

# SECURITIES AND EXCHANGE COMMISSION

## FORM 10-K405

Annual report pursuant to section 13 and 15(d), Regulation S-K Item 405

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### FILER

#### **AMERICAN MEDICAL SECURITY GROUP INC**

CIK: **878897** | IRS No.: **391431799** | State of Incorporation: **WI** | Fiscal Year End: **1231**  
Type: **10-K405** | Act: **34** | File No.: **001-13154** | Film No.: **99574722**  
SIC: **6324** Hospital & medical service plans

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SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1998

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

COMMISSION FILE NUMBER 1-13154

AMERICAN MEDICAL SECURITY GROUP, INC.  
(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

WISCONSIN 39-1431799  
(State of incorporation) (I.R.S. Employer Identification No.)

3100 AMS BOULEVARD  
GREEN BAY, WISCONSIN 54313  
(Address of principal executive offices) (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE: (920) 661-1500  
SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
Common Stock, no par value	New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT: None

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

As of February 28, 1999, there were issued and outstanding 16,653,222 shares of Common Stock. The aggregate market value of the shares of such stock held by non-affiliates of the registrant was \$149,535,310 as of the same date, assuming solely for purposes of this calculation that all directors and executive officers of the Registrant are "affiliates." This determination of affiliate status is not necessarily a conclusive determination for other purposes.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of American Medical Security Group, Inc. Proxy Statement dated  
April 14, 1999 (Part III)

AMERICAN MEDICAL SECURITY GROUP, INC.  
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For the Year Ended December 31, 1998

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PART I

ITEM 1. BUSINESS

FORWARD LOOKING STATEMENTS

A number of forward looking statements are included in this document. When used, the terms "anticipate", "believe", "estimate", "expect", "objective", "plan", "project" and similar expressions are intended to identify forward looking statements. Forward looking statements are subject to inherent risks, uncertainties and assumptions that may cause actual results or events to differ materially from those that are described. In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that may cause actual results or events to differ are described in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations."

GENERAL

American Medical Security Group, Inc. is a leading marketer of individual and small employer group health care benefits and other insurance products. The Company's principal product offering is small group health insurance. The Company also offers individual and large group health insurance and group life, dental, prescription drug, disability and accidental death insurance. See the Company's Notes to Consolidated Financial Statements, Note 13 "Segments of the Business" for information concerning the Company's two reportable segments: health insurance products (which accounted for 93% of the Company's revenue for the year ended December 31, 1998) and life insurance products.

The Company's products are sold through independent licensed agents in 33 states and the District of Columbia. The Company specializes in providing health care benefits and other insurance products designed to maximize choice and control costs in a compassionate environment. The Company principally markets health benefit products that provide discounts to insureds that utilize preferred provider organizations ("PPOs"). PPO plans differ from health maintenance organization ("HMO") plans in that they typically provide a wider

choice of health professionals, fewer benefit restrictions and increased access to specialists at a somewhat higher premium cost.

American Medical Security Group, Inc. is a Wisconsin corporation organized in 1983. As used herein, the terms "the Company" or "AMSG" include American Medical Security Group, Inc. and its subsidiaries. The Company's principal executive offices are located at 3100 AMS Boulevard, Green Bay, Wisconsin 54313 and its telephone number at that address is (920) 661-1500.

Prior to and for most of the year 1998, the business of the Company, then known as "United Wisconsin Services, Inc.", consisted of two main components: the small group health business, and the managed care and specialty products business. Prior to December 1996, the small group health business consisted primarily of individual and small group health insurance written through a joint venture with American Medical Security Group, Inc., a Delaware corporation ("Old AMS"). During that time, the Company owned approximately 12% of the issued and outstanding shares of Old AMS. The Company underwrote all of the individual and small group health insurance marketed, produced and administered by Old AMS and ceded back to Old AMS approximately 50% of the individual and small group health insurance written by the Company through the joint venture. On December 3, 1996, Old AMS merged with and into the Company. The small group health insurance business of the Company was then combined with that of Old AMS in a wholly owned subsidiary of the Company.

On September 11, 1998, the Company contributed all of its subsidiaries comprising the managed care and specialty products business to a newly created subsidiary named "Newco/UWS, Inc.", a Wisconsin corporation ("Newco/UWS"). On September 25, 1998, the Company spun off the managed care and specialty products business through a distribution of 100% of the issued and outstanding shares of common stock of Newco/UWS to the Company's shareholders of record as of September 11, 1998, (see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Accomplishments -- Spin-off").

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The Company then adopted its current name of "American Medical Security Group, Inc." and Newco/UWS changed its name to "United Wisconsin Services, Inc." Since the spin-off, the business of the Company consists solely of the Company's small group health insurance business.

#### PRODUCTS

The Company is a leading marketer of health care benefits and other insurance products tailored to meet the varied health benefits needs of its primary markets, including: groups with two to 99 employees; groups that choose to self-fund their health benefits; and families and individuals. The Company specializes in providing health care benefits and other insurance products designed to maximize choice and control costs.

The Company customizes employee benefit packages for businesses through IT'S YOUR CHOICE, an option that allows businesses to present employees multiple medical plans in a single package. For example, this strategy allows an employer with four employees to select four different and distinct medical plans, one for each employee. Although the premium cost of the plans may vary, the ability to offer different plans is without additional cost to the employer. With the Company's self-funded products, employers and their employees have access to PPO networks, but the sponsoring employer generally bears a significant portion of the financial risk associated with providing the health care. Through its MEDONECHOICE product, the Company provides coverage for individuals and families that is designed to fit various lifestyles and budgets. The Company provides insureds and plan participants with personal customer service 24 hours a day, 365 days a year. In addition, through the Company's wholly owned subsidiary, Nurse Healthline, Inc., insureds and plan participants have access to a 24-hour medical information line staffed by registered nurses. This confidential telephone health advisory service provides information about health conditions, medications, cost-effective treatments and the location of network providers.

The Company augments its core business with a select line of complementary products and services. Ancillary benefits include group dental, group short-term disability, group term life and accidental death, and dependent life insurance. Voluntary dental and term life insurance products may be elected by employees with no minimum participation or employer contribution requirements. The PREMIUM ONLY PLAN, a Section 125 cafeteria plan allowing pretax deduction of medical insurance premiums, is offered at no cost to fully insured groups with two or more employees. Section 125 facilitation of pretax deduction of dependent care and unreimbursed medical expenses is also available. Additionally, the Company offers COBRA administration services to groups subject to regulations of the Consolidated Omnibus Budget Reconciliation Act of 1985, as amended.

## MARKETING

The Company markets its employer group products and individual products in 33 states and the District of Columbia. Significant factors influencing an employer's selection of the Company's products include flexibility of plan design, choice and scope of benefits, quality of service, price, and the quality of relationships with their agents.

Product sales are conducted exclusively through independent licensed agents. As of December 31, 1998, the Company marketed products through approximately 32,000 independent agents. Independent agents are paid commissions on new and renewal sales. The Company offers an attractive benefit and service package to agents, creating an environment as an "agent friendly" company.

The leading states with respect to direct premium during 1998 were Florida, Texas, Illinois, Michigan and Wisconsin, which accounted for 51% of the Company's premium revenue. For the year ended December 31, 1998, the top ten employer groups in the aggregate accounted for approximately 1% of the premium on business sold by the Company.

The Company divides its sales territory into two regions, each of which is the responsibility of a Regional Vice President ("RVP"). The RVPs work with approximately 120 sales managers located in offices throughout the United States in coordinating the Company's sales and marketing efforts. Additionally, through

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an agreement with the Principal Life Insurance Company ("Principal"), regional sales managers of Principal's Old Northwest Agent distribution network assume responsibility for product sales in four states.

## PROVIDERS

The Company uses over 65 commercial provider networks in 33 states and the District of Columbia. A master "payor" agreement is in place for each provider network that allows the Company to access the provider contracts for its PPO and exclusive provider organization products. These networks are made available to fully insured products as well as the Company's self-funded product offerings.

The Company also owns and operates a commercial PPO network that includes providers in Texas, Florida, Iowa, Nebraska, Wisconsin, Arizona, North Dakota and South Dakota. Approximately 23% of the Company's business was conducted through this network for the year ended December 31, 1998. This network services the Company business and is also offered to other insurers and third party administrators. This provides additional revenue to the Company and increases the volume of business used to leverage provider contract pricing concessions which are largely volume related. The Company believes there is great value in owning provider networks in select markets as a way to directly interact with the provider networks as well as to effectively conduct its medical management initiatives.

## COST CONTAINMENT

The Company provides medical management services to all of its clients either directly or through its contracted networks. The Company's utilization review program is accredited to meet national standards to ensure services are provided at the appropriate level and meet members needs. Case management is performed by Company staff with the assistance of a combination of internally developed and commercially purchased software packages used to prompt, guide and record medical management decisions. In addition, the Company has developed a series of software programs that enhance its medical management effort.

The Company has developed a high risk maternity program through a software application using claims data and clinical methodologies. Staff registered nurses classify all recognized pregnancies as to their potential risk of complications. Nurses contact expectant mothers and provide them with educational materials, reinforce compliance with medical treatment plans and provide guidance toward efficient use of provider resources. The Company has also developed a demand management telephonic service called Nurse Healthline. Company insureds and plan participants can access Nurse Healthline nurses 24 hours a day, seven days a week. By using a computerized algorithm based system, the nurses are able to gauge the severity of the problem and assist the insured in making an informed health care decision.

## MANAGEMENT INFORMATION SYSTEMS

The Company's medical, dental, life, and short-term disability products use

custom built, integrated management information systems for all administrative processing tasks. These systems include underwriting, billing, enrollment, claims processing, utilization management, sales reporting, network analysis and service and status reporting. These systems support all products and provider arrangements. The management information systems handle electronic receipt of claims, referrals and eligibility with networks and providers. The systems support both fully insured and self-funded administrative needs.

The Company regularly evaluates, upgrades, and enhances the management information systems that support its operations. An artificial intelligence system is used for claims processing, eligibility and enrollment tasks. In addition to electronic receipt of information, the Company's systems can also electronically scan and image documents. The Company uses extensive personal computer-based network and software solutions that are integrated with its mainframe system, which allows for its continuous enhancement with technology upgrades and other software solutions.

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The Company has completed a significant portion of its initiative to assess, correct or reprogram, and test its computer systems for Year 2000 compliance. The Company believes that the Year 2000 issue will not pose significant operational problems for its computer systems. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Year 2000" for a complete discussion of Year 2000 matters, including factors that could affect Year 2000 costs and consequences.

#### RECENT ACQUISITIONS

In October 1997, the Company acquired, via assumption reinsurance, most of the individual and small group health insurance business previously underwritten by Pan American Life Insurance Company ("Pan American") of New Orleans, Louisiana. Approximately 74,000 members were acquired with this block of business.

In May 1998, the Company reached an agreement with Pan American to assume most of its remaining domestic health insurance business effective July 1998, which resulted in an additional 80,000 members at the time of acquisition.

In October 1998, the Company reached an agreement with Continental Assurance Company ("CNA") to acquire the majority of CNA's fully insured employer group health business effective January 1, 1999. This block of business covered approximately 75,000 fully insured medical members as of January 1, 1999.

#### COMPETITION

The small group health care product market is highly competitive. The major competition for the Company's products comes from national and regional firms with a specific focus on the small group market. Many of the Company's competitors have larger memberships in local markets or greater financial resources. The small group, agency-controlled market is price sensitive, and the business is put out for bid more frequently than larger group business. In addition, because most of the Company's products are marketed exclusively through independent agencies, most of which represent more than one company, the Company experiences competition within each agency. The Company and other insurers in the small group health care product market compete primarily on the basis of responsiveness to user demands, price, diversity of product offerings, quality of service, strength of provider networks, reputation and quality of agency relations.

#### REINSURANCE

The Company has entered into a variety of reinsurance arrangements under which it (i) cedes business to other insurance companies to mitigate large claim risk, and (ii) accepts risk on a quota share basis from other insurance carriers.

The Company cedes, through excess of loss arrangements, certain of its risks on the small group health business and life business. This reinsurance allows for greater diversification of risk to control exposure to potential losses arising from large claims. In addition, it permits the Company to enhance its premium and asset growth while maintaining favorable risk-based capital ratios. All excess of loss reinsurers with which the Company contracts are rated "A- (Excellent)" or better by A.M. Best.

In addition, in connection with certain acquisitions and other business, the Company assumes risk from other insurance carriers on both an assumption and

a "quota share" basis. Under assumption reinsurance, the Company becomes directly responsible to insureds for business previously written by the ceding carrier. Quota share reinsurance is a contractual arrangement whereby the reinsurer assumes an agreed percentage of certain risks insured by the ceding insurer and shares premium revenue and losses proportionately. Quota share reinsurance is being used by the Company as part of a vehicle to acquire certain business from other insurance carriers and allows the Company to assume insurance risk in certain jurisdictions.

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## INVESTMENTS

The Company attempts to minimize its business risk through conservative investment policies. Investment guidelines set quality, concentration and return parameters. Individual fixed income issues must carry an investment grade rating at the time of purchase, with an ongoing average portfolio rating of "A-" or better, based on ratings of Standard & Poor's Corporation or another nationally recognized securities rating organization. The Company invests in securities authorized by applicable state laws and regulations and follows investment policies designed to maximize yield, preserve principal and provide liquidity. The Company's portfolio contains no investments in mortgage loans, non-publicly traded securities (except for principal only strips of U.S. Government securities), real estate held for investment or financial derivatives.

With the exception of short-term investments and securities on deposit with various state regulators, investment responsibilities have been delegated to external investment managers. Such investment responsibilities, however, must be carried out within the investment parameters established by the Company, which are amended from time to time. See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Market Risk Exposure" and the Company's Notes to Consolidated Financial Statements, Note 4, "Investments," for additional information on the Company's investments.

## REGULATION

Government regulation of employee benefit plans, including health care coverage and health plans, is a changing area of law that varies from jurisdiction to jurisdiction and generally gives responsible state and federal administrative agencies broad discretion. The Company strives to maintain compliance in all material respects with the various federal and state regulations applicable to its current operations. To maintain such compliance, it may be necessary for the Company or a subsidiary to make changes from time to time in its services, products, structure or operations. Additional governmental regulation or future interpretation of existing regulations could increase the cost of the Company's compliance or otherwise affect the Company's operations, products, profitability or business prospects.

The Company is unable to predict what additional government regulations, if any, affecting its business may be enacted in the future or how existing or future regulations might be interpreted. Most jurisdictions have enacted small group insurance and rating reforms which generally limit the ability of insurers and health plans to use risk selection as a method of controlling costs for small group business. These laws may generally limit or eliminate use of pre-existing condition exclusions, experience rating and industry class rating, and limit the amount of rate increases from year to year. Under these laws, cost control through provider contracting and managing care may become more important, and the Company believes its experience in these areas will allow it to compete effectively. The Company regularly monitors state and federal legislative and regulatory activity as it affects the Company's business. The Company does this directly and through various trade associations to which it belongs.

In 1997, federal legislation significantly expanded federal regulation of group health plans and health care coverage. The new laws placed restrictions on the use of pre-existing conditions and eligibility restrictions based upon health status, and prohibited cancellation of coverage due to claims experience or health status. Federal reform also prohibits insurance companies from declining coverage to small employers. Additional federal laws that took effect in 1998 include prohibitions against separate, lower dollar maximums for mental health benefits and requirements relating to minimum coverage for maternity inpatient hospitalization. Many requirements of the federal legislation are similar to small group reforms that have been in place for many years. The Company expects to be able to utilize and expand upon the cost control measures initiated as a result of small group reform.

Increasingly, states are considering various health care reform measures and are adopting laws or regulations, which may limit the Company's health

plans' and insurance operations' ability to control which providers are part of their networks and may hinder their ability to effectively manage utilization and cost. The Company is unable to predict what reforms, if any, may be enacted or how these reforms would affect the Company's operations.

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#### INSURANCE REGULATION

The Company's insurance subsidiaries are subject to regulation by various insurance regulatory bodies in each state in which the respective entities are licensed. Regulatory authorities exercise extensive supervisory power over insurance companies in regard to (i) the licensing of insurance companies; (ii) the amount of reserves which must be maintained; (iii) the approval of forms and insurance policies used; (iv) the nature of, and limitation on, an insurance company's investments; (v) periodic examination of the operations of insurance companies; (vi) the form and content of annual financial statements and other reports required to be filed on the financial condition of insurance companies; (vii) the establishment of capital requirements for insurance companies; and (viii) transactions with affiliates and changes in control. The Company's insurance company subsidiaries are required to file periodic statutory financial statements in each jurisdiction in which they are licensed. Additionally, such companies are periodically examined by the insurance departments of the jurisdiction in which they are licensed to do business.

The National Association of Insurance Commissioners ("NAIC") has adopted Risk-Based Capital ("RBC") requirements for life and health insurers to evaluate the adequacy of statutory capital and surplus in relation to investment and insurance risks associated with: (i) asset quality; (ii) mortality and morbidity; (iii) asset and liability matching; and (iv) other business factors. The RBC formula is used by state insurance regulators to monitor trends in statutory capital and surplus for the purpose of initiating regulatory action. The Company has calculated the risk-based capital for its life insurance subsidiaries as of December 31, 1998, using the applicable RBC formula. These calculations produced risk-based capital levels which substantially exceed the levels at which the RBC formulas recommend intervention by regulatory authorities.

Dividends paid by the Company's insurance subsidiaries to the Company are limited by state insurance regulations. The insurance regulator in the insurer's state of domicile may disapprove any dividend which, together with other dividends paid by an insurance company in the prior 12 months, exceeds the regulatory maximum as computed for the insurance company based on its statutory surplus and net income. Based upon the financial statements of the Company's insurance subsidiaries as of December 31, 1998, as filed with the insurance regulators, the aggregate amount available for the payment of dividends to the Company by its subsidiaries in 1999 without regulatory approval is \$18.3 million.

#### INSURANCE HOLDING COMPANY REGULATIONS

The Company is an insurance holding company system under applicable state laws. As such, the Company's insurance subsidiaries are subject to regulation under state insurance holding company laws and regulations in each respective state of domicile. Such insurance holding company laws and regulations generally require annual registration with the state departments of insurance and the filing of certain reports describing capital structure, ownership, financial condition, certain intercompany transactions and general business operations. Various notice and reporting requirements generally apply to transactions between companies within an insurance holding company system, depending on the size and nature of the transactions. Certain state insurance holding company laws and regulations require prior regulatory approval or, in certain circumstances, prior notice of certain material intercompany transactions. Acquisition of control of an insurance company requires the prior approval of state regulators in the insurer's state of domicile and sometimes other jurisdictions as well. Acquisition of a controlling interest of the Company would constitute an acquisition of a controlling interest in each of its insurance subsidiaries. Under applicable state law, control is presumed to exist when greater than 10% of a company's shares are controlled by an entity.

#### TPAS

Certain subsidiaries of the Company are also licensed as third-party administrators ("TPAs") in states where such licensing is required for their activities. TPA regulations, although differing greatly from state to state, generally contain certain required administrative procedures, periodic reporting obligations and minimum financial requirements.



## PPOS

Certain of the Company's subsidiaries' operations may be subject to PPO or managed care laws and regulations in certain states. PPO and managed care regulations generally contain requirements pertaining to provider networks, provider contracting, and reporting requirements that vary from state to state. In some cases the regulated activities are delegated by the Company's subsidiaries to a third party. In cases where activities are delegated, the Company's subsidiaries must monitor the activities of the third party for compliance with the laws and regulations.

## UTILIZATION REVIEW REGULATIONS

A number of states have enacted laws and/or adopted regulations governing the provision of utilization review activities. Generally, these laws and regulations require compliance with specific standards for the performance of utilization review services including confidentiality, staffing, appeals and reporting requirements. Some of these laws and regulations may affect certain operations of the Company's subsidiaries. In some cases the regulated activities are delegated by the Company's subsidiaries to a third party. In cases where activities are delegated, the Company's subsidiaries must monitor the activities of the third party for compliance with the laws and regulations.

## ERISA

The provision of goods and services to or through certain types of employee health benefit plans is subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"). ERISA is a complex set of laws and regulations that are subject to periodic interpretation by the United States Department of Labor and the Internal Revenue Service. ERISA governs how the Company's business units may do business with employers whose employee benefit plans are covered by ERISA, particularly employers that self fund such plans. There recently have been legislative attempts to limit ERISA's preemptive effect on state laws. If such limitations were to be enacted, they might increase the Company's liability exposure under state law-based suits relating to employee health benefits offered by the Company's health plans and may permit greater state regulation of other aspects of those businesses' operations.

## EMPLOYEES

As of December 31, 1998, the Company had 2,080 employees, 290 of whom were managerial and supervisory personnel and 147 of whom were part-time employees. None of these employees are represented by a union. The Company considers its relations with its employees to be good.

## TRADEMARKS

The phrase ITS YOUR CHOICE is a federally registered service mark of the Company. The Company has filed for and maintains various other service marks, trademarks and trade names at the federal level and in various states. Although the Company considers its registered service marks, trademarks and trade names important in the operation of its business, the business of the Company is not dependent on any individual service mark, trademark or trade name.

## ITEM 2: PROPERTIES

The Company's headquarters are located in Green Bay, Wisconsin, in a 390,000 square foot office building owned by the Company. The Company also leases property at approximately 50 locations throughout the United States for its field sales and provider network offices.

## ITEM 3: LEGAL PROCEEDINGS

The Company is involved in various legal and regulatory actions occurring in the normal course of its business. In the opinion of management, adequate provision has been made for losses which may result from these actions and, accordingly, the outcome of these matters is not expected to have a material adverse effect on the Company's consolidated financial position or results of operations.

## ITEM 4: SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of 1998.

#### EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers of the Company, who are elected for one year terms, are as follows:

Name	Age	Title
Samuel V. Miller	53	Chairman of the Board, President and Chief Executive Officer
Edward R. Skoldberg	49	Executive Vice President and Chief Operating Officer
Gary D. Guengerich	53	Executive Vice President, Chief Financial Officer and Treasurer
Timothy J. Moore	47	Senior Vice President of Corporate Affairs, General Counsel and Secretary
Christopher N. Earl	45	Senior Vice President of Sales and Marketing
Clifford A. Bowers	47	Vice President, Corporate Communications
Scott B. Westphal	36	Vice President and Chief Actuary
John R. Wirch	45	Vice President, Human Resources

Samuel V. Miller has been Chairman of the Board, President and Chief Executive Officer of the Company since September 1998. Prior to that time, he was an Executive Vice President of the Company since December 1995. Mr. Miller has also served as President and Chief Executive Officer of American Medical Security Holdings, Inc. ("AMS Holdings") since October 1996. During 1994 and 1995, Mr. Miller was a member of the executive staff planning group with the Travelers Group, serving as Chairman and Group Chief Executive of National Benefit Insurance Company and Primerica Financial Services Ltd. of Canada. Prior to 1994, Mr. Miller spent 10 years as President and Chief Executive Officer of American Express Life Assurance Company.

Edward R. Skoldberg has been Executive Vice President and Chief Operating Officer of the Company since September 1998. He also served in such capacity with AMS Holdings since November 1996. Prior to that time, he was a Senior Vice President with Time Insurance from August 1995 to November 1996. From 1988 to 1995, Mr. Skoldberg was a Vice President with Empire Blue Cross Blue Shield in New York City.

Gary D. Guengerich has been Executive Vice President, Chief Financial Officer and Treasurer of the Company since September 1998. He also served in such capacity with AMS Holdings since November 1997. Prior to that time, Mr. Guengerich was Senior Vice President and Comptroller of First Colony Life Insurance since 1981.

Timothy J. Moore has been Senior Vice President of Corporate Affairs, General Counsel and Corporate Secretary of the Company since September 1998. He also served in such capacity with AMS Holdings since March 1997. Prior to that time, Mr. Moore was a partner with the national law firm of Katten Muchin & Zavis, practicing at the firm from 1987 to 1997.

Christopher N. Earl has been Senior Vice President of Sales and Marketing since February 1999. Prior to joining the Company, he held various senior management positions, including Regional Vice President of Sales, with United Healthcare Corporation from 1993 to 1999. From 1989 to 1993, Mr. Earl held senior marketing positions with Prudential Insurance Company of American.

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Clifford A. Bowers has been Vice President of Corporate Communications of the Company since September 1998. He also served in such capacity with American Medical Security, Inc. ("AMS Inc."), a subsidiary of the Company, since October 1997. From 1988 to 1997, Mr. Bowers was Director of Communications with Fort Howard Corporation (a paper manufacturer that subsequently merged with James River Corporation).

Scott B. Westphal has been Vice President and Chief Actuary of the Company since September 1998. He also served in such capacity with AMS Holdings and/or AMS Inc. since December 1994. Prior to that time, Mr. Westphal was Manager of Actuarial Services for AMS Inc. for seven years.

John R. Wirch has been Vice President of Human Resources of the Company since September 1998. He also served in such capacity with AMS Holdings and/or AMS Inc. since February 1996. Prior to that time, Mr. Wirch was Vice President of Human Resources for Little Rapids Corporation (a manufacturer of specialty papers) from 1993 to 1996, having served as Director of Human Resources of Little Rapids Corporation from 1980 to 1993.

## PART II

## ITEM 5: MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED STOCKHOLDER MATTERS.

The Common Stock of the Company is traded on the New York Stock Exchange ("NYSE") under the symbol "AMZ". Prior to September 14, 1998, the Common Stock was traded on the NYSE under the symbol "UWZ". The following table sets forth the per share high and low sales prices for the Common Stock as reported on the NYSE for the periods indicated and the cash dividends paid per share for those periods. Stock prices prior to the September 25, 1998 are not adjusted to reflect the spin-off.

&lt;TABLE&gt;

&lt;CAPTION&gt;

	High	Low	Cash Dividends Paid
<S>	<C>	<C>	<C>
Year Ended December 31, 1998			
First Quarter	\$33.38	\$25.50	\$0.12
Second Quarter	33.19	28.38	0.12
Third Quarter	28.38	8.56	0.12
Fourth Quarter	15.06	6.38	-
Year Ended December 31, 1997			
First Quarter	\$26.75	\$21.25	\$0.12
Second Quarter	37.88	24.63	0.12
Third Quarter	36.63	28.81	0.12
Fourth Quarter	31.94	24.25	0.12

&lt;/TABLE&gt;

The Company does not expect to pay any cash dividends in the foreseeable future and intends to employ its earnings in the continued development of its business. Future dividend policy will depend on the Company's earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors.

As of March 1, 1999, there were 287 shareholders of record of Common Stock. Based on information obtained from the Company's Transfer Agent and from participants in security position listings and otherwise, the Company has reason to believe there are approximately 3,300 beneficial owners of shares of Common Stock.

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## ITEM 6: SELECTED FINANCIAL DATA.

The following selected financial data as of and for the years ended December 31, 1994, through 1998 has been derived from the Company's consolidated financial statements. The following data should be read in conjunction with the Company's Consolidated Financial Statements, the related notes thereto, and "Management's Discussion and Analysis of Financial Condition and Results of Operations."

&lt;TABLE&gt;

&lt;CAPTION&gt;

	As of and for the years ended December 31,				
<S>	1998 (b)	1997	1996 (a)	1995	1994
<C>	<C>	<C>	<C>	<C>	<C>
STATEMENT OF INCOME DATA:					
Revenues:					
Health service revenues:					
Premium revenue	\$ 914,017	\$ 957,204	\$ 596,099	\$ 506,349	\$ 375,955
Net investment income	24,220	24,071	24,570	31,186	5,589
Other revenue	22,632	24,249	2,935	-	-
Total revenues	960,869	1,005,524	623,604	537,535	381,544

Expenses:					
Medical and other benefits	691,767	733,491	472,319	399,449	250,034
Selling, general and administrative	242,073	252,160	157,136	135,052	96,862
Interest	7,691	9,311	4,325	3,483	3,487
Amortization of goodwill and other intangibles	8,781	7,975	670	-	-
Write-off of intangible assets and related charges	15,453	-	-	-	-
<b>Total expenses</b>	<b>965,765</b>	<b>1,002,937</b>	<b>634,450</b>	<b>537,984</b>	<b>350,383</b>
Income (loss) from continuing operations, before income taxes	(4,896)	2,587	(10,846)	(449)	31,161
Income tax expense (benefit)	(1,868)	1,032	(4,140)	(728)	11,231
<b>Income (loss) from continuing operations</b>	<b>(3,028)</b>	<b>1,555</b>	<b>(6,706)</b>	<b>279</b>	<b>19,930</b>
Income from discontinued operations, less applicable income taxes	10,003	16,595	16,909	6,094	12,833
<b>Net income</b>	<b>\$ 6,975</b>	<b>\$ 18,150</b>	<b>\$ 10,203</b>	<b>\$ 6,373</b>	<b>\$ 32,763</b>
<b>Earnings per common share - basic</b>					
Continuing operations	\$ (0.18)	\$ 0.10	\$ (0.52)	\$ 0.02	\$ 1.71
Discontinued operations	0.60	1.01	1.31	0.48	1.11
<b>Net income per common share</b>	<b>\$ 0.42</b>	<b>\$ 1.11</b>	<b>\$ 0.79</b>	<b>\$ 0.50</b>	<b>\$ 2.82</b>
<b>Earnings per common share - diluted</b>					
Continuing operations	\$ (0.18)	\$ 0.10	\$ (0.52)	\$ 0.02	\$ 1.71
Discontinued operations	0.60	1.00	1.31	0.48	1.11
<b>Net income per common share</b>	<b>\$ 0.42</b>	<b>\$ 1.10</b>	<b>\$ 0.79</b>	<b>\$ 0.50</b>	<b>\$ 2.82</b>
Weighted average common shares outstanding	16,559	16,423	12,892	12,551	11,601
Cash dividends per common share	0.36	0.48	0.48	0.48	0.48
<b>BALANCE SHEET DATA:</b>					
Cash and investments	\$ 309,562	\$ 316,858	\$ 335,839	\$ 402,711	\$ 305,624
Total assets	498,722	648,136	693,278	580,121	460,662
Notes payable	55,064	124,578	125,788	109,898	44,960
Total shareholders' equity	266,451	326,377	313,655	212,411	171,705

(a) Includes the operations of American Medical Security Group, Inc. since December 3, 1996, the date of acquisition.

(b) Discontinued operations includes the operations of Newco/UWS through September 25, 1998, the spin-off distribution date. Continuing operations includes interest on debt assumed by Newco/UWS through September 11, 1998, the effective date of the spin-off.

</TABLE>

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#### ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

##### OVERVIEW

American Medical Security Group, Inc., formerly known as United Wisconsin Services, Inc., together with its subsidiary companies ("AMSG" or the "Company"), is a provider of life and health insurance products for individuals and employer groups. The Company's principal product offering is small group health insurance. It also sells individual and large group health insurance and group life, dental, prescription drug, disability and accidental death insurance. The Company's products are actively marketed in 33 states and the District of Columbia through independent agents. The Company's products generally provide discounts to insureds that utilize preferred provider organizations ("PPOs"). The average group size is eight lives.

##### HISTORY

Prior to and for most of the year 1998, the business of the Company, then known as "United Wisconsin Services, Inc.", consisted of two main components: the small group business and the managed care and specialty business. Prior to December 1996, the small group business consisted primarily of individual and small group insurance written through a joint venture with American Medical Security Group, Inc., a Delaware corporation ("Old AMS"). During that time, the Company owned approximately 12% of the issued and outstanding shares of Old AMS.

The Company underwrote all of the individual and small group insurance marketed, produced and administered by Old AMS and ceded back to Old AMS approximately 50% of the individual and small group insurance written by the Company through the joint venture. On December 3, 1996, Old AMS merged with and into the Company.

On September 11, 1998, the Company contributed all of its subsidiaries comprising the managed care and specialty business to a newly created subsidiary named "Newco/UWS, Inc.", a Wisconsin corporation ("Newco/UWS"). On September 25, 1998, the Company spun off the managed care and specialty business through a distribution of 100% of the issued and outstanding shares of common stock of Newco/UWS to the Company's shareholders of record as of September 11, 1998 (see Spin-off below). The Company thereupon adopted its current name of "American Medical Security Group, Inc." and Newco/UWS changed its name to "United Wisconsin Services, Inc." After the spin-off, the business of the Company consists solely of the Company's small group insurance business. The Consolidated Financial Statements included hereafter report the Company's managed care and specialty business as discontinued operations. The continuing operations of the Company as reported herein reflect the historical small group insurance portion of the Company's business. Certain portions of Management's Discussion and Analysis discuss pro forma information for 1996 reporting selected financial information as if the business of Old AMS were a part of the Company's business for the entire year of 1996.

#### ACCOMPLISHMENTS

##### SPIN-OFF

On September 25, 1998, the Company completed the separation of its managed care and specialty business through the spin-off of Newco/UWS to the Company's shareholders on a share-for-share basis. The intent of the spin-off was to allow both companies to operate more effectively. Management believes that the separation should afford each company increased marketing, joint venture and acquisition opportunities.

The net assets of Newco/UWS consisted of assets and liabilities of the managed care and specialty management business along with \$70.0 million in debt that was assumed by Newco/UWS in conjunction with the spin-off. The Company obtained a private letter ruling from the Internal Revenue Service to the effect that the spin-off qualifies as tax-free to the Company, Newco/UWS and the Company's shareholders (see Newco/UWS Form 10 for more details).

As a result of the spin-off, the revenues and expenses, assets and liabilities, and cash flows of the managed care and specialty business have been classified as discontinued operations in the consolidated financial statements.

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Accordingly, the discussions of continuing operations to follow reflect only the operations of the Company's health and life products.

##### TURNAROUND

After experiencing major operating losses in 1995 and 1996, a new management team for the small group business was appointed, headed by Samuel V. Miller, President and Chief Executive Officer. Management implemented a turnaround strategy to return the small group business to profitability. Actions taken included the termination of unprofitable business, enhancement of network management, significant repricing of business and the initiation of a medical management process. These actions reduced the health loss ratio from 80.3% (pro forma) in 1996 to 77.5% in 1997 and 76.7% in 1998. Management also implemented cost saving measures, including a reduction in personnel, the automation of claim payments and increased productivity which caused the health expense ratio to decline from 24.2% (pro forma) in 1996 to 23.0% in 1997. During 1998, the health expense ratio increased to 23.9% due primarily to investments in the Company's distribution channel, costs related to the Year 2000 project and higher commissions resulting from a change in product mix. Management's efforts have resulted in a significant increase in income from continuing operations from a pro forma loss of \$25.1 million in 1996 to income of \$8.9 million and \$8.4 million in 1997 and 1998, respectively, excluding non-recurring items and interest on debt assumed by Newco/UWS.

##### ACQUISITIONS

The Company continues to actively seek opportunities for growth through acquisition. Management believes that as industry consolidation occurs, the Company is in a position to take advantage of its operational efficiencies. During 1997 and 1998, the Company acquired the following blocks of business:

- In the fourth quarter of 1997 the Company acquired most of the individual and small group health insurance business of Pan American Life Insurance Company ("Pan American"). Approximately 74,000 members were acquired with the acquisition of this block of business.
- On May 7, 1998, the Company reached an agreement with Pan American to assume most of their remaining domestic health insurance business effective July 1, 1998, which resulted in an additional 80,000 members at the time of acquisition.
- On October 15, 1998, the Company reached an agreement with Continental Assurance Company ("CNA") to acquire the majority of CNA's fully insured employer group health business effective January 1, 1999. Management estimates the book of business covered approximately 75,000 fully insured medical members as of January 1, 1999.

Management continues to evaluate potential targets for acquisition.

#### MEMBERSHIP

Membership increased to 636,238 at December 31, 1998, from 623,727 at the end of 1997. New sales grew each quarter during 1998 from 16,800 new members in January to 27,800 by December. In addition, the acquisition in July of the second Pan American block of business added approximately 46,000 members as of December 31, 1998.

At the same time, the Company continued to take necessary steps to improve profitability through rate increases and exiting certain markets. By the end of 1998, new sales growth combined with slower terminations caused the membership in force to begin to grow.

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The following is a table reflecting the quarterly membership in force:

<S>	<C>	<C>
1997:		
Fourth Quarter		623,727
1998:		
First Quarter		594,585
Second Quarter		577,520
Third Quarter		624,456
Fourth Quarter		636,238

</TABLE>

#### TANGIBLE BOOK VALUE

The tangible book value at December 31, 1998, increased to \$8.95 per share compared to \$8.02 at December 31, 1997. Tangible book value is computed by taking shareholders' equity adjusted by net gain (loss) on available for sale investments, less goodwill and other intangibles over end-of-period shares outstanding.

#### NON-RECURRING ITEMS

The Company's distribution system asset was acquired in 1996 as part of the merger with Old AMS. During 1997 and 1998, the Company experienced significant turnover of sales managers and began to reorganize sales offices. In particular, during that period, the Company replaced commissioned independent sales managers with salaried sales offices, while it evaluated the Company's distribution strategy. In the fourth quarter of 1998, management concluded that a salaried sales office structure was more consistent with current strategy and the Company's intangible distribution system asset was impaired. As a result, the Company recorded an after tax charge of \$9.3 million to write off the intangible asset and to record other related costs at December 31, 1998. Management believes that no other material impairment of goodwill and other intangible assets existed at December 31, 1998.

Results for 1997 include an after tax charge of \$4.1 million in non-recurring costs related to the acquisition of the Pan American small group business in October 1997.

