

AMERICAN MEDICAL SECURITY GROUP INC  
Form DEFA14A  
November 03, 2004

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

SCHEDULE 14A  
(RULE 14A-101)

PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
(AMENDMENT NO. \_\_)

Filed by the Registrant  |  
Filed by a Party other than the Registrant  |

Check appropriate box:

| Preliminary Proxy Statement  
 | Confidential, For Use of the Commission Only (as permitted  
by Rule 14a-6(e)(2))  
 | Definitive Proxy Statement  
 | Definitive Additional Materials  
 | Soliciting Material under Rule 14a-12

AMERICAN MEDICAL SECURITY GROUP, INC.

-----  
(Name of Registrant as Specified in Its Charter)

-----  
(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of filing fee (Check the appropriate box):

| No fee required.

| Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

- (1) Title of each class of securities to which transaction applies:
- (2) Aggregate number of securities to which transaction applies:
- (3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the filing fee is calculated and state how it was determined):
- (4) Proposed maximum aggregate value of transaction:
- (5) Total fee paid:

| Fee paid previously with preliminary materials:

| Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the form or schedule and the date of its filing.

- (1) Amount Previously Paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

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Filed by: American Medical Security Group, Inc.  
Pursuant to Rule 14a-6(b)  
under the Securities Exchange Act of 1934

Subject Company: American Medical Security Group, Inc.  
Commission File No. 1-13154

On November 3, 2004, American Medical Security Group, Inc. issued the following press release announcing the company's financial results for the quarter ended September 30, 2004:

EXHIBIT 99

[AMERICAN MEDICAL SECURITY GROUP, INC. LOGO]

P.O. Box 19032  
Green Bay, WI 54307-9032

FOR MORE INFORMATION CONTACT:  
Cliff Bowers  
Vice President  
Corporate Communications  
(920) 661-2766

-----  
NEWS RELEASE  
for Immediate Release  
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AMERICAN MEDICAL SECURITY GROUP  
REPORTS THIRD QUARTER 2004 FINANCIAL RESULTS

- |X| 3Q 2004 GAAP NET INCOME OF \$0.36 PER DILUTED SHARE  
AND ADJUSTED NET INCOME OF \$0.54
- |X| MEDICAL MEMBERSHIP UP SLIGHTLY
- |X| INDIVIDUAL IN-FORCE MEMBERSHIP CONTINUES TO GROW
- |X| COMBINED RATIO CONTINUES TO IMPROVE YEAR-ON-YEAR

GREEN BAY, Wis. - November 3, 2004 - American Medical Security Group, Inc. (NYSE: AMZ) (AMS), today reported net income for the third quarter of 2004 of \$5.3 million or \$0.36 per diluted share, including a charge of \$2.6 million or \$0.18 per diluted share for transaction costs related to the company's proposed merger with PacifiCare Health Systems, Inc. (NYSE: PHS).

Adjusted net income(1) for the third quarter of 2004, which excludes transaction costs related to the proposed merger, was \$7.9 million or \$0.54 per diluted share. That compares to adjusted net income of \$7.0 million or \$0.49 per diluted share for the third quarter of 2003, excluding realized investment gains and income from discontinued operations.

On September 15, 2004, PacifiCare and AMS jointly announced the signing of a definitive merger agreement whereby PacifiCare will acquire all of the outstanding shares of common stock of the company through a cash merger in which AMS will become a wholly owned subsidiary of PacifiCare. The AMS shareholder meeting to approve the merger agreement is scheduled for December 2, 2004. It is anticipated that the acquisition will be completed after shareholder approval

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and state and federal regulatory and other customary approvals are received.

