Lead plaintiffs, Muriel Goodman and Thomas Schmidt, by and through their attorneys, allege the following upon personal knowledge as to those allegations concerning themselves and, as to all other matters, upon the investigation of counsel, which included: (a) review and analysis of public filings made by Insurance Management Solutions Group, Inc. ("IMSG" or the "Company"), with the Securities and Exchange Commission (the "SEC"); (b) review and analysis of securities analysts' reports concerning IMSG; (c) review and analysis of IMSG press releases, publicly available information, other public statements made by or on behalf of IMSG and/or any of the defendants; (d) contact with factual sources; (e) reference to authoritative accounting literature; and (f) consultation with forensic accounting experts.

INTRODUCTION AND OVERVIEW

Summary

1. This is a securities class action on behalf of purchasers of IMSG common stock pursuant and/or traceable to IMSG's February 11, 1999 initial public offering (the "IPO" or the "Offering"). Together with its affiliate, Geotrac of America, Inc. ("Geotrac"), IMSG purports to
be an outsourcing provider of business process solutions and flood-mapping services designed to serve insurance companies and financial institutions nationwide.

2. On February 11, 1999, IMSG completed an IPO of 3.35 million shares of common stock at a price of $11.00 per share, pursuant to a Registration Statement and Prospectus (collectively, the "Prospectus") filed with the SEC. As a result of the IPO, the Company, including the "Selling Shareholder," Venture Capital Corporation, raised a total of $36.85 million in gross proceeds. Of this amount, over $2.57 million was paid to the underwriters.

3. In the Prospectus and in presentations and oral statements made in connection with the Offering (the "Roadshow Presentations"), the defendants issued false and misleading statements representing that the Company was successfully assimilating its two primary lines of business, and that IMSG was realizing synergies between these purportedly overlapping but independent businesses and was well positioned to execute its growth strategy. Defendants' representations enabled IMSG and its insiders to raise almost $37 million from plaintiffs and the Class through the sale of IMSG common stock.¹

4. Defendants also misrepresented their intended use of proceeds raised from the IPO. According to the Company's registration statement: approximately $10 million of the estimated $23.2 million was being earmarked for general corporate purposes, including working capital; approximately $10 million was to be used to repay outstanding indebtedness; and approximately $3.2 million was purportedly intended to be used for capital expenditures on

¹According to IMSG's prospectus, it estimated that the IPO would generate approximately $23.2 million of net proceeds from the IPO. Ultimately, the IPO generated approximately $20.7 million in net proceeds.
upgraded technology, including network and mainframe upgrades. Nevertheless, as disclosed by two former Directors of Support, Engineering and Operations of the Company, the proceeds from the IPO were not made available for critical purchases, including a back-up generator for the Company's computer system.

5. To accomplish the Offering, IMSG contacted defendants Raymond James & Associates, Inc. and Keefe, Bruyette & Woods, Inc. (collectively, the "Underwriters") for the purpose of having them arrange a syndicate to underwrite a public offering of IMSG common stock. After discussions with representatives of these underwriters, IMSG's Chairman, CEO and President, David K. Meehan, was satisfied that the underwriters would help merchandise IMSG stock by way of preparing and disseminating positive statements in the pre-offering Roadshow Presentations, in selling sheets used by employees of the underwriters to sell IMSG stock and in the Prospectus.

6. Before participating in the Offering, the underwriters requested that IMSG insiders confirm that they were covered by directors' and officers' insurance and had IMSG and its insiders agree that IMSG would indemnify and hold the underwriters harmless from any attempt to hold them liable for violations of state and/or federal securities laws by the underwriters in connection with the Offering. Because IMSG was able to raise approximately $37 million from the Offering, the underwriters assured themselves of a large financial buffer to protect them from any adverse consequences resulting from any violations of the securities laws, thus providing the underwriters with little or no incentive to conduct a proper due diligence investigation. Directly and through their agents, by drafting, preparing and/or reviewing the documents necessary to complete the Offering and by merchandising IMSG stock, the
underwriters completed the Offering raising $37 million by selling 3.35 million IMSG shares at $11.00 per share.

7. Unbeknownst to the public shareholders who purchased IMSG stock pursuant to or traceable to the Offering, however, the Company's Prospectus was materially false and misleading. As defendants later admitted, the Prospectus failed to disclose that IMSG's flood mapping and flood zone determination subsidiary, Geotrac, was not compatible with the Company's other line of business and, as a result, could not be operated profitably or be integrated into the Company. On or about September 29, 1999, plaintiffs and the Class first began to learn this truth about the Company when IMSG warned of extremely disappointing third quarter 1999 financial results, caused in substantial part by the under-performance of Geotrac. On the same day, securities analyst, Ken Zuckerberg of Keefe, Bruyette & Woods stated that defendant Howard "was undertaking a comprehensive review of the firm's operating model and ownership structure."

8. On October 29, 1999, the Company also announced it had retained Raymond James (the same firm that was: (1) a Lead Underwriter in the IPO; and (2) assisted in selling Geotrac to IMSG shareholders) to sell the Company's flood mapping and flood zone determination business. In addition, at that time IMSG’s new acting President, David M. Howard, also made the shocking admission that the reason the Company was selling the flood mapping service business was because flood mapping had "never fit with the outsourcing business," "Geotrac was not bringing value to what we do," and because Geotrac would "have 'better synergies' if linked to a mortgage provider," not an insurance outsourcing service.
See Jeff Harrington, *IMSG Will Give Up Flood Map Business*, *St. Petersburg Times*, October 29, 1999, at 1E, attached hereto as Exhibit A. It was only then that defendants finally admitted that IMSG's two lines of business—its flood mapping and flood zone determination business (represented by Geotrac) and its insurance outsourcing services business—had been a "strategic misfit from the start." Remarkably— but three weeks after the first lawsuit in this matter was filed— in apparent effort to assuage the public's concerns that the Geotrac acquisition was indeed an utter failure, defendant Howard changed his position once again, stating:

> After examining all of the possible strategic alternatives for Geotrac, we determined it was in IMSG's best interest to keep the Company.