#### COMPARISON OF RESULTS OF CONTINUING OPERATIONS

The Company's results of continuing operations includes certain non-recurring charges as previously discussed and interest on debt assumed by

Newco/UWS in conjunction with the spin-off. The following table reflects the Company's income from continuing operations adjusted for these items:

<TABLE>  
<CAPTION>  
<S>

	<C>	<C>	<C>
	1998	1997	1996
Income (loss) from continuing operations before interest on debt assumed by Newco/UWS and non-recurring items	\$ 8,439	\$ 8,851	\$ (6,340)
Interest on debt assumed by Newco/UWS, net of tax	(2,216)	(3,180)	(366)
Non-recurring items, net of tax	(9,251)	(4,116)	-
Income (loss) from continuing operations	\$ (3,028)	\$ 1,555	\$ (6,706)

</TABLE>

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YEARS ENDED DECEMBER 31, 1998 AND 1997

Results from continuing operations for 1998 was a loss of \$3.0 million, which is a \$4.6 million decrease from income of \$1.6 million for 1997. Excluding non-recurring charges and excluding interest on debt assumed by Newco/UWS, income from continuing operations for 1998 was \$8.4 million compared to \$8.9 million for 1997. The modest decline in income from continuing operations reflects an improved loss ratio offset by increased selling, general and administrative expenses. The turnaround slowed during 1998 principally due to losses in the individual dental business and delayed rate increases in the State of Florida. Action was taken by year end 1998 with respect to both challenges which management believes will be effective.

For 1998, health insurance premiums declined 5.8% to \$865.2 million from \$918.6 million in 1997. The decline in premium is primarily the result of a decline in average fully insured medical membership of 7.2% in 1998 compared to 1997 reflecting the Company's efforts to cull unprofitable business. Life insurance premiums declined 15.4% in 1998 to \$24.5 million from \$28.9 million in 1997 which is consistent with the decline in average life membership of 16.2% in 1998 compared to 1997.

The health loss ratio for the year ended December 31, 1998 was 76.7%, an improvement from 77.5% for 1997. The improved loss ratio for 1998, as previously mentioned, reflects the cancellation of unprofitable business, including the stand-alone dental business effective June 1, 1998, increased higher margin new business and repricing of existing business. The life loss ratio for the year ended December 31, 1998, was 31.5%, which is an improvement from 35.3% for 1997.

Net investment income includes investment income and realized gains. Net investment income for 1998 increased 0.6% to \$24.2 million from \$24.1 million in 1997. Average annual investment yields, excluding realized gains and losses, were 6.7% for the year ended December 31, 1998, compared to 7.4% for the same period in the prior year. Net investment income for 1997 includes \$1.4 million of mutual fund distributions which were favorably impacted by foreign financial markets in 1997. Investment gains and losses are realized in the normal investment process in response to market opportunities.

During 1998, other revenue declined to \$22.6 million from \$24.2 million in 1997. The decrease is primarily due to lower administrative fee revenue from self-funded business in 1998 offset by additional fees related to the Pan American business acquired beginning in the third quarter 1998.

The expense ratio includes commissions, administrative expenses and premium taxes and assessments, but excludes non-recurring charges. For 1998, the expense ratio for health products was 23.9% compared to 23.0% for 1997. The increased health expense ratio for the year reflects higher commission costs related to growth in new business in 1998 over 1997 and an investment in the Company's distribution network. Also contributing to the increase in the expense ratio were expenses related to the Year 2000 initiative, and a one-time investment in re-engineering administrative work flow processes.

For 1998, interest expense decreased to \$7.7 million from \$9.3 million for 1997. The decrease in interest expense for 1998 reflects the assumption of \$70.0

million in debt by Newco/UWS on September 11, 1998, as part of the spin-off transaction, as further described in Note 2 to the Consolidated Financial Statements. Excluding the interest on debt assumed by Newco/UWS, interest expense for 1998 was approximately \$4.3 million which is consistent with management's ongoing expectations.

Amortization of goodwill and intangibles for the year ended December 31, 1998, increased to \$8.8 million from \$8.0 million at December 31, 1997. The increase in amortization expense in 1998 is primarily due to recorded intangible assets related to the Pan American small group business acquired in October 1997. Amortization of intangibles is expected to decline significantly in 1999 due to the write-off of the Company's distribution system intangible asset.

The effective tax rate for the year 1998 was 38.1% compared with 39.9% for the year 1997. The effective tax rate is raised by the amortization of non-deductible goodwill in relation to pretax income.

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#### YEARS ENDED DECEMBER 31, 1997 AND 1996

Results from continuing operations for 1997 was income of \$1.6 million compared with a loss of \$6.7 million for 1996. Excluding non-recurring charges and interest on debt assumed by Newco/UWS, income from continuing operations for 1997 was \$8.9 million which compares to a 1996 pro forma loss of \$25.1 million. The increase in income from continuing operations was due to an improved loss ratio on health business and an improved expense ratio, offset by increased expenses related to interest costs on debt and amortization of goodwill and intangibles.

For the year ended December 31, 1997, health insurance premiums increased 63.4% to \$918.6 million from \$562.1 million for 1996. The increase in 1997 was due primarily to the merger of the Company with Old AMS. Considering the effects of the merger with Old AMS, health insurance premiums decreased 12.4% from \$1,094.5 million (pro forma) in 1996 to \$957.2 million in 1997. The decline in health insurance premium is the result of management's efforts to return the business to profitability. Steps in this process included exiting certain unprofitable markets and lines of business, and implementing rate increases. Group life insurance premiums, which are generally tied to group health business, declined 13.9% to \$28.9 million in 1997 from \$33.6 million in 1996.

The health loss ratio for 1997 was 77.5% compared to 80.3% (pro forma) for 1996. The lower loss ratio in 1997 reflects improvements in medical cost trends and pricing increases as discussed above. For 1997, the life loss ratio was 35.3%, which compares to 32.8% for 1996.

Net investment income (including realized gains/losses) for 1997 decreased 0.2% to \$24.1 million from \$24.6 million at December 31, 1996. Net investment income declined due to a decrease in average invested assets offset by an increase in investment yield in 1997. Average annual investment yields, excluding realized gains and losses, were 7.4% for the year ended December 31, 1997, compared to 6.8% for 1996. The average yield for 1997 includes the mutual fund distribution of \$1.4 million discussed above in the comparison of years 1998 and 1997.

Other revenue for the year ended December 31, 1997, increased to \$24.2 million from \$2.9 million for the year ended December 31, 1996. Other revenue principally represents administrative and other related fees from the administration of medical policies. The increase in other revenue in 1997 is principally due to the merger with Old AMS in December 1996.

For the year ended December 31, 1997, the expense ratio for health products was 23.0% compared with 24.2% (pro forma) for 1996. The improved health expense ratio for the year reflects a decline in commissions on new business, increased productivity, a reduction in personnel and the automation of claims payments. Interest expense increased from \$4.3 million in 1996 to \$9.3 million in 1997. The increase is attributable to \$70.0 million of additional debt borrowed to finance the merger with Old AMS. For 1997, amortization of goodwill and intangibles increased to \$8.0 million from \$0.7 million in 1996. The large increase in amortization expenses is due to the \$150.0 million of goodwill and other intangibles recorded at the time of the merger with Old AMS.

The effective tax rate for 1997 was 39.9%, compared with 38.2% for 1996.

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## DISCONTINUED OPERATIONS

Income from discontinued operations reflects the operating results of Newco/UWS (now called United Wisconsin Services, Inc.) through September 25, 1998, the distribution date of the spin-off. Reported results of discontinued operations in 1998 included direct costs associated with the spin-off of \$4.9 million.

## LIQUIDITY AND CAPITAL RESOURCES

The Company's sources of cash flow consist primarily of insurance premiums, administrative fee revenue and investment income. The primary uses of cash include payment of medical and other benefits, selling, general and administrative expenses and debt service costs. Positive cash flows are invested pending future payments of medical and other benefits and other operating expenses. The Company's investment policies are designed to maximize yield, preserve principal and provide liquidity to meet anticipated payment obligations.

The Company's cash flows from operations were negative at \$3.7 million, \$31.8 million and \$17.0 million for the years ended 1998, 1997 and 1996, respectively. Negative cash flows from operations are principally the result of the decline in medical and other benefits payable of \$14.9 million, \$32.2 million and \$13.5 million for the years ended December 31, 1998, 1997 and 1996, respectively. The decline in medical and other benefits payable results primarily from a decline in business and a reduction in the inventory of claims pending adjudication. The Company's cash flows from operations were positive during the last half of 1998 and should remain positive during 1999 due to a leveling of the claims inventory, growth in membership and lower debt service costs as a result of the assumption of \$70.0 million in debt by Newco/UWS in September 1998.

The Company's insurance subsidiaries operate in states that require certain levels of regulatory capital and surplus and may restrict dividends to their parent companies. The National Association of Insurance Commissioners ("NAIC") has adopted risk-based capital ("RBC") standards for life and health insurers designed to evaluate the adequacy of statutory capital and surplus in relation to various business risks faced by such insurers. The RBC formula is used by state insurance regulators as an early warning tool to identify insurance companies that potentially are inadequately capitalized. At December 31, 1998, the Company's principal insurance company subsidiaries had an RBC ratio that was substantially above the levels which would require regulatory action.

On July 31, 1998, in anticipation of the spin-off transaction, the Company refinanced its subordinated notes outstanding in the amount of \$44.9 million. The subordinated notes, including accrued interest, were replaced with borrowings of \$45.2 million on a bank line of credit with a maximum commitment of \$70.0 million. The line of credit contains certain covenants which, among other matters, requires the Company to maintain a minimum tangible net worth and restricts the Company's ability to incur additional debt, pay future cash dividends and transfer assets. The Company is in compliance with all such covenants at December 31, 1998.

In addition to internally generated funds and periodic borrowings on its bank line of credit, the Company believes that additional financing could be obtained through equity offerings, debt offerings or bank borrowings, as market conditions may permit or dictate.

The Company does not expect to pay any cash dividends in the foreseeable future and intends to employ its earnings in the continued development of its business. The Company's future dividend policy will depend on its earnings, capital requirements, financial condition and other factors considered relevant by the Board of Directors.

## MARKET RISK EXPOSURE

The primary investment objective of the Company is to maximize investment income while controlling risks and preserving principal. The Company seeks to meet this investment objective through diversity of coupon rates, liquidity, investment type, industry, issuer and geographic location. The investment portfolio of the Company consists primarily of investment grade debt securities. Outside investment managers who seek to maximize return on the portfolio within the Company's investment guidelines are utilized. At December 31, 1998, \$296.5 million or 99.2% of the Company's total investment portfolio was invested in debt securities.

The bond portfolio had an average quality rating of A1 at December 31, 1998, and Aa3 at December 31, 1997, as measured by Moody's Investor Service. Almost the entire portfolio was classified as available for sale. The Company had no investment mortgage loans, non-publicly traded securities (except for principal only strips of U.S. Government securities), real estate held for investment or financial derivatives. The market value of the total investment portfolio exceeded amortized cost by \$1.9 million at December 31, 1998.

The primary market risk affecting the Company is interest rate risk. Assuming an immediate increase of 100 basis points in interest rates, the net hypothetical decline in fair value of shareholders' equity is estimated to be \$7.2 million (after tax) at December 31, 1998. This amount represents approximately 2.7% of the Company's shareholders' equity.

At December 31, 1998, the fair value of the Company's borrowings under the line of credit facility approximated the carrying value. Market risk was estimated as the potential increase in the fair value resulting from a hypothetical 1% decrease in the Company's weighted average short-term borrowing rate at December 31, 1998, and was not materially different from the year end carrying value.

#### INFLATION

Health care costs have been rising and are expected to continue to rise at a rate that exceeds the consumer price index. The Company's cost control measures and premium rate increases are designed to reduce the adverse effect of medical cost inflation on its operations. In addition, the Company uses its underwriting and medical management capabilities to help control inflation in health care costs. However, there can be no assurance that the Company's efforts will fully offset the impact of inflation or that premium revenue increases will equal or exceed increasing health care costs.

#### YEAR 2000

The Year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. Computer equipment and software devices with embedded technology that are time-sensitive may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in a system failure or miscalculations causing disruptions of operations, including, among other things, a temporary inability to process transactions or engage in similar normal business activities.

The Company has divided the Year 2000 issues facing the organization into three major sections: 1) software applications developed in-house ("In-house Applications"); 2) software applications acquired from a third party that have been customized by the Company ("Customized Applications"); and 3) software applications acquired from a third party that have not been customized by the Company and those products and services provided to the Company by third parties ("Third Party Products").

In-house Applications represent the primary operating software of the Company and include applications that perform premium billing and cash posting, claims adjudication and commission payment processing. The project to make all In-House Applications Year 2000 compliant was completed in November 1998. The deletion of temporary bridges and workfiles used to facilitate communication between compliant and non-compliant computer codes during the course of the implementation was completed in early March 1999.

Customized Applications include electronic data interchange applications, publishing systems, fax capabilities, accounting packages and other special application software as well as utility software packages that serve as links between different packages. Each of these software packages is currently being upgraded or replaced. It is anticipated that all Customized Applications will be compliant prior to the end of the third quarter of 1999. With respect to Third Party Products, the Company has reviewed its business processes that may have Year 2000 concerns performed by, with or through external business associates. This includes computer hardware,

telephone systems, security systems and numerous other products as well as third party applications that have not been customized by the Company. The Company has evaluated various third parties that provide products or services, such as printing companies, power and utility companies and other vendors. Where appropriate, agreements with third party vendors have been amended and Year 2000 compliance certifications have been

obtained. Significant business partners and vendors will be required to provide the Company with Year 2000 certified products or services. Such products and services are being tested by the Company to validate the compliance certification. The Company estimates this portion of the plan is approximately 73% complete, is on schedule and is planned for completion in September 1999.

YEAR 2000 PLAN	PERCENT COMPLETE	COMPLETION DATE
In-house Applications	100%	March 1999
Customized Applications	43%	September 1999
Third Party Products	73%	September 1999

The cost of the Year 2000 project is being funded through operating cash flows and is not expected to be material to the Company's financial position. Through December 31, 1998, the Company has incurred costs of \$2.0 million (\$1.5 million in 1998) relating to the Year 2000 project. In 1999, the Company anticipates an additional cost of \$1.1 million which will be expensed as incurred. The Company has made capital expenditures of \$1.8 million through December 31, 1998, and expects to make an additional \$3.1 million in capital expenditures to complete the project.

The Company is developing a comprehensive analysis of the operational problems and costs (including loss of revenues) that could result from the unlikely failure by the Company and certain third parties to complete efforts necessary to achieve Year 2000 compliance on a timely basis. The majority of the contingency plans has been developed and documented for dealing with the worst case scenarios with the highest chance of occurring. The Company currently plans to complete such analysis and contingency planning during the second quarter of 1999.

The costs of the project and the date on which the Company plans to complete the necessary Year 2000 modifications are based on management's best estimates, which were derived using numerous assumptions of future events including the continued availability of certain resources, third party remediation plans and other factors. There can be no guarantee that these timelines or estimates will be achieved. Actual results could differ materially from those planned. Specific factors that might cause such material differences to occur include, but are not limited to, the availability and cost of personnel trained in this area; the ability to locate and correct all relevant computer codes; and the ability of the Company's significant suppliers, customers and others with which it conducts business, including federal, state and local governmental agencies, to identify and resolve their own Year 2000 issues and similar uncertainties. Due to these uncertainties, the Company may face certain claims, the impact of which is not currently estimable. No assurance can be given that the cost of defending and resolving such claims, if any, will not significantly affect the Company's results of operations. Although the Company has some agreements with third party vendors and suppliers that contain indemnification provisions that protect the Company under certain circumstances relating to Year 2000 issues, there can be no assurances that such indemnification provisions will cover all of the Company's liabilities and costs related to Year 2000 claims by third parties.

#### FORWARD LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward looking statements subject to inherent risks and uncertainties that may cause actual results or events to differ materially from those contemplated by such forward looking statements. The terms "anticipate", "believe", "estimate", "expect", "objective", "plan", "project" and similar expressions are intended to identify forward looking statements. In addition to the assumptions and other factors referred to specifically in connection with such statements, factors that may cause actual results or events to differ materially from those contemplated by such forward looking statements, include, among others, (1) the effects of either federal or state health care reform or other legislation; (2) rising health care costs, including the Company's ability to predict such costs and adequately price its products; (3) changes in membership utilization and risk; (4) government regulations, including changes in insurance, health care and other regulatory conditions; (5) delays in regulatory approvals, and regulatory action resulting from market conduct activity and general administrative compliance with state and federal laws; (6) general business conditions, including competitive practices and demand for the Company's products; (7) development of claims reserves; (8) rating agency policies and

practices; (9) general economic conditions, including changes in interest rates and the effect of such changes on the Company's investment portfolio; (10) the Company's ability to integrate acquisitions; (11) unforeseen costs or consequences of Year 2000 issues; (12) the retention of key management and technical employees, and (13) other factors that may be referred to in the Company's reports filed with the Securities and Exchange Commission from time to time.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

See "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations -- Market Risk Exposure" for information concerning potential market risks related to the Company's investment portfolio.

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ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

REPORT OF INDEPENDENT AUDITORS

Board of Directors  
American Medical Security Group, Inc.

We have audited the accompanying consolidated balance sheets of American Medical Security Group, Inc. and its subsidiaries, formerly known as United Wisconsin Services, Inc., (the Company) as of December 31, 1998 and 1997, and the related consolidated statements of income, changes in shareholders' equity and comprehensive income and cash flows for each of the three years in the period ended December 31, 1998. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 1998 and 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1998, in conformity with generally accepted accounting principles. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

/s/ Ernst & Young LLP

Milwaukee, Wisconsin  
February 5, 1999

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<TABLE>

AMERICAN MEDICAL SECURITY GROUP, INC.

CONSOLIDATED BALANCE SHEETS

<CAPTION>

December 31,  
1998                      1997

-----

	(IN THOUSANDS)	
<S> ASSETS	<C>	<C>
Investments:		
Securities available for sale, at fair value:		
Fixed maturities	\$ 293,096	\$ 266,976
Equity securities-preferred	2,457	787
Fixed maturity securities held to maturity, at amortized cost	3,361	3,804
	-----	
Total Investments	298,914	271,567
Cash and Cash Equivalents	10,648	45,291
Other Assets:		
Property and equipment, net	35,356	37,169
Goodwill and other intangibles, net	116,093	137,796
Other assets	37,711	32,697
	-----	
Total Other Assets	189,160	207,662
Net Assets of Discontinued Operations	-	123,616
	-----	
Total Assets	\$ 498,722	\$ 648,136
	=====	

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
</TABLE>

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<TABLE>

AMERICAN MEDICAL SECURITY GROUP, INC.

CONSOLIDATED BALANCE SHEETS (CONTINUED)

<CAPTION>

	December 31,	
<S> LIABILITIES AND SHAREHOLDERS' EQUITY	1998	1997
	-----	
	(IN THOUSANDS)	
<S>	<C>	<C>
Liabilities:		
Medical and other benefits payable	\$ 113,133	\$ 126,882
Advance premiums	18,157	19,986
Payables and accrued expenses	23,439	28,930
Notes payable	55,064	124,578
Other liabilities	22,478	21,383
	-----	
Total Liabilities	232,271	321,759
Redeemable preferred stock - Series A adjustable rate		

nonconvertible, \$1,000 stated value, 25,000 shares authorized	-	-
Shareholders' Equity:		
Preferred stock (no par value, 475,000 shares authorized)	-	-
Common stock (no par value, \$1 stated value, 50,000,000 shares authorized, 16,653,179 and 16,509,578 shares issued and outstanding at December 31, 1998 and 1997, respectively)	16,653	16,510
Paid-in capital	188,981	186,768
Retained earnings	59,572	117,331
Accumulated other comprehensive income (net of taxes of \$642,000 in 1998 and \$123,000 in 1997)	1,245	5,768
	-----	
Total Shareholders' Equity	266,451	326,377
	-----	
Total Liabilities and Shareholders' Equity	\$ 498,722	\$ 648,136
	=====	

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
</TABLE>

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<TABLE>

AMERICAN MEDICAL SECURITY GROUP, INC.

CONSOLIDATED STATEMENTS OF INCOME

<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	-----		
	(IN THOUSANDS, EXCEPT PER SHARE DATA)		
<S>	<C>	<C>	<C>
Revenues:			
Insurance premiums	\$ 914,017	\$ 957,204	\$ 596,099
Net investment income	24,220	24,071	24,570
Other revenue	22,632	24,249	2,935
	-----		
Total Revenues	960,869	1,005,524	623,604
	-----		
Expenses:			
Medical and other benefits	691,767	733,491	472,319
Selling, general and administrative	242,073	252,160	157,136
Interest	7,691	9,311	4,325
Amortization of goodwill and other intangibles	8,781	7,975	670
Write-off of intangible assets and related charges	15,453	-	-
	-----		
Total Expenses	965,765	1,002,937	634,450
	-----		
Income (Loss) From Continuing Operations, Before Income Taxes	(4,896)	2,587	(10,846)
Income Tax Expense (Benefit)	(1,868)	1,032	(4,140)
	-----		
Income (Loss) From Continuing Operations	(3,028)	1,555	(6,706)
Income From Discontinued Operations,			

Less Applicable Income Taxes		10,003	16,595	16,909
Net Income	\$	6,975	\$ 18,150	\$ 10,203
Earnings (Loss) Per Common Share - Basic				
Continuing operations	\$	(0.18)	\$ 0.10	\$ (0.52)
Discontinued operations		0.60	1.01	1.31
Net Income Per Common Share	\$	0.42	\$ 1.11	\$ 0.79
Earnings (Loss) Per Common Share - Diluted				
Continuing operations	\$	(0.18)	\$ 0.10	\$ (0.52)
Discontinued operations		0.60	1.00	1.31
Net Income Per Common Share	\$	0.42	\$ 1.10	\$ 0.79

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
</TABLE>

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<TABLE>

AMERICAN MEDICAL SECURITY GROUP, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME

<CAPTION>

	Common Shares Outstanding	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income, Net of Taxes	Total Shareholders' Equity
	(IN THOUSANDS, EXCEPT SHARES AND PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>	<C>
Balance at January 1, 1996	12,599,715	\$ 12,600	\$ 86,902	\$ 103,361	\$ 9,548	\$ 212,411
Comprehensive income:						
Net income				10,203		10,203
Change in net unrealized gain on securities, net of reclassification adjustment in net income of \$4,615,000 and net of taxes of \$3,789,000					(3,279)	(3,279)
Comprehensive income						6,924
Cash dividends paid on common stock (\$.48 per share)				(6,491)		(6,491)
Issuance of common stock and options related to acquisition of subsidiary	3,694,280	3,694	97,117			100,811
Balance at December 31, 1996	16,293,995	16,294	184,019	107,073	6,269	313,655
Comprehensive income:						
Net income				18,150		18,150
Change in net unrealized gain on securities, net of						

reclassification adjustment in net income of \$1,854,000 and net of taxes of \$123,000					(501)	(501)
Comprehensive income						17,649
Cash dividends paid on common stock (\$.48 per share)				(7,892)		(7,892)
Issuance of common stock	215,583	216	2,749			2,965
Balance at December 31, 1997	16,509,578	16,510	186,768	117,331	5,768	326,377
Comprehensive income:						
Net income				6,975		6,975
Change in net unrealized gain on securities, net of reclassification adjustment in net income of \$3,670,000 and net of taxes of \$642,000					(4,613)	(4,613)
Comprehensive income						2,362
Cash dividends paid on common stock (\$.36 per share)				(5,956)		(5,956)
Issuance of common stock	143,601	143	2,213			2,356
Distribution of Newco/UWS to shareholders				(58,778)	90	(58,688)
Balance at December 31, 1998	16,653,179	\$ 16,653	\$ 188,981	\$ 59,572	\$ 1,245	\$ 266,451

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
</TABLE>

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<TABLE>

AMERICAN MEDICAL SECURITY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
OPERATING ACTIVITIES:			
Income (loss) from continuing operations	\$ (3,028)	\$ 1,555	\$ (6,706)
Adjustments to reconcile income (loss) from continuing operations to net cash used in operating activities:			
Depreciation and amortization	15,343	17,424	1,611
Write-off of intangible asset	12,833	-	-
Net realized investment gains	(3,670)	(1,854)	(4,615)
Deferred income tax benefit	(8,256)	(1,722)	(319)
Changes in operating accounts:			
Other assets	(4,869)	10,204	15,877
Medical and other benefits payable	(14,911)	(32,181)	(13,536)
Advance premiums	(2,004)	(5,485)	(7,792)
Payables and accrued expenses	(6,129)	2,122	266
Funds held on behalf of affiliated reinsurers	-	-	(21,002)
Other liabilities	10,982	(21,882)	19,237
Net Cash Used in Operating Activities	(3,709)	(31,819)	(16,979)
INVESTING ACTIVITIES:			
Acquisition of subsidiaries (net of cash and cash equivalents acquired of \$2,773,000 in 1998 and \$14,793,000 in 1996)	2,623	-	(56,837)
Purchases of available for sale securities	(347,931)	(276,510)	(126,361)
Proceeds from sale of available for sale securities	300,416	311,374	200,605
Proceeds from maturity of available for sale securities	20,225	400	23,694
Purchases of held to maturity securities	(540)	(1,629)	(1,416)



Proceeds from maturity of held to maturity securities	1,100	935	1,195
Purchases of property and equipment	(3,326)	(1,839)	(102)
Proceeds from sale of property and equipment	254	2,404	6
<hr/>			
Net Cash Provided by (Used in) Investing Activities	(27,179)	35,135	40,784
Activities			
FINANCING ACTIVITIES:			
Cash dividends paid	(5,956)	(7,892)	(6,491)
Issuance of common stock	2,356	2,965	-
Proceeds from notes payable borrowings	45,158	-	-
Repayment of notes payable	(46,944)	(1,210)	(9,277)
Proceeds from notes with affiliate	-	-	70,000
Repayment of notes with affiliate	-	-	(65,000)
<hr/>			
Net Cash Used in Financing Activities	(5,386)	(6,137)	(10,768)
Net Cash Provided by Discontinued Operations	1,631	16,113	13,751
<hr/>			
Cash and cash equivalents:			
Net increase (decrease) during year	(34,643)	13,292	26,788
Balance at beginning of year	45,291	31,999	5,211
<hr/>			
Balance at End of Year	\$ 10,648	\$ 45,291	\$ 31,999
<hr/>			

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
</TABLE>

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AMERICAN MEDICAL SECURITY GROUP, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

ORGANIZATION

American Medical Security Group, Inc., formerly known as United Wisconsin Services, Inc., together with its subsidiary companies ("AMSG" or the "Company"), provides life and health insurance products for individuals and small employer groups. The Company offers a wide variety of health and life insurance products including medical, dental, prescription drug, disability, group term life and accidental death insurance. The Company's products are sold through licensed, independent agents in 33 states and the District of Columbia. Approximately 120 Company sales managers located in sales offices throughout the United States support the independent agents. The Company principally markets health benefit products that provide discounts to insureds that utilize preferred provider organizations (PPOs). AMSG owns a large preferred provider network and also contracts with more than 65 other networks to ensure cost-effective health care choices to its customers.

BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company and all of its majority-owned subsidiaries. Significant intercompany accounts and transactions have been eliminated.

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles ("GAAP"). The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include operating cash and short-term investments with original maturities of three months or less. These amounts are recorded at cost, which approximates market.

INVESTMENTS

Investments are classified as either held-to-maturity or

available-for-sale. Investments which the Company has the positive intent and ability to hold to maturity are designated as held-to-maturity and are stated at amortized cost. All other investments are classified as available-for-sale and are stated at fair value based on quoted market prices, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity as accumulated other comprehensive income, net of income tax effects. Realized gains and losses from the sale of available-for-sale debt securities and equity securities are based on the first-in, first-out basis.

#### FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of investments are reported in Note 4. The fair values of other financial instruments, principally other assets, advanced premiums, payables and accrued expenses, notes payable and other liabilities approximate their December 31, 1998 and 1997 carrying values.

#### GOODWILL AND OTHER INTANGIBLES

Goodwill represents the excess of cost over the fair market value of net assets acquired. Goodwill and other intangible assets are being amortized on a straight-line basis over a period of 40 years or less. Accumulated amortization was \$8,403,000 and \$8,895,000 at December 31, 1998 and 1997, respectively.

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The Company periodically evaluates whether events and circumstances have occurred which may affect the estimated useful life or the recoverability of the remaining balance of its intangibles. The study conducted during 1998, determined that the Company's sales distribution system intangible assets were considered to be impaired as the Company largely eliminated its commission-based sales offices, replacing them with salaried sales offices since the acquisition. This resulted in an after-tax charge of \$9,251,000 or \$0.56 per share, including \$7,683,000 of intangible distribution system assets and \$1,568,000 of related costs. The Company's management believes that no other material impairment of goodwill or other intangible assets exists at December 31, 1998.

#### REVENUE RECOGNITION

Premiums for group life and health policies are recognized ratably over the period that insurance coverage is provided.

#### MEDICAL AND OTHER BENEFITS

The liabilities for medical and other benefits are determined using statistical analyses and represent estimates of the ultimate net cost of all reported and unreported claims that are unpaid at year end. The Company's year-end claim liabilities are substantially satisfied through claim payments in the subsequent year. Management believes that the liabilities for insurance claims are adequate. The liability for medical and other benefits, excluding reinsurance recoverables, of \$123,907,000 at December 31, 1997, was deficient in the subsequent year by \$1,228,000. At December 31, 1996, medical and other benefits payable, including reinsurance recoverables of \$155,114,000, developed favorably by \$9,418,000 in the subsequent year. The estimates are reviewed periodically and, as adjustments to the liabilities become necessary, the adjustments are reflected in current operations.

#### REINSURANCE

Reinsurance premiums, commissions and expense reimbursements on reinsured business are accounted for on a basis consistent with those used in accounting for the original policies issued and the terms of the reinsurance contracts. Premiums and benefits ceded to other companies have been reported as a reduction of premium revenue and benefits. Reinsurance receivables and prepaid reinsurance premium amounts are reported as assets.

The Company limits the maximum net loss that can arise from certain lines of business by reinsuring (ceding) a portion of these risks with other insurance organizations (reinsurers) on an excess of loss or quota share basis. The Company is contingently liable on reinsurance ceded in the event that the reinsurers do not meet their contractual obligations.

The Company has acquired certain business from other carriers through reinsurance transactions. A summary of reinsurance ceded and assumed related to acquired business is as follows:

<TABLE>  
<CAPTION>

1998

1997

	(IN THOUSANDS)	
<S>	<C>	<C>
Reinsurance Assumed:		
Insurance Premiums	\$ 99,645	\$ 30,256
Medical and Other Benefits	80,786	23,270
Reinsurance Ceded:		
Insurance Premiums	\$ 14,074	\$ -
Medical and Other Benefits	12,958	-

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#### PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost. Depreciation and amortization are provided using the straight-line method over the estimated useful lives, which are 20 to 30 years for land improvements, 10 to 40 years for buildings and building improvements, three to five years for computer equipment and software and three to 10 years for furniture and other equipment.

#### INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial statement purposes and the amounts used for income tax purposes. A valuation allowance is recorded on deferred tax assets that management believes more likely than not will not be realized.

#### EARNINGS PER COMMON SHARE

In 1997, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 128, "Earnings per Share," which replaces the presentation of primary and fully diluted earnings per share ("EPS") with a presentation of basic and diluted EPS.

The following table sets forth the computation of basic and diluted EPS:

<S>	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)		
<C>	<C>	<C>	<C>
Numerator:			
Income (loss) from continuing operations	\$ (3,028)	\$ 1,555	\$ (6,706)
Denominator:			
Denominator for basic EPS - weighted average shares	16,558,887	16,423,270	12,892,431
Effect of dilutive securities - employee stock options	-	147,715	-
Denominator for diluted EPS	16,558,887	16,570,985	12,892,431
Income (loss) from continuing operations:			
Basic	\$ (0.18)	\$ 0.10	\$ (0.52)
Diluted	\$ (0.18)	\$ 0.10	\$ (0.52)

The effect of dilutive securities is excluded from the diluted EPS computation for the years 1998 and 1996 because employee stock options are antidilutive during such periods. Options to purchase 1,908,449 shares of common stock were outstanding and exercisable at the end of 1997 and all but 147,715 were not included in the computation of diluted earnings per share because the options' exercise price was greater than the average market price of common shares and, therefore, the effect would be antidilutive.

#### COMPREHENSIVE INCOME

In June 1997, the FASB issued SFAS No. 130, "Reporting Comprehensive Income" which established standards for the reporting and display of comprehensive income and its components in a full set of comparative general-purpose financial statements. The statement became effective for the Company as of January 1, 1998. Comprehensive income is defined in this statement

as net income plus other comprehensive income, which for the Company, under existing accounting standards, includes unrealized gains and losses, net of income tax effects, on certain investments in debt and equity securities. Comprehensive income is reported by the Company in the consolidated statements of changes in shareholders' equity and comprehensive income.

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## RECLASSIFICATIONS

Certain reclassifications have been made to the 1997 and 1996 consolidated financial statements to conform with the 1998 presentation.

### 2. DISTRIBUTION OF NEWCO/UWS TO SHAREHOLDERS

On May 27, 1998, the Board of Directors of the Company, then known as United Wisconsin Services, Inc., ("UWS") approved a plan to spin off its managed care companies and specialty management business to its shareholders (the "Distribution"). In connection with the spin-off, the Company changed its name to "American Medical Security Group, Inc." On September 25, 1998, the distribution date, shareholders of AMSG received one share of common stock of a newly formed company, Newco/UWS, Inc. ("Newco/UWS"), for every share of AMSG owned as of September 11, 1998, the record date. At December 31, 1998, Blue Cross and Blue Shield United of Wisconsin ("BCBSUW") holds approximately 38% of the outstanding stock of AMSG.

The net assets of Newco/UWS consisted of assets and liabilities of the managed care and specialty management business along with \$70,000,000 in debt that was assumed by Newco/UWS in conjunction with the Distribution. Newco/UWS was renamed United Wisconsin Services, Inc. AMSG has obtained a private ruling from the Internal Revenue Service to the effect that the spin-off qualifies as tax free to AMSG, Newco/UWS and to AMSG shareholders. The operations of Newco/UWS, along with direct costs of approximately \$4,900,000 associated with the spin-off, have been reflected in discontinued operations. All prior periods of the consolidated financial statements of AMSG have been restated to reflect Newco/UWS operations as discontinued operations in the accompanying consolidated financial statements of AMSG. Discontinued operations reported total revenues of \$488,033,000, \$609,109,000 and \$539,764,000 for 1998, 1997 and 1996 respectively. Interest expense on the \$70,000,000 debt assumed by Newco/UWS is reflected in continuing operations only through September 11, 1998.

### 3. ACQUISITIONS

Prior to December 3, 1996, the Company owned 12% of the common stock of American Medical Security Group, Inc., a Delaware corporation, ("Old AMS"). The Company also had a joint venture agreement with Old AMS and its subsidiaries and was a party to related reinsurance agreements. Effective December 3, 1996, the Company acquired the remaining 88% of Old AMS. The aggregate consideration for the acquisition was cash of \$71,800,000, including expenses, and \$98,719,000 representing the market value of 3,694,280 newly issued shares of the Company's common stock and options to purchase the Company's common stock. Most of the cash consideration came from \$70,000,000 borrowed from BCBSUW. In conjunction with the acquisition, \$150,018,000 of goodwill and other intangibles and \$22,173,000 of related deferred tax liabilities were recorded on the consolidated balance sheet.

The above acquisition has been accounted for using the purchase method of accounting, and the accompanying consolidated financial statements include the results of operations from the date of acquisition.

On a pro forma basis, assuming the acquisition had occurred on January 1, 1996, after giving effect to certain adjustments arising from the recording of the transaction, including amortization of goodwill and other intangibles, reduction of investment income due to cash payments, interest expense on debt and intercompany eliminations, 1996 revenues would have been \$1,150,000,000. In addition, the loss from continuing operations would have been \$25,112,000, resulting in a loss per common share of \$1.95.

These pro forma results are not necessarily indicative of the results that would have occurred had the acquisition taken place on January 1, 1996, or indicative of future results of operations for the combined companies.

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### 4. INVESTMENTS

Net investment income from continuing operations includes the following:

<TABLE>  
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Interest on fixed maturities	\$ 18,437	\$ 19,037	\$ 18,889
Dividends on equity securities	716	2,369	1,205
Realized gains	5,078	2,219	7,413
Realized losses	(1,408)	(365)	(2,798)
Interest on cash equivalents and other investment income	2,112	1,720	744
Gross investment income	24,935	24,980	25,453
Investment expenses	(715)	(909)	(883)
	\$ 24,220	\$ 24,071	\$ 24,570

</TABLE>

Unrealized gains (losses) are computed as the difference between estimated fair value and amortized cost for equity securities and fixed maturities classified as available for sale. A summary of the net increase (decrease) in unrealized gains, which is included in other accumulated comprehensive income, is as follows:

<TABLE>  
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Fixed maturities	\$ (1,849)	\$ 7,669	\$ (6,186)
Equity securities	(105)	(7,545)	(4,841)
Funds held on behalf of affiliated reinsurer, net of deferred income taxes	-	-	3,511
Discontinued operations, net of deferred income taxes	(3,211)	(748)	448
	\$ (5,165)	\$ (624)	\$ (7,068)

</TABLE>

The amortized cost and estimated fair values of investments are as follows:

<TABLE>  
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
AT DECEMBER 31, 1998:				
Available for sale:				
Fixed maturities:				
U.S. Treasury securities	\$ 35,932	\$ 630	\$ (31)	\$ 36,531
Corporate debt securities	168,853	3,201	(2,230)	169,824
Foreign government securities	18,055	371	(476)	17,950
Government agency mortgage-backed securities	68,291	536	(36)	68,791
	291,131	4,738	(2,773)	293,096
Equity securities - preferred	2,507	-	(50)	2,457
Held to maturity:				
U.S. Treasury securities	3,361	85	-	3,446

\$ 296,999	\$ 4,823	\$ (2,823)	\$ 298,999
------------	----------	------------	------------

</TABLE>  
<TABLE>  
<CAPTION>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
AT DECEMBER 31, 1997:				
Available for sale:				
Fixed maturities:				
U.S. Treasury securities	\$ 59,038	\$ 625	\$ -	\$ 59,663
Corporate debt securities	145,289	2,847	(177)	147,959
Foreign government securities	16,489	218	(298)	16,409
Government agency mortgage-backed securities	42,346	607	(8)	42,945
	263,162	4,297	(483)	266,976
Equity securities - preferred	732	55	-	787
Held to maturity:				
U.S. Treasury securities	3,804	91	-	3,895
	\$ 267,698	\$ 4,443	\$ (483)	\$ 271,658

</TABLE>

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The amortized cost and estimated fair values of debt securities at December 31, 1998, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations.