More

Ad One

GAAP net income and net income per share for the quarter and first nine months reconcile to adjusted net income and adjusted net income per share as follows:

INCOME RECONCILIATION				
	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<hr/>				
INCOME: (in millions)				
GAAP Net Income	\$ 5.3	\$ 8.8	\$24.0	\$22.0
Adjustments:				
Income from Discontinued Operations	-	(0.9)	-	(0.7)
PBM Settlement, Net of Tax	-	-	(3.4)	-
Transaction Costs	2.6	-	2.6	-
Realized Investment Gains, Net of Tax	-	(0.9)	-	(1.2)
Adjusted Net Income	<hr/> \$ 7.9	<hr/> \$ 7.0	<hr/> \$23.3	<hr/> \$20.1
<hr/>				
INCOME PER SHARE, DILUTED:				
GAAP Net Income	\$ 0.36	\$ 0.61	\$ 1.64	\$1.58
Adjustments:				
Income from Discontinued Operations	-	(0.06)	-	(0.05)
PBM Settlement, Net of Tax	-	-	(0.23)	-
Transaction Costs	0.18	-	0.18	-
Realized Investment Gains, Net of Tax	-	(0.06)	-	(0.08)
Adjusted Net Income	<hr/> \$ 0.54	<hr/> \$ 0.49	<hr/> \$ 1.59	<hr/> \$1.44
<hr/>				

(Per share amounts may not total due to rounding)

"In-force membership in our individual business has increased for four consecutive quarters, while the environment for our group business remains very competitive," said Samuel V. Miller, Chairman, President and Chief Executive Officer of AMS. "We continue to maximize the opportunity in both business areas with new product designs and refinements to our distribution systems."

AMS has introduced Health Savings Account (HSA) products and other high-deductible, consumer-driven plans for both market segments. In the past two quarters, the company has also more than doubled the number of its MedOne specialists, sales representatives specializing in facilitating MedOne sales through the company's independent agents.

REVENUES

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Total revenues for the third quarter of 2004 were \$183.4 million compared to \$184.0 million for the second quarter of 2004 and \$185.3 million for the third quarter of 2003. For the first three quarters of 2004, total revenues were \$553.0 million compared to \$558.2 million for the same period of 2003.

### Ad Two

AMS said that the trend toward lower-cost, higher-deductible health plans in both its group and individual business is reducing growth in premium per member per month. However, AMS anticipates that these plans will attract customers who will have lower over-all utilization.

### MEMBERSHIP

The company's medical membership was up slightly to 315,358 at the end of the third quarter of 2004, compared to 315,076 at the end of the second quarter and 314,259 at the end of the third quarter of 2003. The membership trend reflects growing individual business offset by declining group membership.

Total health membership, which includes medical and dental membership, was down slightly on a sequential basis due to a decline in dental membership. Total health membership was 530,022 at the end of the third quarter of 2004. That compares to 533,834 at the end of the second quarter of 2004, and 540,993 at the end of the third quarter of 2003.

Health segment operating ratios for the quarter and nine months on a GAAP and adjusted basis are as follows:

### HEALTH SEGMENT RATIOS

	Three Months Ended September 30		Nine Months Ended September 30	
	2004	2003	2004	2003
<hr style="border-top: 1px dashed black;"/>				
<b>HEALTH LOSS RATIO:</b>				
GAAP	67.7%	68.2%	66.5%	67.9%
PBM Settlement	-	-	1.0	-
Adjusted Ratio(1)	67.7%	68.2%	67.5%	67.9%
<hr style="border-top: 1px dashed black;"/>				
<b>HEALTH EXPENSE RATIO:</b>				
GAAP	27.2%	27.0%	27.5%	27.6%
<hr style="border-top: 1px dashed black;"/>				
<b>HEALTH COMBINED RATIO:</b>				
GAAP	94.9%	95.3%	93.9%	95.5%
PBM Settlement	-	-	1.0	-
Adjusted Ratio	94.9%	95.3%	95.0%	95.5%

### Ad Three

### CASH FLOW & BALANCE SHEET

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Net cash provided by operations in the third quarter of 2004 was \$4.7 million. Cash flow in the period was reduced by payments of litigation settlements and by merger-related costs. Cash from operations was \$9.1 million for the third quarter of 2003. For the first nine months of 2004, cash from operations was \$11.5 million, including \$5.9 million received from a settlement with the company's former pharmacy benefit manager (PBM) in the first quarter. For the first nine months of 2003, cash from operations was \$7.5 million.

At September 30, 2004, AMS had a book value per share of \$17.78. That compares to \$15.71 at the end of the third quarter of 2003, and \$17.16 at the end of the second quarter of 2004.

