EXHIBIT LIST

Exhibit A	AMSG Form 8-K (June 4, 2002)
Exhibit B	AMSG Proxy Statement (April 26, 2002)
Exhibit C	Cobalt Proxy Statement (April 25, 2002)
Exhibit D	Cobalt News Release (March 20, 2002)
Exhibit E	Stock Purchase Agreement (March 19, 2002)
Exhibit F	Registration Rights Agreement (September 1, 1998)
Exhibit G	AMSG Articles
Exhibit H	AMSG Bylaws
Exhibit I	AMS Articles
Exhibit J	AMS Bylaws
Exhibit K	Cobalt Articles
Exhibit L	Cobalt Bylaws
Exhibit M	BCBS Articles
Exhibit N	BCBS Bylaws

AVERY

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 8-K

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

Date of Report (Date of earliest event reported): June 4, 2002

AMERICAN MEDICAL SECURITY GROUP, INC.

(Exact name of Registrant as specified in its charter)

Wisconsin	**1-13154**	**39-1431799**
(State of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

3100 AMS Boulevard, Green Bay, Wisconsin	**54313**
(Address of principal executive offices)	(Zip Code)

(920) 661-1111
(Registrant's telephone number, including area code)

Item 5. Other Events and Regulation FD Disclosure.

Completion of Secondary Offering by Blue Cross & Blue Shield United of Wisconsin and Related Matters

As previously announced, on June 4, 2002, Blue Cross & Blue Shield United of Wisconsin ("BCBSUW"), a wholly owned subsidiary of Cobalt Corporation ("Cobalt"), completed the sale of 3,001,500 shares of American Medical Security Group, Inc. (the "Company") common stock, no par value ("Common Stock"), in an underwritten secondary offering. The public offering price was $18.00 per share. The proceeds to BCBSUW, net of the underwriting discount of $1.06 per share, were $50,845,410. The secondary offering was effected pursuant to an Underwriting Agreement, dated May 29, 2002 (the "Underwriting Agreement"), among the Company, BCBSUW and the Underwriters named therein, for whom CIBC World Markets Corp., Robert W. Baird & Co. Incorporated and Stifel, Nicolaus & Company, Incorporated acted as Representatives.

The secondary offering was made as agreed in the Stock Purchase Agreement, dated as of March 19, 2002, among BCBSUW, Cobalt and the Company (the "Stock Purchase Agreement"), under which the Company repurchased 1,400,000 shares of its Common Stock from BCBSUW at $13.00 per share on March 22, 2002, and the Registration Rights Agreement between the Company and BCBSUW dated as of September 1, 1998 (the "Registration Rights Agreement"). As contemplated by the Stock Purchase Agreement, the underwriting discount was borne solely by BCBSUW; fees and expenses for the secondary offering up to an aggregate of $650,000 will be paid by the Company, and any expenses in excess of that amount will be borne equally by the Company and BCBSUW.

Prior to the secondary offering, BCBSUW owned 4,909,525 shares of Common Stock, or approximately 39.0% of the then outstanding shares of Common Stock. After the offering, its ownership was reduced to 1,908,025 shares, or approximately 15.1% of the 12,603,916 shares of Common Stock outstanding as of June 4, 2002. In accordance with the terms of the Stock Purchase Agreement, Thomas R. Hefty, Chairman of the Board and Chief Executive Officer of Cobalt and Chairman of the Board and President of BCBSUW, who became a director of the Company on March 22, 2002 as one of Cobalt/BCBSUW's two nominees designated pursuant to the Stock Purchase Agreement, resigned as a director effective June 4, 2002, upon completion of the secondary offering. The Stock Purchase Agreement required his resignation effective upon the date that Cobalt/BCBSUW owns less than 20% of the then issued and outstanding shares of Common Stock. Under the Stock Purchase Agreement, Cobalt is entitled to designate one nominee to the Company's Board for so long as Cobalt/BCBSUW holds at least 10% of the issued and outstanding shares of Common Stock. Kenneth L. Evason, Cobalt/BCBSUW's other nominee who became a director of the Company pursuant to the Stock Purchase Agreement on March 22, 2002, continues to be a member of the Company's Board of Directors. Mr. Evason (or his successor) is obligated to resign effective immediately upon the date that Cobalt/BCBSUW owns less than 10% of the then issued and outstanding shares of Common Stock.

The Company is required by the Stock Purchase Agreement to amend its shareholder rights agreement (the "Rights Agreement") upon consummation of the secondary offering if Cobalt/BCBSUW owns more than 12% of the then issued and outstanding shares of Common Stock. Such amendment is required to provide that an "Acquiring Person" under the Rights Agreement (which is the triggering provision of the "flip-in" provisions of the agreement) means any person beneficially owning the lesser of (1) 20% of the outstanding shares of Common Stock, or (2) the percentage (rounded up to the nearest whole number) of issued and outstanding shares of Common Stock then held by Cobalt/BCBSUW. If, following consummation of the secondary offering, Cobalt/BCBSUW's percentage ownership of Common Stock decreases further, the Company has the right to amend the Rights Agreement again to lower the definition of "Acquiring Person" to the percentage of issued and outstanding shares of Common Stock then held by Cobalt/BCBSUW.

As previously mentioned, upon completion of the secondary offering, BCBSUW's ownership was reduced to 15.1%. Thus, in accordance with the provisions of the Stock Purchase Agreement, the Company executed an Amendment to Rights Agreement, dated as of June 4, 2002, with the Rights Agent to provide that an "Acquiring Person" under the Rights Agreement means any person who or which, together with all of its affiliates and associates, shall become the beneficial owner of such number of shares of Common Stock as is equal to 16% of the shares of Common Stock of the Company then outstanding.

The Stock Purchase Agreement also contains certain standstill provisions and voting agreements that continue in effect for so long as Cobalt/BCBSUW has any nominee on the Company's Board of Directors, subject to the right of Cobalt/BCBSUW to terminate such voting agreements and standstill provisions as provided in the Stock Purchase Agreement.

The secondary offering constitutes an exercise of the first of the two demand registration rights granted to BCBSUW pursuant to the Registration Rights Agreement.

The foregoing description of the Underwriting Agreement, the Stock Purchase Agreement, the Registration Rights Agreement and the Amendment to Rights Agreement is qualified in its entirety by reference to the full text of such agreements, copies of which are filed or incorporated by reference as exhibits to this report and incorporated herein by this reference. Additional information concerning these agreements, the secondary offering and related matters is contained in the Company's Proxy Statement, dated April 26, 2002, for its Annual Meeting of Shareholders on June 18, 2002, and in Post-Effective Amendment No. 1 to the Company's Registration Statement on Form S-3 (No. 333-86660) filed with the Securities and Exchange Commission on May 24, 2002, and the related Prospectus, dated May 29, 2002, filed with the Commission on May 30, 2002.

Item 7. Financial Statements and Exhibits

(c) *Exhibits*

See the Exhibit Index following the Signature page of this report, which is incorporated herein by reference.

SIGNATURE

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

AMERICAN MEDICAL SECURITY GROUP, INC.

Dated: June 19, 2002

/s/ Timothy J. Moore
Senior Vice President of Corporate Affairs,
Secretary & General Counsel

AMERICAN MEDICAL SECURITY GROUP, INC.
(the "Registrant")
(Commission File No. 1-13154)

EXHIBIT INDEX
TO
FORM 8-K CURRENT REPORT
Date of Report: June 4, 2002

Exhibit Number	Description	Incorporated Herein by Reference to	Filed Herewith
1	Underwriting Agreement (See Exhibit 10.4 below)		
4.4(a)	Rights Agreement, dated as of August 9, 2001, between the Registrant and Firstar Bank, N.A., as Rights Agent (the "Rights Agreement"), including the form of Rights Certificate attached as Exhibit B thereto	Exhibit 1 to the Registrant's Registration Statement on Form 8-A filed August 14, 2001, and Exhibit 4 to the Registrant's Current Report on Form 8-K dated August 9, 2001, and filed on August 14, 2001	
4.4(b)	Amendment dated as of February 1, 2002 to the Rights Agreement	Exhibit 4.1 to the Registrant's Form 8-K dated February 1, 2002 (the "2/1/02 8-K")	
4.4(c)	Appointment and Assumption Agreement dated December 17, 2001, between the Registrant and Firstar Bank, N.A., appointing LaSalle Bank, N.A. as Rights Agent for the Rights Agreement	Exhibit 4.2 to the 2/1/02 8-K	
4.4(d)	Amendment to Rights Agreement dated as of June 4, 2002		X
10.1	Registration Rights Agreement between the Registrant and Blue Cross & Blue Shield United of Wisconsin dated as of September 1, 1998	Exhibit 10.19 to the Registrant's Form 10-K for the year ended December 31, 1998	
10.2	Agreement dated February 1, 2002, among the Registrant, Cobalt Corporation and Blue Cross & Blue Shield United of Wisconsin concerning the Rights Agreement	Exhibit 10.1 to the 2/1/02 8-K	
10.3	Stock Purchase Agreement, dated as of March 19, 2002, among Blue Cross & Blue Shield United of Wisconsin, Cobalt Corporation and the Registrant	Exhibit 10 to the Registrant's Form 8-K dated March 19, 2002	

Exhibit Number	Description	Incorporated Herein by Reference to	Filed Herewith
10.4	Underwriting Agreement, dated May 29, 2002, among the Registrant, Blue Cross & Blue Shield United of Wisconsin and the Underwriters named on Schedule I thereto		X

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant ý
Filed by a Party other than the Registrant o
Check the appropriate box:

o	Preliminary Proxy Statement
o	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
ý	Definitive Proxy Statement
o	Definitive Additional Materials
o	Soliciting Material Pursuant to §240.14a-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):

ý No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) 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:

o Fee paid previously with preliminary materials.
o 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:

American

April 26, 2002

To All Shareholders:

You are cordially invited to attend the Company's 2002 Annual Meeting of Shareholders on Tuesday, June 18, 2002, in Green Bay, Wisconsin.

The Annual Meeting will begin promptly at 11:00 a.m. local time at the Radisson Inn located at 2040 Airport Drive in Green Bay, Wisconsin.

The official Notice of Annual Meeting, Proxy Statement and appointment of proxy form are included with this letter. The matters listed in the Notice of Annual Meeting are described in detail in the Proxy Statement.

The vote of every shareholder is important to us. Please note that returning your completed proxy will not prevent you from voting in person at the Annual Meeting if you wish to do so. Your cooperation in promptly signing, dating and returning your proxy will be greatly appreciated.

Sincerely,
Samuel V. Miller
Chairman of the Board, President
and Chief Executive Officer

3100 AMS Boulevard Green Bay, Wisconsin 54313 920-661-1111

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Holders of Common Stock
of American Medical Security Group, Inc.:

The Annual Meeting of the Shareholders (the "Meeting") of American Medical Security Group, Inc. (the "Company") will be held at the Radisson Inn located at 2040 Airport Drive, Green Bay, Wisconsin, on Tuesday, June 18, 2002, at 11:00 a.m. local time, for the following purposes:

1. To elect four directors of the Company for terms expiring at the 2005 Annual Meeting of Shareholders; and

2. To transact any other business as may properly come before the Meeting or any adjournment or postponement thereof.

Only shareholders of record at the close of business on April 15, 2002, the record date for the Meeting, are entitled to receive notice of and to vote at the Meeting or any adjournment or postponement thereof.

A copy of the Proxy Statement furnished in connection with the solicitation of proxies by the Company's Board of Directors for use at the Meeting accompanies this Notice.

Shareholders who cannot attend in person are requested to complete and return the enclosed proxy in the envelope provided. You may revoke your proxy at any time prior to the voting thereof by advising the Secretary of the Company in writing (by subsequent proxy or otherwise) of such revocation.

Your vote is important.
Whether or not you plan to attend the meeting, please mark, sign and date the enclosed proxy and return it promptly in the envelope provided.

By Order of the Board of Directors,
Timothy J. Moore
Secretary

Green Bay, Wisconsin
April 26, 2002

American
3100 AMS Boulevard
Green Bay, Wisconsin 54313

PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
To Be Held on June 18, 2002

SOLICITATION AND VOTING

General

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of American Medical Security Group, Inc. (the "Company") for use at the Annual Meeting of Shareholders (the "Meeting") to be held at the Radisson Inn located at 2040 Airport Drive, Green Bay, Wisconsin, on Tuesday, June 18, 2002, at 11:00 a.m. local time, and at any adjournment or postponement thereof. At the Meeting, shareholders of the Company will consider and vote upon (1) the election of four directors of the Company for terms expiring at the 2005 Annual Meeting of Shareholders and (2) such other business as may be properly brought before the Meeting.

The Annual Report to Shareholders for the year ended December 31, 2001, the Notice of the Meeting, this Proxy Statement and the accompanying appointment of proxy form were first mailed to shareholders on or about April 26, 2002.

Outstanding Voting Common Stock

Only holders of record of shares of common stock, no par value per share ("Common Stock"), of the Company at the close of business on April 15, 2002, the record date for the Meeting, are entitled to receive notice of and to vote at the Meeting. Shareholders will be entitled to one vote for each share of Common Stock held. As of April 15, 2002, there were outstanding 12,590,166 shares of Common Stock.

Quorum and Voting

When you sign and return the enclosed appointment of proxy form, shares of the Common Stock represented thereby will be voted **FOR** the nominees for directors named in this Proxy Statement, unless you specify otherwise on the proxy form. In the event that any nominee for director is unable to serve, the proxy holders may vote for a substitute designated by the Board of Directors of the Company. Returning your completed proxy form will not prevent you from voting in person at the Meeting should you be present and wish to do so.

A majority of the votes entitled to be cast by the shares entitled to vote, represented in person or by proxy, will constitute a quorum at the Meeting. Any abstentions, shares for which authority is withheld to vote for director nominees, and broker non-votes (i.e., proxies from brokers or nominees indicating that such persons have not received instructions from the beneficial owners or other persons entitled to vote shares as to a matter with respect to which the brokers or nominees do not have discretionary power to vote) will be considered present for purposes of establishing a quorum.

Directors are elected by a plurality of the votes cast by the shares entitled to vote in the election at a shareholders' meeting at which a quorum is present. "Plurality" means that the individuals who receive the largest number of votes are elected as directors up to the maximum number of directors to be chosen in the election. Therefore, any shares not voted, whether by withheld authority, broker non-vote or otherwise, have no effect in the election of directors except to the extent that the failure to vote for an individual results in another individual receiving a larger number of votes. The Inspectors of Election appointed under the authority of the Board of Directors will count the votes and ballots at the Meeting.

Revocation

You may revoke your proxy at any time before it is voted. To revoke your proxy, send a written notice of revocation or another signed proxy with a later date to the Secretary of the Company, Timothy J. Moore at the Company's principal executive offices at 3100 AMS Boulevard, Green Bay, Wisconsin 54313 by 11:00 a.m., local time, on June 18, 2002. Attendance at the meeting, in and of itself, will not revoke your proxy.

Solicitation

The expense of preparing, printing, and mailing this Proxy Statement and the proxies solicited hereby will be borne by the Company. Officers and other employees of the Company may solicit proxies by personal interview, telephone and facsimile, in addition to the use of the mails, but will receive no additional compensation for such activities. The Company also has made arrangements with brokerage firms, banks, nominees and other fiduciaries to forward proxy solicitation materials for shares of the Common Stock held of record by them to the beneficial owners of such shares. The Company will reimburse them for reasonable out-of-pocket expenses.

Agreement with Cobalt Corporation

On March 19, 2002, the Company entered into a Stock Purchase Agreement (the "Stock Purchase Agreement") with Cobalt Corporation ("Cobalt") and Blue Cross & Blue Shield United of Wisconsin, a wholly owned subsidiary of Cobalt, ("BCBSUW" and together with Cobalt, "Cobalt/BCBSUW") whereby the Company agreed to repurchase 1,400,000 shares of Common Stock from BCBSUW at a price of $13.00 per share in cash, or an aggregate of $18,200,000 (the "Share Repurchase"). The Company completed the Share Repurchase on March 22, 2002, and BCBSUW withdrew its previously delivered notice of intention to nominate a slate of directors for election at the Meeting.