<TABLE>  
<CAPTION>

	Available-for-Sale		Held-to-Maturity	
	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
Available for sale:				
Due in one year or less	\$ 12,597	\$ 12,635	\$ 617	\$ 627
Due after one through five years	89,529	89,852	2,744	2,819
Due after five through ten years	83,619	84,304	-	-
Due after ten years	37,095	37,514	-	-
	222,840	224,305	3,361	3,446
Government agency mortgage-backed securities	68,291	68,791	-	-
	\$ 291,131	\$ 293,096	\$ 3,361	\$ 3,446

</TABLE>

At December 31, 1998, the insurance subsidiaries had fixed securities and cash equivalents on deposit with various state insurance departments with carrying values of approximately \$3,361,000.

#### 5. PROPERTY AND EQUIPMENT

Property and equipment are stated at cost and are summarized as follows:

<TABLE>  
<CAPTION>

	December 31,	
	1998	1997
(IN THOUSANDS)		
<S>	<C>	<C>
Land and land improvements	\$ 3,877	\$ 3,877

Building and building improvements	23,740	23,232
Computer equipment and software	13,052	10,594
Furniture and other equipment	13,137	12,281
	-----	-----
	53,806	49,984
Less accumulated depreciation	(18,450)	(12,815)
	-----	-----
	\$ 35,356	\$ 37,169
	=====	=====

</TABLE>

The Company recognized depreciation expense on property and equipment of \$5,450,000, \$8,625,000 and \$1,425,000 in 1998, 1997 and 1996, respectively.

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6. DEBT

Notes payable consists of the following:

	December 31, 1998	December 31, 1997
	-----	
	(IN THOUSANDS)	
	<C>	<C>
Line of credit, commercial bank, adjusted periodically, interest payments due quarterly through July 31, 2003	\$ 45,158	\$ -
Mortgage payable, commercial bank, 9.05% interest, monthly principal payments of \$100,000 plus interest through January 1, 2004	8,500	9,700
Notes payable, commercial bank, adjusted periodically, one year note due March 31, 1999, interest payments due monthly	1,000	-
Promissory note, 8.00% interest, quarterly principal payments of \$47,000 plus interest through October 1, 2001	406	-
Subordinated notes, 7.75% interest, due July 1, 2000; retired July 30, 1998	-	44,878
Note payable, BCBSUW, 1.25% in excess of LIBOR, adjusted quarterly	-	70,000
	-----	-----
	\$ 55,064	\$ 124,578
	=====	=====

</TABLE>

As further discussed in Note 2, the note payable to BCBSUW was assumed by Newco/UWS in conjunction with the Distribution.

On July 31, 1998, the Company entered into a five year revolving bank line of credit with a maximum commitment of \$70,000,000, and a \$10,000,000 sublimit for swingline loans. Under the bank line of credit, the Company has the option to select an interest rate at the Eurodollar rate or the alternate base rate. The alternate base rate is the larger of the bank's corporate base rate of interest or the federal funds rate plus 1/2% per annum. The swingline loans are used for short term borrowing and are required to be repaid no later than 30 days after they are made. Swingline loans are charged the bank's daily floating rate of interest. The agreement contains certain covenants which, among other matters, require the Company to maintain a minimum tangible net worth and restrict the Company's ability to incur additional debt, pay future cash dividends and transfer assets. The aggregate commitment on the line of credit must be reduced to \$60,000,000, \$50,000,000 and \$35,000,000 on July 31, 2000, July 31, 2001 and July 31, 2002, respectively.

During 1998 the Company borrowed \$45,158,000 on the bank line of credit to retire its subordinated notes outstanding. A six month Eurodollar rate of 6.00% was selected on November 5, 1998 for the outstanding line of credit borrowings. The weighted average interest rate on swingline loans as of December 31, 1998 was 7.75%. The mortgage payable is collateralized by the Company's home office property located in Green Bay, Wisconsin.

The Company believes the carrying value of all notes payable approximates their fair value. Future annual principal amounts due for all notes are

\$2,222,000 for 1999, \$1,392,000 for 2001, \$11,358,000 for 2002 and \$36,200,000 for 2003. During 1998, 1997 and 1996 interest paid totaled \$6,971,000, \$9,320,000 and \$5,105,000, respectively.

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7. RELATED-PARTY TRANSACTIONS

The Company has loans and advances receivable from employees, agents and joint venture partners of \$2,517,000 and \$2,204,000 at December 31, 1998 and 1997, respectively. The Company has a deferred compensation payable to executives of \$1,421,000 and \$1,288,000 for 1998 and 1997, respectively.

Prior to the Company's acquisition of Old AMS on December 3, 1996, the Company ceded to Old AMS, on a quota share basis, approximately 50% of the premium revenue on small group health care and life business sold by Old AMS. As a result, the Company retained 50% of the premium revenue and 50% of the profit (loss) on the products sold by Old AMS.

8. INCOME TAXES

The Company and most of its subsidiaries file a consolidated federal income tax return. The Company and its subsidiaries file separate state franchise, income and premium tax returns as applicable.

The Company had a net federal income tax payable of \$620,000 and a net federal income tax receivable of \$1,373,000 at December 31, 1998 and 1997, respectively. The Company and its subsidiaries have state net business loss carryforwards totaling \$45,622,000 at December 31, 1998, which expire in the year 2013. Federal and state income tax payments related to continuing operations, net of refunds, were \$710,000 in 1998 and \$3,534,000 in 1997, while 1996 netted a refund of \$1,495,000.

The components of income tax expense (benefit) are as follows:

<TABLE>  
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Current:			
Federal	\$ 5,295	\$ 1,965	\$ (4,874)
State	1,091	292	(9)
	6,386	2,257	(4,883)
Deferred:			
Federal	(5,522)	(137)	962
State	(2,732)	(1,088)	(219)
	(8,254)	(1,225)	743
Income Tax Expense (Benefit) from Continuing Operations	(1,868)	1,032	(4,140)
Income Tax Expense from Discontinued Operations	9,028	9,918	10,986
Total Income Tax Expense	\$ 7,160	\$ 10,950	\$ 6,846

</TABLE>

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The differences between taxes computed at the federal statutory rate and recorded income taxes attributable to continuing operations are as follows:

<TABLE>  
<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>



Tax expense (benefit) at federal statutory rate	\$ (1,714)	\$ 904	\$ (3,796)
Goodwill amortization	878	844	96
State income and franchise taxes, net of federal benefit	(1,066)	(559)	(140)
Other, net	34	(157)	(300)
	-----	-----	-----
Tax Expense (Benefit) From Continuing Operations	\$ (1,868)	\$ 1,032	\$ (4,140)
	=====	=====	=====

</TABLE>

Significant components of the Company's federal and state deferred tax liabilities and assets are as follows:

<TABLE>

<CAPTION>

	December 31, 1998		December 31, 1997	
	Federal	State	Federal	State
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Deferred tax liabilities:				
Intangibles	\$ (6,685)	\$ 759	\$ (13,275)	\$ (3,263)
Unrealized gains on investments	(669)	-	(1,316)	-
Other taxable temporary differences	(2,228)	(147)	(3,573)	(105)
	-----	-----	-----	-----
	(9,582)	612	(18,164)	(3,368)
Deferred tax assets:				
Advance premium discounting	1,203	5	1,354	-
Basis in minority-owned subsidiaries	1,317	313	1,031	249
Medical and other benefits payable discounting	1,415	51	1,300	27
Unearned income	1,172	226	1,699	327
Bad debt reserve and other non-deductible liabilities	1,756	371	457	148
Specified policy acquisition costs	802	-	1,701	-
Depreciation and amortization	544	299	1,647	440
State net business loss carryforwards	-	2,646	-	3,159
Other deductible temporary differences	286	38	804	390
	-----	-----	-----	-----
	8,495	3,949	9,993	4,740
Valuation allowance	(519)	(2,135)	-	(1,277)
	-----	-----	-----	-----
	7,976	1,814	9,993	3,463
	-----	-----	-----	-----
Net Deferred Tax Assets (Liabilities)	\$ (1,606)	\$ 2,426	\$ (8,171)	\$ 95
	=====	=====	=====	=====

</TABLE>

The federal deferred benefit arising from the deductibility of state deferred tax is included as a component of other federal deferred taxes. The net deferred tax assets and liabilities are included in other assets and liabilities, as applicable in the accompanying balance sheets.

#### 9. COMMITMENTS AND CONTINGENCIES

The Company is involved in various legal actions and other contingencies occurring in the normal course of its business. In the opinion of management, adequate provision has been made for losses which may result from these actions and, accordingly, the outcome of these matters is not expected to have a material adverse effect on the consolidated financial statements.

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As of December 31, 1998, aggregate minimum rental commitments under noncancelable leases amount to \$3,193,000 in 1999, \$2,292,000 in 2000, \$1,555,000 in 2001, \$350,000 in 2002 and \$58,000 in 2003.

#### 10. SHAREHOLDERS' EQUITY

##### STATUTORY FINANCIAL INFORMATION

Insurance companies are subject to state insurance regulations. These regulations require, among other matters, the filing of financial statements prepared in accordance with statutory accounting practices prescribed or permitted for insurance companies. The combined statutory surplus of the Company's insurance subsidiaries, United Wisconsin Life Insurance Company and

American Medical Security Insurance Company of Georgia, at December 31, 1998 and 1997, was \$183,288,000 and \$176,518,000, respectively.

State insurance regulations also require the maintenance of a minimum compulsory surplus based on a percentage of premiums written. At December 31, 1998, the Company's insurance subsidiaries were in compliance with these compulsory regulatory requirements.

RESTRICTIONS ON DIVIDENDS FROM SUBSIDIARIES

Dividends paid by the insurance subsidiaries to the Company are limited by state insurance regulations. The insurance regulator in the state of domicile may disapprove any dividend which, together with other dividends paid by an insurance company in the prior twelve months, exceeds the regulatory maximum as computed for the insurance company based on its statutory surplus and net income. Based upon the financial statements of the Company's insurance subsidiaries as of December 31, 1998, as filed with the insurance regulators, the aggregate amount available for dividends in 1999 without regulatory approval is \$18,329,000.

11. EMPLOYEE BENEFIT PLANS

STOCK BASED COMPENSATION PLANS

The Company has a stock-based compensation plan, Equity Incentive Plan (the "Plan"), for the benefit of eligible employees of the Company. The Plan permits the grant of nonqualified stock options ("NQSO"), incentive stock options, stock appreciation rights, restricted stock awards and performance awards. Persons eligible to participate in the Plan include all full-time active employees, including employees who are members of the board of directors, but excluding directors who are not employees. The Plan allows for the granting of up to 4,000,000 shares of which 1,121,303 shares are available for grant as of December 31, 1998. No benefits other than NQSOs have been granted under the plan.

The terms of incentive stock options and nonqualified stock options granted under the Plan cannot exceed more than 10 and 12 years, respectively, and the option exercise price generally cannot be less than the fair market value of the Company's common stock on the date of grant. Incentive stock options and NQSOs are not exercisable in any event prior to six months following the grant date.

Stock appreciation rights generally have a grant price at least equal to 100% of the fair market value of the Company's common stock. The term of the stock appreciation rights cannot exceed 12 years. Stock appreciation rights are not exercisable prior to six months following the grant date.

Restricted stock generally may not be sold or otherwise transferred for certain periods based on the passage of time, the achievement of performance goals or the occurrence of other events. However, participants may exercise full voting rights and are entitled to receive all dividends and other distributions with respect to restricted stock. Restricted stock does not vest prior to six months following the date of grant.

On November 17, 1998, the Company and a key executive entered into a deferred stock agreement. Under the agreement the Company has an obligation to issue 73,506 shares of AMSG common stock provided the

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executive remains continuously employed with AMSG through November 17, 2002. The Company incurred expense of \$28,000 in 1998 related to this agreement.

The Company also has a Director Stock Option Plan which permits the grant of NQSOs. As of December 31, 1998, 29,000 shares are available for grant.

Stock option activity for all plans is as follows:

<TABLE>  
<CAPTION>

	1998	December 31, 1997	1996
<S>	<C>	<C>	<C>
TOTAL NUMBER OF NQSOS			
Outstanding at beginning of year	2,217,307	2,244,459	394,404
Granted	874,560	184,500	1,863,259
Exercised	(114,028)	(204,152)	-
Forfeited	(20,000)	(7,500)	(13,204)

Spin-off related:			
Conversion to UWS options (a)	(351,322)	-	-
AMSG modification (b)	312,376	-	-
Outstanding at end of year	2,918,893	2,217,307	2,244,459
Exercisable at end of year	2,365,893	1,908,449	2,029,557
Available for grant at end of year	1,150,303	403,541	580,541
WEIGHTED AVERAGE EXERCISE PRICE OF NQSOS			
Outstanding at beginning of year	\$27.02	\$25.00	\$26.36
Granted - Exercise price equals market price on grant date	10.75	27.32	24.26
Granted - Exercise price is less than market price on grant date	-	-	11.05
Granted - Exercise price exceeds market price on grant date	12.00	-	32.83
Exercised	4.15	4.95	-
Forfeited	18.44	32.67	27.78
Outstanding at end of year	15.18	27.02	25.00
Exercisable at end of year	16.23	27.16	25.02
NQSOS BY EXERCISE PRICE RANGE			
Exercise price	\$3.01	\$4.66	\$4.66
Weighted average exercise price	\$3.01	\$4.66	\$4.66
Weighted average remaining contractual life (years)	3.93	4.93	5.93
Exercisable at end of year	47,960	104,044	305,696
Weighted average exercise price of options exercisable at end of year	\$3.01	\$4.66	\$4.66
Range of exercise prices	\$10.25 - \$14.38	\$18.13 - \$26.63	\$18.13 - \$26.00
Weighted average exercise price	\$11.38	\$22.91	\$22.33
Weighted average remaining contractual life (years)	10.62	10.24	11.07
Exercisable at end of year	595,765	708,582	657,895
Weighted average exercise price of options exercisable at end of year	\$12.01	\$22.30	\$22.25
Range of exercise prices	\$15.76 - \$22.74	\$28.00 - \$37.13	\$28.00 - \$35.00
Weighted average exercise price	\$18.06	\$32.39	\$32.39
Weighted average remaining contractual life (years)	5.69	4.64	5.52
Exercisable at end of year	1,722,168	1,095,823	1,065,966
Weighted average exercise price of options exercisable at end of year	\$18.06	\$32.44	\$32.56

(a) Effective on the date of the Distribution, certain AMSG stock options held by Newco/UWS employees were converted to Newco/UWS stock options.

(b) Immediately following the Distribution, the number of options was increased and exercise prices were decreased (the "modification") to preserve the economic value of those options that existed just prior to the Distribution for the holders of certain AMSG stock options.

</TABLE>

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The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Since the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimates, in management's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

The Company follows Accounting Principles Board Opinion No. 25 under which no compensation expense is recorded when the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant. The Company's pro forma information regarding net income and net income per share has been determined as if these options had been accounted for since January 1, 1995, in accordance with the fair value method of SFAS No. 123, "Accounting for Stock-Based Compensation".

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information is as follows:

<TABLE>

<CAPTION>

Year ended December 31,

	1998	1997	1996
(IN THOUSANDS, EXCEPT PER SHARE DATA)			
<S>	<C>	<C>	<C>
Pro forma net income	\$ 6,484	\$ 17,719	\$ 8,862
Pro forma earnings per common share:			
Basic	\$ 0.39	\$ 1.08	\$ 0.69
Diluted	\$ 0.39	\$ 1.06	\$ 0.67

In determining compensation cost pursuant to SFAS No. 123, the fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions for 1998 and 1997, respectively: risk-free interest rates of 4.53% and 5.71%; dividend yields of 0.00% and 1.78%; volatility factors of the expected market price of the Company's common stock of 0.39 and 0.38; and a weighted average expected life of the options of 3.55 and 6.03 years. As calculated using the Black-Scholes model, the weighted average, grant-date fair value of options granted in which the exercise price equaled the market price on the date of the grant was \$4.83 per share for 1998 and \$10.66 per share for 1997 and 1996. The weighted average grant-date fair value of options granted in which the exercise price was less than the market price on the date of the grant was \$7.37 per share for 1998 and \$1.29 per share for 1996. The weighted average grant-date fair value of options granted in which the exercise price was greater than market price on the date of the grant was \$1.77 per share for 1998.

The pro forma disclosures only include the effect of options granted subsequent to January 1, 1995. Accordingly, the effects of applying the SFAS No. 123 pro forma disclosures to future periods may not be indicative of future effects.

#### RETIREMENT SAVINGS PLAN

The Company's employees are included in a defined contribution plan (the "Retirement Savings Plan") with profit sharing and discretionary savings provisions covering all eligible salaried and hourly employees. Beginning in 1998, participant contributions up to 6% of the participants compensation are matched 50% by the Company. Profit sharing contributions to the Retirement Savings Plan are determined annually by the Company. Participants vest in company contributions over seven years. The Company recognized expense associated with the Retirement Savings Plan of \$1,449,000 and \$1,044,000 in 1998 and 1997, respectively.

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#### 12. QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

Selected continuing operations quarterly financial data for the years ended December 31, 1998 and 1997 are as follows:

	Quarter				
	First	Second	Third	Fourth	Total
(IN THOUSANDS, EXCEPT PER SHARE DATA)					
<S>	<C>	<C>	<C>	<C>	<C>
1998					
Total Revenues	\$ 245,840	\$ 237,354	\$ 237,409	\$ 240,266	\$ 960,869
Income (Loss) From Continuing Operations	1,551	392	1,637	(6,608)	(3,028)
Net Income (Loss)	6,391	1,266	5,926	(6,608)	6,975
Earnings (Loss) Per Common Share - Basic (1)					
Continuing Operations	0.09	0.03	0.10	(0.40)	(0.18)
Discontinued Operations	0.29	0.05	0.26	-	0.60
Net Income (Loss) Per Common Share	0.38	0.08	0.36	(0.40)	0.42
Earnings (Loss) Per Common Share - Diluted (1)					
Continuing Operations	0.09	0.03	0.10	(0.40)	(0.18)
Discontinued Operations	0.29	0.05	0.26	-	0.60
Net Income (Loss) Per Common Share	0.38	0.08	0.36	(0.40)	0.42

1997

Total Revenues	\$ 265,455	\$ 253,376	\$ 234,168	\$ 252,525	\$1,005,524
Income (Loss) From Continuing Operations	(831)	1,471	2,349	(1,434)	1,555
Net Income	3,370	5,563	6,411	2,806	18,150
Earnings (Loss) Per Common Share - Basic (1)					
Continuing Operations	(0.05)	0.09	0.15	(0.09)	0.10
Discontinued Operations	0.26	0.25	0.24	0.26	1.01
Net Income Per Common Share	0.21	0.34	0.39	0.17	1.11
Earnings (Loss) Per Common Share - Diluted (1)					
Continuing Operations	(0.05)	0.09	0.14	(0.09)	0.10
Discontinued Operations	0.26	0.25	0.24	0.26	1.00
Net Income Per Common Share	0.21	0.34	0.38	0.17	1.10

(1) The sum of the four quarters does not equal the earnings (loss) per common share for the year due to the change in the number of shares outstanding during the year.

</TABLE>

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### 13. SEGMENTS OF THE BUSINESS

The Company has two reportable segments: 1) health insurance products and 2) life insurance products. The Company's health insurance products consist of the following coverages related to small group PPO products: fully insured medical, self funded medical, dental and short-term disability. Life products consist primarily of group term-life insurance. The "All Other" segment includes operations not directly related to the business segments and unallocated corporate items (i.e., corporate investment income, interest expense on corporate debt, amortization of goodwill and intangibles and unallocated overhead expenses). The Company's all other segment also includes data for its 80% owned HMO subsidiary. The reportable segments are managed separately because they differ in the nature of the products offered and in profit margins.

The Company evaluates segment performance based on profit or loss from continuing operations before income taxes, not including gains and losses on the Company's investment portfolio. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Intercompany transactions have been eliminated prior to reporting reportable segment information.

<TABLE>

<CAPTION>

YEAR ENDED DECEMBER 31, 1998:

	Health Insurance	Life Insurance	All Other	Consolidated Total
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Revenues:				
Insurance premiums	\$ 865,187	\$ 24,488	\$ 24,342	\$ 914,017
Net investment income	8,463	214	15,543	24,220
Other revenue	17,317	268	5,047	22,632
	890,967	24,970	44,932	960,869
Benefits and Expenses:				
Medical and other benefits	663,775	7,713	20,279	691,767
Selling, general and administrative expenses	223,976	7,839	10,258	242,073
Interest	-	-	7,691	7,691
Amortization of goodwill and other intangibles	-	-	8,781	8,781
Write-off of intangible assets and related charges	-	-	15,453	15,453
	887,751	15,552	62,462	965,765
Income (loss) from continuing operations, before income taxes	\$ 3,216	\$ 9,418	\$ (17,530)	\$ (4,896)
As of December 31, 1998:				
Segment assets	\$ 153,965	\$ 3,753	\$ 341,004	\$ 498,722

</TABLE>

<TABLE>  
<CAPTION>

YEAR ENDED DECEMBER 31, 1997:

	Health Insurance	Life Insurance	All Other	Consolidated Total
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Revenues:				
Insurance premiums	\$ 918,566	\$ 28,942	\$ 9,696	\$ 957,204
Net investment income	11,256	298	12,517	24,071
Other revenue	22,437	241	1,571	24,249
	952,259	29,481	23,784	1,005,524
Benefits and Expenses:				
Medical and other benefits	712,059	10,226	11,206	733,491
Selling, general and administrative expenses	233,613	8,907	9,640	252,160
Interest	-	-	9,311	9,311
Amortization of goodwill and other intangibles	-	-	7,975	7,975
	945,672	19,133	38,132	1,002,937
Income (loss) from continuing operations, before income taxes	\$ 6,587	\$ 10,348	\$ (14,348)	\$ 2,587
As of December 31, 1997:				
Segment assets	\$ 158,008	\$ 4,142	\$ 362,370	\$ 524,520

</TABLE>  
<TABLE>  
<CAPTION>

YEAR ENDED DECEMBER 31, 1996:

	Health Insurance	Life Insurance	All Other	Consolidated Total
	(IN THOUSANDS)			
<S>	<C>	<C>	<C>	<C>
Revenues:				
Insurance premiums	\$ 562,091	\$ 33,613	\$ 395	\$ 596,099
Net investment income	8,821	218	15,531	24,570
Other revenue	2,369	29	537	2,935
	573,281	33,860	16,463	623,604
Benefits and Expenses:				
Medical and other benefits	453,576	18,409	334	472,319
Selling, general and administrative expenses	144,973	5,214	6,949	157,136
Interest	-	-	4,325	4,325
Amortization of goodwill and other intangibles	-	-	670	670
	598,549	23,623	12,278	634,450
Income (loss) from continuing operations, before income taxes	\$ (25,268)	\$ 10,237	\$ 4,185	\$ (10,846)
As of December 31, 1996:				
Segment assets	\$ 173,055	\$ 5,793	\$ 390,548	\$ 569,396

</TABLE>

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE.

None.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT.

Information required by this item with respect to directors and executive officers is incorporated herein by reference to the information included under the headings "Election of Directors" and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Company's definitive Proxy Statement, to be dated April 14, 1999, relating to the 1999 Annual Meeting of Shareholders currently scheduled for May 27, 1999 (the "1999 Proxy Statement") and the information under the heading "Executive Officers of the Registrant" in Part I of this report. The 1999 Proxy Statement will be filed with the Securities and Exchange Commission not later than 120 days after the end of the Company's fiscal year.

ITEM 11. EXECUTIVE COMPENSATION.

Information required by this item is incorporated herein by reference to the information included under the headings "Executive Compensation" and "Election of Directors -- Compensation of Directors" in the 1999 Proxy Statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT.

Information required by this item is included under the heading "Security Ownership of Certain Beneficial Owners and Management" in the 1999 Proxy Statement, which section is hereby incorporated by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS.

Information required by this item is included under the heading "Certain Transactions" in the 1999 Proxy Statement, which section is hereby incorporated by reference.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K.

(A) 1 AND 2. FINANCIAL STATEMENTS AND FINANCIAL STATEMENT SCHEDULES

<TABLE>  
<CAPTION>

<S>  
The following consolidated financial statements of American Medical Security Group, Inc. and subsidiaries are included in Item 8:

Report of Independent Auditors.....	22
Consolidated Balance Sheets at December 31, 1998 and 1997.....	23
Consolidated Statements of Income for the years ended December 31, 1998, 1997 and 1996.....	25
Consolidated Statements of Changes in Shareholders' Equity and Comprehensive Income for the years ended December 31, 1998, 1997, and 1996.....	26
Consolidated Statements of Cash Flows for the years ended December 31, 1998, 1997 and 1996.....	27
Notes to Consolidated Financial Statements.....	28

</TABLE>

<TABLE>  
<CAPTION>

PAGE IN  
FORM 10-K  
REPORT  
<C>

<S>  
The following financial statement schedules of American Medical Security Group, Inc. and subsidiaries are included in Item 14(d):

<C>

Schedule II - Condensed Financial Information of Registrant.....	46
Schedule III - Supplementary Insurance Information.....	49
Schedule IV - Reinsurance.....	50
Schedule V - Valuation and Qualifying Accounts.....	51

</TABLE>

All other schedules for which provision is made in applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. EXHIBITS

See the Exhibit Index following the Signature page of this report, which is incorporated herein by reference. Each management contract and compensatory plan or arrangement required to be filed as an exhibit to this report is identified in the Exhibit Index by an asterisk following its exhibit number.

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the fourth quarter of 1998.

(C) EXHIBITS

See the Exhibit Index following the Signature page of this report.

(D) FINANCIAL STATEMENT SCHEDULES

The financial statement schedules referenced in Item 14(a) are as follows.

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<TABLE>

SCHEDULE II

AMERICAN MEDICAL SECURITY GROUP, INC.  
(PARENT COMPANY ONLY)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED BALANCE SHEETS

<CAPTION>

	December 31,	
	1998	1997
	-----	
	(IN THOUSANDS)	
	<C>	<C>
<b>ASSETS</b>		
Cash and Cash Equivalents	\$ 128	\$ -
Other Assets:		
Investment in consolidated subsidiaries	300,262	306,530
Goodwill and other intangibles, net	21,355	21,919
Other assets	1,421	1,528
	-----	-----
Total Other Assets	323,038	329,977
Net Assets of Discontinued Operations	-	123,616
	-----	-----
Total Assets	\$ 323,166	\$ 453,593
	=====	=====

LIABILITIES AND SHAREHOLDERS' EQUITY



Liabilities:		
Notes payable	\$ 45,158	\$ 114,878
Taxes payable	6,995	10,819
Payables and accrued expenses	532	41
Due to affiliates	3,158	-
Other liabilities	872	1,478
	-----	-----
Total Liabilities	56,715	127,216
Shareholders' Equity:		
Common stock	16,653	16,510
Paid-in capital	188,981	186,768
Retained earnings	59,572	117,331
Accumulated other comprehensive income	1,245	5,768
	-----	-----
Total Shareholders' Equity	266,451	326,377
	-----	-----
Total Liabilities and Shareholders' Equity	\$ 323,166	\$ 453,593
	=====	=====

</TABLE>

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<TABLE>

SCHEDULE II

AMERICAN MEDICAL SECURITY GROUP, INC.  
(PARENT COMPANY ONLY)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF INCOME

<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
Revenues:			
Fees from consolidated subsidiaries	\$ 2,013	\$ 2,303	\$ 213
Net investment income	-	-	1,054
Other	35	-	-
	-----	-----	-----
Total revenues	2,048	2,303	1,267
Expenses:			
General and administrative	888	1,620	3,242
Interest	5,960	8,371	4,043
Amortization of goodwill and intangibles	563	278	44
	-----	-----	-----
Total expenses	7,411	10,269	7,329
	-----	-----	-----
Loss from continuing operations before income tax benefit and equity in net income of subsidiaries	(5,363)	(7,966)	(6,062)
Income tax benefit	(1,793)	(3,031)	(2,314)
	-----	-----	-----
Loss from continuing operations before equity in net income (loss) of subsidiaries	(3,570)	(4,935)	(3,748)
Equity in net income (loss) of subsidiaries	542	6,490	(2,958)
	-----	-----	-----
Income (loss) from continuing operations	(3,028)	1,555	(6,706)
Income from discontinued operations, less applicable income taxes	10,003	16,595	16,909

Net income	\$ 6,975	\$ 18,150	\$ 10,203
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</TABLE>

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<TABLE>

SCHEDULE II

AMERICAN MEDICAL SECURITY GROUP, INC.  
(PARENT COMPANY ONLY)

CONDENSED FINANCIAL INFORMATION OF REGISTRANT  
CONDENSED STATEMENTS OF CASH FLOWS

<CAPTION>

	Year ended December 31,		
	1998	1997	1996
	(IN THOUSANDS)		
<S>	<C>	<C>	<C>
<b>OPERATING ACTIVITIES:</b>			
Income (loss) from continuing operations	\$ (3,028)	\$ 1,555	\$ (6,706)
Adjustments to reconcile income (loss) from continuing operations to net cash provided by (used in) operating activities:			
Equity in the net (income) loss of subsidiaries	(542)	(6,490)	2,958
Dividends received (contributed to) subsidiaries	5,000	(10,330)	-
Amortization of intangibles	563	278	44
Deferred income tax benefit	(772)	(407)	11,246
Changes in operating accounts:			
Net other assets and liabilities	596	5,718	8,916
Net cash provided by (used in) operating activities	1,817	(9,676)	16,458
<b>INVESTING ACTIVITIES:</b>			
Acquisition of subsidiaries	-	-	(195,751)
Investment in subsidiaries	-	(1,500)	(66,677)
Proceeds from sale of security investments	-	-	70,000
Net cash used in investing activities	-	(1,500)	(192,428)
<b>FINANCING ACTIVITIES:</b>			
Cash dividends paid	(5,956)	(7,892)	(6,491)
Issuance of common stock	2,356	2,965	98,720
Proceeds from noted payable borrowings	45,158	-	-
Repayment of notes payable	(44,878)	(10)	(10)
Proceeds from notes with affiliate	-	-	70,000
Net cash provided by (used in) financing activities	(3,320)	(4,937)	162,219
Net cash provided by discontinued operations	1,631	16,113	13,751
Cash and cash equivalents:			
Net increase (decrease) during year	128	-	-
Balance at beginning of year	-	-	-
Balance at end of year	\$ 128	\$ -	\$ -

</TABLE>

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<TABLE>

## AMERICAN MEDICAL SECURITY GROUP, INC.

## SUPPLEMENTARY INSURANCE INFORMATION

&lt;CAPTION&gt;

Segment	Deferred Policy Acquisition Costs	Medical and Other Benefits Payable	Advance Premiums	Other Policyholder Funds
(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>
DECEMBER 31, 1998:				
Health	\$ -	\$ 106,427	\$ 16,778	\$ -
Life	-	2,189	927	-
All Other	-	4,517	452	-
Total	\$ -	\$ 113,133	\$ 18,157	\$ -
DECEMBER 31, 1997:				
Health	\$ -	\$ 118,730	\$ 19,350	\$ -
Life	-	3,632	636	-
All Other	-	4,520	-	-
Total	\$ -	\$ 126,882	\$ 19,986	\$ -
DECEMBER 31, 1996:				
Health	\$ -	\$ 151,561	\$ 24,528	\$ -
Life	-	4,933	943	-
All Other	-	2,569	-	-
Total	\$ -	\$ 159,063	\$ 25,471	\$ -

&lt;/TABLE&gt;

&lt;TABLE&gt;

&lt;CAPTION&gt;

Segment	Premium Revenue	Net Investment Income	Medical and Other Benefit Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
(IN THOUSANDS)						
<S>	<C>	<C>	<C>	<C>	<C>	<C>
1998:						
Health	\$ 865,187	\$ 8,463	\$ 663,775	\$ -	\$ 223,976	\$ 862,615
Life	24,488	214	7,713	-	7,839	-
All Other	24,342	15,543	20,279	-	10,258	24,794
Total	\$ 914,017	\$ 24,220	\$ 691,767	\$ -	\$ 242,073	
1997:						
Health	\$ 918,566	\$ 11,256	\$ 712,059	\$ -	\$ 233,613	\$ 913,388
Life	28,942	298	10,226	-	8,907	-
All Other	9,696	12,517	11,206	-	9,640	9,696
Total	\$ 957,204	\$ 24,071	\$ 733,491	\$ -	\$ 252,160	
1996:						
Health	\$ 562,091	\$ 8,821	\$ 453,576	\$ -	\$ 144,973	\$ 568,312
Life	33,613	218	18,409	-	5,214	-
All Other	395	15,531	334	-	6,949	395
Total	\$ 596,099	\$ 24,570	\$ 472,319	\$ -	\$ 157,136	

&lt;/TABLE&gt;

&lt;TABLE&gt;

SCHEDULE IV

## AMERICAN MEDICAL SECURITY GROUP, INC.

## REINSURANCE

&lt;CAPTION&gt;

	Direct Business	Ceded to Other Companies	Assumed from Other Companies	Net Amount	Percentage of Amount Assumed to Net
	(IN THOUSANDS)				
<S>	<C>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1998					
Life insurance in force	\$ 13,467,780	\$ 9,670,800	\$ -	\$ 3,796,980	
Premiums:					
Accident and Health	859,560	14,680	44,649	889,529	5.0%
Life	26,337	2,256	407	24,488	1.7%
Total Premiums	885,897	16,936	45,056	914,017	4.9%
YEAR ENDED DECEMBER 31, 1997					
Life insurance in force	\$ 11,750,841	\$ 9,320,314	\$ 2,033,624	\$ ,464,151	45.6%
Premiums:					
Accident and Health	878,369	3,097	52,990	928,262	5.7%
Life	29,527	585	-	28,942	-
Total Premiums	907,896	3,682	52,990	957,204	5.5%
YEAR ENDED DECEMBER 31, 1996					
Life insurance in force	\$ 17,187,431	\$ 321,528	\$ -	\$ 16,865,903	-
Premiums:					
Accident and Health	1,014,589	478,575	26,472	562,486	4.7%
Life	42,545	19,808	10,876	33,613	32.4%
Total Premiums	1,057,134	498,383	37,348	596,099	6.3%

&lt;/TABLE&gt;

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&lt;TABLE&gt;

SCHEDULE V

## AMERICAN MEDICAL SECURITY GROUP, INC.

## VALUATION AND QUALIFYING ACCOUNTS

&lt;CAPTION&gt;

Balance at Beginning of Period	Additions Charged to Cost and Expenses	Deductions	Balance at End of Period
(IN THOUSANDS)			

<S>	<C>	<C>	<C>	<C>
YEAR ENDED DECEMBER 31, 1998				
Write-down of intangible asset	\$ -	\$ 12,833	\$ 12,833	\$ -
Allowance for bad debts	1,061	84	27	1,118
Valuation allowance for deferred taxes (a)	1,277	1,555	178	2,654
Total	\$ 2,338	\$ 14,472	\$ 13,038	\$ 3,772
YEAR ENDED DECEMBER 31, 1997				
Allowance for bad debts	\$ 1,439	\$ 140	\$ 518	\$ 1,061
Valuation allowance for deferred taxes	636	641	-	1,277
Total	\$ 2,075	\$ 781	\$ 518	\$ 2,338
YEAR ENDED DECEMBER 31, 1996				
Allowance for bad debts (b)	\$ -	\$ 1,439	\$ -	\$ 1,439
Valuation allowance for deferred taxes	294	342	-	636
Total	\$ 294	\$ 1,781	\$ -	\$ 2,075

- (a) A valuation allowance for deferred taxes of approximately \$1.5 million was established in the first quarter of 1998 upon the consolidation of a subsidiary previously accounted for under the equity method.
- (b) Allowance for bad debts of \$1.4 million was established with the purchase of American Medical Security Group, Inc. ("Old AMS") on December 3, 1996.

</TABLE>

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#### SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AMERICAN MEDICAL SECURITY GROUP, INC.

By: /s/ SAMUEL V. MILLER

-----  
Samuel V. Miller, Chairman, President,  
and Chief Executive Officer

Date: March 26, 1999

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.\*

SIGNATURE	TITLE
/s/ SAMUEL V. MILLER Samuel V. Miller	Chairman of the Board, President and Chief Executive Officer; Director
/s/ GARY D. GUENGERICH Gary D. Guengerich	Executive Vice President and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)
/s/ ROGER H. BALLOU Roger H. Ballou	Director
/s/ W. FRANCIS BRENNAN W. Francis Brennan	Director

/s/ JAMES C. HICKMAN            Director  
James C. Hickman

/s/ WILLIAM R. JOHNSON        Director  
William R. Johnson

/s/ EUGENE A. MENDEN         Director  
Eugene A. Menden

/s/ MICHAEL T. RIORDAN        Director  
Michael T. Riordan

/s/ FRANK L. SKILLERN         Director  
Frank L. Skillern

/s/ J. GUS SWOBODA            Director  
J. Gus Swoboda

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\*Each of the above signatures is affixed as of March 26, 1999.

