in accounts payable and accrued expenses	(1,818,
Increase in income tax payable	410,
Net cash provided by operating activities	(2,607,

INVESTING ACTIVITIES:	
Purchase of investment securities..	(6,428,
Proceeds from sale and maturity of investment securities.............................	8,098,
Purchase of property and equipment...	(14,
Net cash used in investing activities..	1,655,
FINANCING ACTIVITIES:	
Dividends paid...	
Net cash used in financing activities..	
Net (decrease) increase in cash and cash equivalents.................................	(951,
Beginning cash and cash equivalents..	10,379,
Ending cash and cash equivalents...	$9,427,

NOTE TO CONSOLIDATED FINANCIAL STATEMENTS

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.

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 8.625 million shares of common stock pursuant to an offering as if the transactions had occurred at the beginning of each period. The acquisitions are accounted for as purchases.

The following 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. The transaction was completed on July 10, 2001.

In connection with the transaction, Florida Select commuted 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 Ende		
	Historical		
	Vesta	Florida Select	Pro Adjus
REVENUES:			
Net premiums earned	$65,395	$6,780	$ 6,1
Policy fees	1,253	--	-
Net investment income	15,603	954	3
Realized (losses) gains	1,706	--	-
Other .	2,146	1,363	1,3
Total revenues	86,103	9,097	7,9
EXPENSES:			
Policyholder benefits	8,057	--	-
Losses and loss adjustment expenses incurred	38,701	3,051	2,9
Policy acquisition expenses	14,402	1,101	1,6
Operating expenses	14,653	1,138	4
Interest on debt	4,658	--	-
Goodwill and other intangible amortization	526	85	5
Total expenses	80,997	5,375	5,5
Income (loss) from continuing operations before taxes, minority interest, and deferrable capital securities	5,106	3,722	2,3
Income tax expense (benefit)	1,787	1,408	9
Minority interest, net of tax	249	--	-
Deferrable capital security distributions, net of tax	383		-
Income (loss) from continuing operations	$ 2,687	$2,314	$ 1,4
Income from continuing operations per share--basic	0.14		
Income from continuing operations per share--diluted	0.13		

See accompanying notes.

VESTA INSURANCE GROUP, INC.

UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET
(IN THOUSANDS)

	March 31, 20		
	Vesta	**Florida Select**	**Purcha Accoun Adjust**
ASSETS			
INVESTMENTS:			
Fixed maturities available for sale--at fair value (cost: 2001--$760,245)	$ 766,386	$47,001	-
Equity securities--at fair value: (cost: 2001--$15,520)	16,584	5,273	-
Mortgage and collateral loans	59,272	--	-
Policy loans	61,952	--	-
Short-term investments	21,573	--	-
Other invested assets	37,741		
Total investments	963,508	52,274	-
Cash	31,104	9,428	21,8
Accrued investment income	14,551	756	-
Premiums in course of collection (net of allowances for losses of $3,937 in 2001)	26,847	2,973	-
Reinsurance balances receivable	354,067	28,877	(22,9
Reinsurance recoverable on paid losses	59,572	3,936	-
Deferred policy acquisition costs	44,208	1,780	-
Deferred income taxes	17,376	767	-
Other assets	99,309	3,371	31,8
Total assets	$ 1,610,542	$ 104,162	$ 30,7
LIABILITIES			
Policy liabilities	$ 664,214	--	-
Losses and loss adjustment expenses	262,474	$20,133	-
Unearned premiums	104,110	35,101	-
Federal Home Loan Bank advances	147,922	--	-
Short-term debt	14,997	--	-
Long-term debt	86,423	--	-
Other liabilities	96,579	14,752	$ 1,5
Total liabilities	1,376,719	69,986	1,5
Commitments and contingencies			
Deferrable Capital Securities	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		
Additional paid-in capital	150,464	10,606	52,7
Accumulated other comprehensive income, net of tax (benefit) expense of $2,522	4,683	538	(5
Retained earnings	60,503	23,137	(23,1
Treasury stock (439,576 shares at cost) at March 31, 2001	(3,397)	(105)	1
Unearned stock	(8,429)	--	-
Total stockholders' equity	204,073	34,176	29,2

Total liabilities, deferrable capital securities and stockholders equity	$ 1,610,542	$ 104,162	$30,7

See accompanying notes.

VESTA INSURANCE GROUP, INC.

UNAUDITED PRO FORMA CONSOLIDATED STATEMENTS OF OPERATIONS (IN THOUSANDS)

	For the Year Ended December 31, 200			
	Historical			P
	Vesta	Florida Select	American Founders/Securus(a)	Pro F Adjust
REVENUES:				
Net premiums earned....................	$216,999	$26,348	$ 1,954	$23,74
Investment product policy fees.........	2,209	--	2,614	--
Net investment income..................	45,903	2,936	21,784	75
Realized (losses) gains................	(2,061)	--	(1,298)	1,29
Other..................................	2,103	1,065	1,153	94
Total revenues....................	265,153	30,349	26,207	26,73
EXPENSES:				
Policyholder benefits..................	9,610	--	10,026	--
Losses and loss adjustment expenses incurred...........................	125,432	11,367		11,36
Policy acquisition expenses............	52,247	3,292	1,039	5,60
Operating expenses.....................	43,574	4,522	4,956	1,92
Interest on debt.......................	15,105	--	6,029	(28
Goodwill and other intangible amortization.......................	1,591	298	--	2,37
Total expenses....................	247,559	19,479	22,050	20,97
Income from continuing operations before taxes, minority interest, and deferrable capital securities......................	17,594	10,870	4,157	5,76
Income tax expense.........................	5,664	4,281	1,781	1,90
Minority interest, net of tax..............	1,595	--		1,64
Deferrable capital security distributions, net of tax.............................	1,986	--	--	--
Income from continuing operations..........	$ 8,349	$6,589	$ 2,376	$2,21

Income from continuing operations per share--basic	$ 0.46			
Income from continuing operations per share--diluted	$ 0.34			

(a) Represents the historical results of American Founders and its predecessor for the period Ja

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 the 8.625 million share offering had occurred at the beginning of the period. Pro forma basic shares outstanding are approximately 26.8 million shares and 27.5 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 32.9 million shares and 29.7 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 the offering and the closing of the acquisition of Florida Select.

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

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 8.625 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 $69.0 million, less underwriting discounts of $4.3 million and estimated offering expenses of $1.3 million.

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

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Exhibit 23

Consent of Independent Auditors

We consent to the incorporation by reference in the Registration Statement on Form S-8 (Nos. 33-74160, 33-81114, 33-81126, 33-80385, 33-80387, 33-80395, and 333-53810), the Registration Statement on Form S-3 (No.333-58764), and the Registration Statement on Form S-8 pertaining to the 2001 Incentive Compensation Plan of Vesta Insurance Group, Inc. of our report dated March 16, 2001, with respect to the consolidated financial statements of Florida Select Holdings Inc. for the year ended December 31, 2000 included in the Current Report (Form 8K) dated July 18, 2001.

/s/ Ernst & Young LLP

Tampla, Florida
July 13, 2001