On March 19, 2002, in accordance with the terms of the Stock Purchase Agreement, the Company's Board of Directors increased the size of the Board to 14 directors and appointed two new directors nominated by Cobalt/BCBSUW, Thomas R. Hefty and Kenneth L. Evason, effective upon the closing of the Share Repurchase (which occurred on March 22, 2002). Pursuant to the Stock Purchase Agreement, Cobalt/BCBSUW will be entitled to designate two director nominees to the Board for so long as it holds at least 20% of the issued and outstanding shares of Common Stock and will be entitled to designate only one director nominee to the Board for so long as it holds at least 10% but less than 20% of the issued and outstanding shares of Common Stock. Mr. Hefty (or his successor) will resign effective immediately upon the date that Cobalt/BCBSUW owns less than 20% of the then issued and outstanding shares of Common Stock and Mr. Evason (or his successor) will resign effective immediately upon the date that BCBSUW/Cobalt owns less than 10% of the then issued and outstanding shares of Common Stock. For so long as Cobalt/BCBSUW has any nominees on the Board, BCBSUW agreed to vote its shares for the slate of directors nominated by the Board of Directors. Pursuant to the Stock Purchase Agreement, Cobalt/BCBSUW has also agreed to certain "standstill" provisions. For a more complete description of the Stock Purchase Agreement, see "CERTAIN TRANSACTIONS—Stock Purchase Agreement" below.

ELECTION OF DIRECTORS

Four directors are to be elected at the Meeting to serve three year terms expiring at the 2005 Annual Meeting of Shareholders and until their respective successors are duly elected and qualified. The names of the persons nominated by the Board of Directors and the continuing Board members are set forth below, along with additional information regarding such persons. Each nominee is presently serving as a director of the Company. Information below is provided as of March 31, 2002.

The election shall be determined by a plurality of the votes cast. Unless otherwise specified, the shares of Common Stock represented by the proxies solicited hereby will be voted in favor of the election of the nominees described below. The four nominees have indicated that they are able and willing to serve as directors. However, if any of the nominees should be unable to serve, an eventuality which management does not contemplate, it is intended that the proxies will vote for the election of such other person or persons as the Board of Directors of the Company may recommend.

The Board of Directors unanimously recommends a vote "FOR" each of the nominees for directors listed below.

NOMINEES FOR ELECTION AT THIS MEETING WITH TERMS EXPIRING IN 2005

	Director Since	Principal Occupation during Past Five Years
Roger H. Ballou Age: 50	1998	Mr. Ballou is President and Chief Executive Officer of CDI Corporation ("CDI"), a staffing and project management company. He is a former Chairman and Chief Executive Officer of Global Vacation Group where he served from March 1998 to September 2000. Immediately prior to that time, Mr. Ballou served as a senior advisor to Thayer Capital Partners, a venture capital firm. From 1995 to 1997, Mr. Ballou served as Vice Chairman and Chief Marketing Officer and then as President and Chief Operating Officer of Alamo Rent-a-Car. From 1989 to 1995, Mr. Ballou was President of the Travel Services Group of American Express Company. Mr. Ballou is a Director of CDI and Alliance Data Systems Corp., a transaction, credit and database marketing services firm.
W. Francis Brennan Age: 65	1998	Mr. Brennan is a retired Executive Vice President of UNUM Corporation, a life and health insurance company, where he served on the boards of UNUM's insurance affiliates in the United States, Canada, the United Kingdom and Japan. He joined UNUM in 1984 and retired in 1995. Prior to joining UNUM, Mr. Brennan was a Vice President with Connecticut General Life Insurance Company.

Edward L. Meyer, Jr. Age: 64	2000	Mr. Meyer is Chairman of the Board of Anamax Corporation, a food by-products recycling company, and its affiliated companies. He was named Chairman of the Board in 1997, after serving as President and Secretary earlier in his 40-year career with Anamax Corporation. Mr. Meyer is a director of Marshall & Ilsley Corporation, a bank holding company.
J. Gus Swoboda Age: 66	1998	Mr. Swoboda is a retired Senior Vice President of Wisconsin Public Service Corporation, an electric and gas utility, where he also held various other senior management positions. He joined Wisconsin Public Service in 1959 and retired in 1997. Mr. Swoboda was the Chairman of the Board of First Northern Capital Corp. from 1995 until its acquisition by Bank Mutual Corporation in November 2000. He is a director of Bank Mutual Corporation, and Chairman of the Board of its subsidiary, First Northern Saving Bank.

CONTINUING DIRECTORS

DIRECTORS WHOSE PRESENT TERMS CONTINUE UNTIL 2004

	Director Since	Principal Occupation during Past Five Years
Mark A. Brodhagen, DDS Age: 53	2000	Dr. Brodhagen, a practicing dentist, is the owner and President of Mark A. Brodhagen DDS, SC (d/b/a Brodhagen Dental Care) in Green Bay, Wisconsin, which he founded in 1974. He is a member of the Wisconsin and American Dental Associations. He has also served as a dental consultant to a number of managed health care companies.
Kenneth L. Evason Age: 52	2002	Mr. Evason has been a Director, President and Chief Executive Officer of Jacobus Wealth Management, Inc., an investment management company, since June 2001. From 1987 to 2000, he was President and Chief Executive Officer of Clarica U.S. Inc. (formerly Mutual Group, U.S.), a financial services organization.
Eugene A. Menden Age: 71	1991	Mr. Menden is a retired Vice President and director of Marquette Medical Systems, Inc. (formerly known as Marquette Electronics, Inc.), a manufacturer of medical electronic products, where he also held various other senior management positions in his over 20-year career with the company. He retired in 1992.
Samuel V. Miller Age: 56	1998	Mr. Miller has been Chairman of the Board, President and Chief Executive Officer of the Company since September 1998. He was an Executive Vice President of the Company from 1995 to 1998. From 1994 to 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.

Michael T. Riordan Age: 51	1998	Mr. Riordan was the Chairman, President and Chief Executive Officer of Paragon Trade Brands, Inc., a disposable diaper manufacturer, from May 2000 to February 2002. He was President and Chief Operating Officer of Fort James Corporation, a consumer products company, from 1997 to 1998 and held various positions including Chairman, President and Chief Executive Officer of Fort Howard Corporation from 1992 to 1997. He is also a director of The Dial Corporation and Wallace Computer Services, Inc.

DIRECTORS WHOSE PRESENT TERMS CONTINUE UNTIL 2003

Thomas R. Hefty Age: 54	2002	Mr. Hefty has been Chairman of the Board, President and Chief Executive Officer of Cobalt Corporation since 1998, and has been Chairman of the Board since 1988 and President since 1986 of BCBSUW. Prior to the spin-off in 1998, Mr. Hefty was President of United Wisconsin Services, Inc. (now known as the Company) from 1986 through 1998 and Chairman of the Board and Chief Executive Officer of United Wisconsin Services, Inc. from 1991 through 1998. He was Deputy Insurance Commissioner for the Office of the Commissioner of Insurance for the State of Wisconsin from 1979 to 1982. Mr. Hefty is a Director of BCBSUW, Cobalt and Artisan Funds, Inc., an investment company.
James C. Hickman Age: 74	1991	Mr. Hickman has been an Emeritus Professor and Emeritus Dean of the School of Business at the University of Wisconsin-Madison ("UW School of Business") since July 1993. He was a Professor at the UW School of Business from 1972 to 1993, serving as Dean from 1985 to 1990.
William R. Johnson Age: 75	1993	Mr. Johnson has been Chairman of the Board of Johansen Capital Associates, Inc., a financial and investment consulting firm, since 1986. Before establishing Johansen Capital, he was founder, Chairman, President and Chief Executive Officer of National Investment Services of America, Inc.
H.T. Richard Schreyer Age: 61	2000	Mr. Schreyer was managing partner and audit partner in Ernst & Young LLP's Milwaukee office from 1985 until his retirement from the accounting firm in 1998. He served in various other management positions during his 35-year career with Ernst & Young LLP.
Frank L. Skillern Age: 65	1998	Mr. Skillern was Chief Executive Officer of American Express Centurion Bank, a consumer bank located in Salt Lake City, Utah, from 1996 until his retirement in 1999. He was Chairman of the Board of Directors of American Express Centurion Bank from his retirement to December 2000, having served as a director since 1991. From 1994 to 1996 he was President, Consumer Card Group, USA, American Express Travel Related Services Company ("TRS"), having served as an Executive Vice President of TRS for the prior two years.

Meetings of the Board of Directors and Committees of the Board of Directors

In fiscal 2001, the Board of Directors held six meetings. During 2001, each director attended at least 93% of the meetings of the Board and committees of the Board of which the director was a member. The major standing committees of the Board of Directors are the Audit, Compensation, Executive and Finance Committees.

The Audit Committee performs the functions set forth in the Audit Committee Report contained in this proxy statement and the Audit Committee Charter attached hereto as Appendix A. The Audit Committee is composed entirely of "independent" directors as that term is defined by the New York Stock Exchange. The members of the Audit Committee are Messrs. Menden (Chairman), Brennan, Hickman, Schreyer and Swoboda. The Audit Committee held four meetings during 2001.

The Compensation Committee evaluates the performance of the Company's executive officers; determines the compensation of the executive officers; acts as the nominating committee for directors; makes recommendations to the Board of Directors regarding the types, methods and levels of director compensation; administers the Company's equity-based compensation plans; administers the other compensation plans for executive officers and directors; and discharges certain other responsibilities of the Board of Directors when so instructed by the Board. The Compensation Committee will consider a nominee for election to the Board of Directors recommended by a shareholder if the shareholder submits the nomination in compliance with the requirements of the Company's Bylaws relating to nominations by shareholders. The Compensation Committee is composed entirely of outside directors. The members of the Compensation Committee are Messrs. Ballou (Chairman), Riordan, Brennan and Skillern. The Compensation Committee held four meetings during 2001.

The Finance Committee approves investment policies and plans; monitors the performance of the Company's investment portfolio; consults with management regarding the Company's capital structure and material transactions involving real estate, accounts receivable and other assets; monitors the amounts and types of insurance carried by the Company; monitors the Company's relationship with its lenders; and discharges certain other responsibilities of the Board of Directors when so instructed by the Board. The members of the Finance Committee are Messrs. Johnson (Chairman), Brodhagen, Menden, Meyer, Miller and Skillern. The Finance Committee held three meetings during 2001.

The Executive Committee discharges certain responsibilities of the Board of Directors when so instructed by the Board. When the Board of Directors is not in session, the Executive Committee may exercise all of the powers and authority of the full Board in the management of the business and affairs of the Company to the extent allowed by the Wisconsin Business Corporation Law. The members of the Executive Committee met in executive session seven times during 2001. The members of the Executive Committee are Messrs. Miller (Chairman), Ballou, Hickman and Riordan.

Compensation of Directors

Directors who are officers or employees of the Company, Cobalt, BCBSUW or their affiliates do not receive any compensation for service as members of the Board of Directors or committees of the Board. During 2001, directors who were not officers or employees of the Company, Cobalt, BCBSUW or their affiliates received a $20,000 annual fee, $1,200 per meeting for attendance at Board meetings and $1,000 per meeting for attendance at committee meetings. In addition, each committee chairman received a $3,600 annual fee and other committee members received a $1,800 annual fee. The Company also reimburses directors for their travel expenses in connection with their attendance at Board and committee meetings. The payment of a director's annual fees and meeting fees may be deferred by any director at such director's election pursuant to the Company's Directors Deferred Compensation Plan until the later of the date of termination of such director's service as a non-employee director or the date specified by such director in his deferred election form.

Pursuant to the terms of the Company's 1995 Director Stock Option Plan, new directors that are not employees of the Company, Cobalt, BCBSUW or their affiliates receive stock option grants upon their election to the Board to purchase 5,000 shares of Common Stock. Directors of the Company that are not employees of the Company, Cobalt, BCBSUW or their affiliates also participate in the Company's Equity Incentive Plan. During 2001, stock options to purchase 8,000 shares of Common Stock were granted to each non-employee director at an exercise price of $10.20 per share, the fair market value of the Common Stock on the date of grant. The options will become exercisable for one-third of the shares of Common Stock subject to the option on each of the first three anniversaries of the date of grant. Exercisability of unvested options is accelerated in the event of a director's death, disability or retirement, or upon a "change in control" as defined in the Equity Incentive Plan or a "triggering event" as defined in the 1995 Director Stock Option Plan. Determination of the number of shares granted under the Equity Incentive Plan in 2001 to non-employee directors was based on a grant date present value of competitive annual stock option grant amounts.

During 2001 , the Company paid William R. Johnson, a director of the Company, $17,630 for consulting services related to investor relations activities provided by Mr. Johnson to the Company. The consulting arrangement was conducted on an arm's-length basis and was completed during 2001.

Nominations for Directors by Shareholders

Article II, Section 2.01(B) of the Company's Bylaws provides that if a shareholder desires to make a nomination for the election of directors at an annual meeting, he or she must give timely written notice of the nomination to the Secretary of the Company. Notice is timely if received by the Secretary at the Company's principal office in the year of the applicable annual meeting not less than 60 days nor more than 90 days prior to the date on which the Company first mailed its proxy materials for the prior year's annual meeting of shareholders. The annual meeting of shareholders is generally held in mid to late May. The notice must set forth the shareholder's name and address as they appear on the Company's books; the class and number of shares of Common Stock beneficially owned by such shareholder; a representation that such shareholder is a holder of record of shares entitled to vote at the meeting and intends to appear at the meeting, in person or by proxy, to make the nomination; the name and residential address of the nominee; a description of all arrangements or understandings between the shareholder and the nominee (and any other person or persons) pursuant to which the nomination is to be made; the written consent of the nominee to serve, if elected; and certain other information. The notice must be signed by the shareholder of record who intends to make the nomination (or his or her duly authorized proxy or other representative) and must bear the date of signature of such shareholder or representative. Article II, Section 2.02(B) of the Bylaws provides that notices with respect to any nomination for a Board election to be held at any special meeting must contain all the information set forth above and must be received by the Secretary of the Company not earlier than 90 days and not later than the later of 60 days prior to the special meeting or ten days after notice of such meeting is first given to shareholders. The Bylaws require similar notice with respect to shareholder proposals for other action to be taken at a meeting of shareholders (see "SHAREHOLDER PROPOSALS"). Shareholders wishing to submit a nomination should review the Bylaw requirement regarding nominations by shareholders and should communicate with the Secretary of the Company at American Medical Security Group, Inc., 3100 AMS Boulevard, Green Bay, Wisconsin 54313, for further information. Compliance with the Bylaw advance notice requirements does not confer any right to have a shareholder nomination or proposal included in the Company's proxy statement or form of proxy unless the Board of Directors determines to adopt or recommend the nomination or proposal for such inclusion.

The Board of Directors of the Company unanimously recommends that you vote "FOR" each of the Board's nominees on the enclosed proxy card.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth information regarding the beneficial ownership (as that term is defined in Rule 13d-3 under the Securities Exchange Act of 1934 (the "Exchange Act")) of shares of Common Stock by (1) each person or entity known to the Company to own beneficially more than 5% of the shares of the outstanding Common Stock, (2) each director and each nominee for director of the Company, (3) each executive officer of the Company named in the Summary Compensation Table below, and (4) all directors and executive officers of the Company as a group. Unless otherwise indicated, each shareholder listed below has sole voting and dispositive power with respect to shares of Common Stock beneficially owned. Information is as of March 31, 2002, for directors, nominees for director and executive officers. Information for 5% shareholders (other than Mr. Miller) is as disclosed in reports regarding such ownership filed with the Securities and Exchange Commission (the "SEC") in accordance with Sections 13(d) or 13(g) of the Exchange Act.

Name and Address	Number of Shares Beneficially Owned(1)	Percent of Class
Blue Cross & Blue Shield United of Wisconsin(2) 401 W. Michigan Street Milwaukee, WI 53203	4,909,525	39.0%
Dimensional Fund Advisors Inc. 1299 Ocean Avenue, 11th Floor Santa Monica, CA 90401	1,195,900	9.5
Heartland Advisors, Inc.(3) 789 North Water Street Milwaukee, WI 53202	1,111,600	8.8
Wellington Management Company, LLP(4) 75 State Street Boston, MA 02109	1,088,400	8.6
Samuel V. Miller(5)(6) 3100 AMS Boulevard Green Bay, WI 54313	758,818	5.7
Roger H. Ballou	20,848	*
W. Francis Brennan	29,000	*
Mark A. Brodhagen	1,667	*
Kenneth L. Evason(6)	—	*
Thomas R. Hefty(2)(6)	176,705	1.4
James C. Hickman(6)	19,200	*
William R. Johnson(6)	38,000	*
Eugene A. Menden(6)	20,500	*
Edward L. Meyer, Jr.	1,667	*
Michael T. Riordan(5)	24,000	*
H.T. Richard Schreyer(5)	6,792	*
Frank L. Skillern	29,000	*
J. Gus Swoboda	20,500	*
Gary D. Guengerich	185,438	1.5
James C. Modaff	102,750	*
Thomas G. Zielinski	126,893	1.0
Timothy J. Moore	88,363	*
All directors and executive officers as a group: 21 persons	1,695,768	12.0

* Less than 1%.