### EARNINGS GUIDANCE

The company anticipates that net income per diluted share will be approximately \$0.56 for the fourth quarter of 2004. That would bring full-year 2004 net income per diluted share to approximately \$2.20. Excluding the merger-related costs and the gain from the PBM settlement, the company anticipates adjusted net income per diluted share would be approximately \$2.15 for full-year 2004.

### NOTES

(1) The company uses the non-GAAP measurements "adjusted net income" and "adjusted ratio" in this release. AMS management believes that these measurements, which exclude, where applicable, the impact of merger-related transaction costs, net realized investment gains, the one-time PBM settlement, and income from discontinued operations, provide a meaningful presentation of the underlying earnings of the company's continuing operations.

# # # # #

AMS WILL HOST A CONFERENCE CALL TO DISCUSS ITS FINANCIAL RESULTS ON THURSDAY, NOVEMBER 4, 2004, AT 9:00 A.M. (CENTRAL TIME). INTERESTED PARTIES MAY LISTEN TO THE CONFERENCE CALL LIVE VIA THE INVESTOR SECTION OF THE COMPANY'S WEBSITE AT WWW.EAMS.COM. LISTEN-ONLY ACCESS TO THE LIVE CONFERENCE CALL IS ALSO AVAILABLE BY DIALING 785-832-2422. FOLLOWING THE LIVE CALL, A REPLAY WILL BE AVAILABLE UNTIL MIDNIGHT, SATURDAY, NOVEMBER 6, 2004, BY DIALING 402-530-0413. THIS PRESS RELEASE, ACCOMPANYING FINANCIAL INFORMATION AND OTHER STATISTICAL INFORMATION CONTAINED IN THE CONFERENCE CALL WILL APPEAR IN THE INVESTOR SECTION OF THE COMPANY'S WEBSITE AT WWW.EAMS.COM.

CAUTIONARY STATEMENT: Some of the statements contained in this press release are "forward-looking" statements within the meaning of the Private Securities Litigation Reform Act of 1995. Generally, forward-looking statements express expectations for or about the future, rather than historical fact. Forward-looking statements are subject to inherent risks and uncertainties that may cause actual results or events to differ materially from those contemplated by such statements. Such risks and uncertainties include, among others, the timing (including any possible delays) and receipt of regulatory approvals (including any conditions, limitations or restrictions placed on these approvals), and the risk that one or more governmental agencies may deny approval of the merger; any delays in securing the approval of our shareholders of the merger, and the risk that our shareholders do not approve the merger; unexpected increases in health care costs; the company's ability to predict future health care costs and adequately price its products; the company's ability to expand its distribution network, generate new sales, sell new products and retain existing members; the company's ability to control expenses;

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legislative and regulatory matters, including delays in regulatory approvals, changes in government regulation, regulatory action resulting from market conduct activity; general business conditions, including competitive practices and demand for the company's existing and new products; adverse outcomes of legal proceedings; publicity about the company; development of and changes in claims or litigation reserves; general economic conditions that impact the performance of the company's investment portfolio or decisions of consumers to purchase our products; and other factors that may be referred to in American Medical Security Group, Inc.'s reports filed with the Securities and Exchange Commission from time to time. Forward-looking statements made in this release express expectations only as of the date they are made. The company does not undertake any obligation to update or revise such statements as a result of new information or future events.

PacifiCare Health Systems and American Medical Security Group and their respective officers and directors may be deemed to be participants in the solicitation of proxies from shareholders of American Medical Security Group, Inc. with respect to the transactions contemplated by the merger agreement between PacifiCare and American Medical Security Group. Information regarding the companies' officers and directors is included in their respective Definitive Proxy Statements for their 2004 Annual Meetings of Stockholders filed with the Securities and Exchange Commission in April 2004. These documents are available free of charge at the Securities and Exchange Commission web site at [www.sec.gov](http://www.sec.gov), from PacifiCare at [pacificare.com](http://pacificare.com) and from AMS at [eAMS.com](http://eAMS.com). Investors and security holders may obtain more detailed information about who may be deemed participants in the solicitation of proxies by reading the AMS proxy statement when it becomes available.