9. Defendants' admission that the Geotrac assets were incompatible with the Company's other line of business, from the start, was completely contrary to the representations made during the Roadshow Presentations and contained in the Prospectus, which stated that the Geotrac flood mapping services were central to both IMSG's present business model and the Company's plans for future growth and success. Defendants' disclosure regarding the incompatibility of the flood mapping and flood zone determination subsidiary with the rest of the Company— along with defendant Howard's publicized decision on September 29, 2000 to "undertake[] a comprehensive review of the firm's operating model"— confirms that the positive statements regarding Geotrac made during the Roadshow Presentations and contained in the Prospectus were false when made.

10. Defendants' belated disclosure of the true condition of the Company also had a material adverse impact on the price of IMSG common stock. The Company's stock, which was offered at $11.00 per share and which traded as high as $11.88 per share the day of the Offering, was

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2Here, as elsewhere, emphasis has been added unless otherwise indicated.
dropped to as low of $2.00 per share as the Company revealed to investors that its two lines of business had not been compatible and that defendants planned to sell Geotrac because it "never fit" into the Company's business model and "was not bringing value" to the Company. This decline represents a loss of over 80% of the value of the public shareholders' initial investment in the Company. According to the St. Petersburg Times, this decline also marked the Company for distinction as "worst performing IPO this year."

11. Public investors who purchased shares pursuant and/or traceable to the Offering Prospectus and who paid an artificially inflated price for shares of IMSG stock have suffered tens of millions of dollars in damages.

JURISDICTION AND VENUE

12. The claims asserted arise under §§11, 12(a)(2) and 15 of the Securities Act of 1933 (the "1933 Act"). Jurisdiction is conferred by §22 of the 1933 Act. Venue is proper pursuant to §22 of the 1933 Act as defendant IMSG and/or the Individual Defendants conduct business in this District and the wrongful conduct arose, in part, in this District.

THE PARTIES

13. On December 1, 2000, Muriel Goodman and Thomas Schmidt were appointed Lead Plaintiffs. Muriel Goodman purchased 2,000 shares of common stock of IMSG and Thomas Schmidt purchased 500 shares of common stock of IMSG and both plaintiffs' purchases were pursuant or traceable to the Company's Prospectus. Both were damaged thereby.

14. According to the statements made by the Company, defendant IMSG, together with its affiliate, defendant Geotrac, purports to be an outsourcing provider of business process
solutions designed to serve insurance companies and financial institutions nationwide. IMSG common stock traded in an efficient market on the Nasdaq during the Class Period.

15. Bankers Insurance Group, Inc. ("BIG"), purports to be a diversified group of property and casualty insurance companies with principal lines of business including flood, homeowners and automobile insurance. BIG is, and at all times was, the Parent of the Company and following the Offering, BIG owned approximately 62.7% of the Company's common stock. Due to BIG's dominance and control over the Company, BIG was able to and did hand-pick the senior management of IMSG both prior to and following the Offering.

16. Defendant Venture Capital Corporation ("Venture Capital") is a Cayman Islands corporation wholly owned by Venture II Trust, a discretionary charitable trust. In connection with the Offering defendant Venture Capital sold 1.35 million shares of INMG common stock to realize gross proceeds of approximately $14.85 million.

17. a. Defendant David K. Meehan ("Meehan") was, and is, Chairman of the Board, Chief Executive Officer and a director of IMSG. At the time of the Offering, defendant Meehan was also President of the Company and a member of its Marketing and Executive Committees. In addition, both prior to and following the Offering, defendant Meehan served as Vice Chairman of the Board of Directors of BIG. Defendant Meehan signed the false and misleading Registration Statement issued in connection with the Offering.

   b. Defendant Jeffrey S. Bragg ("Bragg") was, and is, Executive Vice President, Chief Operating Officer and a director of IMSG. Bragg signed the false and misleading Registration Statement issued in connection with the Offering.
c. Defendant Daniel J. White ("White") was, and is, President and Chief Executive Officer of Geotrac, and a director of the Company. Defendant White signed the false and misleading Registration Statement issued in connection with the Offering.

d. Defendant Robert M. Menke ("R.M. Menke") was, and is, a director of the Company and in that capacity signed the false and misleading Registration Statement issued in connection with the Offering. In addition, both prior to and following the Offering, defendant R.M. Menke served as President and Chairman of the Board of BIG. At the time of the Offering, defendant R.M. Menke was a member of the Company's Marketing and Executive Committees.

e. Defendant Robert G. Menke ("R.G. Menke") was, and is, a director of the Company and in that capacity signed the false and misleading Registration Statement issued in connection with the Offering. In addition, both prior to and following the Offering, defendant R.G. Menke served as Executive Vice President of BIG. At the time of the Offering, defendant R.G. Menke was a member of the Company's Marketing and Executive Committees.

18. The above individuals are the "Individual Defendants." They are each liable for the false statements pleaded in ¶¶ 32, 36, 38, 40, 42, and 44 below.

19. Defendants BIG, Meehan, R.M. Menke, R.G. Menke and White, by reason of their stock ownership and/or positions with the Company, were controlling persons of IMSG and are, therefore, liable under §15 of the 1933 Act for damages related to the allegations pled herein.

20. Defendants Raymond James & Associates, Inc. ("Raymond James") and Keefe, Bruyette & Woods, Inc. ("KB&W") (collectively the "Underwriter Defendants" or "Underwriters"), are investment banking firms which specialize, inter alia, in underwriting public offerings of securities. These firms served as Lead Underwriters of the IMSG Offering
and acted as representatives of the entire syndicate of investment banking firms, in helping the Company sell millions of shares of IMSG stock to the public at an artificially inflated price, for which they received over $2.579 million in underwriting fees. In connection with the Offering, the Underwriter Defendants had access to IMSG and its senior officers and thus had access to and/or obtained IMSG's internal corporate information, including the adverse information omitted and/or misrepresented, as alleged herein.

SUBSTANTIVE ALLEGATIONS

The Company

21. IMSG is a holding company that was incorporated in the State of Florida in December 1996 by its parent, Bankers Insurance Group, Inc. ("BIG" or the "Parent"), which contributed to IMSG two of its wholly owned operating subsidiaries, Insurance Management Solutions, Inc. ("IMS") and Bankers Hazard Determination Services, Inc. ("BHDS"), which were previously formed in August 1991 and June 1988, respectively. In July 1997, the Company acquired a 49% interest in Geotrac, Inc. and in July 1998 acquired the remaining 51% interest. Geotrac was subsequently merged into BHDS with the surviving entity being known as Geotrac of America, Inc. (together with IMSG and IMS, "IMSG" or the "Company"). Thus, at the time of the Offering, IMSG purported to have at least 18 months of experience managing both Geotrac and the insurance service business, and at no time prior to the Offering did IMSG disclose any problems related to integrating the two businesses.