(1)
Includes the following number of shares which the individual has the right to acquire within 60 days of March 31, 2002, upon the exercise of stock options: Mr. Miller, 727,318 shares; Messrs. Ballou, Brennan, Hickman, Johnson, Menden, Riordan, Skillern, and Swoboda, 19,000 shares each; Messrs. Brodhagen, Meyer and Schreyer, 1,667 shares each; Mr. Hefty, 155,543 shares; Mr. Guengerich, 170,538 shares; Mr. Modaff, 102,750 shares; Mr. Zielinski, 106,250 shares; Mr. Moore, 79,886 shares; and all directors and executive officers as a group, 1,541,248 shares.

(2)
The 4,909,525 shares owned by BCBSUW after the Share Repurchase are deemed to be beneficially owned by Cobalt Corporation, 401 West Michigan Street, Milwaukee, WI 53203, and by Wisconsin United for Health Foundation, Inc. ("Foundation"), 410 E. Doty Street, Madison, WI 53701. Cobalt is the sole owner of BCBSUW and the Foundation beneficially owns approximately 77.5% of the outstanding shares of Cobalt's common stock. As President of BCBSUW, Mr. Hefty may be deemed an indirect beneficial owner of the 4,909,525 shares owned by BCBSUW. Mr. Hefty has disclaimed beneficial ownership of such shares.

(3)
The 1,111,600 shares may be deemed beneficially owned by William J. Nasgovitz as a result of his position as President and as a principal shareholder of Heartland Advisors, Inc. and as an officer and director of Heartland Group, Inc. Mr. Nasgovitz's address is 789 North Water Street, Milwaukee, WI 53202. Heartland Advisors, Inc. has sole voting power with respect to 436,900 shares and sole dispositive power with respect to 1,111,600 shares beneficially owned and does not have shared voting or shared dispositive power with respect to any shares. Mr. Nasgovitz has sole voting power with respect to 500,000 shares of the 1,111,600 shares beneficially owned.

(4)
Wellington Management Company, LLP has shared voting power with respect to 388,900 shares and shared dispositive power with respect to 1,088,400 shares beneficially owned and does not have sole voting power or sole dispositive power with respect to any shares.

(5)
Includes the following shares owned jointly with such person's spouse, with respect to which such person shares voting power and dispositive power: Mr. Miller, 6,500 shares; Mr. Riordan, 5,000 shares; and Mr. Schreyer, 2,000 shares.

(6)
Messrs. Evason, Hefty, Hickman, Johnson, Menden and Miller are the beneficial owners of shares of common stock of Cobalt, whose wholly owned subsidiary, BCBSUW, owns 39% of the issued and outstanding shares of the Company's Common Stock. The individuals beneficially own the following shares of Cobalt common stock, which includes shares indicated that the individual has the right to acquire within 60 days of March 31, 2002, upon the exercise of stock options to purchase Cobalt common stock: Mr. Evason, 16,900 shares; Mr. Hefty, 562,163 shares including 528,579 stock options; Mr. Hickman, 6,826 shares including 6,626 stock options; Mr. Johnson, 8,626 shares including 6,626 stock options; Mr. Menden, 8,126 shares including 6,626 stock options; and Mr. Miller, 200,019 shares including 198,019 stock options.

As of the record date, April 15, 2002, BCBSUW owned 39% of the issued and outstanding shares of the Common Stock. During 2001, James C. Hickman, a director of the Company, was a director of BCBSUW until March 23, 2001. Mr. Hickman and Eugene A. Menden, another director of the Company, were also directors of United Wisconsin Services, Inc., now known as Cobalt, until March 23, 2001 (see "CERTAIN TRANSACTIONS" below). Cobalt is the sole shareholder of BCBSUW. Pursuant to the Stock Purchase Agreement, BCBSUW has agreed that it will vote in favor of the Company's nominees for election at the Meeting (see "CERTAIN TRANSACTIONS—Stock Purchase Agreement" below).

EXECUTIVE COMPENSATION

The following table summarizes the total compensation paid by the Company to the Chief Executive Officer and the four other most highly compensated executive officers of the Company (the "Named Executive Officers") for services rendered to the Company for the fiscal years ended December 31, 2001, 2000 and 1999.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation		
					Awards		
Name and Principal Position	Year	Salary ($)	Bonus ($) (1)	Other Annual Compensation ($)(2)	Restricted Stock Awards ($)	Securities Underlying Options/ SARs (#)(3)	All Other Compensation ($)(4)
Samuel V. Miller	2001	$ 700,000	$ 700,000	$ 5,619	$ 138,750(5)	—	$ 27,000
Chairman of the Board, President &	2000	500,000	500,000	3,372	—	200,000	34,620
Chief Executive Officer	1999	500,000	500,000	18,628	—	148,000	2,000
Gary D. Guengerich	2001	286,938	271,200	4,211	—	50,000	13,030
Executive Vice President,	2000	273,272	75,000	4,889	—	55,000	7,678
Chief Financial Officer	1999	260,000	67,600	5,226	—	68,000	—
& Treasurer							
James C. Modaff(6)	2001	286,508	304,200	7,748	—	50,000	13,057
Executive Vice President & Chief	2000	271,174	75,000	6,307	—	55,000	12,683
Actuary	1999	108,000	130,000	6,741	—	178,000	3,060
Thomas G. Zielinski(6)	2001	286,508	304,200	10,901	—	50,000	11,985
Executive Vice President of	2000	270,898	100,000	9,646	—	55,000	11,636
Operations	1999	93,000	200,000	980	—	185,000	1,400
Timothy J. Moore	2001	198,462	125,500	—	—	25,000	8,477
Senior Vice President, General	2000	188,511	37,000	—	—	20,000	6,411
Counsel & Secretary	1999	180,000	37,000	—	—	27,000	3,991

(1)
Bonus amounts represent amounts earned under incentive bonus plans and, in Mr. Miller's case, an employment contract, and for Messrs. Modaff and Zielinski include new hire recruitment bonuses and minimum guaranteed bonuses for services during 1999, the year in which they were first employed (see footnote 6).

(2)
Amounts represent reimbursement for the payment of taxes related to compensation recognized in connection with moving expenses and the personal use of Company vehicles and airplane. The amounts indicated do not include perquisites and other personal benefits for the Named Executive Officers, which, for each officer, did not exceed the lesser of $50,000 or 10% of the officer's total annual salary and bonus.

(3)
These options are granted under the Company's Equity Incentive Plan, which permits limited transfers of nonqualified stock options to certain members of the optionee's immediate family or to a trust for their benefit.

(4)
Amounts represent the Company's matching contributions to the Company's retirement savings plan and nonqualified executive retirement plan.

(5)
Consists of a grant of 25,000 shares of restricted Common Stock pursuant to an agreement entered into with Mr. Miller on July 9, 2001. The restricted stock grant was subject to vesting on the earlier of

five years from the date of grant or the date on which shares of the Company's Common Stock traded at $10.25 per share or more for 10 consecutive trading days. The restricted stock vested on December 14, 2001, with a value of $266,250 based on the $10.65 closing price of Common Stock on that date (see "COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION—Chief Executive Officer Compensation").

(6)
Messrs. Modaff and Zielinski became employees of the Company on August 2, 1999 and August 23, 1999, respectively.

The following table details the stock options granted to the Named Executive Officers during 2001, each of which was granted pursuant to the Equity Incentive Plan. No stock appreciation rights ("SARs") were granted during 2001.

Option/SAR Grants in Last Fiscal Year (1)

	Individual Grants				Potential Realized Value at Assumed Annual Rates of Stock Price Appreciation For Option Term (2)	
Name	Number of Securities Underlying Options/SARs Granted (#)	Percent of Total Option/SARs Granted to Employees in Fiscal Year	Exercise or Base Price ($/Share)	Expiration Date	5% ($)	10% ($)
Samuel V. Miller	—	—%	$ —	—$	—	$ —
Gary D. Guengerich	50,000	14.8	10.20	11/28/2013	405,887	1,090,599
James C. Modaff	50,000	14.8	10.20	11/28/2013	405,887	1,090,599
Thomas G. Zielinski	50,000	14.8	10.20	11/28/2013	405,887	1,090,599
Timothy J. Moore	25,000	7.4	10.20	11/28/2013	202,943	545,299

(1)
The grants consisted entirely of nonqualified stock options granted pursuant to the Equity Incentive Plan. All options granted to the Named Executive Officers have a term of 12 years, subject to earlier expiration in certain events related to termination of employment. The options were granted at 100% of the fair market value of the Company's Common Stock on the date of grant and become exercisable as to 25% of such options on each of the first four anniversaries of the date of grant. Exercisability of unvested options is accelerated in the event of the optionee's death or disability, or upon termination of employment as a result of a change of control. A change in control generally occurs upon (1) any person, or group as defined in Section 13(d)(3) of the Exchange Act, becoming the beneficial owner of 40% or more of the Company's outstanding voting securities, (2) a merger, consolidation or reorganization of the Company with another entity in which the outstanding voting securities of the Company are converted into less than 60% of the voting securities of the surviving entity, (3) a sale of all or substantially all of the assets of the Company, (4) a majority of the Board of Directors of the Company are replaced as a result of an actual or threatened contested election of directors, or (5) the shareholders approve a plan of liquidation or dissolution of the Company. Except in the event of termination of employment as a result of a change of control, no option may be exercised within the first six months following the date of grant. The options permit limited transfers to certain members of the optionee's immediate family or to a trust for their benefit.

(2)
The ultimate values of the options will depend on the future market price of the Company's stock, which cannot be forecast with reasonable accuracy. The actual value, if any, an optionee will realize upon exercise of an option will depend on the excess of the market value of the Company's Common Stock over the exercise price on the date the option is exercised. There is no assurance that the value realized by an optionee will be at or near the assumed 5% and 10% annual rates of stock price appreciation shown in this table.

No stock options or SARs were exercised by any of the Named Executive Officers during 2001. The number of unexercised options and the total value of unexercised in-the-money options at December 31, 2001, are shown in the following table. No SARs were outstanding at December 31, 2001.

Aggregated Option/SAR Exercises in Last Fiscal Year And Fiscal Year End Option/SAR Values

Name	Number of Securities Underlying Unexercised Options/SARs at FY-End (#)		Value of Unexercised In-the-Money Options/SARs at FY-End ($)(1)	
	Exercisable	Unexercisable	Exercisable	Unexercisable
Samuel V. Miller	727,318	249,000	$ 1,355,654	$ 1,635,550
Gary D. Guengerich	170,538	155,250	459,821	681,878
James C. Modaff	102,750	180,250	419,034	731,253
Thomas G. Zielinski	106,250	183,750	534,672	846,891
Timothy J. Moore	79,886	68,500	193,060	276,856

(1)
The value of unexercised in-the-money options represents the positive spread between the $12.45 per share closing price of the Company's Common Stock as reported on the New York Stock Exchange composite tape on December 31, 2001, and the exercise price of unexercised options. The actual amount, if any, realized upon exercise of options will depend on the market price of the Common Stock relative to the per share exercise price at the time the option is exercised.

Employment and Related Agreements

Mr. Miller is a party to an Employment Agreement (the "Miller Agreement") with the Company dated as of September 28, 2000, as amended, which supersedes an Employment and Noncompetition Agreement dated as of April 7, 1998. The Miller Agreement contains customary employment terms. The terms of the Miller Agreement, which expires on December 31, 2003, provide for automatic one-year extensions (unless notice not to extend is given by either party at least 30 days prior to the end of the effective term) and beginning January 1, 2001, provide for an annual base salary of $700,000 and annual performance bonuses ranging from zero to 132% of base salary. Such performance bonus amounts are dependent upon the achievement of target performance goals determined by the Compensation Committee. Any portion of Mr. Miller's performance bonus that is not deductible as a result of Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code") is deferred and held in a rabbi trust. In the event of termination of Mr. Miller's employment by the Company without "cause" (as defined in the Miller Agreement), resignation by Mr. Miller for "good reason" (as defined in the Miller Agreement) or if the Company does not renew the Miller Agreement, Mr. Miller will be entitled to receive payments equal to three times his base salary and three times the average of his performance bonus earned for the two most recent fiscal years preceding employment termination. In addition, Mr. Miller will be entitled to continuation of medical and dental coverage for three years. The Miller Agreement also includes noncompetition and confidentiality provisions.

Messrs. Guengerich, Modaff, Zielinski and Moore participate in the American Medical Security Group, Inc. Change of Control Severance Benefit Plan, as amended, (the "Severance Plan"). Benefits are payable under the Severance Plan if, during a period beginning six months prior to a "change of control" and ending on the second anniversary of a change of control, (1) the participant's employment is terminated by the Company, except for "cause," as defined in the Severance Plan, death or disability, or (2) the participant voluntarily terminates employment with "good reason," as defined in the Severance Plan. For purposes of the Severance Plan, a "change of control" shall have occurred upon (1) any person, or group as defined in Section 13(d)(3) of the Exchange Act, becoming the beneficial owner of 40% or more of the Company's outstanding voting securities, (2) a merger, consolidation or reorganization of the

Company with another entity in which the outstanding voting securities of the Company are converted into less than 60% of the voting securities of the surviving entity, (3) a sale of all or substantially all of the assets of the Company, (4) a majority of the Board of Directors of the Company are replaced as a result of an actual or threatened contested election of directors, or (5) the shareholders approve a plan of liquidation or dissolution of the Company. Severance Plan benefits include the payment of severance equal to the sum of (1) three times the higher of the executive's current salary or average salary for the prior two years, (2) three times the higher of the executive's target bonus for the year of employment termination or annual bonus received for the prior year, and (3) the amount of the executive's target bonus for the year of employment termination prorated for the portion of the year prior to termination. In addition, the Company would also provide health, dental, long-term disability and life insurance coverage for the same periods of time. In the event the executive qualifies for severance benefits under any other agreement with the Company, benefits payable under the Severance Plan are reduced by the amount of the benefits paid pursuant to the other agreement. The Miller Agreement provides for the payment of severance benefits to Mr. Miller following termination of employment as a result of a change of control on substantially the same terms as payments under the Severance Plan to the other executives in the event of a change of control.

In connection with the employment offers accepted by Messrs. Guengerich, Modaff, Zielinski and Moore, the Company has also agreed to provide Messrs. Guengerich, Modaff, Zielinski and Moore with severance benefits in the event of termination of their employment by the Company without cause. These benefits include payments equal to one year's salary and medical insurance coverage for one year.

COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Introduction

The Compensation Committee of the Board of Directors (the "Compensation Committee") is comprised of four independent, non-employee directors. The Compensation Committee establishes and directs the administration of all programs under which executive compensation is paid or awarded to the Company's executive officers. In addition, the Compensation Committee evaluates executive officer performance and assesses the overall effectiveness of the Company's executive compensation programs.

Compensation Philosophy and Objectives

The Company's compensation and benefit programs are designed to:

- Attract and retain top level executive talent required to attain the Company's short- and long-term goals.
- Motivate executives to achieve the goals of the Company's business strategy.
- Link executive and shareholder financial interests through appropriate equity-based long-term incentive plans.
- Provide executives with a compensation package that recognizes individual contributions and overall business results.

Elements of Executive Compensation

The elements of executive compensation include base salary, an annual incentive program and an equity incentive plan. The Compensation Committee's decisions with respect to each of these elements are discussed below. While the elements of compensation described in this report are considered separately, the Compensation Committee takes into account the full compensation package afforded by the Company to the individual, including salary, incentive compensation, retirement and other benefits. In reviewing the individual performance of the executives whose compensation is detailed in this proxy statement, other

than the Chief Executive Officer ("CEO"), the Compensation Committee takes into account the views of the CEO.

Each year the Compensation Committee reviews the Company's executive compensation program to ensure that pay opportunities are competitive with the current market and that there is appropriate linkage between Company performance and executive compensation. This process includes consultation with a national compensation and benefits consultant on issues of base salary, annual incentive awards, stock options and other long-term equity awards, and overall compensation. The Compensation Committee's review includes a comparison of the Company's executive compensation against an appropriate peer group and general industry data of comparably sized companies.

The peer group consists of a group of companies against which the Company competes in the marketplace and competes for executive talent. The peer group includes a composite of health and life insurance companies as surveyed by the Company's executive compensation consultant. Because many of the peer group companies are significantly larger than the Company, peer group compensation data is statistically regressed for purposes of compensation comparisons in order to ascertain the predicted level of compensation for an organization with annual revenue comparable to the Company's. The companies in the peer group comprise the peer index included in the Performance Graph contained in this proxy statement.

Base Salary

Base salaries for executive officers are initially determined by evaluating and comparing the responsibilities of their positions and experiences and by reference to the competitive marketplace for executive talent. Qualitative factors including time in position, responsibilities and experience are also considered in establishing base salaries. Base salary adjustments for 2001 generally resulted in salaries at the competitive median or slightly below the competitive median of executives in the peer group, except for the CEO whose base salary is discussed below.