Furthermore, investors and security holders of American Medical Security Group are urged to read American Medical Security Group's definitive proxy statement regarding the proposed merger filed with the Securities & Exchange Commission on November 1, 2004. It contains important information about the merger and the transactions contemplated by the Merger Agreement. Investors and securities holders of American Medical Security Group may obtain a free copy of American Medical Security Group's proxy statement and other documents filed with the Securities and Exchange Commission at the Commission's web site at [www.sec.gov](http://www.sec.gov). American Medical Security Group's proxy statement and these other documents may also be obtained for free from American Medical Security Group at [eAMS.com](http://eAMS.com) in the "Investors" section.

AMERICAN MEDICAL SECURITY GROUP, INC. LOGO

FINANCIAL SUPPLEMENT

AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

INCOME DATA

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(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	2003				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	YTD

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REVENUES					
Premiums	\$ 179,055	\$ 178,776	\$ 176,735	\$ 177,852	\$ 712,418
Investment income	3,402	3,345	3,211	3,573	13,531
Realized investment gain (loss)	375	91	1,416	28	1,910
Fees & other	4,040	3,845	3,899	4,073	15,857
	-----	-----	-----	-----	-----
Total revenues	186,872	186,057	185,261	185,526	743,716
EXPENSES					
Benefits	120,598	119,315	119,218	119,366	478,497
General and administrative	29,284	29,244	26,908	27,989	113,425
Commissions and selling	24,042	24,294	24,292	24,455	97,083
Interest expense	339	324	309	283	1,255
Depreciation	1,777	1,664	1,673	1,660	6,774
Amortization	238	239	238	188	903
	-----	-----	-----	-----	-----
Total expenses	176,278	175,080	172,638	173,941	697,937
INCOME FROM CONTINUING OPERATIONS					
BEFORE INCOME TAXES	10,594	10,977	12,623	11,585	45,779
Income taxes	3,997	4,151	4,735	4,318	17,201
	-----	-----	-----	-----	-----
INCOME FROM CONTINUING OPERATIONS	6,597	6,826	7,888	7,267	28,578
PBM settlement, net of tax	-	-	-	-	-
Acquisition transaction costs	-	-	-	-	-
Income (loss) from discontinued operations	(134)	(57)	923	-	732
	-----	-----	-----	-----	-----
NET INCOME	\$ 6,463	\$ 6,769	\$ 8,811	\$ 7,267	\$ 29,310
	=====	=====	=====	=====	=====
PER SHARE DATA					
Adjusted net income - diluted (1)	\$ 0.47	\$ 0.48	\$ 0.49	\$ 0.50	\$ 1.94
Income from continuing operations - diluted	\$ 0.49	\$ 0.49	\$ 0.55	\$ 0.50	\$ 2.03
Income (loss) from discontinued operations - diluted	\$ (0.01)	\$ -	\$ 0.06	\$ -	\$ 0.05
Net income - basic	\$ 0.50	\$ 0.51	\$ 0.66	\$ 0.54	\$ 2.21
Net income - diluted	\$ 0.48	\$ 0.48	\$ 0.61	\$ 0.50	\$ 2.08
Weighted average common shares - basic	12,981	13,160	13,392	13,542	13,270
Weighted average common shares - diluted	13,575	14,015	14,340	14,464	14,100
MARGIN ANALYSIS					
Income before income taxes	5.7%	5.9%	6.8%	6.2%	6.2%
Net income	3.5%	3.6%	4.8%	3.9%	3.9%

(1) - See page 8 for reconciliation of GAAP net income to adjusted net income.