22. Historically, the majority of the Company's revenues and earnings have come from providing services and products to BIG. In fact, prior to 1997, the Company's outsourcing services principally related to information technology services provided to BIG on a cost
reimbursement basis. In 1997, the Company entered into service arrangements with BIG to provide services primarily consisting of policy and claims administration (including policy issuance, billing and collection functions, claims adjusting and processing) and information technology services provided for BIG's flood and homeowners insurance lines of business. By 1998, BIG accounted for approximately 56% of the Company's total revenues. Thus, prior to and after the Offering, BIG was intimately familiar with the operations of IMSG, and IMSG was substantially dependent on the business of BIG's affiliated insurance companies.

**Business of IMSG**

23. According to the Company's Prospectus, at the time of the Offering, IMSG purported to operate in *two* major business segments: (1) the Company claimed to provide outsourcing services to the property and casualty insurance industry with an emphasis on flood insurance; and (2) the Company claimed to provide flood zone determinations primarily to insurance companies and financial institutions. The Company's outsourcing services include policy and claims administration (policy issuance, billing and collection functions, claims adjusting and processing) and information technology services. The Company's flood zone determination services are provided by Geotrac. At the time of the Offering, the Company stressed the importance of its flood zone determination and flood mapping business.

**Flood Zone Determination Business**

24. According to the Company, for a fixed fee it is able to provide customers -- typically mortgage loan originators or insurance companies -- with a determination as to whether a specified property is located within a federally designated flood zone classification. Determinations are purportedly made using the Company's proprietary national flood zone
database. At the time of the Offering, management estimated that over 85% of U.S. households are located in counties covered by the Company's electronic flood zone database. Moreover, at the time of the Offering management also estimated that approximately 75% of all determinations requested from the Company could be performed using automated flood zone determinations in a matter of seconds, and that due to the ongoing automation of the Company's flood zone database this number was increasing.

25. Thus, at the time of the Offering, the flood zone determination business was especially significant to investors in analyzing the Company's prospects and profitability because much of this business was fully automated, such that incremental revenue growth could purportedly be obtained with very little additional capital cost or investment. The automated flood zone determinations cost less for the Company to perform than manually generated determinations and, therefore, purported growth in this line of business represented a significant growth opportunity for the Company. In addition, defendants consistently stated that IMSG could use its customer bases in each line of business to cross-sell products and services, thereby making the two lines of business central to IMSG's growth plans.

**BIG Ownership of IMSG Prior to and After the IPO**

26. Prior to the Offering, the Company was a 74.4% owned subsidiary of BIG. BIG is the largest underwriter of flood insurance policies through independent agents (and the second largest overall) in the United States. Prior to and at the time of the Offering, BIG was the

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3This database, which is continually updated, allows the Company to determine if a particular structure is located within the special flood hazard areas established by the Federal Emergency Management Agency ("FEMA"). These determinations assist mortgage lenders in complying with federal regulations under which they must require borrowers to purchase the appropriate level of flood insurance.
Company's principal customer, accounting for approximately 75.6% (on a historical basis) and 56.4% (on a pro forma basis) of the Company's total revenues and 98.0% (on both a historical basis and a pro forma basis) of the Company's outsourcing revenues in 1997, and 56.2% and 96.8% of the Company's total revenues and outsourcing revenues, respectively, for the nine months ended September 30, 1998. As a result of the Offering, BIG reduced its beneficial ownership in the Company to 62.7%, and obtained both cash and non-cash benefits totaling over $100 million.

**BIG's Direct and Indirect Benefits from the Offering**

27. According to the Prospectus, BIG benefitted both directly and indirectly from the occurrence of the IMSG IPO – a conservative valuation of this combined benefit is over $100 million. The following summarizes the significant benefits which accrued to BIG as a result of the Offering:

- Following the Offering, the value of the 7,950,000 shares of common stock of IMSG owned by BIG, which shares were acquired at a cost of approximately $135,000, had a value of approximately $87.4 million, or a 64,700% increase.

- As part of the Offering, the Company was to repay a note payable to Bankers Insurance Company (a wholly owned subsidiary of BIG), which note had an outstanding balance of $2,353,424 at September 30, 1998, bore interest at 8.5% and matured in April 1999.

- As part of the Offering, a wholly owned subsidiary of the Selling Shareholder agreed to loan $12.0 million to BIG in exchange for a subordinated note. BIG agreed with the Company to use a portion of such loan proceeds to satisfy outstanding accounts and a note payable to the Company totaling approximately $11.3 million at September 30, 1998. The Company, in turn, agreed with BIG to use a portion of the funds received from BIG to satisfy accounts, income taxes and notes payable to BIG. As of September 30, 1998, the Company's accounts, income taxes and notes payable to BIG totaled approximately $10.9 million.

**The Company's Two Lines of Business Were Incompatible**
28. IMSG was offered to public investors as a company which was and had been aggressively pursuing two complementary lines of business. According to the Prospectus, the two lines of business presented significant growth opportunities for the Company and provided significant synergies, including cross-marketing and sales opportunities. Those two purportedly interrelated lines of business include, (1) comprehensive policy and claims outsourcing services to the property and casualty insurance industry, with an emphasis on providing these services to the flood insurance market, and (2) flood mapping and flood zone determinations to financial institutions, mortgage lenders and insurance companies. The Company's outsourcing services include policy administration, claims administration and information technology services.

29. At the time of the Offering the Company portrayed itself as being uniquely well situated to take advantage of then-current and foreseeable demand for both flood insurance outsourcing and flood zone determination services. To this end, the Prospectus defined the Company's principal growth strategies to include: (1) expanding the Company's flood outsourcing business; (2) expanding the Company's existing relationships with flood insurance outsourcing and flood zone determination customers to generate additional outsourcing business; (3) focusing on maximizing the Company's existing economies of scale to provide customers with more cost-effective services, and continuing to expand such efficiencies through greater utilization of the Company's existing infrastructure and databases; (4) expanding the Company's direct sales force and developing strategic relationships with other service providers; (5) generating recurring revenues by providing services based on long-term contractual relationships

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4 A flood zone determination is necessary in order to ascertain a property's flood zone classification. In addition, due to more stringent underwriting criteria, P&C insurers increasingly require flood zone determinations prior to issuing commercial property policies.
or based upon events which occur frequently in the course of a customer's business; and (6) pursuing strategic acquisitions that offer opportunities to increase market share or expand the Company's menu of outsourcing services. At the time of the Offering, plaintiffs and the Class understood that each of these announced goals were inexorably tied to the development of both the Company's insurance outsourcing services and its flood mapping business.