Annual Incentive Compensation

The Company's executive officers are eligible for an annual performance bonus under the Company's executive management incentive program (the "Annual Program"). The Annual Program emphasizes the achievement of internal financial goals that are aligned with the interest of the Company's shareholders. Bonuses paid under the Annual Program have two components: (1) achievement of corporate performance goals and (2) an assessment of specific job performance characteristics. Performance bonuses are weighted 60% on achievement of corporate performance goals and 40% on a qualitative evaluation of individual job performance. The corporate performance factor for 2001 was earnings before interest, taxes, depreciation and amortization ("EBITDA"). Target incentive opportunities are set, when combined with base salaries, to result in total cash compensation (base salary and annual incentives) at the competitive median.

The Annual Program is designed to align executive compensation with the profitability of the Company and to reward those executives who made significant contributions to the Company's business objectives. Participants in the Annual Program are high performers around whom the Company's high performance work culture is built. The Compensation Committee uses discretion in evaluating each executive's individual performance.

For 2001, the potential range of bonus awards for executive officers (other than the CEO) was zero to 120% of annual base salary with the actual payout ranging from 53% to 105% of base salary. In determining the corporate performance component of the annual performance bonuses for 2001, the Compensation Committee considered the achievement of the Company EBITDA performance goal excluding a nonrecurring litigation charge taken during the year. Bonus awards for the individual performance component were based on a subjective assessment of each executive's performance with input from the CEO. The performance awards for fiscal 2001 were paid in the first quarter of 2002.

Long-Term Incentive Compensation

Long-term incentives are provided primarily pursuant to the Company's Equity Incentive Plan, as amended (the "Equity Incentive Plan"), which provides for the grant of stock options, stock appreciation rights, restricted stock, and performance units and performance shares.

The purpose of the Equity Incentive Plan is to promote the success and enhance the value of the Company by linking the personal interests of employees to those of the Company's shareholders, and by further providing employees that receive awards under the Equity Incentive Plan with an incentive for outstanding performance. When awarding long-term incentives, the Compensation Committee considers compensation practices at peer group companies, general industry data, the executive's level of responsibility, prior experience and historical award data.

The Compensation Committee is responsible for administering the Equity Incentive Plan. During 2001, nonqualified stock option grants were made under the Equity Incentive Plan and an award of 25,000 shares of restricted stock was made to the CEO, which is discussed below under "Chief Executive Officer Compensation." The option grants are designed to motivate employees to maximize shareholder value and maintain a medium to long-term perspective. Option grants are made at no less than the fair market price on the date of grant and generally become exercisable in equal annual installments over a four-year term, expiring no later than 12 years after the date of grant. All full-time active employees of the Company are eligible to participate in the Equity Incentive Plan.

When determining the size of annual option grants made to executive officers in 2001, the Compensation Committee considered the results of the peer group survey performed by the Company's executive compensation consultant, general industry data gathered by the consultant, recommendations of the CEO for officers other than himself, internal equity among executives, Company performance and the increased value of the Company's common stock. The commonly used Black-Scholes valuation methodology is used to determine grant sizes at competitive value. Option award sizes for 2001 were generally below the competitive median.

Nonqualified stock options to purchase a total of 175,000 shares were granted to the Company's four executive officers other than the CEO named in the compensation table during fiscal 2001.

Chief Executive Officer Compensation

Mr. Miller became the CEO of the Company in 1998. On September 28, 2000, he entered into a new employment and noncompetition agreement with the Company with a term ending on December 31, 2003 (the "Miller Agreement"). Under the terms of the Miller Agreement, Mr. Miller's annual base salary is $700,000 and he is eligible for annual performance bonuses ranging from zero to 132% of base salary. Mr. Miller's annual performance bonuses are based 60% on Company performance criteria, which are established by the Compensation Committee, and 40% on individual performance. For 2001, Mr. Miller participated in the Annual Program described above, which used EBITDA for the corporate performance component.

In determining the corporate performance component of Mr. Miller's annual performance bonus for 2001, the Compensation Committee considered the achievement of the Company EBITDA performance goal excluding a nonrecurring litigation charge taken during the year. The individual performance component of Mr. Miller's 2001 bonus was based on a subjective assessment of his leadership in implementing the overall strategic direction of the Company. For 2001, Mr. Miller received an annual performance bonus of $700,000 or 100% of base salary.

In 2001, the Compensation Committee evaluated long-term incentive alternatives to address two issues: (1) the large number of outstanding stock options at exercise prices significantly above the Company's then current stock price, some of which were granted prior to the time the current management of the Company was in place, and (2) the limited number of shares remaining available for future grant under the Equity Incentive Plan. As a result of that evaluation, the Company and Mr. Miller entered

into an agreement dated July 9, 2001, under which Mr. Miller received 25,000 shares of restricted stock upon his surrender of (1) a nonqualified stock option to purchase 198,019 shares of Company Common Stock at an exercise price of $15.76 per share, which had a remaining option term of six years, and (2) a nonqualified stock option to purchase 245,838 shares of Company Common Stock at an exercise price of $16.27 per share, which had a remaining option term of seven years. On the date of grant, the restricted stock had a value of $138,750 based on the $5.55 per share closing price of the Company's Common Stock. The primary reason for the surrender of Mr. Miller's stock options for the restricted stock was to increase the pool of shares available for future grant under the Equity Incentive Plan. The surrender of stock options by Mr. Miller more than doubled the number of shares available for future grant under the Equity Incentive Plan. The Compensation Committee used its discretion in determining the size of the restricted stock grant. The restricted stock grant was subject to vesting on the earlier of five years from the date of grant or the date on which shares of the Company's Common Stock traded at $10.25 per share or more for 10 consecutive trading days. Mr. Miller's restricted stock vested on December 14, 2001, due to the achievement of the target stock price.

In January 2002, Mr. Miller received options to purchase 160,000 shares of Company Common Stock at an exercise price of $12.25 per share. This equity interest recognized Mr. Miller's leadership and provides an appropriate link to the interests of shareholders. When determining the size of the CEO's option grant, the Compensation Committee considered the results of the peer group survey performed by the Company's executive compensation consultant, historical grant levels and Mr. Miller's overall compensation. Based on the commonly used Black-Scholes valuation methodology, Mr. Miller's grant was positioned below the 50 th percentile of competitive practice.

Pursuant to the Miller Agreement, Mr. Miller participates in a deferral program whereby any portion of his annual performance bonus that is not deductible as a result of Section 162(m) of the Internal Revenue Code of 1986, as amended, (the "Internal Revenue Code") is deferred until he is no longer an employee of the Company or he is no longer considered a "covered employee" within the meaning of Section 162(m)(3) of the Internal Revenue Code. Deferred amounts are held in a rabbi trust and are credited with interest at a rate equal to a money market rate.

Policy on Deductibility of Compensation

Section 162(m) of the Internal Revenue Code limits the Company's federal income tax deduction for compensation to its CEO and any of its four other highest paid executive officers to $1 million. Qualified performance-based compensation is not subject to the $1 million limitation, provided certain requirements of Section 162(m) are satisfied. In 2001, none of the Company's executives received compensation in excess of $1 million for purposes of Section 162(m) and all executive compensation paid in fiscal 2001 is fully deductible. In order to preserve the deductibility of Mr. Miller's compensation, a portion of his annual incentive for 2001 was deferred pursuant to the deferral program described above.

Conclusion

After its review of the total compensation program for the executives of the Company, the Compensation Committee continues to believe that these executive compensation policies and practices serve the interests of the shareholders and the Company effectively. We also believe that the various compensation programs offered are appropriately balanced to provide increased motivation for executive officers to contribute to the Company's overall future success, thereby increasing the value of the Company for the shareholders' benefit. The Compensation Committee will continue to monitor the effectiveness of the Company's total compensation program to meet the ongoing needs of the Company.

COMPENSATION
COMMITTEE
Roger H. Ballou, Chairman
W. Francis Brennan
Michael T. Riordan
Frank L. Skillern

PERFORMANCE GRAPH

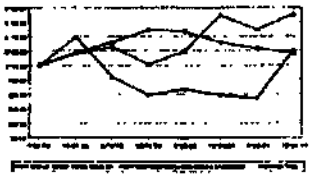
Two performance graphs are presented below to provide cumulative shareholder return information for the Company on (1) a post-Spin-off (as defined below in "CERTAIN TRANSACTIONS") basis reflecting continuing operations and (2) a five-year historical basis, as is required by Exchange Act reporting regulations (see "CERTAIN TRANSACTIONS" for a description of the Spin-off).

The first graph compares the cumulative shareholder return of the Company's Common Stock for the period from September 28, 1998 (the first day of trading on the New York Stock Exchange following the completion of the Spin-off) through December 31, 2001, to the cumulative total returns of the NYSE/AMEX/Nasdaq Stock Market and a peer group of issuers selected by the Company. The second performance graph compares the cumulative shareholder return of the Company's Common Stock (traded on the New York Stock Exchange prior to the Spin-off under the listing of United Wisconsin Services, Inc. and after the Spin-off under the listing of American Medical Security Group, Inc.) for the five-year period ended December 31, 2001, to the cumulative total returns of the same market and peer group as the short-period graph.

The peer group consists of a composite of life and health insurance companies against which the Company competes in the marketplace. The following companies are included in the peer group: Aetna Inc.; United Healthcare Corporation; Humana, Inc.; Pacificare Health Systems, Inc.; Health Net, Inc. (f/n/a Foundation Health Systems, Inc.); Wellpoint Health Networks, Inc.; Oxford Health Plans, Inc.; Jefferson-Pilot; Unitrin, Inc.; Trigon Healthcare, Inc.; Sierra Health Services, Inc.; and Rightchoice Managed Care, Inc. The Company also uses this peer group for executive compensation comparison purposes.

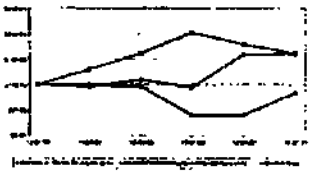
The graphs assume an investment of $100 in each of the Company's Common Stock, the NYSE/AMEX/Nasdaq Stock Market and the peer group of issuers at the beginning of the periods (September 28, 1998, and December 31, 1996, as the case may be) and assume reinvestment of dividends. In the five-year graph, the Spin-off of the Company's managed care and specialty products business was treated as a special dividend of $7.19 per share that was reinvested in Company Common Stock on September 28, 1998, the first day of trading following the Spin-off. The line graphs are not intended to be indicative of future stock performance.

Comparison of Cumulative Total Returns
From September 28, 1998 through December 31, 2001
Performance Graph
American Medical Security Group, Inc.



	9/28/98	12/31/98	6/30/99	12/31/99	6/30/00	12/31/00	6/30/01	12/31/01
American Medical Security Group, Inc.	$ 100.00	$ 139.63	$ 84.15	$ 58.54	$ 67.07	$ 58.54	$ 54.34	$ 121.46
NYSE/AMEX/Nasdaq Stock Market (US Companies)	100.00	118.01	132.23	147.90	146.15	131.03	123.70	117.07
Peer Group	100.00	116.09	126.55	100.89	120.10	169.58	149.24	170.59

Comparison of Cumulative Total Returns
From December 31, 1996 through December 31, 2001
Performance Graph
American Medical Security Group, Inc.



	12/31/96	12/31/97	12/31/98	12/31/99	12/31/00	12/31/01
American Medical Security Group, Inc.	$ 100.00	$ 99.69	$ 95.70	$ 40.12	$ 40.12	$ 83.25
NYSE/AMEX/Nasdaq Stock Market (US Companies)	100.00	130.94	161.53	202.45	179.36	160.24
Peer Group	100.00	96.98	109.40	95.07	159.81	160.76

AUDIT COMMITTEE REPORT

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board of Directors. Management has the primary responsibility for the financial statements and the reporting process including the systems of internal controls. In fulfilling its oversight responsibilities, the Audit Committee reviewed and discussed the audited financial statements with management. This included a discussion of the quality, not just the acceptability, of the accounting principles applied, and the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Company's independent auditors are responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles. The Audit Committee has discussed with the independent auditors the judgments of the independent auditors as to the quality, not just the acceptability, of the Company's accounting principles and such other matters that the independent auditors are required to discuss with the Audit Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61, as amended, "Communications with Audit Committees." In addition, the Audit Committee has discussed with the independent auditors the independence of the auditors from management and the Company, including the matters in the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." The Audit Committee considered the compatibility of nonaudit services provided by the audit firm with the auditors' independence.

The Audit Committee discussed with the Company's internal and independent auditors the overall scope and plans for their respective audits. The Audit Committee meets with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee also met with the internal auditor, with and without management present, to discuss the results of internal examinations.

In reliance on the reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2001, for filing with the Securities and Exchange Commission.

AUDIT COMMITTEE
Eugene A. Menden, Chairman
W. Francis Brennan
James C. Hickman
H.T. Richard Schreyer
J. Gus Swoboda

AUDITORS AND PRINCIPAL ACCOUNTING FIRM FEES

The Board of Directors, upon recommendation of the Audit Committee of the Board, has selected Ernst & Young LLP ("Ernst & Young") as independent auditors for the Company for the year ended December 31, 2002. Ernst & Young has examined the accounts of the Company each year since 1988. Representatives of Ernst & Young will be present at the Meeting, will be available to respond to questions and may make a statement if they so desire.

Fees Billed to the Company by Ernst & Young during Fiscal 2001

Audit Fees

The aggregate fees billed by Ernst & Young for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2001, and for the reviews of

the financial statements included in the Com[redacted]'s Quarterly Reports on Form 10-Q for that fi[redacted] year were $209,475.

All Other Fees

The aggregate fees billed by Ernst & Young for services rendered to the Company, other than for services described under "Audit Fees" above, for the fiscal year ended December 31, 2001 were $105,313. Included in these fees is $77,038 for audit related fees. Ernst & Young did not provide any professional services to the Company for information technology services relating to financial information systems design and implementation for the fiscal year ended December 31, 2001.

CERTAIN TRANSACTIONS

On May 27, 1998, the Board of Directors of the Company, then known as United Wisconsin Services, Inc., approved a plan to spin off its managed care companies and specialty products business to its shareholders. 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 as of September 11, 1998 (the "Spin-off"). In connection with the Spin-off, the Company adopted its current name of American Medical Security Group, Inc. and Newco/UWS changed its name to United Wisconsin Services, Inc., which is now know as Cobalt Corporation (referred to herein as "Cobalt"). As a result of the transactions entered into in connection with the Spin-off, Cobalt owns the businesses and assets of, and is responsible for the liabilities associated with, the managed care and specialty products business formerly conducted by the Company. The Company continues to own the business and assets of, and is responsible for the liabilities associated with, the Company's individual and small group business described in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2001.

As of the record date, April 15, 2002, BCBSUW (Blue Cross & Blue Shield United of Wisconsin) owned 39% of the issued and outstanding shares of the Company's Common Stock. Cobalt is the sole shareholder of BCBSUW.

Stock Purchase Agreement

On March 19, 2002, the Company entered into the Stock Purchase Agreement with Cobalt and BCBSUW whereby the Company agreed to repurchase 1,400,000 shares of Common Stock from BCBSUW at a price of $13.00 per share in cash (which is equal to the five-day average closing price for the five trading days prior to March 19, 2002, discounted by 6%), or an aggregate of $18,200,000 (the "Share Repurchase"). The Company completed the Share Repurchase on March 22, 2002.

In addition, pursuant to the Stock Purchase Agreement, Cobalt and BCBSUW agreed to an underwritten secondary offering by BCBSUW of at least 3,000,000 shares of Common Stock (with the exact number of shares to be as many shares as the underwriters advise may be sold therein). We agreed to cooperate in, and pay a portion of the expenses of, the offering. The offering will be conducted in satisfaction of the obligations contained in the Stock Purchase Agreement and the 1998 Registration Rights Agreement described below. The parties will seek to complete the secondary offering as promptly as reasonably possible.

Upon consummation of the Share Repurchase, BCBSUW withdrew its previously disclosed notice of intention to nominate four persons for election at the Meeting. In accordance with the terms of the Stock Purchase Agreement, on March 19, 2002, the Company's Board of Directors increased the size of the Board to 14 directors and appointed two new directors nominated by Cobalt/BCBSUW, Thomas R. Hefty and Kenneth L. Evason, effective upon the closing of the Share Repurchase, which occurred on March 22.

2002. Pursuant to the Stock Purchase Agreement, Cobalt/BCBSUW is entitled to designate two director nominees to the Board for so long as it holds at least 20% of the issued and outstanding shares of Common Stock and is entitled to designate only one director nominee to the Board for so long as it holds at least 10% but less than 20% of the issued and outstanding shares of Common Stock. Mr. Hefty (or his successor) will resign effective upon the date that Cobalt/BCBSUW owns less than 20% of the then issued and outstanding shares of Common Stock and Mr. Evason (or his successor) will resign effective immediately upon the date that BCBSUW/Cobalt owns less than 10% of the then issued and outstanding shares of Common Stock.