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INCOME DATA

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(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	YTD	
	09/30/03	09/30/04
	-----	
REVENUES		
Premiums	\$ 534,566	\$ 530,039
Investment income	9,958	10,498
Realized investment gain (loss)	1,882	(24)
Fees & other	11,784	12,480
	-----	
Total revenues	558,190	552,993
EXPENSES		
Benefits	359,131	353,495
General and administrative	85,436	83,769
Commissions and selling	72,628	73,186
Interest expense	972	697
Depreciation	5,114	4,456
Amortization	715	489
	-----	
Total expenses	523,996	516,092
	-----	
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	34,194	36,901
Income taxes	12,883	13,614
	-----	
INCOME FROM CONTINUING OPERATIONS	21,311	23,287
PBM settlement, net of tax	-	3,356
Acquisition transaction costs	-	(2,647)
Income (loss) from discontinued operations	732	-
	-----	
NET INCOME	\$ 22,043	\$ 23,996
	=====	

PER SHARE DATA

Adjusted net income - diluted (1)	\$ 1.44	\$ 1.59
Income from continuing operations - diluted	\$ 1.52	\$ 1.59
Income (loss) from discontinued operations - diluted	\$ 0.05	\$ -
Net income - basic	\$ 1.67	\$ 1.75
Net income - diluted	\$ 1.58	\$ 1.64
Weighted average common shares - basic	13,179	13,694
Weighted average common shares - diluted	13,978	14,648

MARGIN ANALYSIS

Income before income taxes	6.1%	6.7%
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Net income 3.9% 4.3%

(1) - See page 8 for reconciliation of GAAP net income to adjusted net income.

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

FINANCIAL DATA

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(IN THOUSANDS, EXCEPT MEMBERSHIP)

	1st Qtr	2nd Qtr	2003 3rd Qtr	4th Qtr	YTD	1st
<b>REVENUE MIX</b>						
Health premiums	\$ 175,924	\$ 175,703	\$ 173,744	\$ 174,871	\$ 700,242	\$ 174,871
Life premiums	3,131	3,073	2,991	2,981	12,176	2,981
Investment income	3,777	3,436	4,627	3,601	15,441	3,601
Service fees	4,040	3,845	3,899	4,073	15,857	4,073
	-----	-----	-----	-----	-----	-----
Total revenues	\$ 186,872	\$ 186,057	\$ 185,261	\$ 185,526	\$ 743,716	\$ 185,526
	=====	=====	=====	=====	=====	=====
<b>MEMBERSHIP ANALYSIS</b>						
Fully insured medical	278,091	275,323	270,401	273,252	273,252	273,252
Self funded medical	42,704	42,568	43,858	46,012	46,012	46,012
Dental	231,508	228,610	226,734	227,502	227,502	227,502
	-----	-----	-----	-----	-----	-----
Total Health	552,303	546,501	540,993	546,766	546,766	546,766
Life	144,207	141,930	137,395	136,423	136,423	136,423
<b>FINANCIAL STATISTICS</b>						
Book value per share	\$ 14.68	\$ 15.27	\$ 15.71	\$ 16.12	\$ 16.12	\$ 16.12
Cash flow from operations	\$ (3,575)	\$ 1,978	\$ 9,092	\$ 12,630	\$ 20,125	\$ 20,125
Return on equity, annualized	14.2%	13.9%	15.3%	13.6%	14.3%	14.3%
Debt to total capital	15.0%	14.1%	13.5%	12.2%	12.2%	12.2%
Common shares outstanding, net of treasury	12,936	13,254	13,434	13,511	13,511	13,511

FINANCIAL DATA

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(IN THOUSANDS, EXCEPT MEMBERSHIP)

	YTD	
	9/30/03	9/30/04
<b>REVENUE MIX</b>		
Health premiums	\$ 525,371	\$ 521,486
Life premiums	9,195	8,553
Investment income	11,840	10,474
Service fees	11,784	12,480
	-----	-----
Total revenues	\$ 558,190	\$ 552,993
	=====	=====

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MEMBERSHIP ANALYSIS

Fully insured medical	270,401	272,140
Self funded medical	43,858	43,218
Dental	226,734	214,664
	-----	-----
Total Health	540,993	530,022
Life	137,395	127,075

FINANCIAL STATISTICS

Book value per share	\$ 15.71	\$ 17.78
Cash flow from operations	\$ 7,495	\$11,518
Return on equity, annualized	14.4%	13.5%
Debt to total capital	13.5%	11.0%
Common shares outstanding, net of treasury	13,434	13,683

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

BALANCE SHEETS

(IN THOUSANDS)

