

AMERICAN MEDICAL SECURITY GROUP INC
Form DEFA14A
November 03, 2004

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

SCHEDULE 14A
(RULE 14A-101)

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

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

Check appropriate box:

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

AMERICAN MEDICAL SECURITY GROUP, INC.

(Name of Registrant as Specified in Its Charter)

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

Payment of filing fee (Check the appropriate box):

| No fee required.

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

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

| Fee paid previously with preliminary materials:

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

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

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

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

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

EXHIBIT 99

[AMERICAN MEDICAL SECURITY GROUP, INC. LOGO]

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

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

NEWS RELEASE
for Immediate Release

AMERICAN MEDICAL SECURITY GROUP
REPORTS THIRD QUARTER 2004 FINANCIAL RESULTS

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

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

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

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

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

More

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

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

(Per share amounts may not total due to rounding)

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

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

REVENUES

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

Ad Two

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

MEMBERSHIP

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

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

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

HEALTH SEGMENT RATIOS

| | Three Months Ended September 30 | | Nine Months Ended September 30 | |
|-------------------------------|------------------------------------|-------|-----------------------------------|-------|
| | 2004 | 2003 | 2004 | 2003 |
| HEALTH LOSS RATIO: | | | | |
| GAAP | 67.7% | 68.2% | 66.5% | 67.9% |
| PBM Settlement | - | - | 1.0 | - |
| Adjusted Ratio(1) | 67.7% | 68.2% | 67.5% | 67.9% |
| HEALTH EXPENSE RATIO: | | | | |
| GAAP | 27.2% | 27.0% | 27.5% | 27.6% |
| HEALTH COMBINED RATIO: | | | | |
| GAAP | 94.9% | 95.3% | 93.9% | 95.5% |
| PBM Settlement | - | - | 1.0 | - |
| Adjusted Ratio | 94.9% | 95.3% | 95.0% | 95.5% |

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CASH FLOW & BALANCE SHEET

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

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

EARNINGS GUIDANCE

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

NOTES

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

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

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

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

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

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

AMERICAN MEDICAL SECURITY GROUP, INC. LOGO

FINANCIAL SUPPLEMENT

AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

INCOME DATA

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(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

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

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

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

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INCOME DATA

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(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

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

PER SHARE DATA

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

MARGIN ANALYSIS

| | | |
|----------------------------|------|------|
| Income before income taxes | 6.1% | 6.7% |
|----------------------------|------|------|

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Net income 3.9% 4.3%

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

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

FINANCIAL DATA

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(IN THOUSANDS, EXCEPT MEMBERSHIP)

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

FINANCIAL DATA

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(IN THOUSANDS, EXCEPT MEMBERSHIP)

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

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MEMBERSHIP ANALYSIS

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

FINANCIAL STATISTICS

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

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

BALANCE SHEETS

(IN THOUSANDS)

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

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

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AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

SEGMENT DATA - HEALTH

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(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

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

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

SEGMENT DATA - HEALTH

=====

(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

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

FINANCIAL STATISTICS

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

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

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

5

AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

SEGMENT DATA - LIFE

=====

(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

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

FINANCIAL STATISTICS

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

SEGMENT DATA - LIFE

=====

(IN THOUSANDS, EXCEPT FINANCIAL STATISTICS)

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

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

FINANCIAL STATISTICS

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

6

AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

CORPORATE AND OTHER

=====

(IN THOUSANDS)

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

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| | | | | | |
|-----------------------------------|--------|----------|----------|--------|----------|
| Income (loss) before income taxes | \$ 194 | \$ (155) | \$ 1,272 | \$ 117 | \$ 1,428 |
|-----------------------------------|--------|----------|----------|--------|----------|

CORPORATE AND OTHER

(IN THOUSANDS)

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

7

AMERICAN MEDICAL SECURITY GROUP, INC. AND SUBSIDIARIES

RECONCILIATION OF GAAP NET INCOME TO ADJUSTED NET INCOME

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

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

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

RECONCILIATION OF GAAP NET INCOME TO ADJUSTED NET INCOME

=====

(IN THOUSANDS, EXCEPT EARNINGS PER SHARE)

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

=====