The Stock Purchase Agreement also contains certain standstill provisions whereby Cobalt/BCBSUW agreed that, for so long as Cobalt/BCBSUW has any nominee on the Board, Cobalt/BCBSUW will not, directly or indirectly, (1) acquire any voting securities of the Company, (2) make or in any way participate in any solicitation of proxies or otherwise influence any person on how to vote (or act by written consent with respect to) any voting securities of the Company for the election of directors or approval of shareholder proposals, (3) seek, propose or make any public statement that is critical of the Company's management or reasonably likely to be publicly disclosed regarding any business combination, sale or purchase of assets or securities or other extraordinary transaction involving the Company or its subsidiaries, (4) deposit any voting securities of the Company in any voting trust, arrangement or agreement (other than a trust, arrangement or agreement that is not formed for the purpose of taking, and does not take, any actions prohibited by the standstill provisions), (5) call or seek to have called any meeting of the shareholders of the Company, (6) otherwise act to control or influence the management, Board, or policies of the Company or make any public statement critical of any nominees recommended by the Board of Directors for election as directors, (7) seek representation on, or a change in the composition of, the Board of the Company, except in accordance with the Stock Purchase Agreement, (8) make any public statement (including a request to waive the standstill provision), or any other statement that would require public disclosure, regarding any of the foregoing, (9) have any discussions or enter into any arrangements with any other person regarding any of the above provisions, or (10) make or disclose any written request, or any written or oral request to the Board, to amend, waive or terminate any of the above provisions, other than oral disclosure to management not requiring public disclosure.

Cobalt/BCBSUW also agreed that, for so long as Cobalt/BCBSUW has any nominees on the Board, all shares of Common Stock beneficially owned by Cobalt/BCBSUW will (1) be present and counted for a quorum at all of the Company's shareholders' meetings at which directors will be elected and (2) voted in favor of any nominees recommended by the Board of Directors for election as directors. Cobalt/BCBSUW is free to vote its shares in its sole discretion on any other matters, and is free to vote its shares in its sole discretion on the election of directors in the event that the Company is in breach of its obligations relating to the designation of Cobalt/BCBSUW's nominees to the Board of Directors.

Cobalt/BCBSUW has the right, at any time after December 31, 2002, upon 30 days' prior written notice, to terminate such voting agreements and the standstill provisions (other than the provisions relating to its agreement not to seek representation on, or change the composition of the Board of Directors and not make solicitations, which may not be terminated prior to December 31, 2003) contained in the Stock Purchase Agreement, provided that Cobalt/BCBSUW's nominees then serving on the Board must resign from the Board at the time it gives notice of termination.

The Company is required by the Stock Purchase Agreement to amend its shareholder rights agreement upon consummation of the secondary offering of Cobalt/BCBSUW's shares if Cobalt/BCBSUW owns more than 12% of the then issued and outstanding shares of Common Stock. Such amendment will provide that an "Acquiring Person" under the shareholder rights agreement (which is the triggering provision of the "flip-in" provisions of the agreement) means any person beneficially owning the lesser of (1) 20% of the outstanding shares of Common Stock or (2) the percentage (rounded up to the nearest whole number) of issued and outstanding shares of Common Stock then held by Cobalt/BCBSUW. If, following consummation of the secondary offering, Cobalt/BCBSUW's percentage ownership of

common stock decreases, the Company has the right to further amend the shareholder rights agreement to lower the definition of Acquiring Person to the percentage of issued and outstanding shares of Common Stock then held by Cobalt/BCBSUW.

A copy of the Stock Purchase Agreement was filed with the Securities and Exchange Commission as an exhibit to the Company's Current Report on Form 8-K dated March 19, 2002.

Reinsurance Agreements and Certain Insurance Policies

During 1998, the Company and Cobalt, or their subsidiaries, entered into various quota share reinsurance agreements or amendments to existing reinsurance agreements ("Reinsurance Agreements") pursuant to which each company cedes to the other certain risks related to life insurance, health insurance, dental insurance, point-of-service and other insurance plans. Each company acting as the reinsurer also provides administrative services to the other company acting as the ceding company. As consideration for such reinsurance, the ceding company receives a ceding commission of approximately 0.5% of the gross premiums reinsured under each applicable agreement. In addition, the Company's workers compensation and employers liability insurance policy, which is purchased through an independent agent, and its long-term disability and executive medical reimbursement insurance policies are underwritten by a subsidiary of Cobalt. For fiscal 2001, 2000 and 1999, the Company received $103,221, $107,406 and $115,449, respectively, from Cobalt or its subsidiaries pursuant to the Reinsurance Agreements and paid to Cobalt, its subsidiaries or agents $362, $28,176 and $78,025, respectively, pursuant to the Reinsurance Agreements and $411,701, $536,048 and $461,387, respectively, as premiums for the insurance policies. Thomas R. Hefty, a director of the Company, is an executive officer of Cobalt and its subsidiaries.

Registration Rights Agreement

The Company and BCBSUW have entered into a Registration Rights Agreement dated as of September 1, 1998, which contains certain registration rights granted by the Company with respect to shares of Company Common Stock owned by BCBSUW. Pursuant to the terms of the agreement, BCBSUW is entitled to certain demand registration rights until the earlier of July 31, 2008, or the date on which BCBSUW owns in the aggregate less than 3% of the Company's outstanding Common Stock. If effected, the secondary offering described above in "—Stock Purchase Agreement" constitutes one of two demand registration rights granted to BCBSUW pursuant to the Registration Rights Agreement (see "CERTAIN TRANSACTIONS—Stock Purchase Agreement" above). In addition, BCBSUW is entitled, subject to certain limitations, to include its shares of Common Stock in a registration statement prepared by the Company for another offering. Also, if BCBSUW proposes to sell its Common Stock to a third party, BCBSUW may request that the Company register its shares prior to such sale, and the Company shall use its best efforts to register all of the shares that BCBSUW proposes to sell. BCBSUW has agreed not to acquire any additional Common Stock of the Company, other than as a result of any stock dividend or distribution, without the consent of the Company, for a period of ten years. The Registration Rights Agreement continues in effect except as modified by the Stock Purchase Agreement.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's executive officers and directors and any persons who beneficially own in excess of 10% of the shares of the Common Stock to file reports of ownership and changes in ownership of the Common Stock with the Securities and Exchange Commission, the New York Stock Exchange and the Company.

With the exception of one transaction involving Mr. Johnson that was reported late, based upon a review of the information furnished to the Company, the Company believes that during the fiscal year ended December 31, 2001, its executive officers and directors, and BCBSUW complied with all applicable Section 16(a) filing requirements.

OTHER MATTERS

The Company knows of no other matters to come before the Meeting. If any other matters properly come before the Meeting, it is the intention of the persons acting pursuant to the accompanying appointment of proxy form to vote the shares represented thereby in accordance with their best judgment.

SHAREHOLDER PROPOSALS

Shareholder proposals for the 2003 Annual Meeting of Shareholders of the Company must be received no later than December 27, 2002, at the Company's principal executive offices, 3100 AMS Boulevard, Green Bay, Wisconsin 54313, directed to the attention of the Secretary, in order to be considered for inclusion in next year's annual meeting proxy material under Rule 14a-8 of the Securities and Exchange Commission's proxy rules.

Under the Company's Bylaws, written notice of shareholder proposals for the 2003 Annual Meeting of Shareholders of the Company which are not intended to be considered for inclusion in next year's proxy material (shareholder proposals submitted outside the processes of SEC Rule 14a-8) must be received no later than February 25, 2003, and no earlier than January 26, 2003, at the Company's offices, directed to the attention of the Secretary, and such notice must contain the information specified in the Company's Bylaws. In order to be "timely" for purposes of Rule 14a-4 of the proxy rules, any such proposal must be submitted no later than February 25, 2003.

AMERICAN MEDICAL SECURITY GROUP, INC.
Timothy J. Moore
Secretary

Green Bay, Wisconsin
April 26, 2002

A COPY (WITHOUT EXHIBITS) OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001, HAS BEEN PROVIDED IN THE COMPANY'S ANNUAL REPORT ACCOMPANYING THIS PROXY STATEMENT. AN ADDITIONAL COPY WILL BE PROVIDED WITHOUT CHARGE TO EACH RECORD OR BENEFICIAL OWNER OF THE COMPANY'S COMMON STOCK AS OF APRIL 15, 2002, ON THE WRITTEN REQUEST OF SUCH PERSON DIRECTED TO: TIMOTHY J. MOORE, SECRETARY, AMERICAN MEDICAL SECURITY GROUP, INC., 3100 AMS BOULEVARD, GREEN BAY, WISCONSIN 54313.

AMERICAN MEDICAL SECURITY GROUP, INC.
AUDIT COMMITTEE CHARTER

Organization

This charter governs the operations of the Audit Committee (the "Committee") of the Board of Directors of American Medical Security Group, Inc. (the "Company"). The Committee shall review and reassess the charter at least annually and obtain the Board of Directors' approval of the charter. The Committee shall be appointed by the Board of Directors and shall be comprised of at least three Directors, each of whom are independent of management and the Company. Members of the Committee shall be considered independent if they have no relationship that may interfere with the exercise of their independence from management and the Company. All Committee members shall be financially literate, or shall become financially literate within a reasonable period of time after appointment to the Committee. At least one member shall have accounting or related financial management expertise.

Statement of Policy

The Audit Committee shall provide assistance to the Board of Directors in fulfilling its oversight responsibility to the shareholders, potential shareholders, the investment community and others relating to the Company's financial statements and the financial reporting process, the systems of internal accounting and financial controls, the internal audit function, the annual independent audit of the Company's financial statements and the legal compliance and ethics programs as established by management and the Board. In so doing, it is the responsibility of the Committee to maintain free and open communication between the Committee and the independent auditors, the internal auditors and management of the Company. In discharging its oversight role, the Committee is empowered to investigate any matter brought to its attention with full access to all books, records, facilities and personnel of the Company and the power to retain outside counsel or other experts for this purpose.

Responsibilities and Processes

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting process on behalf of the Board and report the results of their activities to the Board. Management is responsible for preparing the Company's financial statements, and the independent auditors are responsible for auditing those financial statements. In carrying out its responsibilities, the Committee's processes and procedures should remain flexible in order to best react to changing conditions and circumstances. The Committee should take the appropriate actions to set the overall corporate "tone" for quality financial reporting, sound business risk practices and ethical behavior.

The financial management and the independent auditors of the Company typically devote more time and receive more detailed information about the Company than do Committee members. Consequently, in carrying out its oversight responsibilities, the Committee is not providing any expert or special assurance as to the Company's financial statements or any professional certification as to the independent auditor's work.

The following shall be the principal recurring processes of the Audit Committee in carrying out its oversight responsibilities. The processes are set forth as a guide with the understanding that the Committee may supplement them as appropriate.

- The Committee shall have a clear understanding with management and the independent auditors that the independent auditors are ultimately accountable to the Board and the Audit Committee, as representatives of the Company's shareholders. The Committee and the Board of Directors shall have the ultimate authority and responsibility to evaluate and, where appropriate, replace the

independent auditors. The Committee shall discuss with the independent auditors the independence of the auditors from management and the Company and the matters included in the written disclosures required by the Independence Standards Board. Annually, the Committee shall review and recommend to the Board the selection of the Company's independent auditors.

- The Committee shall discuss with the internal auditors and the independent auditors the overall scope and plans for their respective audits including the adequacy of staffing and compensation. Also, the Committee shall discuss with management, the internal auditors and the independent auditors the adequacy and effectiveness of the accounting and financial controls, including the Company's system to monitor and manage business risk and legal and ethical compliance programs. Further, the Committee shall meet separately with the internal auditors and the independent auditors, with and without management present, to discuss the results of their examinations.

- The Committee, or the Chairman of the Committee, shall review with management and the independent auditors the Company's interim financial results prior to the release of earnings and/or the Company's quarterly financial statements prior to filing or distribution. Also, the Committee, or its Chairman, shall discuss the results of the quarterly review and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

- The Committee shall review with management and the independent auditors the financial statements to be included in the Company's Annual Report on Form 10-K (or the annual report to shareholders if distributed prior to the filing of Form 10-K), including the independent auditors' judgment about the quality, not just acceptability, of accounting principles, the reasonableness of significant judgments and the clarity of the disclosures in the financial statements. Based on these discussions, the Committee will advise the Board of Directors whether it recommends that the audited financial statements be included in the Annual Report on Form 10-K. Also, the Committee shall discuss the results of the annual audit and any other matters required to be communicated to the Committee by the independent auditors under generally accepted auditing standards.

AMERICAN MEDICAL SECURITY GROUP, INC.

ANNUAL MEETING OF SHAREHOLDERS
JUNE 18, 2002

This proxy is solicited on behalf of the Board of Directors

The undersigned appoints Samuel V. Miller, Gary D. Guengerich and Timothy J. Moore, and each of them, as Proxies, with full power to appoint his substitute, and authorizes each of them to represent and vote as specified on this card with respect to the matters set forth in the accompanying proxy statement, and in the discretion of the above-named Proxies upon all other matters that may properly come before the Annual Meeting of Shareholders of American Medical Security Group, Inc. (the "Company") to be held on Tuesday, June 18, 2002, or any adjournment or postponement thereof (the "Meeting"), all the shares of Common Stock of the Company that the undersigned would be entitled to vote, with like effect as if the undersigned were personally present and voting.

This proxy when properly executed will be voted in the manner specified herein by the undersigned shareholder. If no specification is made, this proxy will be voted for Proposal 1.

IMPORTANT - PLEASE SIGN AND DATE ON THE REVERSE SIDE OF THIS PROXY CARD AND PROMPTLY RETURN IT IN THE ENCLOSED POSTAGE PRE-PAID ENVELOPE.

(continued on reverse side).

AMERICAN M[redacted]ICAL SECURITY GROUP, INC. 2002 AN[redacted]AL MEETING
PLEASE MARK VOTE IN [redacted]OVAL IN THE FOLLOWING MANNER USING DARK INK ONLY. o

The Board of Directors unanimously recommends a vote FOR Item 1.

1. Election of Directors:		For All	Withhold All	For All Except*
Nominees:	Roger H. Ballou	o	o	o
	W. Francis Brennan			
	Edward L. Meyer, Jr.			
	J. Gus Swoboda			

* To withhold authority to vote for any individual nominee, write the nominee's name in the space provided above and fill in the "For All Except" oval.

2.

In their discretion, upon such other business as may properly come before the Meeting or any adjournments thereof; all as set out in the Notice and Proxy Statement relating to the Meeting, receipt of which is hereby acknowledged.

Da , 2002
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:

Signature(s)

Note: Please sign exactly as name appears herein. Joint owners should each sign. When signing as attorney, executor, administrator, personal representative, trustee or guardian, please give full title as such. If signer is a corporation, sign full corporate name by duly authorized officer.

FOLD AND DETACH HERE

YOUR VOTE IS IMPORTANT!

PLEASE SIGN, DATE AND RETURN THIS PROXY PROMPTLY IN THE ENCLOSED, POSTAGE PRE-PAID ENVELOPE.

QuickLinks

End of Filing

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of
the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant /x/

Filed by a Party other than the Registrant / /
Check the appropriate box:

/ /	Preliminary Proxy Statement
/ /	Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
/x/	Definitive Proxy Statement
/ /	Definitive Additional Materials
/ /	Soliciting Material Pursuant to §240.14a-12

Cobalt Corporation
(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):

/x/ 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:

Cobalt Corporation
401 West Michigan Street
Milwaukee, Wisconsin 53203
(414) 226-6900

April 25, 2002

To All Shareholders:

You are cordially invited to attend the Company's 2002 Annual Meeting of Shareholders on May 29, 2002, in Chicago, Illinois.

The Annual Meeting will begin promptly at 11:00 a.m. at the Intercontinental Hotel located at 505 North Michigan Avenue, Chicago, Illinois.

The official Notice of Annual Meeting, Proxy Statement and appointment of proxy form are included with this letter. The matters listed in the Notice of Annual Meeting are described in detail in the Proxy Statement.

The vote of every shareholder is important to us. Please note that returning your completed proxy will not prevent you from voting in person at the Annual Meeting if you wish to do so. Your cooperation in promptly signing, dating and returning your proxy will be greatly appreciated.