	2003			
	3/31	6/30	9/30	12/31
	-----			
<b>ASSETS</b>				
Investments:				
Fixed maturity securities available for sale, at fair value	\$ 283,595	\$ 286,044	\$ 286,324	\$ 302,277
Fixed maturity securities held to maturity, at amortized cost	3,175	3,168	3,483	3,377
Trading securities, at fair value	1,142	1,217	1,254	1,424
	-----	-----	-----	-----
Total investments	287,912	290,429	291,061	307,078
Cash and cash equivalents	20,396	22,036	30,183	17,289
Other assets:				
Property and equipment, net	34,112	35,118	34,445	37,446
Goodwill and other intangibles, net	35,468	35,229	34,283	34,095
Other assets	50,737	49,239	49,378	48,179
	-----	-----	-----	-----
Total other assets	120,317	119,586	118,106	119,720
	-----	-----	-----	-----
<b>TOTAL ASSETS</b>	<b>\$ 428,625</b>	<b>\$ 432,051</b>	<b>\$ 439,350</b>	<b>\$ 444,087</b>
	=====	=====	=====	=====
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
Liabilities:				
Medical and other benefits payable	\$ 131,650	\$ 131,023	\$ 127,023	\$ 129,809
Advance premiums	17,300	16,453	16,150	15,865
Payables and accrued expenses	23,466	21,039	24,020	24,099

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Notes payable	33,558	33,258	32,958	30,158
Other liabilities	32,736	27,860	28,162	26,332
	-----	-----	-----	-----
Total liabilities	238,710	229,633	228,313	226,263
Shareholders' equity:				
Common stock	16,654	16,654	16,654	16,654
Paid-in capital	190,367	192,362	193,509	194,431
Retained earnings	9,321	16,090	24,901	32,168
Unrealized gain on investments	8,090	9,964	7,521	6,133
Treasury stock	(34,517)	(32,652)	(31,548)	(31,562)
	-----	-----	-----	-----
Total shareholders' equity	189,915	202,418	211,037	217,824
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 428,625	\$ 432,051	\$ 439,350	\$ 444,087
	=====	=====	=====	=====

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

SEGMENT DATA - HEALTH

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(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

	1st Qtr	2nd Qtr	2003 3rd Qtr	4th Qtr	YTD
OPERATING RESULTS					
Revenues:					
Premiums	\$ 175,924	\$ 175,703	\$ 173,744	\$ 174,871	\$ 700,242
Investment income	1,715	1,683	1,596	1,675	6,669
Other revenue	3,965	3,772	3,828	4,008	15,573
	-----	-----	-----	-----	-----
Total revenues	181,604	181,158	179,168	180,554	722,484
Expenses:					
Benefits	119,783	118,637	118,518	118,708	475,646
PBM settlement (pre-tax)	-	-	-	-	-
General and administrative	29,352	29,189	27,090	28,004	113,635
Commissions and selling	23,472	23,724	23,727	23,901	94,824
	-----	-----	-----	-----	-----
Total expenses	172,607	171,550	169,335	170,613	684,105
	-----	-----	-----	-----	-----
Income before income taxes	\$ 8,997	\$ 9,608	\$ 9,833	\$ 9,941	\$ 38,379
	=====	=====	=====	=====	=====
FINANCIAL STATISTICS					
Loss ratio	68.1%	67.5%	68.2%	67.9%	67.9%
Expense ratio:					
General and administrative	14.4%	14.5%	13.4%	13.7%	14.0%
Commissions and selling	13.3%	13.5%	13.7%	13.7%	13.5%
	-----	-----	-----	-----	-----
Total expense ratio	27.8%	28.0%	27.0%	27.4%	27.5%
	-----	-----	-----	-----	-----
Combined ratio	95.9%	95.5%	95.3%	95.3%	95.5%

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	=====	=====	=====	=====	=====
Premiums per member per month:					
Fully insured medical	\$ 181	\$ 184	\$ 184	\$ 185	\$ 183
Self funded	53	53	55	53	54
Dental	23	23	24	24	23
Short-term disability	22	22	23	23	22
Benefits cost per member per month:					
Fully insured medical	\$ 125	\$ 124	\$ 127	\$ 128	\$ 126
Self funded	27	36	40	29	33
Dental	15	16	15	15	15
Short-term disability	12	8	3	4	7