<TABLE>  
<CAPTION>

EX-4

AMERICAN MEDICAL SECURITY GROUP, INC.  
(COMMISSION FILE NO. 1-13154)

EXHIBIT INDEX  
TO  
FORM 10-K ANNUAL REPORT  
FOR THE YEAR ENDED DECEMBER 31, 1998

<S> EXHIBIT NUMBER	<C> DOCUMENT DESCRIPTION	<C> INCORPORATED HEREIN BY REFERENCE TO	<C> FILED HEREWITH
2.1	Distribution and Indemnity Agreement between the United Wisconsin Services, Inc., now known as American Medical Security Group, Inc. ("AMSG f/k/a UWS or Registrant") and Newco/UWS, Inc. ("Newco/UWS") dated as of September 11, 1998	Exhibit 2.1 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	
2.2	Employee Benefits Agreement dated as of September 11, 1998, by and between AMSG f/k/a UWS and Newco/UWS	Exhibit 10.1 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	
2.3	Tax Allocation Agreement, entered into as of September 11, 1998, by and between AMSG f/k/a UWS and Newco/UWS	Exhibit 10.2 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	
3.1	Restated Articles of Incorporation of Registrant dated as February 17, 1999		X
3.2	Bylaws of Registrant as amended and restated February 17, 1999		X
4.1	Amended and Restated Credit Agreement dated as of October 15, 1998 among the Registrant, United Wisconsin Life Insurance Company and the First National Bank of Chicago and other Lenders	Exhibit 4 to the Registrant's Form 10-Q for the quarter ended September 30, 1998 (the "9/30/98 10-Q")	
4.2	Dividend Reinvestment and Direct Stock Purchase Plan	Exhibit 4.1 to AMSG f/k/a UWS' Form S-3 Registration Statement (No. 333-29425)	

10.1*	Equity Incentive Plan as amended and restated March 15, 1999		X
10.2*	Form of Nonqualified Stock Option Award Agreement		X
		EX-1	
10.3*	Deferred Stock Agreement between the Registrant and Samuel V. Miller		X
10.4*	1995 Director Stock Option Plan as amended and restated September 25, 1998	Exhibit 10.2 to the 9/30/98 10-Q	
10.5*	Deferred Compensation Plan for Directors as amended and restated September 25, 1998	Exhibit 10.3 to the 9/30/98 10-Q	
10.6*	Voluntary Deferred Compensation Plan	Exhibit 10.47 to AMGS f/k/a UWS' Form 10-K for the year ended December 31, 1998 (the "1998 10-K")	
10.7*	Deferred Compensation Trust	Exhibit 10.48 to the 1998 10-K	
10.8*	Executive Reimbursement Group Insurance Policy		X
10.9*	Change of Control Severance Benefit Plan	Exhibit 10.4 to the 9/30/98 10-Q	
10.10*	Severance Benefit for Certain Executive Officers		X
10.11*	Executive Management Incentive Plan		X
10.12*	Employment and Noncompetition Agreement of Samuel V. Miller dated April 7, 1998	Exhibit 10.1 to the AMGS f/k/a UWS' Form 10-Q for the quarter ended March 31, 1998	
10.13*	Amendment No. 1 to Employment and Noncompetition Agreement of Samuel V. Miller dated as of September 25, 1998		X
10.14*	Employment Agreement of Scott Westphal dated August 21, 1996		X
10.15	Employment and Noncompetition Agreement between American Medical Security Holdings, Inc. and Wallace J. Hilliard	Exhibit 4.1 to the AMGS f/k/a UWS' Form 10-K for the year ended December 31, 1996 (the "1996 10-K")	

EX-2

10.16	Employment and Noncompetition Agreement between American Medical Security Holdings, Inc. and Ronald A. Weyers	Exhibit 4.2 to the 1996 10-K	
10.17	Settlement Agreement between AMGS f/k/a UWS, Wallace J. Hilliard and Ronald A. Weyers dated April 1, 1998	Exhibit 10.3 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	
10.18	Registration Rights and Stock Restriction Agreement between AMGS f/k/a UWS, Wallace J. Hilliard and Ronald A. Weyers dated December 3, 1996	Exhibit 2.1 to AMGS f/k/a UWS' Registration Statement on Form S-4, as amended (No. 333-10935)	
10.19	Registration Rights Agreement between the Registrant and Blue Cross Blue Shield United of Wisconsin ("BCBSUW") dated as of September 1, 1998		X

10.20	Agreement for Electronic Data Processing Services between BCBSUW and EDS Federal Corporation (as amended). As amended by Settlement Agreement and Amendment No. 5 dated October 19, 1992.	Exhibit 10.20 to AMGS f/k/a UWS' Registration Statement on Form S-1, as amended (No. 33-42571) and Exhibit 10.20 to AMGS f/k/a UWS' Registration Statement on Form S-1 (No. 33-59798)	
10.21*	BCBSUW/UWS Long Term Incentive Plan (1997-1999)	Exhibit 10.44 to AMGS f/k/a UWS' Form 10-K for the year ended December 31, 1997 ("1997 10-K")	
10.22*	BCBSUW/UWS Long Term Incentive Plan (1996-1998)	Exhibit 10.25 to 1996 10-K	
10.23	Various service agreements between BCBSUW and AMGS f/k/a UWS and/or its subsidiaries (assigned to Newco/UWS)	Exhibits 10.13 to 10.25 and Exhibit 10.27 to the 1998 10-K	
21	Subsidiaries of the Registrant		X
23	Consent of Ernst & Young LLP		X
27.1	Financial Data Schedule		X
27.2	Restated Financial Data Schedule (12 months ended 12/31/97)		X
		EX-3	
27.3	Restated Financial Data Schedule (12 months ended 12/31/96)		X

\* Indicates compensatory plan or arrangement.

</TABLE>



RESTATED ARTICLES OF INCORPORATION  
OF  
AMERICAN MEDICAL SECURITY GROUP, INC.

The following Restated Articles of Incorporation, duly adopted pursuant to the authority and provisions of Chapter 180 of the Wisconsin Statutes, supersede and take the place of the existing Articles of Incorporation and all amendments thereto:

ARTICLE I - NAME

The name of the corporation shall be AMERICAN MEDICAL SECURITY GROUP, INC.

ARTICLE II - PURPOSES

The purposes of this Corporation are to engage in any lawful activity within the purposes for which corporations may be organized under the Wisconsin Business Corporation Law, Chapter 180 of the Wisconsin Statutes.

ARTICLE III - CAPITAL STOCK

a. The aggregate number of authorized shares of Common Stock of the Corporation shall be Fifty Million (50,000,000) shares, designed as "Common Stock", and having no par value per share.

b. The aggregate number of authorized shares of Preferred Stock of the Corporation shall be Five Hundred Thousand (500,000) shares, designed as "Preferred Stock", and having no par value per share. Authority is hereby vested in the Board of Directors from time to time to issue the Preferred Stock as Preferred Stock in one or more series of any number of shares and, in connection with the creation of each such series, to fix, by resolution providing for the issue of shares thereof, the voting rights, if any; the designations, preferences, limitations and relative rights of such series in respect to the rate of dividend, the price, the terms and conditions of redemption; the amounts payable upon such series in the event of voluntary or involuntary liquidation; sinking fund provisions for the redemption or purchase of such series of shares; and, if the shares of any series are issued with the privilege of conversion, the terms and conditions on which such series of shares may be converted. In addition to the foregoing, to the full extent now or hereafter permitted by Wisconsin law, in connection with each issue thereof, the Board of Directors may at its discretion assign to any series of the Preferred Stock such other terms, conditions, restrictions, limitations, rights and privileges as it may deem

appropriate. The aggregate number of preferred shares issued and not canceled of any and all preferred series shall not exceed the total number of shares of Preferred Stock hereinabove authorized. Each series of Preferred Stock shall be distinctively designated by letter or descriptive words or both.

Pursuant to the authority expressly granted and vested in the Board of Directors of the Corporation and in accordance with the provisions of the Restated and Amended Articles of Incorporation, as amended as of July 31, 1991, the Board of Directors hereby designates 25,000 shares of the Corporation's authorized and unissued Preferred Stock, no par value per share, as Series A Adjustable Rate Nonconvertible Preferred Stock, \$1,000 stated value per share, which shall have the following powers, designations, preferences and relative participating, optional or other special rights and qualifications, limitations or restrictions:

SECTION 1. DESIGNATION AND AMOUNT. The shares of such series shall be designated as the "Series A Adjustable Rate Nonconvertible Preferred Stock" and the number of shares constituting such series shall be Twenty Five Thousand (25,000), which number, subject to the Restated and Amended Articles of Incorporation, may be increased or decreased by the Board of Directors without a vote of the shareholders; PROVIDED, HOWEVER, such number may not be decreased below the number of the then currently outstanding shares of Series A Adjustable Rate Nonconvertible Preferred Stock plus the number of shares that may be reserved for issuance upon the exercise of any options, warrants, or rights or upon the conversion of any outstanding securities issued by the Corporation convertible into Series A Adjustable Rate Nonconvertible Preferred Stock. Upon the issuance of any shares of Series A Adjustable Rate Nonconvertible Preferred Stock, an amount equal to the aggregate stated value of the shares so issued will be assigned to the capital of the Corporation representing such shares.

SECTION 2. FRACTIONAL SHARES. The Corporation may issue fractions and certificates representing fractions of a share of Series A Adjustable Rate Nonconvertible Preferred Stock in integral multiples of one one-thousandth (1/1000) of a share of Series A Adjustable Rate Nonconvertible Preferred Stock. In the event that fractional shares of Series A Adjustable Rate Nonconvertible Preferred Stock are issued, the holders thereof shall have all the rights provided herein for holders of full shares of Series A Adjustable Rate Nonconvertible Preferred Stock in the proportion which such fraction bears to a full share.

SECTION 3. VOTING RIGHTS. Except as required by law, holders of shares of Series A Adjustable Rate Nonconvertible Preferred Stock shall have no right to vote.

SECTION 4. CONVERSION OR EXCHANGE. The holders of shares of Series A Adjustable Rate Nonconvertible Preferred Stock shall not have any right to convert such shares into or exchange such shares for shares of any other class or classes or any other series of any class or classes of capital stock of the Corporation.

SECTION 5. DIVIDENDS.

A. When and as declared by the Board of Directors, the Corporation shall pay, out of any funds legally available for the payment of dividends, cumulative cash dividends to the holders of the shares of Series A Adjustable Rate Nonconvertible Preferred Stock from the date of issuance as provided in this paragraph. The dividend rate on the shares of Series A Adjustable Rate Nonconvertible Preferred Stock shall be fixed on a yearly basis ("Yearly Dividend Period") and shall be payable quarterly, out of any funds legally available for the payment of dividends, in cash on March 31, June 30, September 30 and December 31 in each year ("Quarterly Dividend Period"). The dividend rate for each Yearly Dividend Period, payable each Quarterly Dividend Period in that year, shall be at a rate per annum equal to the Applicable Rate (as defined in Section 5(B)). Such dividends shall be cumulative from the date of original issuance of such shares of Series A Adjustable Rate Nonconvertible Preferred Stock and shall be payable out of funds legally available therefor, when and as declared by the Board of Directors in March, June, September and December of each year. Such dividends will accrue whether or not they have been declared and whether or not there are funds of the Corporation legally available for the payment of dividends. Each of such dividends shall be paid to the holders of record of shares of Series A Adjustable Rate Nonconvertible Preferred Stock as they appear on the stock register of the Corporation on such record date as shall be fixed by the Board of Directors or a committee of the Board of Directors duly authorized to fix such date. Dividends on account of arrears (accrued but not declared) for any past Quarterly Dividend Period may be declared and paid at any time, without reference to any regular dividend payment date, to holders of record on such date as may be fixed by the Board of Directors or a committee of the Board of Directors duly authorized to fix such date. If at any time the Corporation pays less than the total amount of dividends then accrued with respect to the shares of Series A Adjustable Rate Nonconvertible Preferred Stock, such payment shall be distributed ratably among the holders of Series A Adjustable Rate Nonconvertible Preferred Stock based upon the aggregate accrued but unpaid dividends on the shares held by each such holder.

B. The "Applicable Rate" for any Yearly Dividend Period shall be the Treasury Bill Rate plus 150 basis points. The "Treasury Bill Rate" for each Yearly Dividend Period shall be the weekly per annum market discount rate for one-year U.S. Treasury bills, as published weekly by the Federal Reserve Board, during the last full week in the month of September in the year prior to the Yearly Dividend Period for which the Applicable Rate is being determined. In the event the Federal Reserve Board does not publish such a weekly per annum market discount rate for one-year U.S. Treasury bills during the last full week in the month of September in the year prior to the Yearly Dividend Period for which the Applicable Rate is being determined, then the Applicable Rate shall mean the weekly per annum market discount rate for one-year U.S. Treasury bills as published weekly by any Federal Reserve Bank or by any U.S. Government department or agency selected by the Corporation, during the last full week in the month of September in the year prior to the Yearly Dividend Period for which the Applicable Rate is being determined. In the event the Corporation

determines in good faith that for any reason no such U.S. Treasury bill rates are published as provided above during the last full week in the month of September in the year prior to the Yearly Dividend Period for which the Applicable Rate is being determined, then the Applicable Rate shall be the average weekly per annum market discount rate for one-year U.S. Treasury bills, as quoted to the Corporation by a recognized U.S. Government securities dealer selected by the Corporation. Anything herein to the contrary notwithstanding, the Applicable Rate for any Yearly Dividend Period shall in no event be less than 7.00% or greater than 10.00% per annum.

C. The Applicable Rate shall be rounded to the nearest one thousandth (1/1000) of a percentage point.

D. Dividends payable on the Series A Adjustable Rate Nonconvertible Preferred Stock for each full Quarterly Dividend Period shall be computed by annualizing the Applicable Rate and dividing by four and multiplying the quotient so obtained by the stated value per share of the Series A Adjustable Rate Nonconvertible Preferred Stock. Dividends payable on the Series A Adjustable Rate Nonconvertible Preferred Stock for any period less than a full Quarterly Dividend Period shall be computed on the basis of a 360-day year of 30-day months and the actual number of days elapsed in the period for which dividends are payable.

E. Holders of shares of Series A Adjustable Rate Nonconvertible Preferred Stock shall not be entitled to any dividends, whether payable in cash, property or stock, in excess of full cumulative dividends on the Series A Adjustable Rate Nonconvertible Preferred Stock as provided in this Section 5. Accrued but unpaid dividends shall not bear interest, and no interest, or sum of money in lieu of interest, shall be payable in respect of any dividend payment or payments on the Series A Adjustable Rate Nonconvertible Preferred Stock which may be in arrears.

F. Anything herein to the contrary notwithstanding, dividends may be declared and paid upon any of the equity securities of the Corporation even if all accrued dividends on the Series A Adjustable Rate Nonconvertible Preferred Stock have not yet been declared and/or paid in full.

SECTION 6. LIQUIDATION. Upon any liquidation, dissolution or winding up of the Corporation, whether voluntary or involuntary, the holders of the Series A Adjustable Rate Nonconvertible Preferred Stock will be entitled to be paid, whether from capital or surplus, before any distribution or payment is made upon the then outstanding shares of Common Stock or any other class of stock of the Corporation ranking junior to the Series A Adjustable Rate Nonconvertible Preferred Stock upon liquidation, an amount in cash equal to the stated value of, together with all accrued but unpaid dividends on, the Series A Adjustable Rate Nonconvertible Preferred Stock (the "Liquidation Price"). To the extent any accrued dividends have not been paid by the Corporation as of the date the Corporation pays to the holders of the shares of Series A Adjustable Rate Nonconvertible Preferred Stock the Liquidation Price hereunder, and to the extent the Corporation has at that time funds legally available for the payment

of dividends, the Board of Directors shall, prior to the payment of the Liquidation Price, declare and cause such dividends to be paid. If upon any such liquidation, dissolution, or winding up of the Corporation, the Corporation's assets to be distributed among the holders of the shares of Series A Adjustable Rate Nonconvertible Preferred Stock are insufficient to permit payment to such holders of the aggregate amount which they are entitled to be paid, then the entire assets to be distributed will be distributed ratably among such holders based upon the aggregate Liquidation Price of the shares of Series A Adjustable Rate Nonconvertible Preferred Stock held by each such holder. Upon receipt of the aggregate Liquidation Price for each share of Series A Adjustable Rate Nonconvertible Preferred Stock, holders of shares of Series A Adjustable Rate Nonconvertible Preferred Stock shall have no further rights to participate in any liquidation, dissolution or winding up of the Corporation.

SECTION 7. RANKING OF CLASSES OF STOCK. The Series A Adjustable Rate Nonconvertible Preferred Stock shall rank junior to all other series of the Corporation's Preferred Stock as to the payment of dividends and the distribution of assets in liquidation, unless the terms of any such series shall provide otherwise. Nothing contained herein shall be deemed to restrict the ability of the Corporation to create and issue additional classes or series of its Preferred Stock or other capital stock ranking senior or junior to, or on a parity with, the Series A Adjustable Rate Nonconvertible Preferred Stock as to the payment of dividends or the distribution of assets upon liquidation, or both. Specifically, any stock of any class or classes of the Corporation shall be deemed to rank:

i. prior to the shares of Series A Adjustable Rate Nonconvertible Preferred Stock, either as to dividends or upon liquidation, if the holders of such class or classes shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference of or in priority to the holders of shares of Series A Adjustable Rate Nonconvertible Preferred Stock;

ii. on a parity with shares of Series A Adjustable Rate Nonconvertible Preferred Stock, either as to dividends or upon liquidation, whether or not the dividend rates, dividend payment rates or redemption or liquidation prices per share or sinking fund provisions, if any, are different from those of the Series A Adjustable Rate Nonconvertible Preferred Stock, if the holders of such stock shall be entitled to the receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in proportion to their respective dividend rates or liquidation prices, without preference or priority, one over the other, as between the holders of such stock and the holders of shares of Series A Adjustable Rate Nonconvertible Preferred Stock; and

iii. junior to shares of Series A Adjustable Rate Nonconvertible Preferred Stock, either as to dividends or upon liquidation, if such class shall be Common Stock or if the holders of shares of Series A

Adjustable Rate Nonconvertible Preferred Stock shall be entitled to receipt of dividends or of amounts distributable upon dissolution, liquidation or winding up of the Corporation, as the case may be, in preference of or priority to the holders of shares of such class or classes.

## SECTION 8. REDEMPTION OF SHARES.

A. The shares of Series A Adjustable Rate Nonconvertible Preferred Stock shall be subject to the following redemption rights:

i. At any time or from time to time following issuance, the Corporation, at its option, may redeem shares of Series A Adjustable Rate Nonconvertible Preferred Stock in whole or in part. The redemption price per share in such event shall be paid in cash and shall be equal to the greater of the following: (aa) \$1,000, plus in each case an amount equal to accrued (whether or not declared) and unpaid dividends to the redemption date (out of funds legally available therefor); or (bb) the fair market value per share as of the end of the quarter preceding the quarter during which the redemption is to occur, as determined in good faith by the Board of Directors in accordance with a written appraisal which is prepared by an independent appraiser selected by the Board and which meets the requirements of applicable law. Upon the date of notice to the holder of shares of Series A Adjustable Rate Nonconvertible Preferred Stock of the Corporation's election to redeem shares, notwithstanding that any certificates for such shares have not been surrendered for cancellation, the shares of Series A Adjustable Rate Nonconvertible Preferred Stock represented thereby shall no longer be deemed outstanding, the rights to receive dividends thereon shall cease to accrue from and after the date of notice and all rights of the holder of shares so redeemed shall cease and terminate, excepting only the right to receive the redemption price therefor; and

ii. The Corporation shall redeem shares of Series A Adjustable Rate Nonconvertible Preferred Stock which are beneficially owned by any of its employees, or employees of any of the Corporation's Affiliates, pursuant to the Corporation's or any of its Affiliates' employees pre-tax savings plans (the "401(k) Plans"), immediately prior to any distribution or withdrawal of shares of Series A Adjustable Rate Nonconvertible Preferred Stock from any of the 401(k) Plans for any reason. For purposes of this Section 8, an "Affiliate" of the Corporation means a "person" that directly, or through one or more intermediaries, controls, or is controlled by, or is under common control with, the Corporation, and a "person" means an individual, a corporation, a partnership, an associate, a joint-stock company, a business trust or an unincorporated organization. The redemption price per share in such event shall be paid in cash and shall be equal to the greater of the following: (aa) \$1,000, plus in each case an amount equal to accrued (whether or not declared) and unpaid dividends to the redemption date (out of funds legally available therefor); or (bb) the



fair market value per share as of the end of the quarter preceding the quarter during which the redemption is to occur, as determined in good faith by the Board of Directors in accordance with a written appraisal which is prepared by an independent appraiser selected by the Board and which meets the requirements of applicable law. Upon such attempted withdrawal, notwithstanding that any certificates for such shares have not been surrendered for cancellation, the shares of Series A Adjustable Rate Nonconvertible Preferred Stock represented thereby shall no longer be deemed outstanding, the rights to receive dividends thereon shall cease to accrue from and after the date of attempted withdrawal and all rights of the employee as a holder shall cease and terminate, excepting only the right to receive the redemption price therefor. In the event the Corporation is unable to redeem all such shares of Series A Adjustable Rate Nonconvertible Preferred Stock upon the occurrence of such an attempted withdrawal, the obligation of the Corporation to so redeem pursuant to this subparagraph (ii) shall continue and funds legally available therefor shall be applied for such purpose until such obligation is discharged.

B. Anything herein to the contrary notwithstanding, in accordance with Section 180.0640 of the Wisconsin Business Corporation Law, the Corporation may not redeem shares of Series A Adjustable Rate Nonconvertible Preferred Stock pursuant to Section 8(A) (i) or (ii) if, after giving effect to the redemption, either of the following would occur:

i. The Corporation would not be able to pay its debts as they become due in the usual course of business; or

ii. The Corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the Corporation were to be dissolved at the time of the redemption, to satisfy the preferential rights upon dissolution to shareholders whose preferential rights are superior to those of the holders of the Series A Adjustable Rate Nonconvertible Preferred Stock.

SECTION 9. REACQUIRED SHARES. Any shares of Series A Adjustable Rate Nonconvertible Preferred Stock redeemed or otherwise acquired by the Corporation in any manner whatsoever shall be retained and canceled promptly after the redemption or acquisition thereof. All such shares shall upon their cancellation become authorized but unissued shares of Preferred Stock and may be reissued as part of a new series of Preferred Stock which may be created by resolutions of the Board of Directors.

SECTION 10. NO SINKING FUND. The shares of Series A Adjustable Rate Nonconvertible Preferred Stock are not subject or entitled to the operation of a retirement or sinking fund.

#### ARTICLE IV - REGISTERED OFFICE AND REGISTERED AGENT

The registered office is 3100 AMS Boulevard, Green Bay, Wisconsin, 54313,

and the registered agent at such address is Timothy J. Moore.

#### ARTICLE V - BOARD OF DIRECTORS

a. The number of directors of the Corporation shall be as is provided in the bylaws. The general powers, number, classification, and requirements for nomination of directors shall be as set forth in Articles II and III of the bylaws of the Corporation (and as such sections shall exist from time to time). The Board of Directors of the Corporation shall be divided into three (3) classes of not less than three (3) nor more than five (5) directors each. The term of office of the first class of directors shall expire at the first annual meeting after their initial election under the provisions of this Article V, the term of office of the second class shall expire at the second annual meeting after their initial election under the provisions of this Article V, and the term of office of the third class shall expire at the third annual meeting after their initial election under the provisions of this Article V. At each annual meeting after the initial classification of the Board of Directors under this Article V, the class of Directors whose term expires at the time of such election shall be elected to hold office until the third succeeding annual meeting.

b. A director may be removed from office only by affirmative vote of at least 80% of the outstanding shares entitled to vote for the election of such director, taken at an annual meeting or a special meeting of shareholders called for that purpose, and any vacancy so created may be filled by the affirmative vote of at least 80% of such shares.

c. Notwithstanding any other provision of these Restated Articles of Incorporation (and notwithstanding the fact that a lesser affirmative vote may be specified by law), the affirmative vote of shareholders possessing at least 75% of the voting power of the then outstanding shares of all classes of stock of the Corporation generally possessing voting rights in elections of directors, considered for this purpose as one class, shall be required to amend, alter, change or repeal, or adopt any provision inconsistent with, the provisions of this Article V.

d. Notwithstanding the foregoing and provisions in the bylaws of the Corporation, whenever the holders of any one or more series of Preferred Stock issued by the Corporation pursuant to Article III hereof have the right, voting separately as a class or by series, to elect directors at an annual or special meeting of shareholders, the election, term of office, filling of vacancies and other features of such directorships shall be governed by the terms of the series of Preferred Stock applicable thereto, and such directors so elected shall not be divided into classes unless expressly provided by the terms of the applicable series.

#### ARTICLE VI - AMENDMENTS

These articles may be amended in the manner provided by law at the time of



adoption of the amendment.

\* \* \* \* \*

CERTIFICATE

This is to certify that the foregoing Restated Articles of Incorporation do not contain any amendments requiring shareholder approval, and were adopted on February 17, 1999 by the Board of Directors of the corporation.

Dated as of the 17th day of February, 1999.

AMERICAN MEDICAL SECURITY GROUP, INC.

By: /S/ TIMOTHY J. MOORE

Name: TIMOTHY J. MOORE

Title: Senior Vice President of Corporate  
AFFAIRS, SECRETARY & GENERAL COUNSEL

This document was drafted by:

Bruce C. Davidson  
Quarles & Brady LLP  
411 East Wisconsin Avenue  
Milwaukee WI 53202-4497

BYLAWS OF  
AMERICAN MEDICAL SECURITY GROUP, INC.  
(AS AMENDED AND RESTATED FEBRUARY 17, 1999)

ARTICLE I. OFFICES

1.01. PRINCIPAL AND BUSINESS OFFICES. The Corporation may have such principal and other business offices, either within or without the State of Wisconsin, as the Board of Directors may designate or as the business of the Corporation may require from time to time.

1.02. REGISTERED OFFICE. The registered office of the Corporation required by the Wisconsin Business Corporation Law to be maintained in the State of Wisconsin may be, but need not be, identical to the principal office in the state of Wisconsin; and the address of the registered office may be changed from time to time by any officer or by the registered agent. The business office of the registered agent of the Corporation shall be identical to the registered office.

ARTICLE II. SHAREHOLDERS

2.01. ANNUAL MEETING. The Annual Meeting of the Shareholders shall be held at the principal office of the Corporation in the City of Green Bay, Brown County, Wisconsin, unless the Board of Directors shall designate another location either within or without the State of Wisconsin. The Annual Meeting shall take place on the last Thursday of May each year or at such other time and date as may be fixed by or under the authority of the Board of Directors. If the day fixed for the Annual Meeting shall be a legal holiday in the State of Wisconsin, such meeting shall be held on the next succeeding business day. At such meeting the Shareholders shall elect directors and transact such other business as shall lawfully come before them.

A. ELECTIONS AND OTHER BUSINESS. Nominations of persons for election to the Board of Directors of the Corporation and the proposal of business to be considered by the Shareholders may be made at the Annual Meeting:

1. Pursuant to the Corporation's notice of meeting;
2. By or at the direction of the Board of Directors; or
3. By any Shareholder of the Corporation who is a Shareholder of record at the time of the giving of the notice provided for in these Bylaws and who is entitled to vote at the meeting and complies with

the notice procedures set forth below.

B. NOMINATIONS AND SUBMISSION OF BUSINESS MATTERS. For nominations or other business to be properly brought before an Annual Meeting by a Shareholder, the Shareholder must have given timely notice thereof in writing to the Secretary of the Corporation. Timely notice is that notice which is received by the Secretary at the Corporation's principal office not less than sixty (60) days nor more than ninety (90) days prior to the date on which the Corporation first mailed its proxy materials for the prior year's Annual Meeting, provided, however, that in the event the date of the Annual Meeting is advanced by more than thirty (30) days or delayed by more than sixty (60) days from the last Thursday in May, notice by the Shareholder, to be timely, must be received, as provided above, not earlier than the ninetieth (90th) day prior to the date of such Annual Meeting and not later than the close of business on the later of (x) the sixtieth (60) day prior to such Annual Meeting, or (y) the tenth (10th) day on which public announcement of the date of such a meeting is first made. Such Shareholder's notice shall be signed by the Shareholder of record who intends to make the nomination or introduce the other business (or his or her duly authorized proxy or other representative), shall bear the date of signature of such Shareholder or representative, and shall set forth:

1. The name and address, as they appear on the Corporation's books, of such Shareholder and the beneficial owner(s), if any, on whose behalf the nomination or proposal is made;

2. The class and number of shares of the Corporation which are beneficially owned by such Shareholder or beneficial owner(s);

3. A representation that such Shareholder is a holder of record of shares entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to make the nomination or introduce the other business specified in the notice;

4. In the case of any proposed nomination for election or reelection as a director:

- (a) The name and residence address of the nominee;

- (b) A description of all arrangements or understandings between such Shareholder or beneficial owner(s) and each nominee and any other person(s) (naming such person(s)) pursuant to which the nomination is to be made by the Shareholder;

- (c) Such other information regarding each nominee proposed by such Shareholder as would be required to be disclosed in solicitations of proxies for elections of directors, or would be otherwise required to be disclosed, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including any information that would be required to be included in a proxy statement filed pursuant to Regulation 14A

had the nominee been nominated by the Board of Directors; and

(d) The written consent of each nominee to be named in a proxy statement and to serve as a director of the Corporation if so elected; and

5. In the case of any other business that such Shareholder proposes to bring before the meeting,

(a) A brief description of the business desired to be brought before the meeting, and, if the business includes a proposal to amend these Bylaws, the language of the proposed amendment;

(b) Such Shareholder's and beneficial owner's(s') reasons for conducting such business at such time; and

(c) Any material interest in such business of such Shareholder or beneficial owners(s).

Notwithstanding anything in the above paragraph to the contrary, in the event that the number of directors to be elected to the Board of Directors of this Corporation is increased and there is no public announcement naming all of the nominees for director or specifying the size of the increased Board of Directors made by the Corporation at least seventy (70) days prior to the last Thursday in May, a Shareholder's notice required by this Section shall also be considered timely, but only with respect to nominees for new positions created by such increase, if it is received by the Secretary at the Corporation's principal office not later than the close of business on the tenth (10th) day following the day on which such public announcement is first made by the Corporation.

2.02. SPECIAL MEETINGS. Special meetings of the Shareholders may be called by the Chairman of the Board, and shall be called by the Secretary on written request of a majority of members of the Board of Directors, or on written request of the holders of at least ten (10%) percent of the Corporation's shares entitled to vote on a matter. The request shall be signed, dated and delivered to the Secretary describing one (1) or more purposes for which the meeting is to be held. The Board of Directors shall set the place of the meeting. If no such designation is made, the place of the meeting shall be the principal business office of the Corporation in the State of Wisconsin, but any meeting may be adjourned to reconvene at any place designated by a vote of a majority of the shares represented thereat.

A. ELECTIONS AND OTHER BUSINESS. Nominations of persons for election to the Board of Directors may be made at a Special Meeting at which directors are to be elected pursuant to such notice of meeting:

1. By or at the direction of the Board of Directors; or

2. By any Shareholder of the Corporation who:

(a) Is a Shareholder of record at the time of giving notice of the meeting,

(b) Is entitled to vote at the meeting, and

(c) Complies with the notice procedures set forth below.

B. NOMINATIONS AND SUBMISSION OF BUSINESS MATTERS. Only such business as shall have been described in such notice shall be conducted at the Special Meeting. Any Shareholder desiring to nominate persons for election to the Board of Directors at a Special Meeting shall cause written notice to be received by the Secretary of the Corporation at its principal office not earlier than ninety (90) days prior to such Special Meeting and not later than the close of business on the later of (x) the sixtieth (60th) day prior to such Special Meeting or (y) the tenth (10th) day following the day on which public announcement is first made of the date of such Special Meeting and of the nominees proposed by the Board of Directors to be elected at such meeting. Such written notice shall be signed by the Shareholder of record who intends to make the nomination (or his or her duly authorized proxy or other representative), shall bear the date of signature of such Shareholder or other representative, and shall set forth:

1. The name and address, as they appear on the Corporation's books, of such Shareholder and the beneficial owner(s), if any, on whose behalf the nomination is made;

2. The class and number of shares of the Corporation which are beneficially owned by such Shareholder or beneficial owner(s);

3. A representation that such Shareholder is a holder of record of shares of the Corporation entitled to vote at such meeting and intends to appear in person or by proxy at the meeting to make the nomination specified in the notice;

4. The name and residence address of the person(s) to be nominated;

5. A description of all arrangements or understandings between such Shareholder or beneficial owner(s) and each nominee and any other person(s) (naming such person(s)) pursuant to which the nomination is to be made by such Shareholder;

6. Such other information regarding each nominee proposed by such Shareholder as would be required to be disclosed in solicitations of proxies for elections of directors, or would be otherwise required to be disclosed, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended, including any information that would be required to be included in a proxy statement filed

pursuant to Regulation 14A had the nominee been nominated by the Board of Directors; and

7. The written consent of each nominee to be named in a proxy statement and to serve as a director of the Corporation if so elected.

2.03. NOTICE OF ANNUAL OR SPECIAL MEETING. Notice may be communicated by telegraph, teletype, facsimile or other form of wire or wireless communication, or by mail or private carrier, and, if these forms of personal notice are impracticable, notice may be communicated by public announcement. Such notice stating the place, day and hour of the meeting and, in case of a special meeting, a description of each purpose for which the meeting is called, shall be communicated or sent not less than ten days nor more than sixty (60) days before the date of the meeting, by or at the direction of the Chairman of the Board or the Secretary, or other officer or persons calling the meeting, to each Shareholder of record entitled to vote at such meeting. Written notice by the Corporation to its Shareholders is effective when mailed and may be addressed to the Shareholder's address shown in the Corporation's current record of Shareholders.

2.04. UNANIMOUS CONSENT WITHOUT MEETING. Any action that may be taken at a meeting of the Shareholders may be taken without a meeting if a consent in writing setting forth the action so taken shall be signed by all of the Shareholders entitled to vote with respect to the subject matter thereof.

2.05. FIXING OF RECORD DATE. A "Shareholder" of the Corporation shall mean the person in whose name shares are registered in the stock transfer books of the Corporation or the beneficial owner of shares to the extent of the rights granted by a nominee certificate on file with the Corporation. Such nominee certificates, if any, shall be reflected in the stock transfer books of the Corporation. The Board of Directors may fix, in advance, a date as the record date for one or more voting groups for any determination of Shareholders entitled to notice of a Shareholder's meeting, to demand a special meeting, to vote, or to take any other action, such date in any case to be not more than seventy (70) days prior to the meeting or action requiring such determination of Shareholders, and may fix the record date for determining Shareholder entitled to share a dividend or distribution. If no record date is fixed for the determination of Shareholders entitled to demand a Shareholder meeting, to notice of or to vote at a meeting of Shareholders, or to consent to action without a meeting, (a) the close of business on the day before the Corporation received the first written demand for a Shareholder meeting, (b) the close of business on the day before the first notice of the meeting is mailed or otherwise delivered to Shareholders, or (c) the close of business on the day before the first written consent to Shareholder action without a meeting is received by the Corporation, as the case may be, shall be the record date for the determination of Shareholders. If no record date is fixed for the determination of Shareholders entitled to receive a share dividend or distribution (other than a distribution involving a purchase, redemption or other acquisition of the Corporation's shares), the close of business on the day on which the resolution of the Board of Directors is adopted declaring the dividend or distribution shall be the record date. When a determination of

Shareholders entitled to vote at any meeting of Shareholders has been made as provided in this Section, such determination shall be applied to any adjournment thereof unless the Board of Directors fixes a new record date and except as otherwise required by law. A new record date must be set if a meeting is adjourned to a date more than one-hundred twenty (120) days after the date fixed for the original meeting.

2.06. VOTING RECORD. The Secretary shall, before each meeting of Shareholders, make a complete list of the Shareholders entitled to vote at such meeting, or any adjournment thereof, with the address of and the number of shares held by each. Such record shall be produced and kept open at the time and place of the meeting and shall be subject to the inspection of any Shareholder during the whole time of the meeting for the purposes of the meeting. The original stock transfer books shall be prima facie evidence as to who are the Shareholders entitled to examine such record or transfer books or to vote at any meeting of Shareholders. Failure to comply with the requirements of this Section shall not affect the validity of any action taken at such meeting.

2.07. QUORUM. Shares entitled to vote as a separate voting group as defined in the Wisconsin Business Corporation Law may take action on a matter at a meeting only if a quorum of those shares exists with respect to that matter. Unless the Articles of Incorporation or the Wisconsin Business Corporation Law provide otherwise, a majority of the votes entitled to be cast on the matter by a voting group constitutes a quorum of that voting group for action on that matter.

Once a share is represented for any purposes at a meeting, other than for the purpose of objecting to holding the meeting or transacting business at the meeting, it is considered present for purposes of determining whether a quorum exists for the remainder of the meeting and for any adjournment of that meeting unless a new record date is or must be set for that adjourned meeting.

If a quorum exists, action on a matter by a voting group is approved if the votes cast within the voting group favoring the action exceed the votes cast opposing the action, unless the Articles of Incorporation or the Wisconsin Business Corporation Law require a greater number of affirmative votes.

"Voting group" means any of the following:

A. All shares of one or more classes or series that under the Articles of Incorporation or the Wisconsin Business Corporation Law are entitled to vote and be counted together collectively on a matter at a meeting of Shareholders.

B. All shares that under the Articles of Incorporation or the Wisconsin Business Corporation Law are entitled to vote generally on a matter.

Though less than a quorum of the outstanding shares are represented at a meeting, a majority of the shares so represented may adjourn the meeting from time to time without further notice. At such adjourned meeting at



which a quorum shall be present or represented, any business may be transacted which might have been transacted at the meeting as originally notified.

2.08. PROXIES. At all meetings of Shareholders, a Shareholder entitled to vote may vote in person or by proxy. A Shareholder may appoint a proxy to vote or otherwise act for the Shareholder by signing an appointment form, either personally, by his or her attorney-in-fact, or in any other manner authorized by the Wisconsin Business Corporation Law. Such proxy appointment is effective when received by the Secretary or other officer or agent of the Corporation authorized to tabulate votes. Unless otherwise provided in the appointment form of proxy, a proxy appointment may be revoked at any time before it is voted, by written notice filed with the Secretary or the acting Secretary of the meeting, by oral notice given by the Shareholder to the presiding officer during the meeting, or in any other manner authorized by the Wisconsin Business Corporation Law. The presence of a Shareholder who has filed his or her proxy appointment shall not of itself constitute a revocation. No proxy appointment shall be valid after eleven months from the date of its execution, unless otherwise provided in the appointment form of proxy. The Board of Directors shall have the power and authority to make rules establishing presumptions as to the validity and sufficiency of proxy appointments.