Sincerely,
Thomas R. Hefty
Chairman of the Board, President
and Chief Executive Officer

Cobalt Corporation

401 West Michigan Street
Milwaukee, Wisconsin 53203
(414) 226-6900

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To the Holders of Common Stock of
Cobalt Corporation:

The Annual Meeting of the Shareholders (the "Meeting") of Cobalt Corporation (the "Company" or "Cobalt") will be held at the Intercontinental Hotel located at 505 North Michigan Avenue, Chicago, Illinois, on Wednesday, May 29, 2002, at 11:00 a.m. local time, for the following purposes:

1. To elect three directors of the Company for terms expiring at the 2005 Annual Meeting of Shareholders;

2. To vote on a proposal to amend the Company's Equity Incentive Plan to (a) increase the number of shares of the Company's Common Stock, $.01 par value per share ("Common Stock") available for grant thereunder from 4,500,000 to 8,700,000 shares; and (b) provide for an automatic annual grant of options to purchase 1,000 shares of Common Stock to each of the Company's non-employee directors; and

3. To transact any other business as may properly come before the Meeting or any adjournments or postponements thereof.

Only shareholders of record at the close of business on April 12, 2002, the record date for the Meeting, are entitled to receive notice of and to vote at the Meeting or any adjournments or postponements thereof.

A copy of the Proxy Statement furnished in connection with the solicitation of proxies by the Company's Board of Directors for use at the Meeting accompanies this Notice.

Shareholders who cannot attend in person are requested to date, fill in, sign and return the enclosed proxy form in the envelope provided. You may revoke your proxy at any time prior to the voting thereof by advising the Secretary of the Company in writing (by subsequent proxy or otherwise) of such revocation at any time before it is voted.

YOUR VOTE IS IMPORTANT. WHETHER OR NOT YOU PLAN TO ATTEND THE MEETING, PLEASE SIGN AND DATE THE ENCLOSED PROXY AND RETURN IT PROMPTLY IN THE ENVELOPE PROVIDED.

By Order of the Board of Directors.
Stephen E. Bablitch,
Secretary

Milwaukee, Wisconsin

April 25, 2002

Cobalt Corporation

PROXY STATEMENT

This Proxy Statement is furnished in connection with the solicitation of proxies by the Board of Directors of Cobalt Corporation (the "Company" or "Cobalt") for use at the Annual Meeting of Shareholders (the "Meeting") to be held at the Intercontinental Hotel located at 505 North Michigan Avenue, Chicago, Illinois, on Wednesday, May 29, 2002, at 11:00 a.m. local time, and at any adjournments or postponements thereof. At the Meeting, shareholders of the Company will consider and vote upon:

(i)
the election of three directors of the Company for terms expiring at the 2005 Annual Meeting of Shareholders;

(ii)
an amendment (the "Plan Amendment") to the Company's Equity Incentive Plan (the "Plan") (a) increasing the number of shares of the Company's Common Stock, no par value ("Common Stock") available for grant thereunder from 4,500,000 to 8,700,000 shares; and (b) providing for an automatic annual grant of options to purchase 1,000 shares of Common Stock to each of the Company's non-employee directors; and

(iii)
such other business as may be properly brought before the Meeting.

Only holders of record of shares of Common Stock at the close of business on April 12, 2002, the record date for the Meeting, are entitled to receive notice of and to vote at the Meeting. Shareholders will be entitled to one vote for each share of Common Stock held. On April 12, 2002, 40,693,754 shares of Common Stock were issued and outstanding and entitled to vote at the Meeting.

James L. Forbes, D. Keith Ness, M.D., and William C. Rupp, M.D. have been nominated for election to the Company's Board of Directors with terms expiring in 2005. The Board of Directors expects all nominees for director to be available for election. In case any nominee for director is not available, the proxy holders may vote for a substitute.

Returning your completed proxy form will not prevent you from voting in person at the Meeting should you be present and wish to do so. You may revoke your proxy at any time before it is voted by advising the Secretary of the Company of such revocation in writing (by subsequent proxy or otherwise).

The Company knows of no specific matter to be brought before the Meeting that is not referred to in the Notice of Annual Meeting. If any such matter properly comes before the Meeting, then it is the intention of the persons acting pursuant to the enclosed appointment of proxy form to vote the shares represented thereby in accordance with their best judgment.

Directors will be elected at the Meeting by a plurality of the votes cast at the Meeting. The affirmative vote of a majority of the votes cast at the Meeting on the Plan Amendment (assuming a quorum is present) is required to approve the Plan Amendment, provided that a majority of the outstanding shares of Common Stock are voted on the proposal. Abstentions will be included in the determination of shares present and voting for purposes of determining whether a quorum exists. Broker non-votes will not be so included. Neither abstentions nor broker non-votes are counted in determining whether a proposal has been approved. Pursuant to the Voting Trust and Divestiture Agreement which is described on Page 23 of this Proxy Statement, Wisconsin United for Health Foundation, Inc. (the "Foundation") is required to vote its 31,313,390 shares of Common Stock "FOR" the nominees for directors listed on Page 4 of this Proxy Statement and "FOR" the Plan Amendment. Accordingly, those nominees will be elected as directors and the Plan Amendment will be approved at the Meeting.

The costs associated with this solicitation of proxies will be borne by the Company. Officers and other employees of the Company may solicit proxies by personal interview, telephone and facsimile, in addition to the use of the mails, but will receive no additional compensation for such activities. The Company also has made arrangements with brokerage firms, banks, nominees and other fiduciaries to forward proxy solicitation materials for shares of the Common Stock held of record by them to the beneficial owners of such shares. The Company will reimburse them for reasonable out-of-pocket expenses.

The Annual Report to Shareholders for the year ended December 31, 2001, the Notice of the Meeting, this Proxy Statement and the accompanying appointment of proxy form were first mailed to shareholders on or about April 25, 2002.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth the beneficial ownership of shares of Common Stock as of March 31, 2002 by each shareholder known to the Company to own beneficially more than five percent (5%) of the shares of Common Stock outstanding, by each director of the Company, each person nominated to be a director, each of the executive officers of the Company who appear in the Summary Compensation Table below, and all directors and executive officers of the Company as a group. Unless otherwise indicated, each shareholder listed below has sole voting and dispositive power with respect to the shares of Common Stock beneficially owned.

Name	Number of Shares Beneficially Owned(2)	Percent of Class
Wisconsin United for Health Foundation, Inc.(1)	31,313,390	77.0%
Thomas R. Hefty(3)(4)	562,163	1.4%
Stephen E. Bablitch(3)(4)	223,602	*
Timothy F. Cullen(3)(4)	172,582	*
Gail L. Hanson(4)	121,073	*
Penny J. Siewert(3)(4)	253,548	*
Richard A. Abdoo	12,426	*
Barry K. Allen	14,000	*
James L. Forbes	8,126	*
Michael S. Joyce(3)	40,100	*
D. Keith Ness, M.D.	2,000	*
William C. Rupp, M.D.	3,000	*
Janet D. Steiger	2,000	*
Kenneth M. Viste, Jr., M.D.	3,000	*
All directors and executive officers as a group (19 persons)(4)	1,737,844	4.3%

*

Amount represents less than 1% of the total shares of Common Stock issued and outstanding.

(1)

Based on the Schedule 13D filed by the Foundation with the Company pursuant to the Securities Exchange Act of 1934, as amended. The address for the Foundation is 10 East Doty Street, Madison, Wisconsin 53701.

(2)

Includes the following number of shares that may be acquired upon the exercise of options within 60 days of March 31, 2002: Mr. Hefty, 528,579; Ms. Siewert, 244,123; Mr. Bablitch, 216,991; Mr. Cullen, 167,064; Ms. Hanson, 115,050; Mr. Abdoo, 6,626; Mr. Forbes, 6,626; Mr. Allen, 4,000; Mr. Joyce, 2000; Mr. Ness, 2,000; Ms. Steiger, 2,000; Mr. Viste, 2,000; and all directors and executive officers as a group, 1,585,034.

(3)

Includes the following shares owned jointly with such person's spouse, with respect to which such person shares voting power and dispositive power: Mr. Bablitch, 4,000. Also includes the following shares owned separately by such person's spouse and/or child, with respect to which such person shares voting power and dispositive power: Mr. Hefty, 750; Mr. Cullen, 250; Ms. Siewert, 3,000; and Mr. Joyce, 200.

(4)

Includes the following shares held under the Company's 401(k) plan, as to which such person has dispositive power: Mr. Hefty, 6,584; Ms. Siewert, 5,075; Ms. Hanson, 3,023; Mr. Bablitch, 2,611; Mr. Cullen, 3,188; and all directors and executive officers as a group, 34,730.

ELECTION OF DIRECTORS

General

The Company's bylaws fix the number of directors at nine. The Board of Directors is divided into three classes, whose members each serve terms of three years (and until their successors are elected and qualified). The terms of one of the three classes expire at each annual meeting of shareholders.

Messrs. Forbes, Ness and Rupp are in the class of directors whose terms expire at the Meeting and have been nominated to serve as directors for terms expiring at the Annual Meeting of Shareholders in 2005 and until their successors are elected and qualified. The terms of Messrs. Abdoo, Allen and Joyce will expire at the Annual Meeting of Shareholders in 2003. The terms of Ms. Steiger and Messrs. Hefty and Viste will expire at the Annual Meeting of the Shareholders in 2004. There are no family relationships among any of the directors, nominees and/or executive officers of the Company.

As used in this Proxy Statement, the term "Predecessor" refers to the Company's predecessor corporation formerly named "United Wisconsin Services, Inc." and now named "American Medical Security Group, Inc."

The nominees standing for election have been approved by the Board of Directors. The Board of Directors has no reason to believe that any nominee will be unable or unwilling to serve as a director if elected. The name and age as of March 31, 2002, and certain additional information, as to each such nominee and each director serving an unexpired term are as follows:

Nominees Standing for Election at the Meeting with Terms Expiring in 2005

Name and Age	Principal Occupation During Past Five Years
James L. Forbes Age: 69	Director of the Company since 1998. Director of the Predecessor from 1991 through 1998. Director of Blue Cross & Blue Shield United of Wisconsin ("BCBSUW") from 1974 to 2001. Chairman and Chief Executive Officer and Director of Badger Meter, Inc., a manufacturer of products using flow measurement technology, since 1999; and President and Chief Executive Officer of Badger Meter, Inc. from 1987 to 1999. Director of Sensient Technologies Corporation, an ingredient manufacturer, and Journal Communications, Inc.
D. Keith Ness, M.D. Age: 53	Director of the Company since 2001. Director of BCBSUW from 1998 through 2001. Practicing family physician since 1978. Director, President and interim Chief Executive Officer of Community Physician's Network, a group of primary care physicians, since 1998. Medical Director of Heritage Manor Nursing Home since 1996.
William C. Rupp, M.D. Age: 55	Director of the Company since 1998. Director of the Predecessor from 1997 through 1998. Practicing physician in oncology since 1982. President and Chief Executive Officer of Luther/Midelfort Mayo Health System, a network of community-based healthcare providers in West-Central Wisconsin, from 1994 to 2002. President of Midelfort Clinic from 1991 through 2001.

Directors Whose Terms Continue Until 2003

Richard A. Abdoo Age: 58	Director of the Company since 1998. Director of the Predecessor from 1991 through 1998. President and Chief Executive Officer of Wisconsin Energy Corporation, a diversified energy services holding company, since May 1991. Chairman of the Board and Chief Executive Officer of Wisconsin Electric Power Company, a utility company, since 1990. Director of Wisconsin Energy Corporation, a diversified energy services holding company. since 1988. Director of Wisconsin Electric Power Company since 1989. Director of Marshall & Ilsley Corporation, a bank holding company; Sensient Technologies Corporation, an ingredient manufacturer; and AK Steel Holding Corporation, a steel manufacturer.
Barry K. Allen Age: 53	Director of the Company since 2000. President of Allen Enterprises, LLC, a private equity investment and management company, since August 2000. President of Ameritech Corporation, a telecommunica-tions company, from October 1999 to 2000; Executive Vice President of Ameritech from 1997 to 1999; and Senior Vice President of Ameritech from 1995 to 1997. Director of Harley-Davidson Inc.; Fiduciary Management, Inc., an investment advisory firm; First Business Bank-Milwaukee; and CMGI, Inc., an internet operating and development company.
Michael S. Joyce Age: 59	Director of the Company since 2001. Director of BCBSUW from 1996 through 2001. President and Chief Executive Officer of the Foundation for Community and Faith-Centered Enterprise, a charitable foundation, since October 2001. President and Chief Executive Officer of Americans for Community and Faith-Centered Enterprise from June 2001 to October 2001. President and Chief Executive Officer of the Lynde and Harry Bradley Foundation, a charitable foundation, from 1986 to 2001.

Directors Whose Terms Continue Until 2004

Thomas R. Hefty Age: 54	Director of the Company since 1998. Director of the Predecessor from 1983 through 1998. Chairman of the Board, President and Chief Executive Officer of the Company since 1998. President of the Predecessor from 1986 through 1998 and Chairman of the Board and Chief Executive Officer of the Predecessor from 1991 through 1998. Chairman of the Board of BCBSUW since 1988; President and Director of BCBSUW since 1986. Director of Artisan Funds, Inc., an investment company registered under the Investment Company Act of 1940, as amended, and American Medical Security Group, Inc.

Janet D. Steiger Age: 62	Director of the Company since 2001. Director of BCBSUW from 1998 through 2001. Member of the United States Federal Trade Commission from 1989 to 1997; Chairman of the Federal Trade Commission from 1989 to 1995.
Kenneth M. Viste, Jr., M.D. Age: 60	Director of the Company since 2001. Director of BCBSUW from 1992 through 2001. Practicing physician in neurology since 1974. Principal of Lakeside Neurocare, Limited, an independent medical office. Director of the Physical Rehabilitation Unit of Mercy Medical Center, Oshkosh, Wisconsin, since 1974, and of the Physical Rehabilitation Unit of St. Agnes Hospital, Fond du Lac, Wisconsin, since 1983. Clinical Professor of Neurology at the University of Wisconsin Medical School since 1995.

The affirmative vote of a plurality of the votes cast is required for the election of directors. Unless otherwise specified, the shares of Common Stock represented by proxies returned to the Company will be voted in favor of the election of the above-described nominees. If, at or prior to their election, any one or more of the nominees is unwilling or unable to serve, the proxies shall have discretionary authority to select and/or vote for substituted nominees. Pursuant to the Voting Trust and Divestiture Agreement which is described on Page 23 of this Proxy Statement, the Foundation is required to vote its 31,313,390 shares of Common Stock "FOR" the nominees for directors listed on Page 4 of this Proxy Statement. Accordingly, those nominees will be elected as directors at the Meeting.

THE BOARD OF DIRECTORS RECOMMENDS YOU VOTE FOR THE NOMINEES FOR DIRECTOR.

Meetings of the Board of Directors and Committees of the Board of Directors

In 2001, the Board of Directors held five meetings. During 2001, each director attended at least 75% of the aggregate number of meetings of the Board of Directors and of the committees of the Board of Directors held during his or her tenure as a Board or committee member. The Board of Directors has standing Executive, Finance, Management Review, Nominating and Audit Committees.

The Executive Committee discharges certain responsibilities of the Board of Directors when so instructed by the Board and studies proposals and makes recommendations to the Board. Specifically, the Executive Committee has the authority to approve long range corporate and strategic plans, advise and consult with management on corporate policies, approve the annual operating plan and approve major changes in policy affecting new services and programs. The Executive Committee held two meetings during 2001. The members of the Executive Committee are Messrs. Hefty (Chairman), Allen, Forbes, Joyce, and Rupp.

The Finance Committee approves investment policies and plans and approves the investment of funds of the Company, consults with management regarding real estate, accounts receivable and other assets, determines the amounts and types of insurance carried by the Company, advises and consults with management regarding selection of insurance carriers and corporate tax policies and discharges certain other responsibilities of the Board of Directors when so instructed by the Board. The Finance Committee held four meetings during 2001. The members of the Finance Committee are Messrs. Rupp (Chairman), Hefty, Ness, and Viste.

The Management Review Committee evaluates the performance of the Company's executive officers, approves executive officer development programs, determines the compensation of the executive officers and reviews management's recommendations as to the compensation of other key

personnel, makes recommendations to the Board of Directors regarding the types, methods and levels of director compensation, administers the compensation plans for the officers, directors and key employees, and discharges certain other responsibilities of the Board of Directors when so instructed by the Board. The Management Review Committee held four meetings during 2001. The members of the Management Review Committee are Messrs. Forbes (Chairman), Allen, Joyce, and Ms. Steiger.