30. Unbeknownst to shareholders, however, the management of the flood mapping and flood zone determination business was not compatible with the management of the other outsourcing service business and, as such, this segment of the Company's business could not possibly provide IMSG with significant growth. In fact, defendants have now admitted that the two business segments were "never compatible" and could not be integrated within IMSG. In fact, the only reason the flood mapping business was grouped with the insurance outsourcing business in the first place was because it gave BIG an opportunity to sell its Geotrac assets to the public at a significant premium in conjunction with the sale of the other IMSG assets during the Offering.

FALSE AND MISLEADING STATEMENTS IN THE ROADSHOW PRESENTATIONS, REGISTRATION STATEMENT AND PROSPECTUS

31. Prior to February 1999, in connection with the Offering, representatives of the Lead Underwriters conducted telephone conferences and met in person with potential investors in several cities throughout the United States and presented an extremely positive picture of IMSG's successful integration efforts, growth strategy and marketing programs. Representatives of IMSG, including defendant Meehan, also participated in oral presentations which included demonstrative presentations which stressed that IMSG was successfully integrating the flood mapping business with the insurance outsourcing services business, and was successfully
executing its strategy of increasing sales to existing customers. These positive statements about IMSG's current operations and past performance were consistent with the statements made by the defendants in the Registration Statement and Prospectus.

A. Roadshow Misrepresentations

32. Thus, to stimulate demand for IMSG's shares to be sold in the IPO the Lead Underwriter Defendants conducted a multi-city roadshow during January 1999 wherein they and certain of the Individual Defendants (including defendant Meehan) traveled to, inter alia, New York City, Denver, Boston, Providence, Philadelphia and Los Angeles to meet with potential investors and present highly favorable information about IMSG, which was much more positive than that contained in the IPO Prospectus, including forecasts of very strong revenue and profit growth in 1999 and 2000. During the Roadshow Presentations, they told potential investors:

- Since the flood mapping and insurance outsourcing businesses were complimentary they could be expected to create new business opportunities and create synergies that would increase revenues.

- Management was fully able to integrate Geotrac's flood mapping business with and into the Company's insurance outsourcing business.

- Investors could reasonably expect the stock to rise approximately 60% in value in the next 12 months and 100% in value over the next 24.

- IMSG's earnings were predictable because 55% of the numbers are recurring based on IMSG's proprietary links to the flood insurance market and in addition, aggressive new contract signings had broadened the firms' presence into all segments of personal and commercial lines insurance. Moreover, they represented that IMSG's turnkey outsourcing product would be a driving factor in obtaining new business.

- IMSG was growing at 40%-plus and had the capability to maintain a 20% secular growth rate for the next five years.

- The Company had a sound business plan, an experienced management team and new capital, which they stated would allow IMSG to successfully expand its
revenue base with non-affiliated customers and grow earnings at an annualized rate of at least 20% over the next 18-24 months.

- IMSG could be purchased at a compelling valuation as a pure play in the insurance processing and outsourcing fields with attractive earnings potential.

33. The representations made by the Underwriters and Individual Defendants reproduced above were materially misleading as they falsely represented that the Company expected to capitalize on significant growth presented, in part, by its flood mapping business, which would allow the Company to realize additional revenues and allow the Company to achieve synergies and economics of scale and to expand its outsourcing services. In addition, these statements were materially false for, among other reasons, the following:

a. The flood mapping business was not compatible with the Company's outsourcing services and synergies could not possibly be realized between the flood mapping and insurance outsourcing businesses such that expected future growth was well below these estimates;

i. According to a former database architect for IMSG, the computer systems used by Geotrac and IMSG were incompatible. The incompatibility between the systems became apparent within a couple months of IMSG's initial 49% acquisition of Geotrac in July 1997.

ii. A former director of engineering and operations noted that these computer incompatibility problems "were well known at the Company, prior to the IPO, even among upper level management, such as Kyle Moll, the Chief Information Officer."

iii. IMSG's former database architect recalled that IMSG's network engineers were constantly "hounded" because the pipeline between

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5The Vice President of the development group that handled IMSG's flood zone determination project during the September - October 1997 period, Joe O'Keefe, was reportedly transferred to a different corporate department because of the questions he was raising, concerning the Geotrac acquisition.
IMSG and Geotrac was down. The only means through which the systems could exchange information was the File Transfer Protocol ("FTP") which was frequently problematic. Transfers of information such as policies, plats, longitudes or latitudes failed to be interchanged because of such computer problems.

iv. The former director of engineering and operations noted that the systems' incompatibility problem was so severe that "file transfers failed on a daily basis," and that despite the presence of this problem, "there wasn't any energy from the Geotrac people in making them compatible." In fact, he stated "there was no interest on either side in compromising."[Emphasis Supplied]

b. As a result of the incompatibility of the flood mapping and insurance outsourcing services, few if any cross-over selling opportunities existed, which negatively impacted future growth expectations;

c. As a result of the problems that defendants were having integrating the flood mapping and insurance outsourcing services businesses, the Company could not consolidate Geotrac into its operations nor could it access Geotrac's customer base as a means of generating meaningful additional revenue for the Company, thus making it impossible for IMSG to meet analysts' expectations;

d. As a result of the Company's inability to maximize any significant economies of scale through the use of the Company's separate and distinct databases, no synergies could be expected;

e. Due to the incompatible nature of the Company's flood mapping and insurance outsourcing businesses, Geotrac was not, could not, and would not provide any significant growth opportunities for the Company;

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6A "pipeline" is the T-1 line or other physical connection between the two computer systems.
f. Due to the extent of the incompatibility between the Company's flood mapping and insurance outsourcing business, the Company, through Defendant Howard, acknowledged in September, 1999 that it was consequently "undertaking a comprehensive review of the firm's operating model" which entailed trying to sell Geotrac.

g. As a result of the foregoing, the defendants had no reasonable basis to conclude that IMSG expected to experience significant growth in its business or revenues.