SEGMENT DATA - HEALTH

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(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

	YTD	
	9/30/03	9/30/04
OPERATING RESULTS	-----	-----
Revenues:		
Premiums	\$ 525,371	\$ 521,486
Investment income	4,994	4,481
Other revenue	11,565	12,327
Total revenues	541,930	538,294
Expenses:		
Benefits	356,938	351,915
PBM settlement (pre-tax)	-	(5,339)
General and administrative	85,631	83,994
Commissions and selling	70,923	71,601
Total expenses	513,492	502,171
Income before income taxes	\$ 28,438	\$ 36,123
	=====	=====

FINANCIAL STATISTICS

Loss ratio	67.9%	66.5%
Expense ratio:		
General and administrative	14.1%	13.7%
Commissions and selling	13.5%	13.7%
Total expense ratio	27.6%	27.5%
Combined ratio	95.5%	93.9%
	=====	=====

Premiums per member per month:		
Fully insured medical	\$ 183	\$ 185
Self funded	54	56
Dental	23	24
Short-term disability	22	24
Benefits cost per member per month:		
Fully insured medical	\$ 125	\$ 123

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Self funded	34	39
Dental	15	16
Short-term disability	8	5

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

SEGMENT DATA - LIFE

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(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

	1st Qtr	2nd Qtr	2003 3rd Qtr	4th Qtr	YTD	1
	-----					
OPERATING RESULTS						
Revenues:						
Premiums	\$ 3,131	\$ 3,073	\$ 2,991	\$ 2,981	\$ 12,176	\$
Investment income	133	129	121	129	512	
Other revenue	75	73	71	65	284	
	-----	-----	-----	-----	-----	
Total revenues	3,339	3,275	3,183	3,175	12,972	
Expenses:						
Benefits	837	679	700	658	2,874	
General and administrative	510	487	383	415	1,795	
Commissions and selling	589	585	582	575	2,331	
	-----	-----	-----	-----	-----	
Total expenses	1,936	1,751	1,665	1,648	7,000	
	-----	-----	-----	-----	-----	
Income before income taxes	\$ 1,403	\$ 1,524	\$ 1,518	\$ 1,527	\$ 5,972	\$
	=====	=====	=====	=====	=====	

FINANCIAL STATISTICS

Loss ratio	26.7%	22.1%	23.4%	22.1%	23.6%
Expense ratio:					
General and administrative	13.9%	13.5%	10.4%	11.7%	12.4%
Commissions and selling	18.8%	19.0%	19.5%	19.3%	19.1%
	-----	-----	-----	-----	-----
Total expense ratio	32.7%	32.5%	29.9%	31.0%	31.6%
	-----	-----	-----	-----	-----
Combined ratio	59.4%	54.6%	53.3%	53.1%	55.2%
	=====	=====	=====	=====	=====

SEGMENT DATA - LIFE

=====

(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

	YTD	
	9/30/03	9/30/04
	-----	
OPERATING RESULTS		
Revenues:		

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Premiums	\$ 9,195	\$ 8,553
Investment income	383	351
Other revenue	219	153
	-----	-----
Total revenues	9,797	9,057
Expenses:		
Benefits	2,216	1,580
General and administrative	1,380	1,171
Commissions and selling	1,756	1,600
	-----	-----
Total expenses	5,352	4,351
	-----	-----
Income before income taxes	\$ 4,445	\$ 4,706
	=====	=====

FINANCIAL STATISTICS

Loss ratio	24.1%	18.5%
Expense ratio:		
General and administrative	12.6%	11.9%
Commissions and selling	19.1%	18.7%
	-----	-----
Total expense ratio	31.7%	30.6%
	-----	-----
Combined ratio	55.8%	49.1%
	=====	=====

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

CORPORATE AND OTHER

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(IN THOUSANDS)