2.09. VOTING OF SHARES. Each outstanding share shall be entitled to one vote upon each matter submitted to a vote at a meeting of Shareholders, except to the extent that the voting rights of the shares of any voting group or groups are enlarged, limited or denied by the Articles of Incorporation.

2.10. VOTING OF SHARES BY CERTAIN HOLDERS.

A. OTHER CORPORATIONS. Shares standing in the name of another corporation may be voted either in person or by proxy, by the president of such corporation or any other officer appointed by such president. An appointment form of proxy executed by any principal officer of such other corporation or assistant thereto shall be conclusive evidence of the signer's authority to act, in the absence of express notice to this Corporation, given in writing to the Secretary of this Corporation, or the designation of some other person by the Board of Directors or by the Bylaws of such other corporation.

B. LEGAL REPRESENTATIVES AND FIDUCIARIES. Shares held by an administrator, executor, guardian, conservator, trustee in bankruptcy, receiver or assignee for creditors may be voted by him or her, either in person or by proxy, without a transfer of such shares into his or her name, provided that there is filed with the Secretary before or at the time of meeting proper evidence of his or her incumbency and the number of shares held by him or her, either in person or by proxy. An appointment form of proxy executed by a fiduciary shall be conclusive evidence of the signer's authority to act, in the absence of express notice to this Corporation, given in writing to the Secretary, that such manner of voting is expressly prohibited or otherwise directed by the document creating the fiduciary relationship.



C. PLEDGEEES. A Shareholder whose shares are pledged shall be entitled to vote such shares until the shares have been transferred into the name of the pledgee, and thereafter the pledgee shall be entitled to vote the shares so transferred; provided, however, a pledgee shall be entitled to vote shares held of record by the pledgor if the Corporation receives acceptable evidence of the pledgee's authority to sign.

D. TREASURY STOCK AND SUBSIDIARIES. Neither treasury shares, nor shares held by another corporation if a majority of the shares entitled to vote for the election of directors of such other corporation is held by this Corporation, shall be voted at any meeting or counted in determining the total number of outstanding shares entitled to vote, but shares of its own issue held by this Corporation in a fiduciary capacity, or held by such other corporation in a fiduciary capacity, may be voted and shall be counted in determining the total number of outstanding shares entitled to vote.

E. MINORS. Shares held by a minor may be voted by such minor in person or by proxy and no such vote shall be subject to disaffirmance or avoidance, unless prior to such vote the Secretary of the Corporation has received written notice or has actual knowledge that such Shareholder is a minor. Shares held by a minor may be voted by a personal representative, administrator, executor, guardian or conservator representing the minor if evidence of such fiduciary status, acceptable to the Corporation, is presented.

F. INCOMPETENTS AND SPENDTHRIFTS. Shares held by an incompetent or spendthrift may be voted by such incompetent or spendthrift in person or by proxy and no such vote shall be subject to disaffirmance or avoidance, unless prior to such vote the Secretary of the Corporation has actual knowledge that such Shareholder has been adjudicated an incompetent or spendthrift or actual knowledge of judicial proceedings for appointment of a guardian. Shares held by an incompetent or spendthrift may be voted by a personal representative, administrator, executor, guardian or conservator representing the minor if evidence of such fiduciary status, acceptable to the Corporation, is presented.

G. JOINT TENANTS. Shares registered in the names of two (2) or more individuals who are named in the registration as joint tenants may be voted in person or by proxy signed by any one (1) or more of such individuals if either (i) no other such individual or his or her legal representative is present and claims the right to participate in the voting of such shares or prior to the vote files with the Secretary of the Corporation a contrary written voting authorization or direction or written denial of authority of the individual present or signing the appointment form of proxy proposed to be voted, or (ii) all such other individuals are deceased and the Secretary of the Corporation has no actual knowledge that the survivor has been adjudicated not to be the successor to the interests of those deceased.

2.11. CONDUCT OF MEETINGS. The Chairman of the Board, or in the Chairman's

absence, the President, or, in their absence such Vice President as is designated by the Board of Directors, shall call the meeting to order and act as Chairman of the meeting. Only persons nominated in accordance with the procedures set forth in Sections 2.01 and 2.02, shall be eligible to serve as directors. Only such business as shall have been brought before a meeting in accordance with the procedures set forth in Section 2.01 and 2.02, shall be eligible to be conducted. The Chairman of the meeting shall have the power and duty to determine whether any nomination or any business proposed to be brought before the meeting was made in accordance with the procedures set forth in Sections 2.01 and 2.02, and, if any proposed nomination or business is not in compliance therewith, to declare that such defective proposal shall be disregarded.

2.12. PUBLIC ANNOUNCEMENT. For purposes of Sections 2.01 and 2.02, "public announcement" shall mean disclosure in a press release reported by the Dow Jones News Service, Associated Press, or comparable national news service or in a document publicly filed by the Corporation with the Securities and Exchange Commission pursuant to Section 13, 14, or 15(d) of the Securities Exchange Act of 1934, as amended.

2.13. INVALIDITY. The Chairman, upon recommendation of the Secretary, may reject a vote, consent, waiver, or proxy appointment, if the Secretary or other officer or agent of the Corporation who is authorized to tabulate votes, acting in good faith, has reasonable doubt about the validity of the signature on it or about the signatory's authority to sign for the Shareholder. The Corporation and its officer or agent who accepts or rejects a vote, consent, waiver or proxy appointment in good faith and in accordance with the Wisconsin Business Corporation Law shall not be liable for damages to the Shareholders for consequences of the acceptance or rejection.

2.14. WAIVER OF NOTICE. A Shareholder may waive any notice required by the Wisconsin Business Corporation Law, the Articles of Incorporation, or these Bylaws before or after the date and time stated in the notice. The waiver shall be in writing and signed by the Shareholder entitled to the notice, contain the same information that would have been required in the notice under the Wisconsin Business Corporation Law (except that the time and place of meeting need not be stated), and be delivered to the Corporation for inclusion in the corporate records. A Shareholder's attendance at any Annual Meeting or Special Meeting, in person or by proxy, waives objection to all of the following: (a) lack of notice or defective notice of the meeting, unless the Shareholder promptly upon arrival or at the beginning of the meeting objects to holding, or transacting business at, the meeting; and (b) consideration of a particular matter at the meeting that is not within the purpose described in the meeting notice, unless the Shareholder objects to considering the matter when it is presented.

### ARTICLE III. BOARD OF DIRECTORS

3.01. NUMBER OF DIRECTORS. Within the limits established in the Articles of Incorporation, the number of directors of the Corporation shall be such number as shall be determined by the Board of Directors from time to time.

3.02. TERM OF OFFICE. Elected directors shall hold office for a term of three (3) years and until their successors are elected and qualified, except as otherwise provided in this Section or until their death, resignation or removal. The Board of Directors shall be divided into three (3) classes of three (3) or more directors each, with, as nearly as possible, an equal number of directors in each class. The term of office of the first class of directors shall expire at the first annual meeting after their initial election and when their successors are elected and qualified, the term of office of the second class shall expire at the second annual meeting after their initial election and when their successors are elected and qualified, and the terms of office of the third class shall expire at the third annual meeting after their initial election and when their successors are elected and qualified. At each annual meeting after the initial classification of the Board of Directors, the class of directors whose term expires at the time of such election shall be elected to hold office until the third succeeding annual meeting and until their successors are elected and qualified.

3.03. NOMINATIONS. Nominations for the election of directors shall be made in accordance with the provisions of Sections 2.01 and 2.02 hereof, which requirements are hereby incorporated by reference in this Section 3.03.

3.04. REGULAR MEETINGS. A regular meeting of the Board of Directors shall be held without other notice than this Bylaw immediately after, and at the same place as, the Annual Meeting of Shareholders, for election of corporate officers and transaction of other business. The Board of Directors may provide by resolution the time and place for holding additional meetings without other notice than such resolution.

3.05. SPECIAL MEETINGS. Special Meetings of the Board of Directors shall be held whenever called by the Chairman of the Board or the Secretary upon written request of any three (3) directors. The Secretary shall give sufficient notice of such meeting, to be not less than two (2) days, in person or by mail or by telephone, telegraph, teletype, facsimile or other form of wire or wireless communication as to enable the directors so notified to attend such meeting. The Chairman or Secretary who calls the meeting may fix any place, within or without the State of Wisconsin, as the place for holding any Special Meeting of the Board of Directors.

3.06. WAIVER OF NOTICE. Whenever any notice whatsoever is required to be given to any director of the Corporation under the Articles of Incorporation or Bylaws or any provisions of law, a waiver thereof in writing, signed at any time, whether before or after the time of meeting, by the director entitled to such notice, shall be deemed equivalent to the giving of such notice, and the Corporation shall retain copies of such waivers in its corporate records. A director's attendance at or participation in a meeting waives any required notice to him or her of the meeting unless the director at the beginning of the meeting or promptly upon his or her arrival objects to holding the meeting and does not thereafter vote for or assent to action taken at the meeting. Neither the business to be transacted at, nor the purpose of, any regular or special meeting of the Board of Directors need be specified in the notice or waiver of

notice of such meeting.

3.07. QUORUM. Except as otherwise provided by the Wisconsin Business Corporation Law, a majority of the number of directors (determined as provided in Section 3.01) shall constitute a quorum of the Board of Directors. Except as otherwise provided by the Wisconsin Business Corporation Law, a majority of the number of directors appointed to service on a committee shall constitute a quorum of the committee.

3.08. VACANCIES. Vacancies, including those created by an increase in the number of directors in the Board of Directors, may be filled by the remaining directors. A director elected to fill a vacancy shall serve for the unexpired term of his or her predecessor. In the absence of action by the remaining directors, the Shareholders may fill such vacancy at a Special Meeting in accordance with the Articles of Incorporation, or by unanimous consent according to these Bylaws.

3.09. REMOVAL. The Shareholders may remove one (1) or more directors, with or without cause, at a meeting called for that purpose, the notice of which reflects that purpose, in accordance with the Articles of Incorporation of this Corporation.

3.10. COMPENSATION. A director may receive such compensation for services as is determined by resolution of the Board irrespective of any personal interest of its members. A director also may serve the Corporation in any other capacity and receive compensation therefore. The Board of Directors also shall have authority to provide for or to delegate authority to an appropriate committee to provide for reasonable pensions, disability or death benefits and other benefits or payments, to directors, officers and employees and to their estates, families, dependents or beneficiaries on account of prior services rendered to the Corporation by such directors, officers and employees.

3.11. GENERAL POWERS. All corporate powers shall be exercised by or under the authority of, and the business and affairs of the Corporation shall be managed under the direction of, the Board of Directors, subject to any limitation set forth in these Bylaws or the Articles of Incorporation.

3.12. CONDUCT OF MEETINGS. The Chairman of the Board, or in the Chairman's absence the President, or in their absence such Vice President as is designated by the Board of Directors, shall call meetings of the Board of Directors to order and shall act as Chairman of the meeting. The Secretary of the Corporation shall act as Secretary of all meetings of the Board of Directors, but in the absence of the Secretary, the presiding officer may appoint an Assistant Secretary or any director or other person present or participating to act as Secretary of the meeting.

3.13. MANNER OF ACTING. If a quorum is present or participating when a vote is taken, the affirmative vote of a majority of directors present or participating is the act of the Board of Directors or a committee of the Board of Directors, unless the Wisconsin Business Corporation Law or the Articles of Incorporation or these Bylaws require the vote of a greater number of directors.

3.14. PRESUMPTION OF ASSENT. A director of the Corporation who is present at or participates in a meeting of the Board of Directors or a committee thereof which he or she is a member, at which action on any corporate matter is taken, shall be presumed to have assented to the action taken unless his or her dissent shall be entered in the minutes of the meeting or unless he or she shall file his or her written dissent to such action with the person acting as the Secretary of the meeting before the adjournment thereof or shall forward such dissent by registered mail to the Secretary of the Corporation immediately after the adjournment of the meeting. Such right to dissent shall not apply to a director who voted in favor of such action.

3.15. UNANIMOUS CONSENT WITHOUT MEETING. Any action required or permitted by the Articles of Incorporation or Bylaws or any provision of law to be taken by the Board of Directors at a meeting or by resolution may be taken without a meeting if a consent in writing, setting forth the action so taken, shall be signed by all of the directors then in office.

3.16. MEETING BY TELEPHONE OR BY OTHER COMMUNICATION TECHNOLOGY. Meetings of the Board of Directors or committees may be conducted by telephone or by other communication technology in accordance with Section 180.0820 of the Wisconsin Business Corporation Law.

### 3.17. COMMITTEES.

#### A. REGULAR COMMITTEES.

1. GENERAL DESCRIPTION. In order to facilitate the work of the Board of Directors of this Corporation, the following regular committees shall be elected from the membership of the Board of Directors at the regular meeting held in May of each year (or at such other time as the Board of Directors may determine):

Executive Committee  
Finance Committee  
Compensation Committee  
Audit Committee

Each committee shall consist of such number of members, not less than three (3), as shall be determined by the Board of Directors. The Chairman of the Board of Directors, and in the Chairman's absence the President, and in their absence, such Vice President as is designated by the Board of Directors, shall submit nominations for such committee memberships. Committee members shall hold office until the next board meeting at which committee elections are conducted in accordance with these Bylaws, and until their successors are elected and qualified. Each Regular Committee of the Board of Directors may exercise the authority of the full Board within the scope of the duties and powers delegated to it in these Bylaws, except that no committee of this Board shall do any of the following:

(a) Authorize distributions;

(b) Approve or propose to Shareholders action that the Wisconsin Business Corporation Law requires to be approved by Shareholders;

(c) Fill vacancies on the Board of Directors or, except as provided herein, on any of its committees;

(d) Amend the Articles of Incorporation;

(e) Adopt, amend or repeal the Bylaws;

(f) Approve a plan of merger not requiring Shareholder approval;

(g) Authorize or approve reacquisition of shares, except according to a formula or method prescribed by the full Board; or

(h) Authorize or approve the issuance or sale or contract for sale of shares or determine the designation and relative rights, preferences and limitations of a class or series of shares, except that the Board of Directors may authorize a committee or a senior executive officer of the Corporation to do so within limits prescribed by the Board of Directors.

2. THE EXECUTIVE COMMITTEE. When the Board of Directors is not in session, the Executive Committee shall have and may exercise all of the powers and authority of the full Board in the management of the business and affairs of the Corporation to the extent allowed by the Wisconsin Business Corporation Law.

3. THE FINANCE COMMITTEE. When the Board of Directors is not in session, the Finance Committee shall have and may exercise all of the powers of the full Board of Directors solely with regard to those matters which are within the scope of the Finance Committee's designated duties, as provided herein. The Chairman of the Board of Directors shall be a member of the Finance Committee.

The Finance Committee shall:

(a) Review and approve the Corporation's investment policies and guidelines:

(b) Monitor performance of the Corporation's investment portfolio;

(c) Consult with management regarding material transactions involving real estate, accounts receivable and other assets;

(d) Monitor the amount and types of all insurance that

should be carried by this Corporation;

(e) Monitor the Corporation's relationship with its lenders and its compliance with financing agreements including debt covenants;

(f) Consult with management concerning the capital structure of the Corporation;

(g) Monitor investment options and performance offered in the Corporation's retirement plan; and

(h) Carry out such special assignments as the Board of Directors may, from time to time, give to the Finance Committee.

4. THE COMPENSATION COMMITTEE. When the Board of Directors is not in session, the Compensation Committee shall have and may exercise all of the powers of the full Board solely with regard to those matters which are within the scope of the Compensation Committee's designated duties, as provided herein.

The Compensation Committee shall:

(a) Evaluate the performance of the Chief Executive Officer and other executive officers against objectives;

(b) Review and approve the compensation (including salary, bonus, stock options and other appropriate equity or long-term incentives, and any severance benefits) of the Chairman of the Board, the Chief Executive Officer and other executive officers;

(c) Administer compensation plans for executive officers and directors; and

(d) Review, on a general policy level basis, the compensation and benefits of officers, managers and employees for appropriateness;

(e) Act as the Nominating Committee for directors and make recommendations to the Board of Directors for types, methods and levels of directors' compensation;

(f) Administer the Corporation's equity incentive plan or any other equity-based plans, including the review and approval of all grants hereunder; and

(g) Carry out such special assignments as the Board of Directors may, from time to time, give to the Compensation Committee.

5. THE AUDIT COMMITTEE. The Audit Committee shall have and may



exercise all of the powers of the full Board of Directors solely with regard to those matters which are within the scope of the Audit Committee's designated duties, as provided herein.

The Audit Committee shall:

(a) Select and engage the independent certified public accountants to audit the financial statements of the Corporation and its subsidiaries;

(b) Meet with the independent auditors and financial management of the Corporation to review the scope of the proposed audit for the current year and the audit procedures to be utilized, and at the conclusion thereof, review such audit including any comments or recommendations of the independent auditors;

(c) Review the internal audit function of the Corporation including the independence and authority of its reporting obligations, the proposed audit plans for the coming year, the coordination of such plans with the independent auditors, and summaries of findings of completed audits;

(d) Review with the independent accountants and management the financial statements to determine that the independent auditors are satisfied with the disclosure and content of the financial statements;

(e) Review with the independent auditors, the Corporation's internal auditor, and financial and accounting personnel, the adequacy and effectiveness of the accounting and financial controls of the Corporation;

(f) Provide sufficient opportunity for the internal and independent auditors to meet with the members of the Audit Committee without members of management present;

(g) Review related party transactions and conflict of interest statements for appropriateness;

(h) Carry out such special assignments as the Board of Directors may, from time to time, give to the Audit Committee.

B. SPECIAL COMMITTEES. In addition to the foregoing Regular Committees, the Board of Directors may, from time to time, establish Special Committees and specify the composition, functions and authority of any such Special Committee.

C. VACANCIES; TEMPORARY APPOINTMENTS. When, for any cause, a vacancy occurs in any Regular Committee, the remaining committee members, by majority vote, may fill such vacancy by a temporary appointment of a



director on the Board of Directors not on the subject committee to fill the vacancy until the next Board Meeting at which time the full Board of Directors shall fill the vacancy.

D. ALTERNATE COMMITTEE MEMBERS. All members of the Board of Directors who are not members of a given committee shall be alternate members of such committee and may take the place of any absent member or members at any meeting of such committee, upon request by the Chairman of the Board of Directors, if there is one, the President or upon request by the chairman of such meeting.

E. COMMITTEE MINUTES AND REPORTS. All of the foregoing committees shall keep minutes and records of all of their meetings and activities and shall report the same to the Board of Directors at its next regular meeting. Such minutes and records shall be available for inspection by the directors at all times.

#### ARTICLE IV. OFFICERS

4.01. GENERALLY. The principal officers of the Corporation shall be a Chairman of the Board (Chief Executive Officer), a President, one (1) or more Vice Presidents, a Secretary and a Treasurer. The Board of Directors shall elect the principal officers annually at the Annual Meeting. All officers shall hold office for a period of one (1) year and until their successors are duly elected and qualified, or until their prior death, resignation or removal.

4.02. REMOVAL. Any officer or agent may be removed by the Board of Directors with or without cause whenever in its judgment the best interests of the Corporation would be served thereby, but such removal shall be without prejudice to the contract rights, if any, of the person so removed. Election or appointment shall not of itself create contract rights.

4.03. VACANCIES. A vacancy in any principal office because of death, resignation, removal, or otherwise, shall be filled by the Board of Directors for the unexpired portion of the term. The Board of Directors may, from time to time, omit to elect one (1) or more officers, or may omit to fill a vacancy, and in such case, the designated duties of such officer, unless otherwise provided in these Bylaws, shall be discharged by the Chairman of the Board or such other officers as he or she may designate.

4.04. CHAIRMAN OF THE BOARD. The Chairman of the Board, who shall also be the Chief Executive Officer, shall preside at all meetings of the Shareholders and of the directors and shall do and perform such other duties as from time to time may be assigned to that office by the Board of Directors.

4.05. PRESIDENT. The President shall have general supervision of the business and affairs of the Corporation. The President may sign and execute all authorized bonds, notes, checks, contracts, or other obligations in the name of the Corporation. The President shall perform such other duties as from time to time may be assigned to him or her by the Board of Directors.

4.06. VICE PRESIDENTS. Should the Chairman of the Board or the President be absent or unable to act, the Board of Directors shall designate a Vice President or other officer to discharge the duties of the vacant office with the same power and authority as is vested in that office. The Vice Presidents shall perform such other duties as from time to time may be assigned to them by the President or the Board of Directors.

4.07. SECRETARY. The Secretary shall keep a record of the minutes of the meetings of the Shareholders, the Board of Directors and any committees of the Board of Directors. He or she shall countersign all instruments and documents executed by the Corporation; affix to instruments and documents the seal of the Corporation; keep in books therefore the transactions of the Corporation; see that all notices are duly given in accordance with the provisions of these Bylaws or as required by law; and perform such other duties as usually are incident to such office or may be assigned by the Chairman of the Board, the President or the Board of Directors.

4.08. TREASURER. The Treasurer, subject to the control of the Board of Directors, shall collect, receive, and safely keep all monies, funds and securities of the Corporation, and attend to all its pecuniary affairs. He or she shall keep full and complete accounts and records of all its transactions, of sums owing to or by the Corporation, and all rents and profits in its behalf.

4.09. ASSISTANTS AND ACTING OFFICERS. The Chairman of the Board, the President and the Board of Directors shall have the power to appoint any person to act as assistant to any officer, or as agent for the Corporation in the officer's stead, or to perform the duties of such officer whenever for any reason it is impracticable for the officer to act personally, and the assistant or acting officer or other agent so appointed by the Chairman of the Board, the President or the Board of Directors shall have the power to perform all the duties of the office to which he or she is so appointed to be assistant, or as to which he or she is so appointed to act, except as such power otherwise may be defined or restricted by the Chairman of the Board, the President or the Board of Directors.

#### ARTICLE V. FUNDS OF THE CORPORATION

5.01. FUNDS. All funds of the Corporation shall be deposited or invested in such depositories or in such securities as may be authorized from time to time by the Board of Directors or appropriate committee under authorization of the Board of Directors.

5.02. NAME. All investments and deposits of funds of the Corporation shall be made and held in its corporate name, except that securities kept under a custodial agreement or trust arrangement with a bank or banking and trust company may be issued in the name of a nominee of such bank or banking and trust company and except that securities may be acquired and held in bearer form.

5.03. LOANS. All loans contracted on behalf of the Corporation and all

evidences of indebtedness that are issued in the name of the Corporation shall be under the authority of a resolution of the Board of Directors. Such authorization may be general or specific.

5.04. CONTRACTS. The Board of Directors may authorize one (1) or more officers, or agents, to enter into any contract or execute and deliver any instrument in the name of and on behalf of the Corporation. Such authorization may be general or specific. In the absence of other designation, all deeds, mortgages and instruments of assignment or pledge made by the Corporation shall be executed in the name of the Corporation by the Chairman of the Board, the President or one of the Vice Presidents and by the Secretary or Treasurer; the Secretary, when necessary or required, shall affix the corporate seal thereto; and when so executed no other party to such instrument or any third party shall be required to make any inquiry into the authority of the signing officer or officers.

5.05. DISBURSEMENTS. All monies of the Corporation shall be disbursed by check, draft, or written order only, and all checks and orders for the payment of money shall be signed by such officer or officers as may be designated by the Board of Directors. The officers and employees of the Corporation handling funds and securities of the Corporation shall give surety bonds in such sums as the Board of Directors or appropriate committee may require.

5.06. PROHIBITED TRANSACTIONS. No directors or officer of the Corporation shall borrow money from the Corporation, or receive any compensation for selling, aiding in the sale, or negotiating for the sale of any property belonging to the Corporation, or for negotiating any loan for or by the Corporation.

5.07. VOTING OF SECURITIES OWNED BY THIS CORPORATION. Subject always to the specific directions of the Board of Directors:

A. Any shares or other securities issued by any other corporation and owned or controlled by this Corporation may be voted at any meeting of security holders of such other corporation by the Chairman of the Board, the President or in their absence any Vice President of this Corporation who may be present and designated by the Board of Directors; and

B. Whenever, in the judgment of the Chairman of the Board, the President, or in their absence, a designated Vice President, it is desirable for this Corporation to execute a proxy or written consent in respect to any shares or other securities issued by any other corporation and owned by this Corporation, such proxy or consent shall be executed in the name of this Corporation by the Chairman of the Board, the President, or a designated Vice President of this Corporation in the order as provided in Subsection A, without necessity of any authorization by the Board of Directors, affixation of corporate seal or countersignature or attestation by another officer. Any person or persons designated in the manner above stated as the proxy or proxies of this Corporation shall have full right, power and authority to vote the shares or other securities issued by such other corporation and owned by this Corporation the same as such shares or

other securities might be voted by this Corporation.

## ARTICLE VI. CERTIFICATES FOR SHARES AND THEIR TRANSFER

6.01. CERTIFICATES FOR SHARES. Certificates representing shares of the Corporation shall be in such form, consistent with law, as shall be determined by the Board of Directors. Such Certificates shall be signed by the Chairman of the Board, the President, or a Vice President, and the Secretary, or by another officer designated by the Chairman of the Board, the President or the Board of Directors. All certificates for shares shall be consecutively numbered or otherwise identified. The name and address of the person to whom the shares represented thereby are issued, with the number of shares and date of issue, shall be entered on the stock transfer books of the Corporation. All certificates surrendered to the Corporation for transfer shall be canceled and no new certificate shall be issued until the former certificate for a like number of shares shall have been surrendered and canceled, except as provided in Section 6.06.

6.02. FACSIMILE SIGNATURES AND SEAL. The seal of the Corporation on any certificates for shares may be a facsimile. The signature of the Chairman of the Board, the President or other authorized officer upon a certificate may be a facsimile if the certificate is manually signed on behalf of a transfer agent, or a registrar, other than the Corporation itself or an employee of the Corporation.

6.03. SIGNATURE BY FORMER OFFICER. In case any officer who has signed or whose facsimile signature has been placed upon any certificate for shares shall have ceased to be such officer before such certificate is issued, it may be issued by the Corporation with the same effect as if he or she were such officer at the date of its issue.

6.04. TRANSFER OF SHARES. Prior to due presentment of a certificate for shares for registration of transfer, the Corporation may treat the Shareholder of such shares as the person exclusively entitled to vote, to receive notifications and otherwise to have and exercise all the rights and powers of an owner. Where a certificate for shares is presented to the Corporation with a request to register for transfer, the Corporation shall not be liable to the owner or any other person suffering loss as a result of such registration of transfer if:

A. There were on or with the certificate the necessary endorsements; and

B. The Corporation had no duty to inquire into adverse claims or has discharged any such duty.

The Corporation may require reasonable assurance that said endorsements are genuine and effective and in compliance with such other regulations as may be prescribed by or under the authority of the Board of Directors:

6.05. RESTRICTIONS ON TRANSFER. The face or reverse side of each certificate representing shares shall bear a conspicuous notation of any restriction imposed by the Corporation upon the transfer of such shares.

6.06. LOST, DESTROYED OR STOLEN CERTIFICATES. Where the owner claims that his or her certificate for shares has been lost, destroyed or wrongfully taken, a new certificate shall be issued in place thereof if the owner:

A. So requests before the Corporation has notice that such shares have been acquired by a bona fide purchaser;

B. If required by the Corporation, files with the Corporation a sufficient indemnity bond; and

C. Satisfies such other reasonable requirements as may be prescribed by or under the authority of the Board of Directors.

6.07. CONSIDERATION FOR SHARES. The shares of the Corporation may be issued for such consideration as shall be fixed from time to time by the Board of Directors, provided that any shares having a par value shall not be issued for a consideration less than the par value thereof. The consideration to be received for shares may consist of any tangible or intangible property or benefit to the Corporation, including cash, promissory notes, services performed, contracts for services to be performed or other securities of the Corporation. When the Corporation receives the consideration for which the Board of Directors authorized the issuance of shares, the shares issued for that consideration are fully paid and nonassessable, except as provided by Section 180.0622 of the Wisconsin Business Corporation Law which may require further assessment for unpaid wages to employees under certain circumstances. The Corporation may place in escrow shares issued for a contract for future services or benefits or a promissory note, or make other arrangements to restrict the transfer of the shares, and may credit distributions in respect of the shares against their purchase price, until the services are performed, the benefits are received or the note is paid. If the services are not performed, the benefits are not received or the note is not paid, the Corporation may cancel, in whole or in part, the shares escrowed or restricted and the distributions credited.

6.08. UNCERTIFICATED SHARES. In accordance with Section 180.0626 of the Wisconsin Business Corporation Law, the Board of Directors may issue any shares of any of its classes or series without certificates. The authorization does not affect shares already represented by certificates until the certificates are surrendered to the Corporation. Within a reasonable time after the issuance or transfer of shares without certificates, the Corporation shall send the Shareholder a written statement of the information required on share certificates by Sections 180.0625 and 180.0627, if applicable, of the Wisconsin Business Corporation Law, and by the Bylaws of the Corporation.

The Corporation shall maintain at its offices, or at the office of its transfer agent, an original or duplicate stock transfer book containing the names and addresses of all Shareholders and the number of shares held by each Shareholder. If the shares are uncertificated, the Corporation shall be entitled

to recognize the exclusive right of a person registered on its books as such, as the owner of shares for all purposes, and shall not be bound to recognize any equitable or other claim to or interest in such shares on the part of any other person, whether or not it shall have express or other notice thereof, except as otherwise provided by the laws of the State of Wisconsin.

6.09. TRANSFER AGENT AND REGISTRAR. The Corporation may maintain one (1) or more transfer offices or agencies, each in charge of a transfer agent designated by the Board of Directors, where the shares of stock of the Corporation shall be transferable. The Corporation also may maintain one (1) or more registry offices, each in charge of a registrar designated by the Board of Directors, where such shares of stock shall be registered. The same person or entity may be both a transfer agent and registrar.

6.10. STOCK REGULATIONS. The Board of Directors shall have the power and authority to make all such further rules and regulations not inconsistent with the laws of the State of Wisconsin as it may deem expedient concerning the issue, transfer and registration of certificates representing shares of the Corporation.

#### ARTICLE VII. INDEMNIFICATION

7.01. INDEMNIFICATION FOR SPECIAL DEFENSE. Within twenty (20) days after receipt of a written request pursuant to Section 7.03, the Corporation shall indemnify a director or officer, to the extent he or she has been successful on the merits or otherwise in the defense of a proceeding, for all reasonable expenses incurred in the proceeding if the director or officer was a party because he or she is a director or officer of the Corporation.

#### 7.02. OTHER INDEMNIFICATION.

A. In cases not included under Section 7.01, the Corporation shall indemnify a director or officer against all liabilities and expenses incurred by the director or officer in a proceeding to which the director or officer was a party because he or she is a director or officer of the Corporation, unless liability was incurred because the director or officer breached or failed to perform a duty he or she owes to the Corporation and the breach or failure to perform constitutes any of the following:

1. A willful failure to deal fairly with the Corporation or its Shareholders in connection with a matter in which the director or officer has a material conflict of interest.

2. A violation of criminal law, unless the director or officer had reasonable cause to believe that his or her conduct was lawful or no reasonable cause to believe that his or her conduct was unlawful.

3. A transaction from which the director or officer derived an improper personal profit.



#### 4. Willful conduct.

B. Determination of whether indemnification is required under the Section shall be made pursuant to Section 7.05.

C. The termination of a proceeding by judgment, order, settlement or conviction, or upon a plea of no contest or an equivalent plea, does not, by itself, create a presumption that indemnification of the director or officer is not required under this Section.

7.03. WRITTEN REQUEST. A director or officer who seeks indemnification under Section 7.01 or 7.02 shall make a written request to the Corporation.

7.04. NONDUPLICATION. The Corporation shall not indemnify a director or officer under Sections 7.01 or 7.02 to the extent the director or officer has previously received indemnification or allowances of expenses from any person, including the Corporation, in connection with the same proceeding. However, the director or officer has no duty to look to any other person for indemnification.

#### 7.05. DETERMINATION OF RIGHT TO INDEMNIFICATION.

A. Unless otherwise provided by the Articles of Incorporation or by written agreement between the director or officer and the Corporation, the director or officer seeking indemnification under Section 7.02 shall select one (1) of the following means for determining his or her right to indemnification:

1. By a majority vote of a quorum of the Board of Directors consisting of directors not at the time parties to the same or related proceedings. If a quorum of disinterested directors cannot be obtained, by majority vote of a committee duly appointed by the Board of Directors and consisting of two (2) or more directors who are not at the time parties to the same or related proceedings. Directors who are parties to the same or related proceedings may participate in the designation of members of the committee.

2. By independent legal counsel selected by a quorum of the Board of Directors or its committee in the manner prescribed in 1 of Subsection A, if unable to obtain such a quorum or committee, by a majority vote of the full Board of Directors, including directors who are parties to the same or related proceedings.

3. By a panel of three (3) arbitrators consisting of one (1) arbitrator selected by those directors entitled under 2 of Subsection A to select independent legal counsel, one (1) arbitrator selected by the director or officer seeking indemnification and one (1) arbitrator selected by two (2) arbitrators previously selected.

4. By an affirmative vote of shares represented at a meeting of Shareholders at which a quorum of the voting group entitled to vote thereon is present. Shares owned by, or voted under the control of,

persons who are at the time parties to the same or related proceedings, whether as plaintiffs or defendants or in any other capacity, may not be voted in making the determination.

5. By a court under Section 7.08.

6. By any other method provided for in any additional right to indemnification permitted under Section 7.07.

B. In any determination under Subsection A, the burden of proof is on the Corporation to prove by clear and convincing evidence that indemnification under Section 7.02 should not be allowed.

C. A written determination as to a director's or officer's indemnification under Section 7.02 shall be submitted to both the Corporation and the director or officer within sixty (60) days of the selection made under Subsection A.

D. If it is determined that indemnification is required under Section 7.02, the Corporation shall pay all liabilities and expenses not prohibited by Section 7.04 within ten (10) days after receipt of the written determination under Subsection C. The Corporation shall also pay all expenses incurred by the director or officer in the determination of process under Subsection A.

7.06. ADVANCE OF EXPENSES. Within ten (10) days after receipt of a written request by a director or officer who is a party to a proceeding, the Corporation shall pay or reimburse his or her reasonable expenses incurred if the director or officer provides the Corporation with all of the following:

A. A written affirmation of his or her good faith belief that he or she has not breached or failed to perform his or her duties to the Corporation.

B. A written undertaking, executed personally or on his or her behalf, to repay the allowance to the extent that it is ultimately determined under Section 7.05 that indemnification under Section 7.02 is not required and that indemnification is not ordered by a court under Section 7.08(B)(2). The undertaking under this subsection shall be an unlimited general obligation of the director or officer and may be accepted without reference to his or her ability to repay the allowance. The undertaking may be secured or unsecured.

7.07. NONEXCLUSIVITY.

A. Except as provided in Subsection B, Sections 7.01, 7.02 and 7.06 do not preclude any additional right to indemnification or allowance of expenses that a director or officer may have under any of the following:

1. The Articles of Incorporation.



2. A written agreement between the director or officer and the Corporation.

3. A resolution of the Board of Directors.

4. A resolution, after notice, adopted by a majority vote of all of the Corporation's voting shares then issued and outstanding.

B. Regardless of the existence of an additional right under Subsection A, the Corporation shall not indemnify a director or officer, or permit a director or officer to retain any allowance of expenses unless it is determined by or on behalf of the Corporation that the director or officer did not breach or fail to perform a duty he or she owes to the Corporation which constitutes conduct under Section 7.02(A)(1), (2), (3) or (4). A director or officer who is a party to the same or related proceeding for which indemnification or an allowance of expenses is sought may not participate in a determination under this subsection.

C. Sections 7.01 to 7.13 do not affect the Corporation's power to pay or reimburse expenses incurred by a director or officer in any of the following circumstances.

1. As a witness in a proceeding to which he or she is not a party.

2. As a plaintiff or petitioner in a proceeding because he or she is or was an employee, agent, director or officer of the Corporation.

#### 7.08 COURT-ORDERED INDEMNIFICATION.

A. Except as provided otherwise by written agreement between the director or officer and the Corporation, a director or officer who is a party to a proceeding may apply for indemnification to the court conducting the proceeding or to another court of competent jurisdiction. Application shall be made for an initial determination by the court under Section 7.05(a)(5) or for review by the court of an adverse determination under Section 7.05(A)(1), (2), (3), (4), or (6). After receipt of an application, the court shall give any notice it considers necessary.

B. The court shall order indemnification if it determines any of the following:

1. That the director or officer is entitled to indemnification under Sections 7.01 or 7.02.

2. That the director or officer is fairly and reasonably entitled to indemnification in view of all the relevant circumstances, regardless of whether indemnification is required under Section 7.02.

C. If the court determines under Subsection B that the director or officer is entitled to indemnification, the Corporation shall pay the

director's or officer's expenses incurred to obtain the court-ordered indemnification.

7.09. INDEMNIFICATION AND ALLOWANCE OF EXPENSES OF EMPLOYEES AND AGENTS. The Corporation shall indemnify an employee of the Corporation who is not a director or officer of the Corporation, to the extent that he or she has been successful on the merits or otherwise in defense of a proceeding, for all reasonable expenses incurred in the proceeding if the employee was a party because he or she was an employee of the Corporation. In addition, the Corporation may indemnify and allow reasonable expenses of an employee or agent who is not a director or officer of the Corporation to the extent provided by (i) the Articles of Incorporation, (ii) these Bylaws, (iii) general or specific action of the Board of Directors, or (iv) by contract; provided however, that the Corporation may not provide such indemnification to the extent prohibited by law.

7.10. INSURANCE. The Corporation may purchase and maintain insurance on behalf of an individual who is an employee, agent, director or officer of the Corporation against liability asserted against or incurred by the individual in his or her capacity as an employee, agent, director or officer, regardless of whether the Corporation is required or authorized to indemnify or allow expenses to the individual against the same liability.