34. Thus, having performed the Roadshow Presentations and after defendants were confident that their marketing efforts were successful, on February 11, 1999, the Company completed a 3.35 million share IPO of IMSG stock priced at $11.00 per share, with gross proceeds totaling $36.85 million. Included in this Offering was up to 1.35 million shares sold by Venture Capital. Venture Capital immediately repaid BIG at least $12 million, which it realized through the sale of its IMSG stock.

B. Misrepresentations in Prospectus and Registration Statement

35. The Offering was accomplished via a Prospectus and Registration Statement filed with the SEC and signed by each of the Individual Defendants. The Prospectus contained several material misrepresentations and failed to disclose material facts necessary to make the statements contained therein not false and misleading. The Prospectus materially misrepresented facts relating to the Company's internal operations and capacities, and its ability to integrate and operate Geotrac with the Company's other line of business. The Prospectus failed to disclose that, as defendants later admitted, the flood mapping business was wholly incompatible with the Company's insurance outsourcing services.
i. The "Synergistic" Benefits of Geotrac Acquisition

36. The Prospectus stated:

The acquisition of Old Geotrac (the "Geotrac Acquisition") strengthens the Company's position as a leader in the flood zone determination business and broadens the range of flood data services the Company is able to provide. In addition, the Company is in the process of consolidating its own flood zone determination operations with those of Old Geotrac in an effort to realize economies of scale. Finally, the Company believes that access to Old Geotrac's customer base of financial institutions and insurance companies will facilitate cross-selling opportunities and expansion of the Company's outsourcing services.

37. The statements contained in the Prospectus as detailed in ¶36 above were materially misleading as they falsely represented that the Company expected to capitalize on significant "cross-selling opportunities" presented by its flood mapping business, which opportunities would allow the Company to realize additional revenues and to expand its outsourcing services. Moreover, the representation that the Geotrac acquisition "strengthens the Company's position as a leader in the flood zone determination business," and that the Geotrac acquisition would allow the Company to realize economies of scale, were each false and misleading when made because as defendants knew or recklessly disregarded, the acquisition of Geotrac could not and did not "bring value" to the Company. Indeed, the Geotrac acquisition not only failed to "strengthen" or "bring value" to the Company, it had impaired the Company as a result of significant computer incompatibility problems which, as alleged in ¶33(a) above, were well-recognized by defendants for approximately twenty months prior to the IPO. These problems, along with the others alleged herein, caused the Company to ultimately "review its operating model" in September 1999 and -- to that end -- make efforts to divest itself of Geotrac.
In addition, the statements contained in the Prospectus were materially false at the time of the Offering for, among other reasons, the following:

a. As more particularly alleged in ¶33(a) above, the flood mapping business was not compatible with the Company's outsourcing services, largely on account of problems concerning the incompatibility of the computer systems for the Company and for Geotrac;

b. As a result of the incompatible nature of the flood mapping and insurance outsourcing services, few if any cross-over selling opportunities existed;

c. As a result of the problems which defendants were having integrating the flood mapping and insurance outsourcing services businesses, the Company could not consolidate Geotrac into its operations nor could it access Geotrac's customer base as a means of generating meaningful additional revenue for the Company;

d. As a result of the Company's inability to maximize any significant economies of scale through the use of the Company's separate and distinct databases no synergies could be expected; and

e. As a result of the foregoing, the defendants had no reasonable basis to conclude that IMSG expected to experience significant growth in its business or revenues.

ii. IMSG Falsely Claims that it is Positioned to Capitalize on Positive Industry Trends

38. In addition to the false representations regarding synergies between the flood mapping services and the outsourcing services, the Prospectus also created the materially misleading impression that IMSG was well positioned to capitalize on foreseeable and expectant growth in demand for the Company's flood mapping services. In this regard, defendants created the materially false impression that the Company was already capitalizing and could continue to
capitalize on growth in its flood zone determination business as a result of the continuing demand which would be driven by the following factors:

- **Higher Levels of Compliance with Federal Flood Laws.** The 1994 Reform Act has compelled mortgage lenders to enforce federal flood insurance requirements or be subject to substantial monetary penalties. As a result, a higher percentage of purchasers of residential property located in federally designated high-risk flood zones are being required to purchase flood insurance as a condition to receiving mortgage financing from a federally-backed financial institution....

- **Increase in Voluntary Purchase of Flood Insurance.** The Company expects the number of property owners who purchase flood insurance on a voluntary basis to increase over the next several years. Management believes consumers are increasingly aware that affordable flood insurance is available to them through the Flood Program....

- **Growth in Commercial Flood Zone Determination Business.** The demand for flood zone determinations by commercial property insurers and commercial mortgage lenders has increased recently and the Company expects this growth pattern to continue.

39. The statements detailed in ¶38 above were each false and misleading as detailed in ¶¶ 33 and 37 above. Moreover, because the Company could not integrate its flood mapping business into its other business, IMSG was not positioned to capitalize on any purportedly positive industry trends.

iii. **IMSG Fails to Disclose Existing Adverse Conditions**

40. The Company's Prospectus was also materially false and misleading because it failed to disclose existing adverse conditions that were affecting the Company at the time of the Offering and that would continue to have an adverse effect on the Company, including the fact that the Geotrac assets were not compatible with IMSG's other assets or that economies of scale were impossible to achieve. Rather, the Prospectus falsely represented such events as future contingencies, stating:
On July 31, 1997 the Company acquired a 49% equity interest in Old Geotrac. In July, 1998, the Company acquired the remaining 51% equity interest in Old Geotrac. The Company is in the process of consolidating its existing flood zone determination operations with those of Old Geotrac in an effort to realize economies of scale. There can be no assurance, however, that the Company will be able to integrate the operations of Old Geotrac with its own operations, or that such economies of scale will be realized. The failure to successfully integrate its own operations with those of Old Geotrac could have a material adverse effect on the Company's business, financial condition and results of operations.

41. The statements in ¶40 above, were materially false and misleading for the reasons stated herein in ¶¶ 33 and 37. In addition, these statements were false and misleading at the time of the Offering because they represented as mere contingencies the difficulties associated with integrating Geotrac into the Company which the Company was then experiencing. While the Prospectus claimed that "[t]he failure to successfully integrate its own operations with those of Old Geotrac could have a material adverse effect on the Company's business, financial condition and results of operations," in fact, at the time of the Offering the material adverse effect was already occurring. At the time of the Offering, the inability of IMSG to integrate its flood mapping business with its outsourcing services business was already having, and would continue to have, a material adverse effect on the Company because of the significant drain this imposed on the Company's resources.