The Nominating Committee makes recommendations to the Board of Directors prior to the annual shareholders' meeting each year for nominees for election to the Board within the provisions set forth in the corporate bylaws, recommends to the Board of Directors prior to the annual Board meeting nominees for election as corporate officers and Chairman of the Board (Chief Executive Officer); and discharges certain other responsibilities of the Board of Directors when so instructed by the Board. The Nominating Committee will consider a nominee for election to the Board of Directors recommended by a shareholder if the shareholder submits the nomination in compliance with the requirements of the Company's bylaws relating to nominations by shareholders. The Nominating Committee held one meeting during 2001. The members of the Nominating Committee are Messrs. Joyce (Chairman), Abdoo, and Viste.

The Audit Committee reviews the scope and timing of the audit of the Company's financial statements and reviews with the Company's independent public accountants and the Company's management its policies and procedures with respect to auditing and accounting controls. In May 2000, the Audit Committee adopted a charter and reaffirmed the charter in May 2001. The Audit Committee also reviews with the independent public accountants the audited financial statements for the Company and the auditors' reports and management letters. In addition, it reviews and evaluates conflict of interest statements and discharges certain other responsibilities of the Board of Directors when so instructed by the Board. The Audit Committee held four meetings during 2001. The members of the Audit Committee, all of whom are "independent" directors as that term is defined in applicable rules adopted by the New York Stock Exchange, are Messrs. Allen (Chairman), Abdoo, Forbes, and Ms. Steiger.

Nominations for Directors by Shareholders

The Board of Directors will consider a nominee for election to the Board recommended by a shareholder if the shareholder submits the nomination in compliance with the requirements of the Company's bylaws relating to nominations by shareholders. Only "Qualified Candidates," as such term is defined in the bylaws, may be elected to the Board of Directors. Article III, Section 3.04 of the Company's bylaws provides that if a shareholder desires to make a nomination for the election of directors at an annual meeting, then he or she must give timely written notice of the nomination to the Secretary of the Company. Notice is timely if received by the Secretary at the Company's principal office not less than 90 days nor more than 120 days prior to the first anniversary of the preceding year's annual meeting. The notice must set forth certain information required by the bylaws, including (i) the name of the person such shareholder proposes to nominate for election or reelection as a director and all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors in an election contest, or is otherwise required, in each case pursuant to Regulation 14A under the Securities Exchange Act of 1934, as amended (the "Exchange Act"); (ii) each nominee's written consent to being named in the proxy statement as a nominee and to serving as a director if elected; (iii) the name and address of the shareholder giving the notice; and (iv) certain other information. Article III, Section 3.04 of the bylaws provides that notices with respect to any nomination for a Board election to be held at any special meeting must contain all the information set forth above and must be received by the Secretary of the Company not later than ten days after notice of such meeting is first given to shareholders. Shareholders wishing to submit a nomination should review the bylaw requirements regarding nominations by shareholders and should communicate with

the Secretary, Cobalt Corporation, 401 West [redacted]higan Street, Milwaukee, Wisconsin 53203, f[redacted]rther information.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Exchange Act requires the Company's officers and directors and persons owning in excess of ten percent of the shares of the Common Stock outstanding to file reports of ownership and changes in ownership with the Securities and Exchange Commission ("SEC") and the exchange on which the Common Stock is traded. Officers, directors and ten percent shareholders are also required to furnish the Company with copies of all Section 16(a) forms they file.

Based upon a review of the information furnished to the Company, the Company believes that during the fiscal year ended December 31, 2001, its officers, directors, BCBSUW and the Foundation complied with all applicable Section 16(a) filing requirements, except that (i) Mr. Cullen inadvertently did not indicate on his Form 5 filed on February 14, 2002 (which Form 5 was subsequently amended), that he had gifted 200 shares of Common Stock during the fiscal year; and (ii) Ms. Mary Traver inadvertently did not timely file a Form 5 with respect to the grant of options to purchase 33,565 shares of Common Stock issued to her upon cancellation of certain stock appreciation rights. Certain directors were granted options to purchase 6,000 shares of Common Stock in 2001. Ms. Janet Steiger did not elect to receive such options until February 27, 2002, and the Form 5 with respect to such grant of options was not filed until March 21, 2002.

AUDIT COMMITTEE REPORT

The primary responsibility of the Audit Committee is to oversee the Company's financial reporting process on behalf of and to report the results of its activities to the Board of Directors. Management has the primary responsibility for preparing the Company's financial statements and the reporting process, including the systems of internal controls. The Audit Committee has reviewed and discussed the audited financial statements with management and has discussed with the Company's internal and external auditors the overall scope and other aspects of their respective audits. This included a discussion of the quality, not just the acceptability, of the accounting principles applied, and the reasonableness of significant judgments and the clarity of disclosures in the financial statements.

The Company's independent auditors are responsible for expressing an opinion on the conformity of the audited financial statements with generally accepted accounting principles. The Audit Committee has discussed with the independent auditors the judgments of the independent auditors as to the quality, not just the acceptability, of the Company's accounting principles and such other matters that the independent auditors are required to discuss with the Audit Committee under generally accepted auditing standards, including Statement on Auditing Standards No. 61, as amended, "Communication with Audit Committees." In addition, the Audit Committee has discussed with the independent auditors the independence of the auditors from management and the Company, including the matters in the written disclosures and the letter from the independent auditors required by the Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." The Audit Committee considered the compatibility of nonaudit services with the auditors' independence.

The Audit Committee met with the independent auditors, with and without management present, to discuss the results of their examinations, their evaluations of the Company's internal controls and the overall quality of the Company's financial reporting. The Audit Committee also met with the internal auditor to discuss the results of internal audit examinations.

Based upon the Audit Committee's reviews and discussions referred to above, the Audit Committee recommended to the Board of Directors that the audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2001, for filing with the

Securities and Exchange Commission. The Audit Committee has also recommended to the Board the selection of Ernst & Young LLP ("Ernst & Young") as the Company's independent auditors for 2002.

The Audit Committee approved, at its March 22, 2002 meeting, the following policies related to the Company's interactions with its independent auditors:

- ***Audit Team Rotation.*** The audit engagement partner and senior manager will rotate every five years, on a staggered basis. After a two-year hiatus, the partner or senior manager can rotate back onto the Company's audit. The current audit firm will be provided a two year transition period to comply with this policy.

- ***Non-Audit Services.*** 1) The Audit Committee will pre-approve non-audit services of $50,000 and greater to be performed by the Company's independent auditors; 2) the Company's independent audit firm will generally not be engaged to perform internal audit services; and 3) the Company's subsidiary, United Government Services, a large Part A Medicare contractor, will not engage the independent audit firm to provide any consulting services.

- ***Hiring Audit Firm Personnel.*** An audit engagement member will not be hired at a level of vice president or above within one year of being on the Company's audit.

These policies were proposed as amendments to the Audit Committee Charter. These amendments will be submitted to the Board of Directors for approval at its May 2002 meeting.

AUDIT COMMITTEE
Barry K. Allen, Chairman
Richard A. Abdoo
James L. Forbes
Janet D. Steiger

APPROVAL OF AMENDMENTS TO COBALT CORPORATION EQUITY INCENTIVE PLAN

General

The Board of Directors has approved, subject to shareholder approval, amendments to the Plan to (i) increase from 4,500,000 to 8,700,000 the number of shares of Common Stock available for grant thereunder, and (ii) provide for an automatic annual grant of options to purchase 1,000 shares of Common Stock to each of the Company's non-employee directors.

The increase in the number of shares of Common Stock available for grant from 4,500,000 to 8,700,000 is necessary to allow for the continued grant of options under the Plan to active employees of the Company and its subsidiaries and affiliates. Currently, options with respect to 6,049,424 shares have been issued with 1,643,413 shares being forfeited and available for regranting pursuant to the Plan. As a result, approximately 93,989 shares are currently available for grant under the Plan. After the increase in the number of shares authorized under the Plan, approximately 4,293,989 options would be available for future grants thereunder.

The amendment to the Plan to provide for an automatic annual grant of options to purchase 1,000 shares of Common Stock to each of the Company's non-employee directors is desired as part of a new director compensation policy effective in fiscal 2002 designed primarily to provide Cobalt directors with compensation for their services on the Board that is more equivalent to compensation received by directors of similar companies in the Company's industry.

Summary

The following is a summary of the basic terms and provisions of the Plan.

Purpose. The purpose of the Plan is to promote the success and enhance the value of the Company by linking the personal interests of its key employees and non-employee directors with an incentive for outstanding performance. The Plan further is intended to provide flexibility to the Company in its ability to motivate, attract and retain the services of these individuals upon whose judgement, interest and special effort the successful conduct of its operation is dependent.

Administration. The Plan is administered by the Management Review Committee (the "Committee") of the Board of Directors, consisting of not less than two directors, each of which is a non-employee director of the Company. The Committee is authorized to determine, among other things, the size and types of awards under the Plan, the employees and non-employee directors to whom they will be granted and the terms and conditions of such awards. The Committee also has the power to interpret the Plan and agreements thereunder, to establish, amend or waive rules for administration of the Plan and to make other determinations necessary or advisable for administration of the Plan.

Number of Shares Available. The Plan currently provides that the total number of shares of Common Stock available for grant thereunder may not exceed 4,500,000, subject to adjustment as described therein. Upon approval of the Plan Amendment, the number of shares available for grant will be increased to 8,700,000. All awards which are forfeited by an employee or non-employee director of the Company shall be returned to the Company and once again become available for grant under the Plan.

Awards and Eligibility. The Plan permits the grant to full-time employees of the Company and its subsidiaries and affiliates of Incentive Stock Options ("ISOs"), Nonqualified Stock Options ("NQSOs"), Stock Appreciation Rights ("SARs"), Restricted Stock, Performance Units and Performance Shares (all as defined in the Plan). Currently, non-employee directors are also entitled to receive grants of NQSOs to purchase 6,000 shares of Common Stock upon their election to the Board of Directors. Upon approval of the Plan Amendment, non-employee directors will also receive annual grants of NQSOs to purchase 1,000 shares of Common Stock.

Options. ISOs and NQSOs may be granted to employees as determined by the Committee, except that no employee may receive options (other than Substituted Awards, described below) with respect to more than 250,000 shares in any year.

All NQSOs granted to non-employee directors shall vest at the rate of one-third of the aggregate amount of each grant annually, subject to acceleration if a non-employee director's tenure ends during the three-year period due to death, disability or retirement or following a Change in Control (as defined in the Plan). NQSOs granted to non-employee directors remain exercisable for the shorter of twelve years from the date of grant or two years following the date on which the non-employee director ceases to serve as such (for any reason other than removal for Cause, as defined in the Plan).

The option price per share for all options granted under the Plan shall not be less than the fair market value of a share of Common Stock on the date the option is granted. The terms of options granted under the Plan will be determined by the Committee, provided that such terms shall not exceed ten years (in the case of ISOs) or twelve years (in the case of NQSOs). Options are not exercisable in any event prior to six months following the date of grant. The exercise price of any option granted under the Plan is payable by payment in full of the exercise price in cash, by tendering shares of Common Stock having a fair market value equal to the exercise price or any other method the Committee deems consistent with the purpose of the Plan and applicable law.

The Committee may also issue Substituted Awards to directors and employees. "Substituted Awards" are options issued under the Plan in substitution for awards issued under another equity incentive plan (including, but not limited to, the equity incentive plan of the corporation formerly known as United Wisconsin Services, Inc. and the 1995 Directors' Stock Option Plan of United

Wisconsin Services, Inc.). Substituted Awards are subject to the same grant date, exercise price, vesting and exercise period that the original awards for which they were substituted were subject.

Stock Appreciation Rights. SARs may be granted to employees in such amounts as the Committee shall determine subject to the terms and conditions of the Plan. SARs shall have a grant price at least equal to 100% of the fair market value of a share of Common Stock if granted independently of any stock option, or equal to the option price of the related stock option if granted in connection with a stock option. The term of an SAR granted pursuant to the Plan shall not exceed twelve years. SARs are not exercisable in any event prior to six months following the date of grant.

Restricted Stock. Restricted Stock may be granted to employees in such amounts as the Committee shall determine subject to the terms and provisions of the Plan. Restricted Stock generally may not be sold or otherwise transferred for a certain period (based on the passage of time, the achievement of performance goals or the occurrence of other events as determined by the Committee). During that period, however, employees holding shares of Restricted Stock may exercise full voting rights and shall be entitled to receive all dividends and other distributions with respect to shares of Restricted Stock. Restricted Stock shall not vest in any event prior to six months following the date of grant.

Performance Units and Performance Shares. The Committee may grant Performance Units and/or Performance Shares to employees subject to the terms and conditions of the Plan. The number and/or value of Performance Units or Performance Shares that will be paid to employees shall be based on the extent to which performance goals, as determined by the Committee, have been met. The performance goals must be determined over a period of at least six months. At the time of grant, each Performance Unit must have an initial value established by the Committee and each Performance Share shall have an initial value equal to the fair market value of a share of Common Stock on the date of grant. The Committee, in its discretion, may pay earned Performance Shares or Performance Units in the form of cash or shares of Common Stock or a combination thereof.

Termination of Employment. Generally speaking, awards under the Plan (except for Performance Shares and Performance Units) shall immediately vest and/or be exercisable upon the occurrence of death or disability (with respect to Performance Shares and/or Performance Units, in the event of death, disability or involuntary termination without Cause, the holder thereof would receive a prorated payout of such Performance Shares and/or Performance Units). Subject to the terms of the Plan, awards that have vested prior to termination of employment for any reason other than death, disability, retirement or termination for Cause may be exercised with six months after such termination of employment. Awards that have not so vested upon termination would be forfeited, although the Company, in its discretion, shall have the right to immediately vest (with respect to ISOs, NQSOs and SARs), or remove applicable restrictions on (with respect to Restricted Stock), any or all such awards subject to terms deemed appropriate by the Committee. The Committee retains discretion over the treatment of awards in the event of termination by reason of retirement. In the case of termination for Cause, all awards would be forfeited, regardless of whether or not vested at the time of such termination.

Limitations on Transferability. ISOs, Performance Units, Performance Shares and SARs may not be assigned, sold, transferred or otherwise alienated or encumbered by any employee other than by will or the laws of descent and distribution. NQSOs shall be transferable only pursuant to the laws of descent and distribution and to certain permissible transferees to the extent permitted under applicable law, except that the Committee may, in its discretion, allow transfer of NQSOs to other than permissible transferees on a case-by-case basis. Shares of Restricted Stock may not be assigned, sold, transferred or otherwise alienated or encumbered until the applicable restrictions have lapsed or upon earlier satisfaction of any other conditions, as determined by the Committee. Except as otherwise provided by the Committee, each award granted under the Plan shall be exercisable during the

recipient's lifetime only by the recipient of the grant or, if permissible under applicable law, by the recipient's legal representative.

Change in Control. Upon the occurrence of the Change in Control (as defined in the Plan), (i) all options and SARs granted under the Plan will become immediately exercisable; (ii) any restrictions imposed on Restricted Shares will lapse; (iii) the target value attainable under all Performance Units and Performance Shares will be deemed to have been fully earned; and (iv) the Committee will have authority, subject to the Plan provisions regarding amendment of the Plan, to make any modifications to awards as determined by the Committee to be appropriate before the effective date of the Change in Control.

Amendment. The Committee may terminate, amend or modify the Plan with the approval of the Board of Directors; however, no termination, amendment or modification shall adversely affect in any material way any award previously granted under the Plan without the written consent of the Participant holding such award.

Certain Federal Income Tax Consequences.

The following is a general summary of some of the current federal income tax consequences of the Plan to the Company and to employees and non-employee directors receiving awards under the Plan. Tax laws often change and actual tax consequences vary with individual circumstances. We recommend all employees and non-employee directors to seek tax advice from their own tax advisors regarding the Plan.

An employee will generally not be deemed to have received taxable income upon the grant or exercise of any ISO, provided that such shares of Common Stock received upon exercise are held for at least one year after the date of exercise and two years after the date of grant. Following exercise, any gain (or loss) realized on the disposition of the shares will be treated as long-term capital gain (or loss), and no deduction will be allowed to the Company. If the holding period requirements are not satisfied, then the participant will recognize ordinary income at the time of the disposition equal to the lesser of (i) the gain realized on the disposition or (ii) the difference between the option price and the fair market value of the share of Common Stock on the date of exercise. Any additional gain will be a long-term or short-term capital gain, depending upon the length of time the shares were held. The Company is entitled to a tax deduction equal to the amount of ordinary income recognized by the Participant.

The grant of a NQSO will not result in any taxable income to an employee or director recipient. An employee or director will recognize ordinary income upon exercise of a NQSO in an amount equal to the excess of the fair market value of the shares of Common Stock at the time the income is recognized over the exercise price. The Company is entitled to a tax deduction in the same amount at the time the Participant or director recipient recognizes ordinary income.

The grant of a SAR will create no income tax effect for the Company or the employee. An employee will recognize ordinary income upon exercise of an SAR in an amount equal to the fair market value of the cash or shares of Common Stock received. The Company will generally be entitled to a deduction in the same amount and at the same time income is recognized by the employee.