7.11. SECURITIES LAW CLAIMS.

A. Pursuant to the public policy of the State of Wisconsin, the Corporation shall provide indemnification and allowance of expenses and may insure for any liability incurred in connection with a proceeding involving securities regulation described under Subsection B to the extent required or permitted under Sections 7.01 to 7.10.

B. Sections 7.01 to 7.10 apply, to the extent applicable to any other proceeding, to any proceeding involving federal or state statute, rule or regulation regulating the offer, sale or purchase of securities, securities brokers or dealers, or investment companies or investment advisers.

7.12. LIBERAL CONSTRUCTION. In order for the Corporation to obtain and retain qualified directors, officers and employees, the foregoing provisions shall be liberally administered in order to afford maximum indemnification of directors, officers and, where Section 7.09 of these Bylaws applies, employees. The indemnification above provided for shall be granted in all applicable cases unless to do so would clearly contravene law, controlling precedent or public policy.

7.13. DEFINITIONS APPLICABLE TO THIS ARTICLE. For purposes of the Article:

A. "Affiliate" shall include, without limitation, any corporation, partnership, joint venture, employee benefit plan, trust or other enterprise that directly or indirectly through one or more intermediaries, controls or is controlled by, or is under common control with, the Corporation.

B. "Corporation" means this Corporation and any domestic or foreign predecessor of this Corporation where the predecessor corporation's existence ceased upon the consummation of a merger or other transaction.

C. "Director or Officer" means any of the following:

1. An individual who is or was a director or officer of this Corporation.

2. An individual who, while a director or officer of this Corporation, is or was serving at the Corporation's request as a director, officer, partner, trustee, member of any governing or decision-making committee, employee or agent of another corporation or foreign corporation, partnership, joint venture, trust or other enterprise.

3. An individual who, while a director or officer of this Corporation, is or was serving an employee benefit plan because his or her duties to the Corporation also impose duties on, or otherwise involve service by, the person to the plan or to participants in or beneficiaries of the plan.

4. Unless the context requires otherwise, the estate or personal representative of a director or officer.

For purposes of this Article, it shall be conclusively presumed that any director or officer serving as a director, officer, partner, trustee, member of any governing or decision-making committee, employee or agent of an Affiliate shall be so serving at the request of the Corporation.

D. "Expenses" include fees, costs, charges, disbursements, attorney fees and other expenses incurred in connection with a proceeding.

E. "Liability" includes the obligation to pay a judgment, settlement, penalty, assessment, forfeiture or fine, including an excise tax assessed with respect to an employee benefit plan, and reasonable expenses.

F. "Party" includes an individual who was or it, or who is threatened to be made, a named defendant or respondent in a proceeding.

G. "Proceeding" means any threatened, pending or completed civil, criminal, administrative or investigative action, suit, arbitration or other proceeding, whether formal or informal, which involves foreign, federal, state or local law and which is brought by or in the right of the Corporation or by any other person.

#### ARTICLE VIII. CORPORATE DIVIDENDS

The Board of Directors may from time to time declare dividends on its outstanding shares in the manner and upon the terms and conditions provided by law and its Articles of Incorporation.

#### ARTICLE IX. CORPORATE SEAL

The Board of Directors may provide a corporate seal which may be circular in form and may have inscribed thereon the name of the Corporation and the state of incorporation and the words "Corporate Seal."

#### ARTICLE X. FISCAL YEAR

The fiscal year shall be set by the Board of Directors.

#### ARTICLE XI. AMENDMENTS

11.01. BY SHAREHOLDERS. These Bylaws may be altered, amended or repealed and new Bylaws may be adopted by the Shareholders by affirmative vote of not less than a majority of the shares present or represented at an annual or special meeting of the Shareholders at which a quorum is in attendance.

11.02. BY DIRECTORS. These Bylaws may also be altered, amended or repealed and new Bylaws may be adopted by the Board of Directors by affirmative vote of a majority of the number of directors present at or participating in any meeting at which a quorum is in attendance; but no bylaw adopted by the Shareholders shall be amended or repealed by the Board of Directors if the bylaw so adopted so provides.

11.03. IMPLIED AMENDMENTS. Any action taken or authorized by the Shareholders or by the Board of Directors, which would be inconsistent with the Bylaws then in effect but is taken or authorized by affirmative vote of not less than the number of shares or the number of directors required to amend the Bylaws so that the Bylaws would be consistent with such action, shall be given the same effect as though the Bylaws had been temporarily amended or suspended so far, but only so far, as is necessary to permit the specific action so taken or authorized.

EQUITY INCENTIVE PLAN  
AMERICAN MEDICAL SECURITY GROUP, INC.  
FEBRUARY 1993  
(As Amended and Restated March 15, 1999)

THIS DOCUMENT CONSTITUTES PART  
OF A PROSPECTUS COVERING SECURITIES  
THAT HAVE BEEN REGISTERED  
UNDER THE SECURITIES ACT OF 1933, AS AMENDED.

AMERICAN MEDICAL SECURITY GROUP, INC.  
EQUITY INCENTIVE PLAN  
(As Amended and Restated March 15, 1999)

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AMERICAN MEDICAL SECURITY GROUP, INC.  
EQUITY INCENTIVE PLAN  
(As Amended and Restated March 15, 1999)

ARTICLE 1. ESTABLISHMENT, PURPOSE AND DURATION

1.1 ESTABLISHMENT OF THE PLAN. American Medical Security Group, Inc., a Wisconsin corporation formerly known as United Wisconsin Services, Inc. (the "Company"), established this incentive compensation plan known as the "American Medical Security Group, Inc. Equity Incentive Plan" (herein referred to as the "Plan") effective as of February 24, 1993 (the "Effective Date") upon approval by its Board of Directors, and ratification by an affirmative vote of a majority of Shares at an annual shareholders' meeting of the Company. (The validity of any awards granted prior to shareholder ratification of the Plan were contingent upon such ratification.)

The Plan, as set forth in this document, remains in effect as provided in Section 1.3 herein and permits the grant of Non-qualified Stock Options ("NQSOs"), Incentive Stock Options ("ISOs"), SARs, Restricted Stock, Performance Units, and Performance Shares.

1.2 PURPOSE OF THE PLAN. The purpose of the Plan is to promote the success, and enhance the value, of the Company by linking the personal interests of Participants to those of Company shareholders, and by providing Participants with an incentive for outstanding performance.

The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of Participants upon whose judgment, interest, and special effort the successful conduct of its operation is dependent.

1.3 DURATION OF THE PLAN. Subject to approval by the Board of Directors of the Company and ratification by the shareholders of the Company, the Plan commenced on the Effective Date, as described in Section 1.1 herein, and shall remain in effect, subject to the right of the Board of Directors of the Company to terminate the Plan at any time pursuant to Article 14 herein, until all Shares subject to it shall have been purchased or acquired according to the Plan's provisions. However, to the extent required by the Internal Revenue Code, no ISO may be granted under the Plan on a date that is more than ten years from the date the Plan is adopted, or, if earlier, the date the Plan is approved by



shareholders.

## ARTICLE 2. DEFINITIONS

Whenever used in the Plan, the following terms shall have the meanings set forth below and when the meaning is intended, the initial letter of the word is capitalized:

(a) "AFFILIATE" - a company closely related to American Medical Security Group, Inc. which is designated as an Affiliate by the Board. For purposes of this Plan, United Wisconsin Services, Inc. (f/k/a Newco/UWS, Inc.) and Blue Cross & Blue Shield United of Wisconsin shall each be considered an Affiliate only with respect to Stock Options issued prior to September 11, 1998.

(b) "AFFILIATED SAR" means an SAR that is granted in connection with a related Option, and which will be deemed to automatically be exercised simultaneous with the exercise of the related Option.

(c) "AWARD" means, individually or collectively, a grant under this Plan of Non-qualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, or Performance Shares.

(d) "AWARD AGREEMENT" means an agreement entered into by each Participant and the Company, setting forth the terms and provisions applicable to Awards granted to Participants under this Plan.

(e) "BENEFICIAL OWNER" shall have the meaning ascribed to such term in Rule 13d-3 of the General Rules and Regulations under the Exchange Act.

(f) "BOARD" or "BOARD OF DIRECTORS" means the Board of Directors of the Company.

(g) "CAUSE" means:

(i) willful and gross misconduct on the part of a Participant that is materially and demonstrably detrimental to the Company; or

(ii) the commission by a Participant of one or more acts which constitute an indictable crime under United States Federal, state, or local law. "Cause" under either (i) or (ii) shall be determined in good faith by the Committee.

(h) "CHANGE IN CONTROL" of the Company in connection with any Award Agreement entered into before March 15, 1999 shall mean a "Change in Control" as defined in the Plan prior to its amendment and restatement on March 15, 1999 and "Change in Control" of the Company in connection with any Award Agreement entered into on or after March 15, 1999 shall be deemed to have occurred as of the date that:

(i) a majority of Directors of the Company cease to continue to

serve as Directors of the Company and the Chief Executive Officer of the Company ceases to serve as the Chief Executive of the Company as the direct or indirect result of, or in connection with the occurrence of:

(a) any person, including a "group" as defined in Section 13(d)(3) of the Securities Exchange Act of 1934, becoming, directly or indirectly, the beneficial owner of securities of the Company, or any other subsidiary, representing forty percent (40%) or more of the combined voting power of the then outstanding securities of the Company that may be cast for the election of Directors of the Company (other than as a result of an issuance of securities initiated by the Company or open market purchases approved by the Board of Directors of the Company as long as the majority of the Directors at the time of such approval are also Directors at the time the purchases are made);

(b) a cash tender or exchange offer;

(c) a hostile or involuntary merger or other business combination;

(d) a sale of all or substantially all assets of the Company;

(e) a contested election of directors; or

(f) any combination of the aforementioned events; or

(ii) the shareholders approve a plan of liquidation or dissolution of the Company.

(i) "CODE" means the Internal Revenue Code of 1986, as amended from time to time.

(j) "COMMITTEE" means the Compensation Committee of American Medical Security Group, Inc., as appointed by the Board to administer the Plan, or such other committee as may be appointed by the Board consistent with Section 3.1.

(k) "COMPANY" means American Medical Security Group, Inc., a Wisconsin corporation or any successor thereto as provided in Article 17 herein.

(l) "COVERED EMPLOYEE" means a Participant designated prior to the grant of an award of Restricted Stock, Performance Units, or Performance Shares by the Committee who is or may be a "covered employee" within the meaning of Section 162(m)(3) of the Internal Revenue Code in the year in which such Restricted Stock, Performance Units or Performance Awards are taxable to such Participant.

(m) "DIRECTOR" means any individual who is a member of the Board of

Directors of the Company or any Subsidiary or Affiliate.

(n) "DISABILITY" means with respect to any ISOs, a permanent and total disability within the meaning of Code Section 22(e)(3), and with respect to all other Awards under the Plan, a medically determinable mental or physical impairment which renders a Participant totally and presumably permanently unable to continue in employment with the Company and all Affiliates. The determination of disability shall be made by the Committee in good faith, upon receipt of sufficient competent medical advice from one or more individuals, selected by the Committee, who are qualified to give professional medical advice.

(o) "EMPLOYEE" means any full-time employee of the Company or of the Company's Subsidiaries or Affiliates.

(p) "EXCHANGE ACT" means the Securities Exchange Act of 1934, as amended from time to time, or any successor Act thereto.

(q) "FAIR MARKET VALUE" means the closing price for Shares on the relevant date, or (if there were no sales on such date) the average of closing prices on the nearest day before and the nearest day after the relevant date, on a stock exchange or over the counter, as determined by the Committee.

(r) "FREESTANDING SAR" means an SAR that is granted independently of any Options.

(s) "INCENTIVE STOCK OPTION" or "ISO" means an option to purchase Shares, granted under Article 6 herein, which is designated as an Incentive Stock Option and is intended to meet the requirements of Section 422 of the Code.

(t) "INSIDER" shall mean an Employee or Participant who is, on the relevant date, an officer, director of the Company, as defined in Rule 16 under the Exchange Act.

(u) "NON-QUALIFIED STOCK OPTION" or "NQSO" means an option to purchase Shares, granted under Article 6 herein, which is not intended to be an Incentive Stock Option.

(v) "OPTION" means an Incentive Stock Option or a Non-qualified Stock Option.

(w) "OPTION PRICE" means the price at which a Share may be purchased by a Participant pursuant to an Option, as determined by the Committee.

(x) "PARTICIPANT" means a person who has outstanding an Award granted under the Plan.

(y) "PERFORMANCE GOALS" means the performance goals established by the Committee prior to the grant of any Award of Restricted Stock, Performance

Units, or Performance Shares that are based on the attainment of goals relating to one or more of the following business criteria measured on an absolute basis or in terms of growth or reduction: net income (pre-tax or after-tax and with adjustments as stipulated), earnings per share, return on equity, return on assets, return on tangible book value, operating income, earnings before depreciation, interest, taxes and amortization (EBDITA), loss ratio, expense ratio, increase in stock price, total shareholder return, economic value added and operating cash flow. With respect to Covered Employees, all Performance Goals shall be objective performance goals satisfying the requirements for "performance-based compensation" within the meaning of Section 162(m)(4) of the Internal Revenue Code and shall be established by the Committee within the time prescribed by Section 162(m) of such Code and related regulations. With respect to Participants who are not Covered Employees, the Committee may establish other subjective or objective performance goals, including individual goals, which it deems appropriate.

(z) "PERFORMANCE UNIT" means an Award granted to a Participant, as described in Article 9 herein.

(aa) "PERFORMANCE SHARE" means an Award granted to a Participant, as described in Article 9 herein.

(bb) "PERIOD OF RESTRICTION" means the period during which the transfer of Shares of Restricted Stock is limited in some way (based on the passage of time, the achievement of Performance Goals, or upon the occurrence of other events as determined by the Committee, at its discretion), and the Shares are subject to a substantial risk of forfeiture, as provided in Article 8 herein.

(cc) "PERSON" shall have the meaning ascribed to such term in Section 3(a)(9) of the Exchange Act and used in Sections 13(d) and 14(d) thereof, including a "group" as defined in Section 13(d).

(dd) "RESTRICTED STOCK" means an Award granted to a Participant pursuant to Article 8 herein.

(ee) "RETIREMENT" shall have the meaning ascribed to it under the Company's tax qualified retirement plan.

(ff) "SHARES" means the shares of common stock of the Company.

(gg) "SUBSIDIARY" means any corporation in which the Company owns directly, or indirectly through subsidiaries, at least fifty percent (50%) of the total combined voting power of all classes of stock, or any other entity (including, but not limited to, partnerships and joint ventures) in which the Company owns at least fifty percent (50%) of the combined equity thereof.

(hh) "STOCK APPRECIATION RIGHT" or "SAR" means an Award, granted alone or in connection with a related Option, designated as an SAR, pursuant to

the terms of Article 7 herein.

(ii) "TANDEM SAR" means an SAR that is granted in connection with a related Option, the exercise of which shall require forfeiture of the right to purchase a Share under the related Option (and when a Share is purchased under the Option, an SAR shall similarly be canceled).

(jj) "WINDOW PERIOD" means a window period of time as defined in the Company's then current insider trading policy.

### ARTICLE 3. ADMINISTRATION

3.1 THE COMMITTEE. The Plan shall be administered by the Compensation Committee of the Board of American Medical Security Group, Inc., or by any other Committee appointed by the Board consisting of not less than two (2) Directors who are not Employees. The members of the Committee shall be appointed from time to time by, and shall serve at the discretion of, the Board of Directors.

It is intended that at all times, the Committee shall be comprised solely of Directors who are both: (i) Non-Employee Directors, as defined in Rule 16b-3 under the Exchange Act; and (ii) Outside Directors, as defined in Treas. Reg. 1.162-27. However, the failure to so comply with Rule 16b-3 and/or Treas. Reg. 1.162-27 shall not affect the validity of any Awards made by the Committee in accordance with the provisions of the Plan.

3.2 AUTHORITY OF THE COMMITTEE. The Committee shall have full power except as limited by law or by the Articles of Incorporation or By-laws of the Company, and subject to the provisions herein, to determine the size and types of Awards; to determine the terms and conditions of such Awards in a manner consistent with the Plan; to construe and interpret the Plan and any agreement or instrument entered into under the Plan; to establish, amend, or waive rules and regulations for the Plan's administration; and (subject to the provisions of Article 14 herein) to amend the terms and conditions of any outstanding Award to the extent such terms and conditions are within the discretion of the Committee as provided in the Plan. Further, the Committee shall make all other determinations which may be necessary or advisable for the administration of the Plan. As permitted by law, the Committee may delegate its authority as identified hereunder.

3.3 DECISIONS BINDING. All determinations and decisions made by the Committee pursuant to the provisions of the Plan and all related orders or resolutions of the Board of Directors shall be final, conclusive, and binding on all Persons, including the Company, its stockholders, Employees, Participants, and their estates and beneficiaries.

### ARTICLE 4. SHARES SUBJECT TO THE PLAN

4.1 NUMBER OF SHARES. Subject to adjustment as provided in Section 4.3 herein, the total number of Shares available for grant under the Plan may not exceed 4,000,000. These 4,000,000 Shares may be either authorized but unissued or reacquired Shares.

The following rules will apply for purposes of the determination of the number of Shares available for grant under the Plan:

(a) While an Award is outstanding, it shall be counted against the authorized pool of Shares, regardless of its vested status.

(b) The grant of an Option or Restricted Stock shall reduce the Shares available for grant under the Plan by the number of Shares subject to such Award.

(c) The grant of a Tandem SAR shall reduce the number of Shares available for grant by the number of Shares subject to the related Option (i.e., there is no double counting of Options and their related Tandem SARs).

(d) The grant of an Affiliated SAR shall reduce the number of Shares available for grant by the number of Shares subject to the SAR, in addition to the number of Shares subject to the related Option.

(e) The grant of a Freestanding SAR shall reduce the number of Shares available for grant by the number of Freestanding SARs granted.

(f) The Committee shall in each case determine the appropriate number of Shares to deduct from the authorized pool in connection with the grant of Performance Units and/or Performance Shares.

(g) To the extent that an Award is settled in cash rather than in Shares, the authorized Share pool shall be credited with the appropriate number of Shares represented by the cash settlement of the Award, as determined at the sole discretion of the Committee (subject to the limitation set forth in Section 4.2 herein).

The maximum number of Shares with respect to which Awards may be made to any Participant annually (in any one calendar year) shall not exceed 250,000 shares. Notwithstanding the foregoing, if the Participant receives the Award prior to March 31, 1997 in connection with the Employee's initial employment by the Company or in connection with a merger or acquisition by the Company, the maximum number of Shares with respect to which Awards may be made during the three (3) year period ended March 31, 1997 shall be 850,000 Shares. No Participant may be granted Performance Units in any one calendar year that when payable would exceed \$3,000,000.

4.2 LAPSED AWARDS. If any Award granted under this Plan is canceled, terminates, expires, or lapses for any reason (with the exception of the termination of a Tandem SAR upon exercise of the related Option, or the termination of a related Option upon exercise of the corresponding Tandem SAR), any Shares subject to such Award again shall be available for the grant of an Award under the Plan.

4.3 ADJUSTMENTS IN AUTHORIZED SHARES. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, stock dividend, split-up, Share combination, or other change in the corporate structure of the Company affecting the Shares, such adjustment shall be made in

the number of class of Shares which may be delivered under the Plan, and in the number and class of and/or price of Shares subject to outstanding Options, SARs, and Restricted Stock granted under the Plan, as may be determined to be appropriate and equitable by the Committee, in its sole discretion, to prevent dilution or enlargement of rights; and provided that the number of Shares subject to any Award shall always be a whole number.

#### ARTICLE 5. ELIGIBILITY AND PARTICIPATION

5.1 ELIGIBILITY. Persons eligible to participate in this Plan include all Directors and all full-time, active Employees of the Company, its Subsidiaries and Affiliates, as determined by the Committee.

5.2 ACTUAL PARTICIPATION. Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Participants, those to whom Awards shall be granted and shall determine the nature and amount of each award.

#### ARTICLE 6. STOCK OPTIONS

6.1 GRANT OF OPTIONS. Subject to the terms and provisions of the Plan, Options may be granted to Participants at anytime and from time to time as shall be determined by the Committee. The Committee shall have discretion in determining the number of Shares subject to Options granted to each Participant. The Committee may grant ISOs, NQSOs, or a combination thereof.

If required by applicable tax rules regarding a particular grant of ISOs, to the extent that the aggregate fair market value (determined as of the date an ISO is granted) of Shares with respect to which ISOs are exercisable for the first time by a Participant during any calendar year exceeds \$100,000 (or such other limit as prescribed by the Code) such option grant shall be treated as a grant of NQSOs rather than ISOs.

6.2 OPTION AWARD AGREEMENT. Each Option grant shall be evidenced by an Option Award Agreement that shall specify the Option Price, the duration of the Option, the number of Shares to which the Option pertains, and such other provisions as the Committee shall determine. The Option Award Agreement also shall specify whether the Option is intended to be an ISO within the meaning of Section 422 of the Code, or an NQSO whose grant is intended not to fall under the Code provisions of Section 422.

6.3 OPTION PRICE. The Option Price for each grant of an Option shall be determined by the Committee; provided that the Option Price shall not be less than one hundred percent (100%) of the Fair Market Value of a Share on the date the Option is granted.

6.4 DURATION OF OPTIONS. Each Option shall expire at such time as the Committee shall determine at the time of grant; provided, however, that no ISO shall be exercisable later than the tenth (10th) anniversary date of its grant, and no NQSO shall be exercisable later than the twelfth (12th) anniversary date of its grant.



6.5 EXERCISE OF OPTIONS. Options granted under the Plan shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each Participant. However, in no event may any Option granted under this Plan become exercisable prior to six (6) months following the date of its grant.

6.6 PAYMENT. Options shall be exercised by the delivery of a written notice of exercise to the Secretary of the Company, setting forth the number of Shares with respect to which the Option is to be exercised, accompanied by payment in full of the Option Price.

The Option Price upon exercise of any Option shall be payable to the Company in full either: (a) in cash or its equivalent, or (b) by tendering previously acquired Shares having an aggregate Fair Market Value at the time of exercise equal to the total Option Price (provided that the Shares which are tendered must have been held by the Participant for at least six (6) months prior to their tender to satisfy the Option Price), or (c) by a combination of (a) and (b).

The Committee also may allow cashless exercise as permitted under Federal Reserve Board's Regulation T, subject to applicable securities law restrictions, or by any other means which the Committee determines to be consistent with the Plan's purpose and applicable law.

As soon as practicable after receipt of a written notification of exercise and full payment, the Company shall deliver to the Participant, in the Participant's name, Share certificates in an appropriate amount based upon the number of Shares purchased under the Option(s).

6.7 RESTRICTIONS ON SHARE TRANSFERABILITY. The Committee may impose such restrictions on any Shares acquired pursuant to the exercise of an Option under the Plan, as it may deem advisable, including, without limitation, restrictions under applicable Federal securities laws, under the requirements of any Stock exchange or market upon which such Shares are then listed and/or traded, and under any Blue Sky or state securities laws applicable to such Shares.

#### 6.8 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY OR RETIREMENT.

(a) TERMINATION BY DEATH. In the event the employment of a Participant is terminated by reason of death, all outstanding Options granted to that Participant shall immediately vest one hundred percent (100%), and shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date of death, whichever period is shorter, by such person or persons as shall have been named as the Participant's beneficiary, or by such persons that have acquired the Participant's rights under the Option by will or by the laws of descent and distribution.

(b) TERMINATION BY DISABILITY. In the event the employment of a Participant is terminated by reason of Disability, all outstanding Options granted to that Participant shall immediately vest one hundred percent (100%) as of the date the Committee determines the definition of Disability to have been satisfied, and shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date that the



Committee determines the definition of Disability to have been satisfied, whichever period is shorter.

(c) TERMINATION BY RETIREMENT. In the event the employment of a Participant is terminated by reason of Retirement, the Committee shall retain discretion over the treatment of Options.

(d) EMPLOYMENT TERMINATION FOLLOWED BY DEATH. In the event that a Participant's employment terminates by reason of Disability or Retirement, and within the exercise period allowed by the Committee following such termination the Participant dies, then the remaining exercise period under outstanding Options shall equal the longer of: (i) one (1) year following death; or (ii) the remaining portion of the exercise period which was triggered by the employment termination. Such Options shall be exercisable by such person or persons who shall have been named as the Participant's beneficiary, or by such persons who have acquired the Participant's rights under the Option by will or by the laws of descent and distribution.

(e) EXERCISE LIMITATIONS ON ISOS. In the case of ISOs, the tax treatment prescribed under Section 422 of the Internal Revenue Code of 1986, as amended, may not be available if the Options are not exercised within the Section 422 prescribed time periods after each of the various types of employment termination.

6.9 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than the reasons set forth in Section 6.8 (and other than for Cause), all Options held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited to the Company (and shall once again become available for grant under the Plan). However, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such Options, subject to such terms as the Committee, in its sole discretion, deems appropriate.

Options which are vested as of the effective date of employment termination may be exercised by the Participant for a period of up to six (6) months following termination, or for such longer period up to one (1) year as the Committee determines with respect to a particular Participant.

If the employment of a Participant shall be terminated by the Company for Cause, all outstanding options held by the Participant immediately shall be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Option.

For purposes of this Section and Section 6.8, a termination of employment shall occur only after the Employee ceases to be an Employee of the Company and all Subsidiaries or Affiliates.

6.10 EXERCISE OF OPTIONS WITH RESPECT TO DIRECTORS. Options granted to Directors shall be exercisable at such times and be subject to such restrictions and conditions as the Committee shall in each instance approve, which need not be the same for each grant or for each such Participant. However, in no event may any such Option become exercisable prior to six (6) months following the date of its grant.

6.11 RESTRICTIONS ON TRANSFERABILITY. No Option granted under the Plan may be sold, transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution, and shall be exercisable by a Participant during his or her lifetime only by the Participant except that NQSOs may be transferred by a Participant to the Participant's spouse, children or grandchildren or to a trust for the benefit of such spouse, children or grandchildren.

## ARTICLE 7. STOCK APPRECIATION RIGHTS

7.1 GRANT OF SARS. Subject to the terms and conditions of the Plan, an SAR may be granted to a Participant at any time and from time to time as shall be determined by the Committee. The Committee may grant Affiliated Sars, Freestanding Sars, Tandem Sars, or any combination of these forms of SAR.

The Committee shall have complete discretion in determining the number of Sars granted to each Participant (subject to Article 4 herein) and consistent with the provisions of the Plan, in determining the terms and conditions pertaining to such Sars. However, the grant price of a Freestanding SAR shall be at least equal to one hundred percent (100%) of the Fair Market Value of a Share on the date of grant of the SAR. The grant price of Tandem Sars or Affiliated Sars shall equal the Option Price of the related Option. In no event shall any SAR granted hereunder become exercisable within the first six (6) months of its grant.

7.2 EXERCISE OF TANDEM SARS. Tandem Sars may be exercised for all or part of the Shares subject to the related Option upon the surrender of the right to exercise the equivalent portion of the related Option. A Tandem SAR may be exercised only with respect to the Shares for which its related Option is then exercisable.

Notwithstanding any other provision of this Plan to the contrary, with respect to a Tandem SAR granted in connection with an ISO: (i) the Tandem SAR will expire no later than the expiration of the underlying ISO; (ii) the value of the payout with respect to the Tandem SAR may be for no more than one hundred percent (100%) of the difference between the Option Price of the underlying ISO and the Fair Market Value of the Shares subject to the underlying ISO at the time the Tandem SAR is exercised; and (iii) the Tandem SAR may be exercised only when the Fair Market Value of the Shares subject to the ISO exceeds the Option Price of the ISO.

7.3 EXERCISE OF AFFILIATED SARS. Affiliated Sars shall be deemed to be exercised upon the exercise of the related Options. The deemed exercise of Affiliated Sars shall not necessitate a reduction in the number of related Options.

7.4 EXERCISE OF FREESTANDING SARS. Freestanding Sars may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes upon them.

7.5 SAR AGREEMENT. Each SAR grant shall be evidenced by an Award Agreement that shall specify the grant price, the term of the SAR, and such other

provisions as the Committee shall determine.

7.6 TERM OF SARS. The term of an SAR granted under the Plan shall be determined by the Committee, in its sole discretion; provided, however, that such term shall not exceed twelve (12) years.

7.7 PAYMENT OF SAR AMOUNT. Upon exercise of an SAR, a Participant shall be entitled to receive payment from the Company in an amount determined by multiplying:

(a) The difference between the Fair Market Value of a Share on the date of exercise over the grant price; by

(b) The number of Shares with respect to which the SAR is exercised.

At the discretion of the Committee, the payment upon the exercise of an SAR may be in cash, in Shares of equivalent value, or in some combination thereof.

7.8 RULE 16B-3 REQUIREMENTS. Notwithstanding any other provision of the Plan, the Committee may impose such conditions on exercise of an SAR (including, without limitation, the right of the Committee to limit the time of exercise to specified periods) as may be required to satisfy the requirements of Section 16 (or any successor rule) of the Exchange Act.

Further, unless the Committee determines otherwise, if the Participant is an Insider, the ability of the Participant to exercise SARs for cash may be limited to the Window Period or otherwise as provided in the Company's then current insider trading policy.

7.9 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT.

(a) TERMINATION BY DEATH. In the event the employment of a Participant is terminated by reason of death, all outstanding SARs granted to that Participant shall immediately vest one hundred percent (100%), and shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date of death, whichever period is shorter, by such person or persons as shall have been named as the Participant's beneficiary, or by such persons that have acquired the Participant's rights under the SAR by will or by the laws of descent and distribution.

(b) TERMINATION BY DISABILITY. In the event the employment of a Participant is terminated by reason of Disability, all outstanding SARs granted to that Participant shall immediately vest one hundred percent (100%) as of the date the Committee determines the definition of Disability to have been satisfied, and shall remain exercisable at any time prior to their expiration date, or for one (1) year after the date that the Committee determines the definition of Disability to have been satisfied, whichever period is shorter.

(c) TERMINATION BY RETIREMENT. In the event the employment of a Participant is terminated by reason of Retirement, the Committee shall retain discretion over the treatment of SARs.

(d) EMPLOYMENT TERMINATION FOLLOWED BY DEATH. In the event that a Participant's employment terminates by reason of Disability or Retirement, and within the exercise period allowed by the Committee following such termination, the Participant dies, then the remaining exercise period under outstanding SARs shall equal the longer of: (i) one (1) year following death; or (ii) the remaining portion of the exercise period which was triggered by the employment termination. Such SARs shall be exercisable by such person or persons who shall have been named as the Participant's beneficiary, or by such persons who have acquired the Participant's rights under the SAR by will or by the laws of descent and distribution.

7.10 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than the reasons set forth in Section 7.9 (and other than for Cause), all SARs held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited to the Company (and shall once again become available for grant under the Plan). However, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such SARs, subject to such terms as the Committee, in its sole discretion, deems appropriate.

SARs which are vested as of the effective date of employment termination may be exercised by the Participant within the period beginning on the effective date of employment termination, and ending six (6) months after such date.

If the employment of a Participant shall be terminated by the Company for Cause, all outstanding SARs held by the Participant immediately shall be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the SARs.

7.11 EXERCISE OF SARs WITH RESPECT TO DIRECTORS. SARs granted to Directors may be exercised upon whatever terms and conditions the Committee, in its sole discretion, imposes on them.

7.12 NON-TRANSFERABILITY OF SARs. No SAR granted under the Plan may be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further, all SARs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

## ARTICLE 8. RESTRICTED STOCK

8.1 GRANT OF RESTRICTED STOCK. Subject to the terms and provisions of the Plan, the Committee, at any time and from time to time, may grant Shares of Restricted Stock to eligible Participants in such amounts as the Committee shall determine.

8.2 RESTRICTED STOCK AGREEMENT. Each Restricted Stock grant shall be evidenced by a Restricted Stock Agreement that shall specify the Period of Restriction, or Periods, the number of Restricted Stock Shares granted, and such other provisions as the Committee shall determine.

8.3 TRANSFERABILITY. Except as provided in this Article 8, the Shares of

Restricted Stock granted herein may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated until the end of the applicable Period of Restriction established by the Committee and specified in the Restricted Stock Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Restricted Stock Agreement. However, in no event may any Restricted Stock granted under the Plan become vested in a Participant prior to six (6) months following the date of its grant. All rights with respect to the Restricted Stock granted to a Participant under the Plan shall be available during his or her lifetime only to such Participant.

8.4 OTHER RESTRICTIONS. The Committee shall in the case of Covered Employees, and may in the case of other Participants, condition the vesting of Shares of Restricted Stock upon the attainment of Performance Goals established before or at the time of the grant. The Committee may impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable, and/or restrictions under applicable Federal or state securities laws; and may legend the certificates representing Restricted Stock to give appropriate notice of such restrictions. The provisions of Restricted Stock Award need not be the same with respect to each Participant.

8.5 CERTIFICATE LEGEND. In addition to any legends placed on certificates pursuant to Section 8.4 herein, each certificate representing Shares of Restricted Stock granted pursuant to the Plan shall bear the following legend:

"The sale or other transfer of the Shares of stock represented by this certificate, whether voluntary, involuntary, or by operation of law, is subject to certain restrictions on transfer as set forth in the American Medical Security Group, Inc. Equity Incentive Plan, and in a Restricted Stock Agreement. A copy of the Plan and such Restricted Stock Agreement may be obtained from the Secretary of American Medical Security Group, Inc."

8.6 REMOVAL OF RESTRICTIONS. Except as otherwise provided in this Article 8, Shares of Restricted Stock covered by each Restricted Stock grant made under the Plan shall become freely transferable by the Participant after the last day of the Period of Restriction. Once the Shares are released from the restrictions, the Participant shall be entitled to have the legend required by Section 8.5 removed from his or her Share certificate.

8.7 VOTING RIGHTS. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder may exercise full voting rights with respect to those Shares.

8.8 DIVIDENDS AND OTHER DISTRIBUTIONS. During the Period of Restriction, Participants holding Shares of Restricted Stock granted hereunder shall be entitled to receive all dividends and other distributions paid with respect to those Shares while they are so held. If any such dividends or distributions are paid in Shares, the Shares shall be subject to the same restrictions on transferability and forfeitability as the Shares of Restricted Stock with respect to which they were paid.

8.9 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, OR RETIREMENT. In the event the employment of a Participant is terminated by reason of death or Disability, all outstanding Shares of Restricted Stock shall immediately vest one hundred percent (100%) as of the date of employment termination (in the case of Disability, the date employment terminates shall be deemed to be the date that the Committee determines the definition of Disability to have been satisfied). The Committee retains discretion over the treatment of Restricted Stock upon Retirement. In the event of full vesting, the holder of the certificates of Restricted Stock shall be entitled to have any non-transferability legends required under Sections 8.4 and 8.5 of this Plan removed from the Share certificates.

8.10 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of a Participant shall terminate for any reason other than those specifically set forth in Section 8.9 herein, all Shares of Restricted Stock held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited and returned to the Company (and, subject to Section 4.2 herein, shall once again become available for grant under the Plan).

With the exception of a termination of employment for Cause, the Committee, in its sole discretion, shall have the right to provide for lapsing of the restrictions of Restricted Stock following employment termination, upon such terms and provisions as it deems proper.

8.11 RESTRICTED STOCK GRANTED TO DIRECTORS. Restricted Stock granted to Directors shall be subject to all of the provisions in this Article 8 other than Section 8.9 and 8.10. The Committee, in its sole discretion, shall have the right to provide for the lapsing of the restrictions on the Restricted Stock following the Director's cessation of service as a director, upon such terms and provisions as it deems proper.

## ARTICLE 9. PERFORMANCE UNITS AND PERFORMANCE SHARES

9.1 GRANT OF PERFORMANCE UNITS/SHARES. Subject to the terms of the Plan, Performance Units and Performance Shares may be granted to eligible Participants at any time and from time to time, as shall be determined by the Committee. Subject to Section 4.1, the Committee shall have complete discretion in determining the number of Performance Units and Performance Shares granted to each Participant.

9.2 VALUE OF PERFORMANCE UNITS/SHARES. Each Performance Unit shall have an initial value that is established by the Committee at the time of grant. Each Performance Share shall have an initial value equal to the Fair Market Value of a Share on the date of grant. The Committee shall set Performance Goals in its discretion which, depending on the extent to which they are met, will determine the number and/or value of Performance Units/Shares that will be paid out to the Participants. The time period during which the Performance Goals must be met shall be called a "Performance Period." Performance Periods shall, in all cases, exceed six (6) months in length.



9.3 EARNING OF PERFORMANCE UNITS/SHARES. After the applicable Performance Period has ended, the holder of Performance Units/Shares shall be entitled to receive payout on the number of Performance Units/Shares earned by the Participant over the Performance Period, to be determined as a function of the extent to which the corresponding Performance Goals have been achieved.

9.4 FORM AND TIMING OF PAYMENT OF PERFORMANCE UNITS/SHARES. Payment of earned Performance Units/Shares shall be made in a single lump sum, within forty-five (45) calendar days following the close of the applicable Performance Period. The Committee, in its sole discretion, may pay earned Performance Units/Shares in the form of cash or in Shares (or in a combination thereof), which have an aggregate Fair Market Value equal to the value of the earned Performance Units/Shares at the close of the applicable Performance Period.

Prior to the beginning of each Performance Period, Participants may elect to defer the receipt of Performance Unit/Share payout upon such terms as the Committee deems appropriate.

9.5 TERMINATION OF EMPLOYMENT DUE TO DEATH, DISABILITY, RETIREMENT, OR INVOLUNTARY TERMINATION (WITHOUT CAUSE). In the event the employment of a Participant is terminated by reason of death or Disability or involuntary termination without Cause during a Performance Period, the Participant shall receive a prorated payout of the Performance Units/Shares. The Committee retains discretion over the treatment of Performance Units/Shares upon Retirement. Any prorated payout shall be determined by the Committee, in its sole discretion, and shall be based upon the length of time that the Participant held the Performance Units/Shares during the Performance Period, and shall further be adjusted based on the achievement of the pre-established Performance Goals.