42. At the time of the Offering, the Company's only two lines of business were not compatible and the problems involved with integrating Geotrac with the insurance service outsourcing business were preventing the Company from operating efficiently and according to its announced business plan. The Prospectus omitted and failed to disclose these true adverse conditions and merely warned of normal market risks, such as external competitive forces, which
could possibly affect the Company at some later time. In this regard, the Prospectus stated the following:

There can be no assurance that the Company will be able to compete successfully against current and future competitors, or that competitive pressure faced by the Company will not have a material adverse effect on its business, financial condition and results of operations.

43. The statements in the Prospectus, reproduced in part in ¶42 above, regarding the ability of the Company to compete successfully against competitors were materially false and misleading for the reasons stated herein in ¶¶ 33 and 37. In addition, these statements were false and misleading at the time of the Offering since, at that time, the Company was already at a significant competitive disadvantage as a result of the loss of management's focus on flood mapping, and as a result of the drain on Company resources the flood mapping business had become. Thus, as a result of managements' inability to integrate these businesses, at the time of the Offering, the Company's ability to effectively compete in the flood mapping market was already significantly impaired. Defendants were obligated to disclose this impairment and their failure to do so rendered any positive statements regarding growth, synergies or the ability of the Company to complete successfully in their market false and misleading.

iv. Defendants Misrepresent IMSG's Intended Use of Proceeds

44. In IMSG's Registration Statement, in a section titled "Use of Proceeds," defendants state:

The net proceeds to the Company from the [IPO] . . . are estimated to be approximately $23.2 million. The Company intends to use approximately $10.0 million of the net proceeds to repay indebtedness that is outstanding at the time of this offering. Additionally, the company intends to use approximately $3.2 million for capital expenditures on upgraded technology, including network and mainframe upgrades, and the remaining balance of $10.0 million for general corporate purposes including working capital and possible acquisitions.
45. The statement in ¶44 was materially false and misleading. Despite defendants' representation that approximately $10 million of the net proceeds would be used for general corporate purposes including working capital, and that approximately $3.2 million would be used for capital expenditures on upgraded technology, former employees of the company recall that no such funds were made available for essential expenditures, much less general corporate purposes.

46. Two former directors of engineering and operations at IMSG recall that the Company did not have a backup generator for the computer systems in the event of power failure. While the type of generator that was needed cost approximately $250,000 including installation, both individuals were separately told by CIO, Kyle Moll, that the "money wasn't going to be available" and that "we were not to plan any projects or do any infrastructure changes based on that money." One of the above-referenced individuals stated that he left IMSG partly because of the fact that when he and his colleagues "asked and pressed [to use proceeds from the IPO, they] got stonewalled." The other individual, who was also in charge of preparing the Company's budget for year 2000 was specifically told by Kyle Moll, during the fall of 1999, that no proceeds from the IPO were to be used for major capital purchases.

THE TRUTH IS BELATEDLY REVEALED

47. Beginning on September 29, 1999, the Company issued a series of statements which revealed, for the first time, the true financial and operational problems that existed at the Company on February 11, 1999. These belated admissions revealed that at the time of the Offering, the Company had been experiencing severe operational difficulties related to the integration of Geotrac. The first of these statements was made on September 29, 1999, at which
time the Company issued a press release, published on *Business Wire*, which stated, in substantial part, the following:

*Insurance Management Solutions Group, Inc. today reported that it has lowered its earnings expectations for the third quarter ended September 30, 1999 and for the fiscal year ending December 31, 1999, primarily due to continued weakness in the Company’s flood zone determination business as well as lower than expected outsourcing services revenue.*

* * *

During the past several months, the Company has made progress in adjusting the expense structure of its flood zone determination operations to match its revenue base. However, even upon the completion of such expense structure adjustments, the Company does not expect its flood zone determination operations to achieve previous levels of profitability for the foreseeable future.

...This is attributable to several factors, including lower than expected claims outsourcing revenues resulting from lower than anticipated storm activity, as well as lower than expected policy outsourcing revenues resulting from lower than anticipated premium volumes experienced by many of the Company’s affiliated and unaffiliated clients.... In order to adjust for these shortfalls, the Company has begun to implement many cost control strategies that are designed to better monitor profitability at the individual product and customer level.

Howard added, "Although we are disappointed with the revised projections, *we believe the cost control strategies that are being implemented will better enable us to monitor expenses so as to align them with recent trends and anticipated demands. In addition to striving for improved corporate efficiencies, we continue to explore opportunities for new services that will better position [IMSG] for the year 2000 and beyond. We will continue to bring strategic value to our clients, while looking for ways to enhance shareholder value. We remain very optimistic about the future of our business.*"

48. The press release detailed in ¶47 above revealed for the first time the significant and material problems the Company had been having in providing flood mapping services. The Company also issued another release announcing dismal third quarter results and that the Company had retained Raymond James to "Pursue Strategic Alternatives For Flood Zone Determination Business."
49. As reported in the *St. Petersburg Times* on October 29, 1999, the Company admitted that the flood zone mapping business was a "strategic misfit from the start," and that the Company was looking to sell its flood zone mapping operations in order to focus solely on its insurance outsourcing business. As evidence of the foregoing, the *St. Petersburg Times* reported the following:

Howard, a Bankers executive recruited to reorganize [IMSG] in August, said *flood mapping never fit with the outsourcing business.* He declined to categorize the purchase of Geotrac as a mistake but said *the unit would have "better synergies" if linked to a mortgage provider.* "Geotrac ... was not bringing value to what we do," he said in an interview Thursday. "We are focusing purely on insurance outsourcing. That is our goal."

See Exhibit A.

50. This shocking admission was in stark contrast to the statements made in the Prospectus and during Roadshow Presentations regarding the flood mapping business and Geotrac. Unlike the Prospectus, which represented that Geotrac and the flood mapping business was a high-growth, high-profit line of business which would allow the Company to realize synergies and cross-marketing opportunities, the statements made in the *St. Petersburg Times* article confirm that the flood mapping business was never compatible with the Company's other line of business.