	1st Qtr	2nd Qtr	2003 3rd Qtr	4th Qtr	YTD
OPERATING RESULTS					
Revenues:					
Investment income	\$ 1,554	\$ 1,533	\$ 1,494	\$ 1,769	\$ 6,350
Realized investment gain (loss)	375	91	1,416	28	1,910
	-----	-----	-----	-----	-----
Total revenues	1,929	1,624	2,910	1,797	8,260
Expenses:					
Benefits	(22)	(1)	-	-	(23)
General and administrative	1,199	1,232	1,108	1,230	4,769
Commissions and selling	(19)	(15)	(17)	(21)	(72)
Acquisition transaction costs	-	-	-	-	-
Interest expense	339	324	309	283	1,255
Amortization of intangibles	238	239	238	188	903
	-----	-----	-----	-----	-----
Total expenses	1,735	1,779	1,638	1,680	6,832

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Income (loss) before income taxes	\$ 194	\$ (155)	\$ 1,272	\$ 117	\$ 1,428
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CORPORATE AND OTHER

(IN THOUSANDS)

	YTD	
	9/30/03	9/30/04
OPERATING RESULTS		
Revenues:		
Investment income	\$ 4,581	\$ 5,666
Realized investment gain (loss)	1,882	(24)
Total revenues	6,463	5,642
Expenses:		
Benefits	(23)	-
General and administrative	3,539	3,060
Commissions and selling	(51)	(15)
Acquisition transaction costs	-	2,647
Interest expense	972	697
Amortization of intangibles	715	489
Total expenses	5,152	6,878
Income (loss) before income taxes	\$ 1,311	\$ (1,236)

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

RECONCILIATION OF GAAP NET INCOME TO ADJUSTED NET INCOME

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	1st Qtr	2nd Qtr	2003 3rd Qtr	4th Qtr	YTD
INCOME					
GAAP Net income	\$ 6,463	\$ 6,769	\$ 8,811	\$ 7,267	\$ 29,310
Less:					
Income (loss) from discontinued operations	(134)	(57)	923	-	732
Income from continuing operations	6,597	6,826	7,888	7,267	28,578
Less:					
PBM settlement, net of tax	-	-	-	-	-
Acquisition transaction costs	-	-	-	-	-
Realized investment gains (loss), net of tax	234	57	885	18	1,192
Adjusted net income	\$ 6,363	\$ 6,769	\$ 7,003	\$ 7,249	\$ 27,386

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	=====	=====	=====	=====	=====
INCOME PER SHARE - DILUTED					
GAAP Net income per share	\$ 0.48	\$ 0.48	\$ 0.61	\$ 0.50	\$ 2.08
Less:					
Income (loss) from discontinued operations	(0.01)	-	0.06	-	0.05
	-----	-----	-----	-----	-----
Income from continuing operations	0.49	0.49	0.55	0.50	2.03
Less:					
PBM settlement, net of tax	-	-	-	-	-
Acquisition transaction costs	-	-	-	-	-
Realized investment gain (loss), net of tax	0.02	-	0.06	-	0.08
	-----	-----	-----	-----	-----
Adjusted net income per share	\$ 0.47	\$ 0.48	\$ 0.49	\$ 0.50	\$ 1.94
	=====	=====	=====	=====	=====

RECONCILIATION OF GAAP NET INCOME TO ADJUSTED NET INCOME

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(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

	YTD	
	9/30/03	9/30/04
	-----	-----
INCOME		
GAAP Net income	\$ 22,043	\$ 23,996
Less:		
Income (loss) from discontinued operations	732	-
	-----	-----
Income from continuing operations	21,311	23,996
Less:		
PBM settlement, net of tax	-	3,356
Acquisition transaction costs		(2,647)
Realized investment gains (loss), net of tax	1,176	(15)
	-----	-----
Adjusted net income	\$ 20,135	\$ 23,302
	=====	=====
INCOME PER SHARE - DILUTED		
GAAP Net income per share	\$ 1.58	\$ 1.64
Less:		
Income (loss) from discontinued operations	0.05	-
	-----	-----
Income from continuing operations	1.52	1.64
Less:		
PBM settlement, net of tax	-	0.23
Acquisition transaction costs	-	(0.18)
Realized investment gain (loss), net of tax	0.08	-
	-----	-----
Adjusted net income per share	\$ 1.44	\$ 1.59



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