Timing of payment of earned Performance Units/Shares shall be determined by the Committee at its sole discretion.

9.6 TERMINATION OF EMPLOYMENT FOR OTHER REASONS. In the event that a Participant's employment terminates for any reason other than those reasons set forth in Section 9.5 herein, all Performance Units/Shares shall be forfeited by the Participant to the Company, and shall once again be available for grant under the Plan.

9.7 PERFORMANCE UNITS/SHARES GRANTED TO DIRECTORS. Performance Units and Performance Shares granted to Directors shall be subject to all provisions of this Article 9 other than Sections 9.5 and 9.6. The Committee, in its sole discretion, shall have the right to provide for the treatment of Performance Units/Shares following the Director's cessation of services as a director, upon such terms and conditions as it deems proper.

9.8 NON-TRANSFERABILITY. Performance Units/Shares may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution. Further a Participant's rights under the Plan shall be exercisable during the Participant's lifetime only by the Participant or the Participant's legal representative.

## ARTICLE 10. BENEFICIARY DESIGNATION

Each Participant under the Plan may, from time to time, name any beneficiary or beneficiaries (who may be named contingently or successively) to whom any benefit under the Plan is to be paid in case of his or her death before he or she receives any or all of such benefit and who is eligible to exercise vested Options and SARs in the event of the Participant's death prior to such exercise. Each such designation shall revoke all prior designations by the same Participant, shall be in the form prescribed by the Company and will be effective only when any necessary spousal consent is obtained and filed by the Participant in writing with the Secretary of the Company during the Participant's lifetime. In the absence of any such designation, benefits remaining unpaid at the Participant's death shall be paid to the Participant's estate and any vested Options and/or SARs not previously exercised prior to the Participant's death may be exercised by the administrator of the Participant's estate.

#### ARTICLE 11. DEFERRALS

The Committee may permit a Participant to defer such Participant's receipt of the payment of cash or the delivery of Shares that would otherwise be due to such Participant by virtue of the exercise of the Option or SAR, the lapse or waiver of restrictions with respect to Restricted Stock, or the satisfaction of any requirements or goals with respect to Performance Units/Shares. If any such deferral election is required or permitted, the Committee shall, in its sole discretion, establish rules and procedures for such payment deferrals.

#### ARTICLE 12. RIGHTS OF EMPLOYEES

12.1 EMPLOYMENT. Nothing in the Plan shall interfere with or limit in any way the right of the Company to terminate any Participant's employment at any time, nor confer upon any Participant any right to continue in the employ of the Company.

For purposes of the Plan, transfer of employment of a Participant between the Company and any one of its Subsidiaries or Affiliates (or between Subsidiaries and/or Affiliates) shall not be deemed a termination of employment.

12.2 PARTICIPATION. No Employee shall have the right to be selected to receive an Award under this Plan, or having been so selected, to be selected to receive a future Award.

#### ARTICLE 13. CHANGE IN CONTROL

Upon the occurrence of a Change in Control, unless otherwise specifically prohibited by the terms of Section 18, herein:

(a) Any and all Options and SARs granted hereunder shall become immediately exercisable;

(b) Any restriction periods and restrictions imposed on Restricted Shares shall lapse, and within ten (10) business days after the occurrence of a Change in Control, the stock certificates representing Shares of Restricted Stock, without any restrictions or legend thereon, shall be



delivered to the applicable Participants;

(c) The target value attainable under all Performance Units and Performance Shares shall be deemed to have been fully earned for the entire Performance Period as of the effective date of the Change in Control, and shall be paid out in cash to Participants within thirty (30) days following the effective date of the Change in Control; provided, however, that there shall not be an accelerated payout with respect to Performance Units or Performance Shares which were granted less than six (6) months prior to the effective date of the Change in Control;

(d) Subject to Article 14 herein, the Committee shall have the authority to make any modifications to the Awards as determined by the Committee to be appropriate before the effective date of the Change in Control.

#### ARTICLE 14. AMENDMENT, MODIFICATION, AND TERMINATION

14.1 AMENDMENT, MODIFICATION AND TERMINATION. With the approval of the Board, at any time and from time to time, the Committee may terminate, amend or modify the Plan.

14.2 AWARDS PREVIOUSLY GRANTED. No termination, amendment, or modification of the Plan shall adversely affect in any material way any Award previously granted under the Plan, without the written consent of the affected Participant (or if the Participant is not then living, the affected beneficiary); provided that adjustments pursuant to Section 4.3 shall not be subject to the foregoing limitations of this Section 14.2.

#### ARTICLE 15. WITHHOLDING

15.1 TAX WITHHOLDING. The Company shall have the power and the right to deduct or withhold, or require a Participant to remit to the Company, an amount sufficient to satisfy Federal, state, and local taxes (including the Participant's FICA obligation) required by law to be withheld with respect to any taxable event arising or as a result of this Plan.

15.2 SHARE WITHHOLDING. With respect to withholding required upon the exercise of Options or SARs, upon the lapse of restrictions on Restricted Stock, or upon any other taxable event hereunder, Participants may elect, subject to the approval of the Committee, to satisfy the withholding requirement, in whole or in part, by having the Company withhold Shares having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory total tax which could be imposed on the transaction. All elections shall be irrevocable, made in writing and signed by the Participant, and elections by Insiders shall additionally comply with any applicable requirements of Rule 16b-3 of the Exchange Act.

#### ARTICLE 16. INDEMNIFICATION

Each person who is or shall have been a member of the Committee, or of the

Board, shall be indemnified and held harmless by the Company against and from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by him or her in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action taken or failure to act under the Plan and against and from any and all amounts paid by him or her in settlement thereof, with the Company's approval, or paid by him or her in satisfaction of any judgment in any such action, suit, or proceeding against him or her, provided he or she shall give the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled under the Company's Articles of Incorporation or By-laws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

#### ARTICLE 17. SUCCESSORS

All obligations of the Company under the Plan, with respect to Awards granted hereunder, shall be binding on any successor to the Company, whether the existence of such successor is the result of a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of the Company.

#### ARTICLE 18. LEGAL CONSTRUCTION

18.1 GENDER AND NUMBER. Except where otherwise indicated by the context, any masculine term used herein also shall include the feminine; the plural shall include the singular and the singular shall include the plural.

18.2 SEVERABILITY. In the event any provision of the Plan shall be held illegal or invalid for any reason, the illegality or invalidity shall not affect the remaining parts of the Plan, and the Plan shall be construed and enforced as if the illegal or invalid provision had not been included.

18.3 REQUIREMENTS OF LAW. The granting of Awards and the issuance of Shares under the Plan shall be subject to all applicable laws, rules, and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

18.4 SECURITIES LAW COMPLIANCE. Transactions under this Plan are intended to comply with all applicable conditions or Rule 16b-3 or its successors under the Exchange Act. To the extent any provision of the plan or action by the Committee fails to so comply, it shall be deemed null and void, to the extent permitted by law and deemed advisable by the Committee.

18.5 GOVERNING LAW. To the extent not preempted by Federal law, the Plan, and all agreements hereunder, shall be construed in accordance with and governed by the laws of the State of Wisconsin.

AMERICAN MEDICAL SECURITY GROUP, INC.  
EQUITY INCENTIVE PLAN  
NONQUALIFIED STOCK OPTION AWARD AGREEMENT

You have been selected to be a Participant in the American Medical Security Group, Inc. Equity Incentive Plan (the "Plan"), as specified below:

PARTICIPANT: \_\_\_\_\_  
 DATE OF GRANT: \_\_\_\_\_  
 DATE OF EXPIRATION: \_\_\_\_\_  
 NUMBER OF SHARES COVERED BY THIS OPTION: \_\_\_\_\_ Shares  
 OPTION PRICE: \$ \_\_\_\_\_ per Share

THIS AGREEMENT, effective as of the Date of Grant set forth above, is between American Medical Security Group, Inc., a Wisconsin corporation (the "Company") and the Participant named above pursuant to the provisions of the Plan. Unless otherwise indicated, capitalized terms used herein shall have the meanings assigned to such terms under the Plan. The parties hereto agree as follows:

1. GRANT OF STOCK OPTION. The Company hereby grants to Participant the option (the "Option(s)") to purchase the number of shares of common stock of the Company ("Common Stock") set forth above at the stated Option Price, which is one hundred percent (100%) of the Fair Market Value on the Date of Grant, subject to the terms and conditions of the Plan and this Agreement. This award is intended to be Nonqualified Stock Option, and therefore is not subject to Section 422 of the Code.

2. VESTING OF STOCK OPTION. Except as hereinafter provided, with respect to the Options granted hereunder, vesting shall occur at a rate of twenty-five percent (25%) per year beginning on the first anniversary of the Date of Grant and each subsequent anniversary date thereafter.

3. EXERCISABILITY OF OPTION. The Options are exercisable at any time after the Date of Grant, in whole or in part, but only if all of the following conditions are met at the time of exercise:

(a) The Options to be exercised are vested as described in Section 2 above;

(b) The date of exercise is on or before the Date of Expiration set forth above;

(c) The Options to be exercised are exercised only in compliance with the Company's then current Insider Trading Policy; and

(d) Participant is employed by the Company or any present or future parent, subsidiary or Affiliate of the Company; or, if he or she is no longer so employed, the date of exercise is in accordance with the provisions of this Agreement and the Plan.

4. TERMINATION OF EMPLOYMENT BY DEATH. In the event the employment of the Participant is terminated by reason of death, all outstanding Options granted pursuant to this Agreement shall immediately vest one hundred percent (100%), and shall remain exercisable for a period ending on the earlier of (i) the Date of Expiration identified above, or (ii) one (1) year after the date of the Participant's death.

5. TERMINATION OF EMPLOYMENT BY DISABILITY. In the event the employment of the Participant is terminated by reason of Disability, all outstanding Options granted pursuant to this Agreement shall immediately vest one hundred percent (100%) as of the date the Compensation Committee (the "Committee") determines the definition of Disability to have been satisfied, and shall remain exercisable for a period ending on the earlier of (i) the Date of Expiration identified above, or (ii) one (1) year after the date the Committee determines the definition of Disability to have been satisfied.

6. TERMINATION OF EMPLOYMENT BY RETIREMENT. In the event the employment of Participant is terminated by reason of Retirement (as defined under the then-established rules of the Company's tax-qualified retirement plan), the Committee shall retain discretion over the treatment of any unvested Options. However, at the date of termination of employment by reason of Retirement, any vested Options shall remain exercisable for a period ending on the earlier of (i) the Date of Expiration identified above, or (ii) the end of the third (3rd) year following the date of termination of the Participant's employment by reason of Retirement.

7. EMPLOYMENT TERMINATION FOLLOWED BY DEATH. In the event Participant's employment terminates by reason of Disability or Retirement, and within the exercise period allowed by the Committee following such termination the Participant dies, then the remaining exercise period under outstanding Options shall equal the longer of: (i) one (1) year following death; or (ii) the remaining portion of the exercise period which was triggered by the employment termination.

8. TERMINATION OF EMPLOYMENT FOR OTHER REASONS. If the employment of Participant shall terminate for any reason other than his or her death, Disability, or Retirement (and other than for Cause), all Options held by the Participant which are not vested as of the effective date of employment termination immediately shall be forfeited to the Company. However, the Committee, in its sole discretion, shall have the right to immediately vest all or any portion of such Options subject to such terms as the Committee, in its sole discretion, deems appropriate.

Options which are vested as of the effective date of employment termination may be exercised by the Participant within the period beginning on the effective

date of employment termination, and ending on the earlier of (i) the Date of Expiration identified above, or (ii) six (6) months after the date of employment termination.

If the employment of Participant shall be terminated by the Company for Cause, all outstanding Options held by the Participant immediately shall be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

9. CHANGE IN CONTROL. In the event of a Change in Control (as defined in the Plan) which occurs prior to the Participant's termination, Participant's right to exercise the Options shall vest fully as of the first date that the definition of Change in Control has been fulfilled, and shall become immediately exercisable in accordance with the terms of this Agreement and the Plan.

10. RESTRICTIONS ON TRANSFER. The Options may not be sold, transferred, pledged, assigned, or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution and shall be exercisable during Participant's lifetime only by Participant or Participant's legal representative, except that the Options may be transferred by the Participant to the Participant's spouse, children or grandchildren or a trust for the benefit of such spouse, children or grandchildren. In the event the Options are transferred, they shall remain subject to this Agreement and the Plan.

11. RECAPITALIZATION. In the event there is any change in the Common Stock of the Company through the declaration of stock dividends or through recapitalization resulting in stock split-ups or through merger, consolidation, exchange of shares, or otherwise, the number and class of shares of Common Stock subject to the Options, as well as the Option Price, shall be equitably adjusted by the Committee, in its sole discretion, to prevent dilution or enlargement of rights.

12. PROCEDURE FOR EXERCISE OF OPTIONS. The Options may be exercised by giving written notice to the Company at its executive offices, addressed to the attention of its Secretary. Such notice is to be received by the Secretary on or before the date on which the Options are to be exercised. Such notice (a) shall be signed by the Participant or his or her legal representative; (b) shall specify the number of full shares then elected to be purchased with respect to the Option; and (c) unless a Registration Statement under the Securities Act of 1933 is in effect with respect to the Shares to be purchased, shall contain a representation of Participant that the Shares are being acquired by him or her for investment purposes only, and that he or she will not sell or otherwise transfer the Shares except in compliance with all applicable securities laws and requirements of any stock exchange upon which the shares of Common Stock may then be listed and/or traded, and under any blue sky or state securities laws applicable to such Shares; and (d) shall be accompanied by payment in full of the Option Price of the Shares to be purchased.

The Option Price upon exercise of the Options shall be payable to the Company in full either (a) in cash or its equivalent (acceptable cash equivalents shall be determined at the sole discretion of the Committee); (b) by

tendering previously acquired Shares (held at least six months) having an aggregate Fair Market Value at the time of exercise equal to the total price of the Shares for which the Option is being exercised; (c) through a "cashless exercise" procedure pursuant to the terms and conditions specified in the Plan; or (d) by a combination of (a), (b) and (c).

As promptly as practicable after receipt of such notice and payment, the Company shall cause to be issued and delivered to the Participant or his or her legal representative, as the case may be, certificates for the Shares so purchased, which may, if appropriate, be endorsed with appropriate restrictive legends. The Company shall maintain a record of all information pertaining to Participant's rights under this Agreement, including the number of Shares for which the Option is exercisable. If the Option shall have been exercised in full, this Agreement shall be returned to the Company and canceled.

13. RIGHTS AS A STOCKHOLDER. Participant shall have no rights as a stockholder of the Company with respect to the shares of Common Stock subject to this Option Agreement until such time as the purchase price has been paid and the Shares have been issued and delivered to him or her.

14. CONTINUATION OF EMPLOYMENT. This Agreement shall not confer upon Participant any right to continuation of employment by the Company, nor shall this Agreement interfere in any way with the Company's right to terminate his or her employment at any time.

15. MISCELLANEOUS.

(a) This Agreement and the rights of Participant hereunder are subject to all the terms and conditions of the Plan, as the same may be amended from time to time, as well as to such rules and regulations as the Compensation Committee may adopt for administration of the Plan. The Committee shall have the right to impose such restrictions on any Share acquired pursuant to the exercise of the Options, as it may deem advisable, including, without limitation, restrictions under applicable federal securities laws, under the requirements of any stock exchange or market upon which such Shares are then listed and/or traded, and under any blue sky or state securities laws applicable to such Shares.

It is expressly understood that the Committee is authorized to administer, construe, and make all determinations necessary or appropriate to the administration of the Plan and this Agreement, all of which shall be binding upon Participant. Any inconsistency between this Agreement and the Plan shall be resolved in favor of the Plan.

(b) With the approval of the Board of Directors of the Company, the Committee may terminate, amend, or modify the Plan; provided, however, that no such termination, amendment, or modification of the Plan may in any material way adversely affect Participant's vested rights with respect to Options granted under this Agreement.

(c) The Company shall have the authority to deduct or withhold, or

require Participant to remit to the Company, an amount sufficient to satisfy federal, state, and local taxes (including Participant's FICA obligation) required by law to be withheld with respect to any exercise of Participant's rights under this Agreement.

Participant may elect, unless otherwise determined by the Committee in its sole discretion, to satisfy the withholding requirement, in whole or in part, by having the Company withhold shares of Common Stock having an aggregate Fair Market Value, on the date the tax is to be determined, equal to the minimum amount required to be withheld. All elections shall be irrevocable and in writing, and shall be signed by Participant, and shall be made in accordance with rules set forth in Section 15.2 of the Plan.

(d) Participant agrees to take all steps necessary to comply with all applicable provisions of federal and state securities law in exercising Participant's rights under this Agreement.

(e) The Plan and this Agreement are not intended to qualify for treatment under the provisions of the Employee Retirement Income Security Act of 1974, as amended, ("ERISA").

(f) This Agreement shall be subject to all applicable laws, rules and regulations, and to such approvals by any governmental agencies or national securities exchanges as may be required.

(g) To the extent not preempted by federal law, this Agreement shall be governed by, and construed in accordance with the laws of the State of Wisconsin without regard to principles of conflicts of law.

IN WITNESS WHEREOF, the parties have caused this Option Agreement to be executed as of the Date of Grant.

AMERICAN MEDICAL SECURITY GROUP, INC.

By: \_\_\_\_\_  
John R. Wirch  
Vice President, Human Resources

\_\_\_\_\_  
Participant



DEFERRED STOCK AGREEMENT  
BETWEEN  
AMERICAN MEDICAL SECURITY GROUP, INC.  
AND  
SAMUEL V. MILLER

THIS AGREEMENT, effective as of November 17, 1998 (the "Effective Date"), is by and between American Medical Security Group, Inc., a Wisconsin corporation ("AMSG") and Samuel V. Miller (the "Executive"), parties to this Agreement.

RECITALS

The Executive is a key employee performing valuable services for AMSG, and AMSG desires to retain the Executive in its service.

It is to the mutual benefit of the parties to this Agreement that the relationship continue and that the Executive continue to contribute to the operations of AMSG.

AMSG desires to reward Executive for his past service, loyalty and counsel, and wishes to provide an inducement to encourage Executive's continued efforts on behalf of AMSG.

AMSG desires to provide such reward and inducement by promising to issue shares of AMSG common stock to the Executive upon the Executive's termination of employment after the satisfaction of certain vesting requirements.

AGREEMENT

NOW THEREFORE, AMSG and the Executive agree, in consideration of the mutual promises set forth in this Agreement, as follows:

1. AMSG DEFERRED STOCK. As of the Effective Date, AMSG shall recognize an obligation to issue to the Executive, in accordance with Section 2 of the Agreement, 73,506 shares of AMSG common stock (the "Deferred Stock"), provided that the Executive acquires a vested interest in such Deferred Stock pursuant to the provisions of Section 3 of the Agreement.
2. ISSUANCE OF DEFERRED STOCK. Subject to the Executive's satisfaction of the vesting requirements set forth in Section 3



of the Agreement, upon the Executive's termination of employment for any reason, AMMSG shall issue to the Executive the Deferred Stock promised under Section 1 of the Agreement. The issuance of such Deferred Stock to the Executive (or to the Executive's designated beneficiary in the event of the Executive's death before such Deferred Stock is issued) shall occur in a single issuance of shares of AMMSG common stock on January 2nd of the year following the calendar year during which the Executive terminates employment with AMMSG.

At AMMSG's option, the shares of Deferred Stock to be issued to the Executive under the Agreement shall be authorized but as yet unissued shares, treasury shares or shares of AMMSG common stock acquired on the open market.

3. VESTING IN DEFERRED STOCK. The Executive shall have a nonforfeitable and vested interest in the Deferred Stock promised under Section 1 of the Agreement on the earliest of the following:

- (a) November 17, 2002, provided that the Executive remains continuously employed with AMMSG through November 17, 2002;
- (b) the Executive's death while employed by AMMSG;
- (c) the Executive's Disability while employed by AMMSG;
- (d) the occurrence of a Change in Control while the Executive is employed by AMMSG;
- (e) AMMSG's termination of the Executive for any reason other than Cause if the Fair Market Value of a share of AMMSG's common stock exceeds \$12.00 on the date of the Executive's termination.

If the Executive terminates employment prior to the occurrence of one of the events specified in (a) through (e) above, the Executive shall have no vested interest in any Deferred Stock hereunder and no shares of AMMSG common stock shall be issued to the Executive under this Agreement.

For purposes of this Agreement, the terms "Cause," "Disability," "Change in Control" and "Fair Market Value" shall have the same meanings as provided in the American Medical Security Group, Inc. Equity Incentive Plan, as amended as of the date of this Agreement.

4. NO TRUST CREATED. Nothing in this Agreement, and no action taken pursuant to the provisions of this Agreement, shall create or be construed to create a trust of any kind, or a fiduciary relationship between AMMSG and the Executive, his designated

beneficiary or any other person. The right of any person to receive Deferred Stock under the provisions of this Agreement shall be an unsecured claim against AMGS, and no person shall by virtue of the provisions of this Agreement have any interest in such Deferred Stock. To the extent that any person acquires a right to receive Deferred Stock under this Agreement, such right shall be no greater than the right of any unsecured general creditor of AMGS.

5. DESIGNATED BENEFICIARY. The Executive shall designate one or more beneficiaries to receive any Deferred Stock issued under this Agreement in the event of the Executive's death prior to such issuance. The Executive may change the designated beneficiary at any time by filing a new beneficiary designation with AMGS in a form as prescribed by AMGS. The beneficiary designation form on file with AMGS at the Executive's death shall be controlling. If the Executive fails to validly designate a beneficiary, any Deferred Stock to be issued after the death of the Executive shall be issued to the Executive's estate.
6. ASSIGNMENT PROHIBITED. The Deferred Stock promised hereunder may not be sold transferred, pledged, assigned or otherwise alienated or hypothecated, other than by will or by the laws of descent and distribution.
7. DIVIDENDS, OTHER DISTRIBUTIONS. Prior to the issuance of Deferred Stock hereunder, the Executive shall not be entitled to receive any dividend equivalents or other distributions which may be paid with respect to AMGS's common stock, except as provided in Section 11.
8. BINDING AGREEMENT. This Agreement constitutes the entire agreement between the parties, may be amended only in writing with the consent of both parties, and shall be binding upon the parties hereto, their heirs, executors, administrators, successors and assigns, including any successor of AMGS resulting from a direct or indirect purchase, merger, consolidation, or otherwise, of all or substantially all of the business and/or assets of AMGS.
9. WITHHOLDING.
  - (a) AMGS shall have the power and the right to deduct or withhold, or require the Executive to remit to AMGS, an amount sufficient to satisfy federal, state and local taxes (including the Executive's FICA obligations) required by law to be withheld with respect to any taxable event occurring in connection with the issuance of Deferred Stock hereunder.
  - (b) With respect to any withholding required upon the issuance of Deferred Stock, the Executive may elect, subject to the

approval of AMGS, to satisfy the withholding requirement, in whole or in part, by having AMGS withhold shares of Deferred Stock having a Fair Market Value on the date the tax is to be determined equal to the minimum statutory tax liability which could be imposed on the transaction. Any election shall be irrevocable, made in writing, and signed by the Executive.

10. AMGS AFFILIATES. For purposes of the Agreement (including the issuance and vesting provisions in Sections 2 and 3 of the Agreement, respectively), employment with AMGS shall include employment with any AMGS Affiliate (as such term is defined in the American Medical Security Group, Inc. Equity Incentive Plan), and a transfer of the Executive's employment among AMGS and any of its Affiliates shall not be deemed a termination of the Executive's employment.
11. ADJUSTMENTS IN DEFERRED STOCK SHARES. In the event of any merger, reorganization, consolidation, recapitalization, separation, liquidation, partial liquidation, stock dividend, extra-ordinary dividend, split-up, spin-off, share combination, or other change in the corporate structure of AMGS which affects the AMGS common stock, an appropriate and equitable adjustment shall be made in the number of shares of Deferred Stock, to prevent dilution or enlargement of rights and to preserve the benefit of the Agreement to AMGS and the Executive.
12. IMPACT ON OTHER AMGS BENEFITS. Neither the promise to issue Deferred Stock, nor the issuance of such Deferred Stock under this Agreement, shall be taken into account in determining the Executive's benefits under any other pension, profit sharing, deferred compensation or welfare benefit plan maintained by AMGS, unless specifically provided to the contrary in such other plan.
13. EXECUTIVE'S EMPLOYMENT. Nothing in this Agreement shall interfere with or limit in any way the right of AMGS to terminate the Executive's employment at any time, nor confer upon the Executive any right to continue in the employ of the AMGS for any given period or upon any specific terms or conditions.
14. GOVERNING LAW. This Agreement shall be construed in accordance with and governed by the internal laws of the State of Wisconsin to the extent not preempted by federal law.
15. REQUIREMENTS OF LAW. The issuance of Deferred Stock under this Agreement shall be subject to all applicable laws, rules, and regulations, and to any approvals by governmental agencies or national securities exchanges as may be required, and the parties shall make a good faith effort to implement this Agreement in compliance with such applicable laws, rules, regulations and approvals.

16. ACCOUNTING TREATMENT. The parties intend that the issuance of Deferred Stock under this Agreement result in fixed, rather than variable, accounting treatment to AMSG and shall implement this Agreement in a manner consistent with such intent.

IN WITNESS WHEREOF, the parties have executed this Agreement on this \_\_\_\_\_ day of \_\_\_\_\_, 1999, with an Effective Date of November 17, 1998.

AMERICAN MEDICAL SECURITY GROUP, INC.

By: \_\_\_\_\_

Title: \_\_\_\_\_

EXECUTIVE:

-----  
Samuel V. Miller

2

BENEFICIARY DESIGNATION FORM

DEFERRED STOCK AGREEMENT  
BETWEEN  
AMERICAN MEDICAL SECURITY GROUP, INC.  
AND  
SAMUEL V. MILLER

Pursuant to the terms of the November 17, 1998 Deferred Stock Agreement Between American Medical Security Group, Inc. ("AMSG") and myself (the "Agreement"), I hereby revoke any prior beneficiary designation I may have made and designate the following person(s) as my beneficiary(ies) for any Deferred Stock which may be issued under the Agreement after my death:

Name:

Soc. Sec. No.:

Address:

Relationship:

[If more than one beneficiary is named, attach a separate sheet and identify the percentage to go to each beneficiary.]

I reserve the right to revoke or change my beneficiary designation by filing a new Beneficiary Designation Form with AMSG.

I understand that if I am married and a Wisconsin resident, my spouse may have an interest in any Deferred Stock issued under the Agreement after my death pursuant to Wisconsin marital property law and that such interest may impact upon my beneficiary designation. I further understand that if I fail to validly designate a beneficiary or leave no designated beneficiary surviving me, any Deferred Stock issued under the Agreement after my death will be issued to my estate.

Dated:

-----

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Samuel V. Miller

Received on behalf of American Medical  
Security Group, Inc.:

Dated:

-----

By:

-----

Signature

UWG | UNITED WISCONSIN GROUP

POST OFFICE BOX 2013  
MILWAUKEE, WI 53201-2013

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UNITED WISCONSIN INSURANCE COMPANY

EXECUTIVE REIMBURSEMENT GROUP INSURANCE POLICY

POLICYHOLDER: American Medical Security

POLICY NUMBER: 0045137 0000

POLICY EFFECTIVE DATE: May 1, 1997

POLICY RENEWAL DATE: May 1, 1998

GOVERNING JURISDICTION: Wisconsin

This group insurance policy is issued to the named policyholder in the state specified and is governed by the laws of that state.

Risk assumed under this policy will be insured from the effective date of this policy, subject to all policy provisions.

The initial term of this policy is the period specified except that if this policy is issued as a successor contract to provide continuous coverage of the risk assumed by any prior policy issued by the company, subsequent revision of coverage or premium rate notwithstanding, the initial policy period specified above will be deemed to have occurred under that prior policy.

All of the following articles, schedules, and amendments are part of this policy and available benefits are dependent upon them. Altogether this policy is issued on our authority.

United Wisconsin Insurance Company

/s/ Mark H. Granoff

President

The policyholder agrees to all of the terms of this policy.

-----  
Authorized Signature

Title

Date

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POLICY SCHEDULE

SCHEDULE OF BENEFITS

Class NUMBER -----	Class DESCRIPTION -----	Annual Policy Proceeds MAXIMUM AMOUNT PAYABLE -----
01	All Actively at Work Full-Time Vice-Presidents, Presidents & CEO	\$5,000

Service Waiting Period: Effective first of the month coinciding with or following thirty (30) days of employment

AMENDMENTS: None

PREMIUM SCHEDULE

Billed Premium Rate (per insured person per month).....\$202.50  
Initial Policy Fee.....\$ 50.00  
Retrospective Premium Adjustment Limit  
(as a fraction of annual billed premium).....150%

DEFINITIONS

The following terms, when used in this policy and in any articles, schedules, and amendments attached to the policy, are defined as follows and are limited to that meaning only:

ACTIVELY AT WORK OR ACTIVE WORK means that the eligible member is working for you:

- 1) in the usual course of your business;
- 2) full time at his principal place of employment; and
- 3) for at least the greater of:
  - a) the number of hours per week that you stated on your application as the normal work week; or
  - b) 30 hours per week.

BILLED PREMIUM means the charge based on the premium rates established by the company prior to the settlement period, which has been invoiced and paid or is payable by the policyholder during the current settlement period, and which does not include a retrospective premium amount for the current period.

CERTIFICATE means a document given to the insured person as proof of this coverage under the policy. It is not part of the entire contract of insurance. It contains all statements required by law.

CHILDREN mean the Insured Person's:

- 1) natural child; or
- 2) legally adopted child; or
- 3) step-child or foster child.



Each child must depend on the insured for support and either:

- 1) live with insured; or
- 2) be a full time student.

Each child must also be:

- 1) unmarried; and
- 2) under age 25.

CLASS means a grouping of insureds:

- 1) based on their job positions; and
- 2) determined by you.

CONTROLLING AUTHORITY means the policyholder's administrator who is responsible for submission of claims under this policy.

COVERAGE means all the terms and provisions of this policy and any amendments.

COVERED means insured under this policy.

COVERED EXPENSES means those expenses which are specified in Section 213(e), Part VII, Chapter 1B, Subtitle A of the Internal Revenue Code of 1954 as amended.

DEDUCTIBLE means the amount of loss incurred by an insured which is not indemnified by this policy.

DEPENDENT means the spouse and children of the insured who are not:

- 1) insured employees themselves under this policy; or
- 2) in full time military service.

A dependent can only be insured under one insured employee.

EFFECTIVE DATE means the date coverage is put in force.

ELIGIBLE MEMBER means a person who:

- 1) is a member of a class specified on the policy schedule;
- 2) is within the age requirements of the policy;
- 3) has satisfied any waiting period shown on your application;  
and
- 4) is actively at work on the member's effective date.

EMPLOYER includes divisions and associated companies unless excluded in your application.

HE, HIS, AND HIM refer to both genders.

INCURRED CLAIMS means the dollar amount of indemnity for an insured loss which occurred under this policy.

IN FORCE means that this policy is in effect, as premiums are paid and all insuring conditions are met.

INSURED PERSON means an eligible member who:

- 1) has fulfilled all conditions under this Policy to become insured; and
- 2) has insurance in force under the Policy.

NOTICE means written notice in a form satisfactory to us for that purpose.

POLICYHOLDER means the legal entity to whom this policy is issued.

PAID CLAIMS means the dollar amount of indemnity for an insured loss which occurred under this policy and which has been satisfied.

PROCEEDS means the amount of funds we will pay to indemnify the insured person for covered expenses incurred under this policy. This amount is:

- 1) shown in the Policy and Certificate schedules; and
- 2) subject to the amount that the insured person is eligible for as shown in the policy schedule for his class.

PROOF means a properly completed claim form, plus:- written documentation of the loss which is acceptable to us.

RETENTION means that amount of operational charges which, together with claim expenses, is used to calculate all premium amounts.

RETROSPECTIVE PREMIUM ADJUSTMENT LIMIT means the maximum amount of premium which may be called for by the company following the end of any settlement period and which is comprised of paid claims, incurred claims, and current retention amounts.

RETROSPECTIVE PREMIUM AMOUNT means the amount of premium that may be called for by the company following the end of any settlement period and which is comprised of paid claims, and/or incurred claims, and/or current retention amounts.

SETTLEMENT PERIOD means one year, during which coverage is in force; or, in the event the policy terminates before the end of a full year, that period of coverage which extends from the effective date of the policy or the end of the prior settlement period, if later, through the termination date of the policy.

SPOUSE means the legal husband or wife of the insured person.

USUAL, CUSTOMARY AND REASONABLE AND U.C.R. describes rates charged for a service or item provided to an insured which do not exceed the rates charged to the majority of persons by the institution or individual providing the service or

item nor do those rates exceed level of rates for similar services or items charged by others within the community where the service or item was provided.

WE, US, AND OUR means United Wisconsin Insurance Company.

YOU AND YOURS means the group who is:

- 1) also the policyholder; and
- 2) named in the application.

#### BENEFIT PAYMENT

For the covered expenses incurred by the insured person, spouse, or dependents which are in excess of any deductible amounts, proceeds are paid subject to policy provisions to the insured person.

At the option of the insured person proceeds may be assigned to the provider of the service for which that expense was incurred.

The sum of all proceeds paid to an insured person during a settlement period may not exceed the proceeds maximum specified in the policy schedule.

Proceeds available to an insured person who is eligible for less than one year or less than the full settlement period are prorated for the number of months the insured person is covered.

#### BENEFIT CHANGES

An insured person, spouse or dependent will not be eligible for any benefit change whatsoever under this or any successor policy issued by the company until the insured person has been actively at work for one month.

Benefit changes will apply only to indemnity for loss that occurred after the effective date of the benefit change.

#### BENEFIT ADMINISTRATION

##### A. Claim Forms

The company will provide the policyholder with a supply of claim forms. An insured person may request claim forms from the policyholder or the company. If the insured person does not receive a claim form within a thirty day period from the date of a written request then he will be deemed to have complied with the requirements for proof of claim when notice is received by the company that establishes the date of claim, the basis for the incurred charges, and the eligibility of the claimant. That proof should be forwarded to the controlling authority.

B. Proof of Claim

Claims under this policy should be submitted on the claim form provided or with such statements as may be required to establish the validity of such claim to the controlling authority of the policyholder. The controlling authority will certify the eligibility of the insured person and approve the claim for submission to the company.

Notice of claim should be given to the company as soon as is reasonably possible after the claim has been incurred but no later than ninety days after the end of any settlement period. Failure of an insured person to submit any claim within that specified period will cause the late claim to:

- 1) be paid in and charged to the next following settlement period; or,
- 2) become ineligible for payment if this policy has terminated.

C. Timely Payment of Claims

Claims submitted in accord with the provisions of this policy will be processed and proceeds paid within thirty days of receipt of such claims unless notice to the contrary is given to the insured prior to the expiry of that thirty day period.

LIMITATIONS AND EXCLUSIONS

Claims for any loss incurred during a settlement period must be submitted for payment during that settlement period or the ninety day closing period which follows the settlement period. If coverage remains in force during the subsequent settlement period then claims not submitted from that prior settlement period will be accepted for payment; however, such late claims will be charged to the then current settlement period and be subject to the policy maximum for that period. Claims for loss incurred in any other period of time are not eligible for payment.

The sum of all proceeds paid to or on behalf of the insured person, the spouse, and any children is limited to the amount specified in the policy schedule as the proceeds maximum.

Benefits are not payable and covered expenses do not include any expense: which is eligible for payment or for reimbursement under any insurance policy or policyholder sponsored plan which provided covered expense indemnity to the insured person, the spouse, or to any children; which is not medically necessary; and which does not qualify under the Internal Revenue Code of 1954 as amended in Subtitle A., Chapter 1B, Part VII, Section 213 (e).

## RIGHT OF RECOVERY

Whenever any benefit payments may have been made by the Company in excess of the payment amounts required, the Company shall deem the excess payment amount a debt of the Insured person which is due the Company. The Company shall have the right to recover that debt from the Insured person or to reduce future benefits payable in order to recover that debt.

## CONTINUATION AND TERMINATION OF INSURANCE

### A. Renewal Of Policy By Company

This policy will initially be in effect for one year commencing on the effective date. This policy may be renewed by the policyholder for additional periods, specified by and subject to the consent of the company.

Each subsequent renewal will be in accord with the eligibility, premium computation and payment provisions of this policy.

### B. Termination Of Policy By Company

The company may cancel this policy on the first policy anniversary or thereafter on the first day of any period of coverage for which premium is due, by giving written notice to the policyholder at least 31 days in advance of the cancellation date.

If premium payment is in default then this provision will be without force or effect.

If the ratio of insured persons covered under this policy, to persons eligible for coverage, is less than that shown in the policy schedule as the participation ratio, then the company may cancel this policy by giving written notice at least thirty-one days in advance of the cancellation date.

### C. Termination Of Policy By Policyholder

The policyholder may cancel this policy on the first day of any period of coverage for which premium is due, by giving written notice of the cancellation to the company prior to the premium due date.

### D. Termination Of Individual Insurance Coverage

Insurance will terminate in accord with this section except when the Extension Of Benefits provision is operative.

1. The insurance coverage of any insured person will terminate upon the first to occur of any of the following events:
  - a) cancellation of the policy;
  - b) modification of the policy to exclude insurance coverage for the class to which the insured person belongs;
  - c) failure of the insured person to make, when due, any required contribution toward the cost of the insurance coverage;
  - d) termination of employment or termination as a member of the class of employees eligible for insurance coverage as defined in this policy;
2. The insurance coverage of any insured person will immediately terminate on the date the insured person is laid off, leaves, is dismissed from employment, or is retired.
3. The insurance coverage of an insured person who is granted a leave of absence, except disability leave, will terminate on the day immediately preceding the start of the leave of absence.
4. The insurance coverage of an insured person who is placed on part-time employment basis will continue in effect through the end of the policy month in which the change in employment status occurs. The policyholder may notify the company to cancel insurance coverage for that employee as of an earlier date or may discontinue forwarding premium payment to the company for that employee for a period ending on an earlier date.
5. The insurance coverage under this policy will not remain in force during the course of a work stoppage which is the result of a labor dispute.