**CLASS ACTION ALLEGATIONS**

51. Plaintiffs bring this action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of all persons who purchased IMSG stock pursuant and/or traceable to the February 11, 1999 false and misleading Registration Statement and Prospectus (the "Class"). Excluded from the Class are defendants and members of their immediate families, their affiliates,
any entity in which a defendant has a controlling interest, and the heirs of any such excluded party.

52. The members of the Class are so numerous that joinder of them is impracticable. While the exact number of Class members is unknown at the present time, the Company has more than 12 million shares of common stock outstanding, owned by hundreds of shareholders throughout the country. Plaintiffs are representative parties who will fully and adequately protect the interests of all Class members. Plaintiffs are represented by counsel who are experienced and competent in both class action and securities litigation. Plaintiffs have no interests which conflict with those of the Class they seek to represent. Moreover, a class action is superior to all other available methods for the fair and efficient adjudication of this controversy.

53. Among the common questions of law and fact are whether:

(a) the Prospectus contained an untrue statement of material fact or omitted to state a material fact necessary to make the statements therein not misleading;

(b) the Securities Act was violated by defendants' acts as alleged herein;

(c) members of the Class have sustained damages, and, if so, the proper measure of such damages.

FIRST CLAIM FOR RELIEF

(Against all Defendants for Violations of Section 11 of the 1933 Act)

54. Plaintiffs repeat and reallege each and every allegation contained above as if fully reproduced hereunder and pursuant to the Claims herein.

55. This Claim for Relief is brought by plaintiffs pursuant to §11 of the 1933 Act, 15 U.S.C. § 77k, on behalf of the Class, against all defendants.
56. The Registration Statement and Prospectus issued in connection with the
February 11, 1999 Offering of 3.35 million shares of IMSG common stock priced at $11.00 per
share, which raised total aggregate proceeds of $36.85 million, was inaccurate and misleading,
contained untrue statements of material facts, omitted to state other facts necessary to make the
statements made not misleading, and concealed and failed to adequately disclose material facts as
described above. Specifically, the Registration Statement and Prospectus each failed to disclose
and concealed the true fact that the Company’s flood mapping subsidiary could not be integrated
into the Company’s operations because the two lines of business were incompatible, and as such,
it would not provide synergies or future revenue growth as falsely represented by the defendants.
This omission was, therefore, a violation of SEC Regulation S-K, Item 303(a), which requires
that trends and conditions which are having and will continue to have an adverse effect on the
registrant's operating results must be disclosed.

57. The Company is the registrant for the Offering. As the issuer of the IPO shares,
IMSG is strictly liable to plaintiffs and the other members of the Class for the material
misstatements in and omissions from the Registration Statement and Prospectus.

58. The Defendant Underwriters, sold stock in the Offering as defined in §11(a)(5) of
the 1933 Act. The Defendant Underwriters were, therefore, responsible for the contents and
dissemination of the Registration Statement and Prospectus.

59. The Underwriters owed to the purchasers of the shares of IMSG, including
plaintiffs and the other members of the Class, the duty to make a reasonable and diligent
investigation of the statements contained in the Prospectus at the time it became effective, to
ensure that said statements were true and that there was no omission to state a material fact
required to be stated in order to make the statements contained therein not misleading. The Underwriters knew, or in the exercise of reasonable care, should have known of the material misstatements and omissions contained in the Prospectus as set forth herein. As such, the Underwriters are liable to plaintiffs and the other members of the Class.

60. None of the defendants named herein made a reasonable investigation or possessed reasonable grounds for the belief that the statements contained in the Registration Statement and Prospectus were true, did not omit any material facts and were not misleading.

61. Each of the defendants issued, caused to be issued and participated in the issuance of materially false and misleading written statements to the investing public which were contained in the Registration Statement and Prospectus, which misrepresented or failed to disclose, inter alia, the adverse facts set forth above. By reasons of the conduct herein alleged, each defendant violated, and/or controlled a person who violated, §11 of the 1933 Act.

62. Plaintiffs and the other members of the Class acquired shares pursuant and/or traceable to the IPO and issued pursuant to the Registration Statement and Prospectus.

63. Plaintiffs and the other members of the Class have sustained damages. The value of their shares has declined substantially subsequent to, and due to, defendants' violations.

64. At the times they purchased shares, plaintiffs and the other members of the Class were without knowledge of the facts concerning the wrongful conduct alleged herein and could not have reasonably discovered those facts prior to September 29, 1999. Less than one year has elapsed from the time that plaintiffs discovered or reasonably could have discovered the facts upon which this Complaint is based to the time that plaintiffs filed this Complaint. Less than
three years have elapsed from the time that the securities upon which this Claim for Relief is
brought were bona fide offered to the public to the time plaintiffs filed this Complaint.

SECOND CLAIM FOR RELIEF

(Against All Defendants for Violations Of
Section 12(a)(2) of the 1933 Act)

65. Plaintiffs repeat and reallege each and every allegation contained above.

66. This Claim for Relief is brought by plaintiffs on behalf of themselves and the
Class pursuant to §12(a)(2) of the 1933 Act, 15 U.S.C. §77l(a)(2).

67. The defendants named in this Claim for Relief were sellers, offerors, and/or
solicitors of sales of the shares offered and sold in connection with the Offering.

68. The actions of solicitation taken by the defendants named in this Claim for Relief
included participation in the preparation and dissemination of the false and misleading
Prospectus and the Roadshow Presentations. The written and oral communications made in
connection with the Roadshow Presentations and Prospectus contained untrue statements of
material facts, omitted to state other facts necessary to make the statements made not misleading
and failed to disclose material facts.

69. The Defendant Underwriters offered for sale and sold the shares purchased by
plaintiffs and the Class and received over $2.579 million in fees for doing so.

70. Defendants Meehan, R.M. Menke and R.G. Menke were, as members of the
Company's Marketing and Executive Committees, in a position to, and in fact did, control the
general affairs of the Company.