#### PREMIUM COMPUTATION AND PAYMENT

##### A. Billed Premium

Premium will be charged to the Policyholder at the Billed Premium rate; subject to a Retrospective Premium call by the company following the close of the Settlement Period.

##### B. Predecessor Policies

If the policyholder was insured by the company under a predecessor policy, then any remaining balance of income or expense which accrued under such a policy may be incorporated in the premium calculations under this policy. Should any balance of income or expense accrue in excess of retrospective adjustments, that remainder may be carried forward to future policy years.

C. Retrospective Adjustment

Ninety days after the close of each Settlement Period the company will compare the total amount of billed premium with the total amount of Paid Claims, Reserves for Incurred Claims, and Retention, then if the total premium is in excess of the total charges the company will not call for a Retrospective Premium Amount.

The excess Premium may be applied to reduce premium rates in subsequent years or may, at the sole discretion of the Company, be returned to the Policyholder; however, if the sum of the charges exceeds the total premium amount then the excess charges will become the Retrospective Premium Amount and will be invoiced to the policyholder. The Retrospective Premium Amount will not exceed the Retrospective Premium Adjustment limit.

D. Grace Period

If, after payment of the first premium, premium amounts due are in default and the policyholder has not given the company notice of policy cancellation, then a grace period of 31 days will be extended from the last day of paid coverage.

During the grace period coverage under the insurance policy will continue to be in force until the first to occur of the following: either,

1. written notice to cancel the policy is received from the policyholder, which will terminate on the later of either the date the notice is received or the requested termination date; the policyholder will be liable for premium payments prorated for the time the policy remained in force during the grace period; or,
2. expiration of the grace period without payment of premium due, in which case the policyholder is liable for the payment of all premium amounts due for policy coverage which was extended during the grace period.

A. Entire Contract Changes

This policy, including all provisions, schedules, and amendments, the application of the policyholder and the individual applications, if any, of the insured persons will constitute the entire contract of insurance between the policyholder and the company.

Any statement made by the policyholder or by any insured person will be deemed a representation and not a warranty. No such statement will void the insurance coverage, reduce the benefits under this policy, nor be used in defense of a claim under this policy, unless it is contained in a written application signed by the policyholder or the insured person, a copy of which has been furnished to the policyholder or to the insured person or his beneficiary.

No change in this policy will be valid unless approved in writing by an executive officer of the company and attached to this policy. No agent has the authority to change this policy, or to waive any of its provisions.

B. Legal Actions

No action at law or in equity will be brought to recover on this policy prior to the expiration of the 60 day period, which will extend from the date that submission of written proof of claims has been provided to the company in accord with the requirements of this policy.

No action, at law or in equity, may be brought after the expiration of the three year period which will extend from the insured's date of disability, for which written proof of claim is required to be provided to the company by that insured.

C. Statements By The Policyholder or Persons Insured

A statement made by the policyholder or a person insured under this policy will not be used in any legal contest unless a copy of the instrument containing the statement is or has been furnished to that policyholder, person, or other party to such a contest.

D. Time Limits On Certain Defenses

Except for fraudulent misstatements, no statement made by any person insured under this policy relating to that person's insurability will be used to contest the validity of the coverage extended to that person after the coverage has been in force for a period of two years prior to the contest.



E. Data Required From Policyholder

The policyholder will furnish to the company timely information about persons who become insured, changes in insurance coverage and termination of insurance coverage as may be required for the administration of this policy. The company will have the right to inspect any records of the policyholder which relate to the insurance coverage under this policy at any reasonable time.

F. Clerical Error

Failure of the policyholder, due to clerical error, to report the name of any person who has qualified for insurance coverage under this policy or to report the name of any person whose classification has been changed will not deprive that person of insurance coverage. Failure of the policyholder to report the termination of insurance coverage for any insured will not continue that insurance coverage beyond the date of termination determined in accord with the provisions of this policy.

G. Certificates For Insured Persons

The company will issue to the policyholder, for delivery to each person insured under this policy, an individual certificate, or certificate substitute, that describes the insurance coverage for which that person is eligible, how and to whom the policy benefits are paid, and which contains the principal provisions of this policy that affect the insureds.

H. Worker's Compensation, Not Affected

The insurance provided under this policy is entirely separate from and does not satisfy any statutory requirement for coverage by worker's compensation insurance.

I. Pronouns

All personal pronouns used in this policy will include either gender; unless, the context clearly indicates to the contrary.

J. Conformity With State Statutes

Any provision of this policy which, on its effective date, is in conflict with the statutes of the state in which it is issued, or issued for delivery, is amended by this section to conform to the minimum requirements of that state statute.

K. Severability

Any provision of this policy which may be prohibited by law, will be and will become without force or effect within that jurisdiction; however, the void provision will neither invalidate nor impair the enforceability of any other provision of this policy.

L. Benefit Assignment

Benefits under this policy may be assigned.

M. Hold Harmless

During the term of this policy the Policyholder agrees to indemnify the Company and hold the Company harmless against all loss, damage, and expense including attorney's fees occasioned by claims, demands, or lawsuits brought against the Company with respect to coverage provided by this policy which may result from or arise out of any change to the Internal Revenue Code of 1954 as amended.

DESCRIPTION OF SEVERANCE BENEFIT FOR  
CERTAIN EXECUTIVE OFFICERS

American Medical Security Group, Inc. and/or its subsidiaries (the "Company") has agreed to provide executive officers who do not have employment contracts with the Company with severance benefits in the event of involuntary termination of employment by the Company, other than for cause, such as theft, fraud or malfeasance ("Involuntary Termination"). In the event of Involuntary Termination, the Company will pay the executive officer his regular salary then in effect for a period of 12 months. In addition, the Company will pay the executive officers' Consolidated Omnibus Budget Reconciliation Act (COBRA) continuation premium for a period of 12 months.

DESCRIPTION OF AMERICAN MEDICAL SECURITY GROUP, INC.  
EXECUTIVE MANAGEMENT INCENTIVE PLAN

PURPOSE.

The purpose of the American Medical Security Group, Inc. Executive Management Incentive Plan (the "Plan") is to (i) provide motivation for executives to attain and maintain the highest standards of performance, (ii) attract and retain executives of outstanding competence, (iii) maintain a competitive compensation package for highly motivated key management employees and, (iv) direct the energies of executives toward the achievement of specific business goals and personal objectives which are of the utmost importance in the attainment of corporate goals and objectives.

ELIGIBILITY AND PARTICIPATION.

Except for the Chief Executive Officer ("CEO"), who participates in a contractual plan, and, unless otherwise determined by the CEO or the Committee (as defined below), the Senior Vice President of Sales and Marketing, who participates in a stand-alone sales performance plan, all members of the Executive Management Group, as determined by the CEO, (the "Participants") participate in the Plan.

ADMINISTRATION AND INTERPRETATION.

The Plan is administered by the Compensation Committee (the "Committee") of the Board of Directors of American Medical Security Group, Inc. Action taken by the Committee in the administration and interpretation of the Plan is final and binding on all concerned. The Committee maintains overall responsibility for the Plan and is given complete discretion to administer the Plan and to interpret and/or modify all terms and conditions of the Plan.

COMPONENTS OF THE PLAN.

Bonus awards are determined by the following components:

1. Company Performance Component - 60%
2. Individual Performance Component - 40%

For each Plan year, the Committee establishes one or more specified percentages of base salary ("Target Bonus"), to be used to calculate awards under the Plan.

The Committee also establishes minimum and maximum range spread around the Target Bonus, to be used (i) if the Company's actual financial performance differs from the performance goals in specified amounts, and (ii) for varying levels of individual performance.

From year to year, the Committee may change the percentage of bonus awards attributable to the two components described above.

COMPANY PERFORMANCE COMPONENT. The company performance component of the Plan is based on earnings before depreciation, interest, taxes and amortization (EBIDTA) or such other appropriate corporate performance measures determined by the Committee, including individual measures of performance. Actual financial performance is measured by reference to the Company's financial records and the consolidated financial statements of the Company. In determining performance, the Committee in its discretion may direct that adjustments to the performance goals or actual financial performance as reported be made to reflect extraordinary organizational, operational or other changes that have occurred during such year, such as (without limitation) acquisitions, dispositions, expansions, contractions, material non-recurring items of income or loss, or events that might create unwarranted hardships or windfalls to Participants.

The percentage of Target Bonus achieved for the company performance component is determined by the Committee by comparing actual financial performance to the corporate performance goals for the preceding Plan year and the range of percentages of Target Bonus adopted by the Committee for such year.

INDIVIDUAL PERFORMANCE COMPONENT. The percentage of Target Bonus achieved for the individual performance component is a function of a discretionary evaluation of the performance of the individual executive. After each Plan year, the CEO provides the Committee with an overall performance evaluation for each Participant. The Committee uses this evaluation in determining the amount of a Participant's bonus award for the individual performance component of the Plan.

#### PAYMENT OF BONUS AWARDS.

Bonus awards under the Plan are paid in cash promptly following approval of the bonus award amount by the Committee (generally paid in February).

Bonus awards are not considered as compensation in calculating any insurance, profit-sharing, retirement, or other benefit for which the recipient is eligible unless any such insurance, profit-sharing, retirement or other benefit is granted under a plan which expressly provides that incentive compensation is considered as compensation under such plan.

There is no requirement that the maximum amount available for bonus awards in any year be awarded.

## AMERICAN MEDICAL SECURITY GROUP, INC.

## EMPLOYMENT AND NONCOMPETITION AGREEMENT OF SAMUEL V. MILLER

## AMENDMENT NUMBER ONE

An Employment and Noncompetition Agreement (the "Agreement") was entered into on April 7, 1998, effective January 1, 1997, between United Wisconsin Services, Inc. ("UWS"), American Medical Security Holding, Inc. (the "Company"), and Samuel V. Miller ("Employee"). The Agreement replaced a prior agreement dated as of October 30, 1995 between UWS and Employee.

Effective September 11, 1998, UWS was renamed American Medical Security Group, Inc., UWS transferred its managed care business to Newco/UWS, Inc. a wholly-owned subsidiary of UWS ("Newco"), and that subsidiary was renamed United Wisconsin Services, Inc. On September 25, 1998, UWS distributed the shares of Newco to the shareholders of UWS.

To reflect these and certain other events, the Agreement is hereby amended as follows, effective September 25, 1998:

1. The following paragraphs are hereby added immediately after the second paragraph of the recitals:

Since the date this Agreement was executed, UWS has established a new subsidiary ("Newco"), UWS has transferred its managed care business to Newco, UWS has been renamed American Medical Securities Group, Inc., Newco has been renamed United Wisconsin Service, Inc., and the stock of Newco has been distributed to shareholders of UWS (the "Spinoff").

UWS shall be a party to the Agreement in connection with Employee's options to purchase stock of UWS, and Newco shall be a party to the Agreement in connection with Employee's options to purchase stock of Newco.

2. Section 1.2 (Positions and Duties) is hereby amended to replace the phrase "President and Chief Executive Officer" with the phrase "Chairman, President and Chief Executive Officer" both times it occurs, and the following sentence is hereby added at the end of Section 1.2:

Employee shall also occupy the position of Chairman, President and Chief Executive Officer of UWS.

3. Section 3.2(c) is amended to delete the word "and" prior to clause (iv) and to add at the end thereof: "and (v) any rights Employee may have under the American Medical Security Group, Inc. Change of Control Severance Benefit Plan."

4. Section 5.1(a) and Section 5.1(b) are amended and Section 5.1(c) and Section 5.1(d) are added to read as follows:

(a) If to the Company:

American Medical Security Holdings, Inc.  
3100 AMS Boulevard  
Green Bay, WI 54313 or  
P.O. Box 19032  
Green Bay, WI 54307-9032  
Attn.: General Counsel

(d) If to Employee:

Samuel V. Miller  
3100 AMS Boulevard  
Green Bay, WI 54313 or  
P.O. Box 19032  
Green Bay, WI 54307-9032

With a copy to:

(b) If to UWS:

American Medical Security Group, Inc.  
3100 AMS Boulevard  
Green Bay, WI 54313 or  
P.O. Box 19032  
Green Bay, WI 54307-9032  
Attn.: General Counsel

David S. Foster  
Thelen Reid & Priest LLP  
2 Embarcadero Center  
San Francisco, CA 94111

(c) If to Newco:

United Wisconsin Services, Inc.  
401 West Michigan Street  
Milwaukee, Wisconsin 53203  
Attn: General Counsel

IN WITNESS WHEREOF, the parties have executed this Amendment Number One as of September 25, 1998.

AMERICAN MEDICAL SECURITY  
HOLDINGS, INC.

AMERICAN MEDICAL SECURITY  
GROUP, INC.

By: \_\_\_\_\_

By: \_\_\_\_\_

UNITED WISCONSIN SERVICES, INC.

By: \_\_\_\_\_  
Thomas R. Hefty, Chairman, President  
and Chief Executive Officer

\_\_\_\_\_  
Samuel V. Miller

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT made and entered into this 21 day of August, 1996, by and between AMERICAN MEDICAL SECURITY, INC., a Delaware corporation (the "Corporation") and SCOTT B. WESTPHAL (the "Employee").

WITNESSETH:

WHEREAS, the Employee desires to be employed by the Corporation and the Corporation desires to employ the Employee; and

WHEREAS, the Corporation and the Employee desire to set forth in this Agreement the terms and conditions under which the Employee is to be employed by the Corporation.

NOW, THEREFORE, the Corporation and the Employee, in consideration of the mutual promises hereinafter set forth, do hereby promise and agree as follows:

ARTICLE I  
TERM

The term of the Employee's employment under this Agreement shall commence effective as of the date hereof and shall continue until terminated by either party as set forth in Article V, below.

ARTICLE II  
EMPLOYMENT DUTIES

During the term of the Employee's employment hereunder, the Corporation shall employ the Employee and the Employee shall serve the Corporation as a Vice President of the Corporation. The Employee shall be subject to the authority and direction of the President of the Corporation and those persons appointed by the President of the Corporation to have authority and direction over the Employee. The Employee shall devote his entire working time and efforts to the business affairs of the Corporation and shall faithfully and to the best of his ability perform his duties hereunder.

ARTICLE III  
COMPENSATION

3.1 BASE SALARY. The Corporation shall pay to the Employee an annual base salary in an amount equal to One Hundred Thousand Dollars (\$100,000). The Employee's base salary shall be payable in equal installments not less frequently than bi-weekly.



3.2 ADJUSTMENT TO BASE SALARY. From time to time, but not less than annually, Employee's base salary shall be reviewed and any salary increases will be given based upon merit as determined by a performance evaluation.

3.3 PERFORMANCE BONUS. Any additional compensation payable to the Employee under this Article III shall be in the form of a bonus or bonuses and the time or times payable and the amount or amounts thereof shall be a matter solely within the discretion of the President of the Corporation. Nothing contained herein shall be deemed to require the Corporation to pay any bonus to the Employee at any time during the term of this Agreement or any extension thereof.

3.4 OTHER COMPENSATION. In addition to the compensation referred to in Paragraphs 3.1, 3.2 and 3.3, above, the Employee shall be eligible to participate in any other compensation plan which may become available to most other employees of a similar supervisory level (e.g., deferred compensation, stock option or shadow stock plans), provided, however, that the levels of the Employee's participation in such plans shall be solely within the discretion of the Corporation.

3.5 WITHHOLDING TAXES. The Corporation shall deduct from all payments to the Employee hereunder any federal, state or local withholding or other taxes or charges which the Corporation has from time-to-time been required to deduct under applicable law, and all amounts payable to the Employee hereunder are stated herein before any such deductions. The Corporation shall have the right to rely upon a written opinion of local counsel, which may be independent legal counsel or legal counsel regularly employed by the Corporation, if any questions should arise as to any such deductions.

#### ARTICLE IV CONFIDENTIALITY AND NON-SOLICITATION

##### 4.1 CONFIDENTIAL INFORMATION: INTELLECTUAL PROPERTY.

(i) Employee acknowledges that Employee will be required to use his personal intellectual skills on behalf of the Corporation and that it is reasonable and fair that the fruits of such skills should inure to the sole benefit of the Corporation. Employee further acknowledges that Employee already has and will acquire information of a confidential nature relating to the operation, finances, business relationships and trade secrets of the Corporation. During Employee's employment and for a period of one (1) year following termination thereof, within the geographical area in which such use, publication or disclosure could harm the Corporation's existing or potential business interests, Employee will not use (except for use in the course of the Employee's regular authorized duties on behalf of the Corporation), publish, disclose or authorize anyone else to use, publish or disclose, without the prior written consent of the Corporation, any confidential information pertaining to the Corporation or its affiliated entities, including, without limitation, any information relating to existing or potential business, customers, trade or industrial practices, plans, costs, processes, technical or engineering data, or trade secrets;

PROVIDED, HOWEVER, that following termination of the Employee's employment, Employee shall be prohibited from ever using, publishing, disclosing or authorizing anyone else to use, publish or disclose any confidential information which constitutes a trade secret under applicable law. Employee shall not remove or retain any figures, calculations, formulae, letters, papers, software, abstracts, summaries, drawings, blueprints, diskettes, or any other material, or copies thereof, which contain or embody any confidential information of the Corporation, except for the use in the course of Employee's regular authorized duties on behalf of the Corporation or with the prior written consent of the Corporation. Notwithstanding the foregoing, the Employee has no obligation to refrain from using, publishing or disclosing any confidential information which is or hereafter shall become available to the public otherwise than by use, publication or disclosure by Employee. This prohibition also does not prohibit Employee's use of general skills and know-how acquired during and prior to employment, as long as such use does not involve the use, publication or disclosure of the Corporation's confidential information.

(ii) AGREEMENT TO TRANSFER. Employee shall, without further payment, assign, transfer and set over, and does hereby assign, transfer and set over, to the Corporation, its successors and assigns, all Employee's rights, title and interest in and to all trade secrets, secret processes, inventions, improvements, patents, patent applications, trademarks, trademark applications, copyrights and any and all intellectual property rights which Employee solely or jointly with others has conceived, made, acquired or suggested at any time during employment or within a one (1) year period after termination of employment and which relate to the existing or potential products, processes, work, research or other activities of the Corporation.

4.2 NON-SOLICITATION. For a period of one (1) year after termination of Employee's employment, Employee will not solicit, or assist any person or entity to solicit, any employee, customer, supplier or other person having business relations with the Corporation to terminate such employee's employment or terminate or curtail such customer's, supplier's or other person's business relationship with the Corporation.

4.3 RETURN OF DOCUMENTS. Immediately upon termination of employment, Employee will return to the Corporation, and upon request, so certify in writing to the Corporation, that Employee has returned to the Corporation all the Corporation's papers, documents and things, including information stored for use in or with the computers and software applicable to the Corporation's business (and all copies thereof), which are in Employee's possession or under Employee's control, regardless of whether such papers, documents or things contain confidential information or trade secrets.

## ARTICLE V TERMINATION OF EMPLOYMENT

5.1 MANNER AND EFFECT OF TERMINATION. Employee's employment hereunder may be terminated by the Corporation or the Employee at any time.

5.2 CONSEQUENCES OF TERMINATION. In the event that the Employee voluntarily terminates his employment or the Corporation terminates his employment for cause, the Employee shall be entitled to receive only his base salary, as adjusted from time to time pursuant to Section 3.2, above (the "Base Salary"), accrued to the date of termination of his employment. In the event that the Employee's employment is terminated by the Corporation not for cause, the Employee shall continue to receive the Base Salary for a period commencing on the date of termination and ending on the later of: (i) one year after the date of termination; or (ii) two years after the date of the UWS Buyout. For purposes of this Agreement, the date of the UWS Buyout shall be the date that United Wisconsin Services, Inc. purchases a majority of the stock of the Corporation or otherwise acquires majority control of the Corporation. For purposes of this Agreement, only the occurrence of one or more of the following acts shall be a basis for termination for cause:

(i) the willful and continued failure of the Employee to substantially perform his duties for the Corporation;

(ii) use of alcohol or non-prescription drugs in such a manner as to interfere with the performance of the Employee's duties for the Corporation;

(iii) willful conduct by the Employee which is demonstrably and materially injurious to the Corporation, monetarily or otherwise; or

(iv) conviction of the Employee of a felony or misdemeanor which, in the reasonable judgment of the board of directors of the Corporation, is likely to have a material adverse effect on the business or reputation of the Employee or the Corporation, or which substantially impairs the Employee's ability to perform his duties for the Corporation.

#### ARTICLE VI EXPENSES

During the term of the Employee's employment hereunder, the Corporation shall pay or reimburse the Employee for all reasonable and necessary business expenses incurred by the Employee in the interest of the Corporation. The Employee shall be required to submit an itemized account of such expenditures and such proof as may be necessary to establish to the satisfaction of the Corporation that the expenses incurred by the Employee were ordinary and necessary business expenses incurred on behalf of the Corporation.

#### ARTICLE VII FRINGE BENEFITS

During the term of the Employee's employment hereunder, he shall be entitled to participate in any individual or group life insurance, health insurance, qualified pension or profit sharing plan or any other fringe benefit program which the Corporation may from time-to-time make available to its similarly situated employees, and in particular to its executive level officers,

but the Employee acknowledges that he shall have no vested rights in any such program except as expressly provided under the terms thereof and that such programs may be terminated as well as supplemented.

ARTICLE VIII  
WAIVER OF BREACH

The waiver by the Corporation of any breach of any provision of this Agreement by the Employee shall not be deemed a waiver by the Corporation of any subsequent breach.

ARTICLE IX  
NOTICE

Any notice required or permitted to be given hereunder shall be in writing and shall be deemed to be sufficiently given and received in all respects when personally delivered or when deposited in the United States mail, certified mail, postage prepaid, return receipt requested and addressed to the principal office of the Corporation or the residence of the Employee, as the case may be.

ARTICLE X  
ASSIGNMENT

The Employee may not assign, pledge or encumber any interest in this Agreement or any part thereof without the prior written consent of the Corporation.

ARTICLE XI  
COMPLETE AGREEMENT; AMENDMENT

This Agreement contains the full and complete understanding and agreement of the parties and supersedes all prior agreements or understandings, whether oral or written, between the parties with respect to the subject matter hereof. This Agreement may not be modified, amended or discharged orally.

ARTICLE XII  
GOVERNING LAW

This Agreement and all questions of its interpretation, performance, enforceability and the rights and remedies of the parties hereto shall be governed by and determined in accordance with the laws of the State of Wisconsin.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as of the day, month and year first above written.

AMERICAN MEDICAL SECURITY, INC.

By: /S/ WALLACE J. HILLIARD  
-----

Its: PRESIDENT

/S/ SCOTT B. WESTPHAL

-----  
Scott B. Westphal

## REGISTRATION RIGHTS AGREEMENT

This Agreement ("Agreement") is made and entered into as of this 1ST day of September, 1998 by and between UNITED WISCONSIN SERVICES, INC., a Wisconsin corporation ("UWS") and BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN, a Wisconsin service insurance corporation ("BCBSUW").

## RECITALS

WHEREAS, BCBSUW organized UWS in 1983;

WHEREAS, until 1991, BCBSUW owned all of the issued and outstanding stock of UWS and since that date has continued to be the largest shareholder of UWS;

WHEREAS, UWS has organized Newco/UWS, Inc., a Wisconsin corporation ("Newco") and intends to (a) contribute its managed care and specialty products operations to Newco; and (b) distribute all of the outstanding shares of Newco to UWS shareholders (the "Spin-Off");

WHEREAS, since 1986 the Chief Executive Officer of BCBSUW and UWS have been the same person;

WHEREAS, following the Spin-Off Newco will be managed by the existing management of UWS, and UWS will be managed by the personnel who have been responsible for the operations of the small group products businesses located in Green Bay, Wisconsin; and

WHEREAS, in connection with the Spin-Off, BCBSUW desires to obtain registration rights with respect to its UWS Common Stock ("UWS Common Stock"), and UWS desires to agree with BCBSUW regarding its future ownership of UWS Common Stock.

NOW THEREFORE, the parties agree as follows:

ARTICLE I  
REGISTRATION RIGHTS

Section 1.01 GENERAL. For purposes of Article I: (I) the terms "register", "registered" and "registration" refer to a registration effected by preparing and filing a registration statement (a "registration statement") in compliance with the Securities Act of 1933, as amended (the "1933 Act"), and the

declaration or ordering of effectiveness of such registration statement; and (ii) the term "Registrable Securities" means the shares of UWS Common Stock held by BCBSUW from time to time immediately after the Spin-Off.

Section 1.02 DEMAND REGISTRATION. Subject to Section 1.08(a) hereof, at anytime on or after the date hereof if UWS shall receive a written request (specifying that it is being made pursuant to this Section 1.02) from BCBSUW that UWS register at least fifty percent (50%) of the then outstanding Registrable Securities, then UWS shall use its best efforts to cause to be registered all Registrable Securities that BCBSUW have requested be registered. Notwithstanding the foregoing, UWS shall not be obligated to effect a registration pursuant to this Section 1.02 during the period starting with the date forty-five (45) days prior to UWS's estimated date of filing of, and ending on a date one-hundred-eighty (180) days following the effective date of, registration statement pertaining to an underwritten public offering of UWS Common Stock for the account of UWS. UWS shall be obligated to effect not more than two (2) registrations pursuant to this Section 1.02. Any request for registration under this Section must be for a firmly underwritten public offering in accordance with terms agreed upon between the underwriter or underwriters and BCBSUW to be managed by an underwriter or underwriters designated by BCBSUW and reasonably acceptable to UWS. Notwithstanding anything else in this Agreement to the contrary, all of UWS's obligations under this Section shall expire on the earlier of July 31, 2008, or the date on which BCBSUW owns in the aggregate less than three percent of the outstanding UWS Common Stock. Subject to the provisions of Section 1.07(a) hereof, UWS shall be permitted to cause to be registered additional shares of UWS Common Stock (whether previously unissued or owned by a person or entity designated by UWS) in connection with any registration effected pursuant to this Section 1.02. If, while a registration request is pending pursuant to this Section 1.02, UWS has determined in good faith that (A) the filing of a registration statement could jeopardize or delay any contemplated material transaction other than a financing plan involving UWS or would require the disclosure of material transaction other than a financing plan involving UWS or would require the disclosure of material information that UWS had a bona fide business purpose for preserving as confidential; or (B) UWS then is unable to comply with requirements of the Securities and Exchange Commission ("SEC") applicable to the requested registration (notwithstanding its best efforts to so comply), UWS shall not be required to effect a registration pursuant to this Section 1.02 until the earlier of (1) the date upon which such contemplated transaction is completed or abandoned or such material information is otherwise disclosed to the public or ceases to be material or UWS is able to so comply with applicable SEC requirements, as the case may be, and (2) 45 days after UWS makes such good-faith determination.

Section 1.03 PIGGYBACK REGISTRATION. Subject to Section 1.08(b) hereof, if at any time UWS determines to register any UWS Common Stock under the 1933 Act in connection with the public offering of such securities solely for cash, on a form that would also permit the registration of any of the Registrable Securities, UWS shall promptly give BCBSUW written notice thereof. Upon the written request of BCBSUW received by UWS within thirty (30) days after the giving of any such notice by UWS, UWS shall use its best efforts to cause to be



registered all of the Registrable Securities that BCBSUW has requested be registered together with the registration of UWS Common Stock otherwise being registered by UWS or its shareholders, as the case may be. UWS may, for any reason or for no reason, elect to either not file or withdraw the filing of any registration statement relating to a registration described in this Section 1.03 at any time prior to the effectiveness thereof.

Section 1.04 RESALE REGISTRATIONS. If at any time in the future BCBSUW proposes to sell Registrable Securities to one or more third parties, BCBSUW may request in writing that UWS register such Registrable Securities on Form S-3 prior to such sale ("Resale Registration"). Upon receipt by UWS of such written request, UWS shall use its best efforts to come to be registered all of the Registrable Securities that BCBSUW proposes to sell. At UWS's election, UWS may maintain an effective shelf registration in Form S-3 for the purpose of effecting Resale Registrations. Notwithstanding anything else in this Agreement to the contrary, all of UWS's obligations under this Section shall expire on the earlier of July 31, 2008, or the date on which BCBSUW owns in the aggregate less than three percent of the outstanding UWS Common Stock. BCBSUW shall be entitled to unlimited registrations under this Section.

Section 1.05 OBLIGATIONS OF UWS. Whenever UWS shall be required under Sections 1.02, 1.03 or 1.04 hereof to use its best efforts to effect the registration of any Registrable Securities, UWS shall:

(a) as expeditiously as possible, prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its reasonable efforts to cause such registration statement to become and remain effective under the 1933 Act, except that UWS shall in no event be obligated to cause any such registration to remain effective for more than three months;

(b) as expeditiously as possible, prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the 1933 Act with respect to the disposition of all securities covered by such registration statement;

(c) as expeditiously as possible, furnish to BCBSUW such numbers of copies of a prospectus, including a preliminary prospectus, and such other documents as they may reasonable request in order to facilitate the disposition of Registrable Securities owned by it;

(d) as expeditiously as possible, use its reasonable efforts to register and qualify the securities covered by such registration statement under such securities or Blue Sky laws of such jurisdictions as shall be reasonably appropriate or requested by BCBSUW, except that UWS shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such jurisdiction;

(e) advise BCBSUW, promptly after it shall receive notice or obtain knowledge thereof, of (i) the issuance of any stop order by the SEC suspending the effectiveness of such registration statement or the initiation or



threatening of any proceeding for that purpose, and (ii) any similar action by any regulatory agency of competent jurisdiction under the securities or Blue Sky laws of any jurisdiction, and in any such case promptly use its reasonable best efforts to prevent the issuance of any stop order or the taking of any such similar action or to obtain its withdrawal if such stop order should be issued or any such similar action shall be taken; and

(f) furnish to BCBSUW copies of all documents proposed to be filed with respect to any amendment or supplement to such registration statement or prospectus at a reasonable time prior to such filing.

Section 1.06 FURNISH INFORMATION. It shall be a condition precedent to the obligations of UWS to take any action pursuant to this Article I that BCBSUW shall furnish to UWS such information regarding BCBSUW, the Registrable Securities held by BCBSUW, and the intended method of disposition of such securities and such other matters as may be required by the 1933 Act and other applicable law and regulation as UWS shall request and as shall be required in connection with the action to be taken by UWS.

Section 1.07 EXPENSES OF REGISTRATION. In connection with a registration pursuant to Section 1.02, all underwriter's discounts and commissions, all registration and qualification fees, printers' and any extraordinary accounting fees, required as a result of BCBSUW's registration, shall be borne by BCBSUW. All such expenses incurred in connection with a registration pursuant to Section 1.03 shall be borne by UWS, BCBSUW and any other sellers pro rata in relation to the number of shares of UWS Common Stock being registered by each such party. All expenses incurred in connection with Section 1.04 shall be borne by BCBSUW. For any registrations pursuant to Sections 1.02, 1.03 or 1.04, all parties shall pay all of their own respective attorneys' fees.

Section 1.08 UNDERWRITING REQUIREMENTS.

(a) In connection with any registration requested by BCBSUW under Section 1.02, UWS shall not be required under Section 1.02 to register any Registrable Securities of BCBSUW unless BCBSUW accepts the terms of the underwriting required by Section 1.02, and then only in such quantity as will not, in the written opinion of the managing underwriters, exceed the maximum number of shares that can be marketed at a price reasonably related to the then current market price for such shares, or otherwise materially and adversely affect such offering or the trading market for such shares (the "Maximum Feasible Quantity"). All securities sold to cover any over-allotment shall be apportioned between BCBSUW and UWS in proportion to the total number of shares being sold by each, provided, however, that any such over-allotment shall first be allocated to BCBSUW to the extent any of the Registrable Securities of BCBSUW were not included in such registration because the total number of Registrable Securities requested to be registered by BCBSUW exceeded the Maximum Feasible Quantity for such registration, and shall thereafter be allocated to UWS to the extent that the shares requested to be registered by UWS were not included in such registration because such shares, when added to the shares being registered by BCBSUW, exceeded the Maximum Feasible Quantity for such registration.

(b) In connection with any registration in which Registrable Securities are included pursuant to Section 1.03 hereof, UWS shall not be required to include any Registrable Securities in such registration unless BCBSUW accepts the terms of the underwriting as agreed upon between UWS and the underwriters selected by it, and then only in such quantity as will not, when added to the shares otherwise being registered by UWS, in the written opinion of the managing underwriters, exceed the Maximum Feasible Quantity for such registration. All securities sold to cover any over-allotment shall be apportioned between BCBSUW and UWS in proportion to the total number of shares being sold by each; provided, however, that any such over-allotment shall first be allocated to UWS to the extent any of the securities of UWS were not included in such registration because the total number of Registrable Securities included in such registration by BCBSUW, when added to the shares otherwise being registered by UWS, exceeded the Maximum Feasible Quantity for such registration, and shall thereafter be allocated to BCBSUW to the extent that the Registrable Securities requested to be registered by BCBSUW were not included in such registration because such shares when added to the shares being requested by UWS, included the Maximum Feasible Quantity for such registration.

ARTICLE II  
STANDSTILL

BCBSUW agrees that until July 31, 2008, it, without the written consent of UWS, will not purchase or otherwise acquire any additional shares of UWS Common Stock other than as the result of any stock dividend or distribution or pursuant to the reinvestment of dividends under the United Wisconsin Services, Inc. Dividend Reinvestment and Direct Stock Purchase Plan.

ARTICLE III  
GENERAL PROVISIONS

Section 3.01 NOTICES. All notices and other communications hereunder shall be in writing and shall be deemed given (i) when delivered personally; (ii) the second business day after being deposited in the United States mail registered or certified (return receipt requested); (iii) the first business day after being deposited with Federal Express or any other recognized national overnight courier service or (iv) on the business day on which it is sent and received by facsimile, in each case to the parties at the following addresses (or at such other address for a party as shall be specified by like notice):

(a) If to UWS:

American Medical Security Group, Inc.  
3100 AMS Boulevard  
Green Bay, WI 54313  
Attention: President

(b) If to BCBSUW:

401 West Michigan Street  
Milwaukee, WI 53203

Attention: Thomas R. Hefty, President

Section 3.02 MISCELLANEOUS. This Agreement (including the exhibits, documents and instruments referred to herein or therein):

(a) constitutes the entire agreement, and supersedes all other prior agreements and understandings, both written and oral, between the parties, or either of them, with respect to the subject matter hereof;

(b) is not intended to confer upon any person which is not a party hereto any rights or remedies hereunder;

(c) may be assigned by BCBSUW by operation of law or otherwise; and

(d) may be executed in two or more counterparts which together shall constitute a single agreement.

Section 3.03 WAIVER: REMEDIES. No delay or failure on the part of any party hereto to exercise any right, power, or privilege hereunder shall operate as a waiver thereof, nor shall any waiver on the part of any party hereto of any right, power, or privilege hereunder operate as a waiver of any other right, power, or privilege hereunder, nor shall any single or partial exercise of any right, power, or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power, or privilege hereunder.

Section 3.04 SEVERABILITY. If any provision of this Agreement shall be held by any court of competent jurisdiction to be illegal, invalid or unenforceable, such provision shall be construed and enforced as if it had been more narrowly drawn so as not to be illegal, invalid or unenforceable, and such illegality, invalidity or unenforceability shall have no effect upon and shall not impair the enforceability of any other provision of this Agreement.

Section 3.05 GOVERNING LAW. This Agreement shall be construed in accordance with the law of the State of Wisconsin (without regard to principles of conflicts of laws) applicable to contracts made and to be performed in Wisconsin.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

UNITED WISCONSIN SERVICES, INC.

By: /S/ STEPHEN E. BABLITCH  
-----

BLUE CROSS & BLUE SHIELD  
UNITED OF WISCONSIN

By: /S/ GAIL L. HANSON

-----

SUBSIDIARIES OF THE REGISTRANT

American Medical Security Holdings, Inc., a Wisconsin corporation

American Medical Security, Inc., a Delaware corporation

American Medical Security Insurance Company of Georgia, a Georgia corporation

U & C Real Estate Partnership, a Wisconsin general partnership

United Wisconsin Life Insurance Company, a Wisconsin insurance corporation

Continental Plan Services, Inc., a Wisconsin corporation

Nurse Healthline, Inc., a Wisconsin corporation

Accountable Health Plans, Inc., a Texas corporation  
d/b/a Accountable Health Plans of Texas, Inc. and  
d/b/a Plains Health Networks, Inc.

AMS HMO Holdings, Inc., a Delaware corporation

Unity HMO of Illinois, Inc., an Illinois corporation

American Medical Security Health Plan, Inc., a Florida corporation  
d/b/a American Medical Healthcare

## CONSENT OF INDEPENDENT AUDITORS

We consent to incorporation by reference in the Registration Statement (Form S-8 No. 333-21857) pertaining to the Equity Incentive Plan, the Registration Statement (Form S-8 No. 333-22673) pertaining to the 1995 Director Stock Option Plan, and the Registration Statement (Form S-3 No. 333-29425) pertaining to the Dividend Reinvestment and Direct Stock Purchase Plan of American Medical Security Group, Inc. (f/k/a United Wisconsin Services, Inc.) of our report dated February 5, 1999, with respect to the consolidated financial statements and schedules of American Medical Security Group, Inc. included in the Annual Report on Form 10-K for the year ended December 31, 1998.

/s/ Ernst & Young LLP

-----  
ERNST & YOUNG LLP

Milwaukee, Wisconsin  
March 23, 1999

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THIS FINANCIAL DATA SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF AMERICAN MEDICAL SECURITY GROUP, INC. FOR THE TWELVE MONTHS ENDED DECEMBER 31, 1998 AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

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