71. Each defendant named in this Claim for Relief solicited and/or was a substantial
factor in the purchase by each member of the Class of IMSG common stock. But for the
participation by these defendants, including the solicitation by these defendants as set forth
herein, the Offering could not and would not have been accomplished. The defendants named
herein participated in the acts detailed in ¶¶ 32, 36, 38, 40, 42 and 44, as follows:

a. They actively and jointly drafted, revised, and approved the Prospectus
and other written selling materials by which the Offering was made to the investing public.
These written materials were "selling documents," calculated by these defendants to create
interest in IMSG common stock and were widely distributed by defendants for that purpose;

b. These defendants finalized the Registration Statement and Prospectus and
caused them to become effective. But for these defendants having drafted, filed, and signed the
Registration Statement and Prospectus, the Offering of IMSG common stock could not have
been made; and

c. These defendants conceived and planned the Offering and together jointly
orchestrated all activities necessary to effect the sale of these securities to the investing public, by
issuing the securities, promoting the securities, supervising their distribution and ultimate sale to
the investing public.

72. The defendants were obligated to make a reasonable and diligent investigation of
the written and oral statements made in the Prospectus, selling sheets and Roadshow
Presentations, to insure that such statements were true and that there was no omission to state a
material fact required to be stated in order to make the statements contained therein not
misleading.

73. Plaintiffs and the other members of the Class purchased or otherwise acquired
IMSG shares pursuant to the defective Registration Statement and Prospectus. Plaintiffs did not
know, or in the exercise of reasonable diligence could not have known, of the untruths and
omissions contained in the Prospectus or selling sheets or made in connection with the
Roadshow Presentations.

74. Plaintiffs hereby tender to defendants those securities which plaintiffs and the
other members of the Class continue to own, on behalf of all members of Class who continue to
own such securities, in return for the consideration paid for those securities together with interest
thereon.

75. By reason of the conduct alleged herein, these defendants violated, and/or
controlled a person who violated, §12(a)(2) of the 1933 Act. As a direct and proximate result of
these violations of §12(a)(2), plaintiffs and the other members of the Class sustained substantial
damages in connection with the purchase of IMSG stock. On behalf of all members of the Class
who still hold their IMSG shares, plaintiffs seek rescissory damages. Accordingly, plaintiffs, on
behalf of all members of the Class who continue to own such securities, seek to exercise their
right to rescind and recover the consideration paid for their IMSG shares and hereby elect to
rescind and tender all IMSG shares held by members of the Class to the defendants sued herein.

76. Less than three years has elapsed from the time that the securities upon which this
Claim for Relief is brought were sold to the public to the time of the filing of this action. Less
than one year has elapsed from the time when plaintiffs discovered or reasonably could have
discovered the facts upon which this Claim for Relief is based to the time of the filing of this
action.
THIRD CLAIM FOR RELIEF

(Against Defendants BIG, Meehan, R.M. Menke, R.G. Menke and White for Violations of Section 15 of the 1933 Act)

77. Plaintiffs repeat and reallege each and every allegations contained above.

78. This Claim for Relief is brought pursuant to §15 of the 1933 Act, 15 U.S.C. §77o, against defendants BIG, Meehan, R.M. Menke, R.G. Menke and White.

79. Defendants Meehan, R.M. Menke, R.G. Menke, White and BIG, by reason of their stock ownership, management position and/or membership on the Company's Board of Directors, were controlling persons of the Company and had the power and influence, and exercised the same, to cause IMSG to engage in the violations of law complained of herein. Defendants Meehan, R.M. Menke, R.G. Menke, White and BIG are liable under §15 of the 1933 Act.

PRAYER

WHEREFORE, plaintiffs pray for judgment as follows: declaring this action to be a proper class action; awarding damages, including interest; equitable relief, including, but not limited to rescission; and such other relief as the Court may deem proper.

JURY DEMAND

Plaintiffs demand a trial by jury.
DATED: February 7, 2001

MILBERG WEISS BERSHAD HYNES & LERACH LLP

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on February 7, 2001, a true and correct copy of the foregoing Consolidated Amended Class Action Complaint was sent via Federal Express to the following counsel:

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ROBERT R. ADLER
The struggling company is shopping around its Ohio-based mapping operation in order to focus on insurance outsourcing tasks.

Acknowledging a strategic misfit from the start, Insurance Management Solutions Group is trying to exit the business of providing flood zone maps for insurers and mortgage companies.

IMSG, a public spinoff of Bankers Insurance Group that is struggling to inspire investor confidence, has hired Raymond James & Associates to shop around its Ohio-based flood mapping operation.

President David Howard said he already has talked informally with three companies in the mortgage business that are interested in buying the unit, which employs about 175 of IMSG's 900 employees.

IMSG blamed its weak flood mapping business Thursday in reporting a third-quarter loss of $228,000, or 2 cents a share. In the year-ago period, the company made $1-million, or 9 cents a share.

The fledgling St. Petersburg company has relied on flood zone mapping for up to 40 percent of its revenues. The rest comes from handling insurance claims and related outsourcing tasks for other insurers.

Bankers Insurance made its big push into flood zone mapping in 1998, buying GeoTrac of Norwalk, Ohio, the nation's second-largest provider of such services. Bankers relocated its own, smaller flood mapping business to Ohio. When Bankers spun off IMSG in February, GeoTrac was part of the package.

Howard, a Bankers executive recruited to reorganize IMSG in August, said flood mapping never fit with the outsourcing business. He declined to categorize the purchase of GeoTrac as a mistake but said the unit would have "better synergies" if linked to a mortgage provider. "GeoTrac . . . was not bringing value to what we do," he said in an interview Thursday. "We are focusing purely
on insurance outsourcing. That is our goal."

Flood mapping is still making a profit for IMSG, but it is off about 30 percent from forecasts. The biggest problem is a falloff in mortgage refinancings, in which lenders may use IMSG to determine if a house is within a flood zone.

Last month, IMSG warned of continued weak earnings through the rest of the year, knocking its stock down 40 percent.

After dipping as low as $2.25 a share, IMSG's languishing stock closed Thursday unchanged at $2.87 1/2 - down a staggering 74 percent from its initial public offering of $11 a share.

For the third quarter, revenues fell 3 percent to $15.6-million from $16.1-million in the year-ago period. Flood mapping dragged revenues down, falling 31 percent to $4.4-million from $6.4-million. By contrast, outsourcing revenues rose to $11.3-million, up 15 percent from $9.8-million a year ago.

The quarter also was affected by $532,000 in pre-tax charges connected with the early repayment of a loan and severance payments to two executives who were restructured out of their jobs: chief financial officer Kelly King and vice president Howard Davis.

Without the charges, IMSG would have made $104,000, or a penny a share.

LOAD-DATE: October 29, 1999