An employee will not recognize income upon the grant of Restricted Stock unless the employee makes the election described below. If the employee does not make such an election, the employee will recognize ordinary income at the time the applicable restrictions lapse in the amount of the fair market value of the Restricted Stock at that time less any amount paid for the Restricted Stock. An employee may, within thirty days after receiving an award of Restricted Stock, elect to immediately recognize ordinary income as of the award date in the amount of the fair market value less any amount paid for

the Restricted Stock. The Company will generally be entitled to a deduction in the same amount and at the same time income is recognized by the employee.

The grant of Performance Shares and/or Performance Units will create no income tax effect for the Company or the employee. An employee will generally recognize ordinary income upon receipt of cash or shares of Common Stock in an amount equal to the fair market value of the cash or shares of Common Stock received. The Company will generally be entitled to a deduction in the same amount and at the same time income is recognized by the employee.

Any cash payments an executive officer receives in connection with incentive awards are includable in income in the year received. Generally, the Company will be entitled to deduct the amount the employee includes in income in the year of payment.

Section 162(m) of the Internal Revenue Code places a $1,000,000 annual limit on the compensation deductible by the Company paid to certain of its executives. The limit, however, does not apply to "qualified performance-based compensation." The Company believes awards of stock options and annual incentive awards under the Plan as amended will qualify for the performance-based compensation exception to the deductibility limit.

The affirmative vote of a majority of the votes cast at the Meeting on the Plan Amendment (assuming a quorum is present) is required to approve the Plan Amendment, provided that a majority of the outstanding shares of Common Stock are voted on the proposal. For purposes of determining the vote required for this proposal, abstentions and broker nonvotes will have no impact on the vote. The proxies will be voted for or against the proposal, or as an abstention, in accordance with the instructions specified on the proxy form. If no instructions are given, proxies will be voted FOR approval of the Plan Amendment. Pursuant to the Voting Trust and Divestiture Agreement which is described on Page 23 of this Proxy Statement, the Foundation is required to vote its 31,313,390 shares of Common Stock "FOR" the Plan Amendment. Accordingly, the Plan Amendment will be approved at the Meeting.

THE BOARD OF DIRECTORS RECOMMENDS A VOTE FOR THE PROPOSAL TO AMEND THE PLAN.

EXECUTIVE COMPENSATION

Prior to the Combination (as defined in "CERTAIN TRANSACTIONS"), certain executive officers of the Company provided services to BCBSUW pursuant to the Service Agreement (as herein described), and expenses associated with those services are shared in accordance with the Service Agreement. See "CERTAIN TRANSACTIONS." Compensation information includes total compensation for services rendered to the Company and BCBSUW. The following table summarizes the total compensation paid by the Company or its subsidiaries to the Chief Executive Officer and the four other most highly compensated officers for services rendered to the Company and BCBSUW for the years ended December 31, 2001, 2000 and 1999.

Summary Compensation Table

		Annual Compensation			Long-Term Compensation	
Name and Principal Position	Year	Salary(1)	Bonus(1,2)	Other Annual Compensation(3)	Securities Underlying Options	All Other Compensation(4)
Thomas R. Hefty	2001	$ 677,505	$ 223,712	$ 13,577	—	$ 4,250
Chairman of the	2000	617,508	—	12,735	147,500	4,250
Board, President &	1999	577,506	—	28,887	147,500	4,000
Chief Executive Officer						
Stephen E. Bablitch	2001	303,603	127,935	1,271	—	4,250
Senior Vice President &	2000	260,826	—	4,327	121,000	4,250
General Counsel	1999	214,761	—	11,678	41,000	4,000
Timothy F. Cullen	2001	263,535	77,259	4,885	—	4,250
Vice President—	2000	246,753	—	4,327	121,200	4,250
BCBSUW, Chairman	1999	217,971	—	10,815	23,000	4,000
of the Board—UGS						
Gail L. Hanson	2001	265,602	71,613	4,923	—	4,250
Senior Vice President &	2000	248,256	—	4,327	121,200	4,250
Chief Financial Officer	1999	170,070	—	4,036	18,000	4,000
Penny J. Siewert	2001	254,004	56,515	6,051	—	4,250
Senior Vice President of	2000	249,630	—	5,726	121,200	4,250
Regional Services	1999	229,077	—	12,425	49,200	4,000

(1)
Amounts include compensation earned and deferred at the election of the named executive officer during the fiscal years indicated and paid subsequent to the end of each fiscal year.

(2)
Amounts represent bonuses earned under the Company's Profit Sharing Plan and Management Incentive Plan, as well as special bonuses. In connection with the Combination, special bonuses were awarded to the following: Mr. Bablitch—$50,000, Mr. Cullen—$25,000, and Ms. Hanson—$25,000.

(3)
Amounts represent reimbursement for the payment of taxes, the payout for unused personal days and a lump sum payment for deferring a merit increase. The amounts indicated do not include perquisites or other personal benefits to the named executive officers which for each such officer did not exceed the lesser of $50,000 or 10% of the officer's total annual salary and bonus.

(4)
Amounts represent the Company's matching contributions to the Cobalt Corporation 401(k) Plan.

Options Granted in Last Fiscal Year

The Final Decision and Order of the Wisconsin Commissioner of Insurance with respect to the Combination prohibited equity compensation for existing officers of BCBSUW and Cobalt until after March 23, 2002; therefore, no stock option grants were made during 2001 to the Chief Executive Officer or the other named executive officers.

Aggregated Option Exercises in the Last Fiscal Year and Fiscal Year End Option Values

No options were exercised by any of the executive officers listed in the Summary Compensation Table during 2001. The number of unexercised options and the total value of unexercised in-the-money options at December 31, 2001 are shown in the following table.

Name	Number of Securities Underlying Unexercised Options/SARs at FY-End (#) Exercisable/Unexercisable(1)	Value of Unexercised In-the-Money Options/SARs at FY-End ($) Exercisable/Unexercisable
Thomas R. Hefty	446,079/233,925	208,761/228,717
Stephen E. Bablitch	165,399/131,192	62,645/187,936
Timothy F. Cullen	145,933/119,431	62,645/187,936
Gail L. Hanson	80,250/109,550	62,645/187,936
Penny J. Siewert	187,721/138,052	62,645/187,936

(1)
Options become immediately exercisable upon change in control of Cobalt. A change in control includes: the acquisition by certain persons or groups of 25% or more of the outstanding Common Stock; a change in the membership of a majority of the Board of Directors, if not approved by the incumbent directors; or the approval by the Company's shareholders of a plan of liquidation, an agreement to sell substantially all of Cobalt's assets, or certain mergers, consolidations or reorganizations. The Combination was not considered a change in control.

(2)
The dollar value is calculated by determining the difference between the fair market value of the underlying Common Stock at the fiscal year end ($6.38) and the exercise price of the option.

Defined Benefit Pension Plans

The Company has provided a non-contributory defined benefit plan to its employees pursuant to its pension plan ("Pension Plan"). The Pension Plan generally utilizes a cash balance formula which provides annual pay credits of 4% plus transition credits of 4% for the number of years of service on December 31, 1996 (up to 15 years). Interest is calculated monthly and credited annually on the cash balance account based on the yield on 10-year Treasury securities for the month of October of the previous year.

In addition, the Company provides to executives defined benefits from its supplemental executive retirement plan ("SERP"). The SERP provides a total benefit (taking into account Pension Plan benefits and Social Security benefits) of 2% of final 5-year average pay (which includes base salary, profit sharing and management incentive bonuses, and other performance-related bonuses) per year of

service, up to 30 years. The approximate annual benefits for the following pay classifications and years of service are expected to be as follows:

Defined Benefit Pension Plans Table

Remuneration	Years of Service			
	15	20	25	30 or more
$ 100,000	$ 30,000	$ 40,000	$ 50,000	$ 60,000
200,000	60,000	80,000	100,000	120,000
300,000	90,000	120,000	150,000	180,000
400,000	120,000	160,000	200,000	240,000
500,000	150,000	200,000	250,000	300,000
600,000	180,000	240,000	300,000	360,000
700,000	210,000	280,000	350,000	420,000
800,000	240,000	320,000	400,000	480,000
900,000	270,000	360,000	450,000	540,000
1,000,000	300,000	400,000	500,000	600,000
1,100,000	330,000	440,000	550,000	660,000

The persons named in the Summary Compensation Table have the following years of credited service which includes all years of service with the Predecessor: Mr. Hefty, nineteen years; Mr. Bablitch, five years; Ms. Siewert, twenty-five years; Ms. Hanson, seventeen years; and Mr. Cullen, thirteen years.

Agreements with Named Executive Officers

Cobalt is party to Executive Severance Agreements with each of the named executive officers. The agreements extend for three year terms, and then automatically renew for successive one year periods unless Cobalt gives notice at least six months prior to the end of any such period that the agreement will not be extended. However, if a Change in Control (as defined therein) occurs during the term, then the agreements will remain in effect for the longer of 24 months beyond the month in which the Change in Control occurs or until all obligations of Cobalt under the agreements have been fulfilled.

The agreements generally provide that a named executive is entitled to receive certain severance benefits if his or her employment is terminated by Cobalt for any reason other than Cause, Disability, Retirement (all as defined therein) or death, or if the named executive terminates his or her employment for Good Reason (as defined therein), in either case during the six month period prior to a Change in Control or within 24 months following a Change in Control. The severance benefits to which the named executives would be entitled following such a termination include, generally speaking, (i) an amount equal to two times their respective annualized base salaries (three years in the case of Mr. Hefty) as in effect on the date of termination; (ii) an amount equal to two times their respective target awards under the annual bonus plan and profit sharing plan (three times in the case of Mr. Hefty) for the year in which the termination occurs; (iii) a continuation of health care, life and disability coverage for two years after the date of termination (three times in the case of Mr. Hefty); (iv) an amount equal to their respective unpaid targeted annual bonuses for the plan year in which the termination occurs, prorated through the date of termination; and (v) an amount equal to their unpaid allocations from the profit sharing plan for the plan year in which the termination occurs, prorated through the date of termination. The named executives would also be eligible for benefits under Cobalt's Retiree Medical Plan beginning at age 55. Cobalt will also pay the named executives additional amounts in cash, if necessary, such that the net amount retained by them after deduction of any excise tax imposed by the Internal Revenue Code of 1986, as amended will equal the total amount that they would have been entitled to without taking such deductions into account; provided, however, that for

all named executives other than Mr. Hefty, such additional payments will only be made if they would result in the named executive receiving additional amounts in excess of $100,000. If such payments would result in those named executives receiving additional amounts less than $100,000, then the total severance benefits to which they will be entitled under the agreements will be capped at the maximum amounts that may be paid without incurring such excise taxes.

Cobalt is also party to a Supplemental Retirement Agreement, dated as of June 13, 2001, with Thomas R. Hefty. The agreement provides that Cobalt will pay Mr. Hefty (or his beneficiary or estate) a lump sum cash payment of $1,000,000 upon the earlier of Mr. Hefty's Retirement, death, Disability, termination by Cobalt for any reason other than Cause, or termination by Mr. Hefty for Good Reason (as such terms are defined in Mr. Hefty's Executive Severance Agreement, discussed above).

Compensation of Directors

Directors who are officers or employees of Cobalt receive no compensation as such for service as members of the Board of Directors or committees of the Board. In 2001, a director who was not an officer or employee of Cobalt received a fee of $1,100 for each Board or committee meeting attended, and a monthly retainer of $1,917. In addition, each Committee Chairman received a monthly fee of $250. Also, pursuant to the Plan, each director is granted in connection with his or her first election as a director an option to purchase 6,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the date of grant. Effective April 1, 2002, a director who is not an officer or employee of Cobalt will receive a fee of $1,500 for each Board or committee meeting attended, in addition to the monthly retainer of $1,917. Effective April 1, 2002, each Committee Chairman will receive a monthly fee of $333.33. If the Plan Amendment is approved at the meeting, each of the Company's non-employee Directors will receive an annual option grant of 1,000 shares of Common Stock at an exercise price equal to the fair market value on the date of grant.

MANAGEMENT REVIEW COMMITTEE REPORT ON EXECUTIVE COMPENSATION

Introduction

The Committee, which is comprised of four independent, non-employee directors, establishes and directs the administration of all programs under which executive benefits are provided and compensation is paid or awarded to the Company's executive officers. In addition, the Committee evaluates executive officer performance and assesses the overall effectiveness of the Company's executive compensation programs.

Compensation Philosophy and Objectives

The Company's executive compensation program is designed to align closely executive compensation with corporate performance and total return to shareholders. The Company has developed an overall compensation philosophy and implemented plans that are designed to tie a significant portion of executive compensation to the Company's success in meeting specified performance goals and appreciation in the Common Stock price.

The overall objectives of this compensation philosophy are:

- To attract and retain the executive talent required to attain the Company's goals;
- To motivate these executives to achieve the goals of the Company's current and future business strategy;
- To link executive and shareholder financial interests through equity-based long-term incentive plans; and

To provide a compensation package that recognizes individual contributions and overall business results.

Accordingly, the Committee sets compensation opportunities at approximately the 50th percentile of the market for comparable positions at comparable companies. The Company's compensation programs are designed to be dependent on performance, and individual pay delivered from these programs may be higher or lower than the 50th percentile of the market depending on that performance.

Each year the Committee conducts a full review of the Company's executive compensation program to ensure that pay opportunities are competitive with the current market and that there is appropriate linkage between Company performance and executive compensation. During 2001, this process included consultation with Hewitt Associates ("Hewitt") throughout the year on such issues as base salaries, annual incentives, stock option awards, and overall compensation. The Committee's review included a comparison of the Company's executive compensation against a peer group with which the Company competes for business and executive talent. The Committee believes that the Company's competitors for executive talent include many types of companies. Therefore, the Committee evaluates all relevant sources for executive talent in assessing overall competitiveness. Consequently, the peer group used for compensation analysis will include, but extend beyond, the companies noted in the Performance Graph included in this Proxy Statement.

Elements of Executive Compensation

The elements of executive compensation include base salary, profit sharing, an annual performance-based management incentive plan and long-term incentives (consisting primarily of nonqualified Common Stock options). The Committee's decisions with respect to each of these elements are discussed below. While the elements of compensation described in this report are considered separately, the Committee takes into account the full compensation package afforded by the Company to the individual, including salary, incentive compensation, pension benefits, supplemental retirement benefits, insurance and other benefits. In reviewing the individual performance of the executives whose compensation is detailed in this Proxy Statement, the Committee takes into account the views of Mr. Hefty, the Company's Chief Executive Officer, for positions other than his own.

Section 162(m) of the Internal Revenue Code of 1986, as amended, limits a publicly held corporation's deductions for certain executive compensation in excess of $1 million. Certain performance-based compensation is excepted from the $1 million limitation. In 2001, none of the Company's executives received compensation in excess of $1 million for purposes of Section 162(m) and all 2001 executive compensation is fully deductible. The Committee has, however, reviewed Section 162(m) and considered its impact on the Company's future executive compensation plans.

Base Salary

Base salaries for executive officers are determined initially by evaluating and comparing the responsibilities of their positions and experiences relative to the competitive marketplace for executive talent. Salary adjustments are determined by evaluating the performance of the Company and of each executive and by surveying the industry to determine the average industry change in executive base salary. In the case of executives with responsibility for a particular business unit, such unit's financial results were also a major consideration. The Committee, where appropriate, considers non-financial performance measures such as increase in market share, gains in administrative cost efficiency, improvements in product quality, and improvements in relations with customers, suppliers, and employees.

Annual Incentive Compensation

Profit Sharing Program. The Company annually establishes a Profit Sharing Plan for all employees who are employed with the Company for the entire calendar year. The Cobalt Corporation 2001 Profit Sharing Plan (the "Profit Sharing Plan") compensated employees based on corporate profitability, individual business unit or regional area profitability and the attainment of high levels of customer satisfaction, all measured against targets set at the beginning of the year.

Under the corporate profitability goal, the Profit Sharing Plan pays each employee up to 7% of base salary depending on the attainment of specified profit levels. For employees to receive the 7% payout in 2001, the Company and BCBSUW had to attain combined net income, excluding net income or loss from extraordinary items, of $43.1 million or more. If a specified minimum level of profitability had not been attained, no awards would have been made under any portion of the Profit Sharing Plan.

Individual business unit or regional area financial performance also was measured under the "Local Component" of the Plan, with employees eligible to receive an additional payout of up to 7% of compensation on the "Local Component." The Profit Sharing Plan also contained a customer satisfaction component which enabled employees to earn up to an additional 7% of annual compensation for achievement of high customer satisfaction levels, generally in excess of 94.9%. In total, the Profit Sharing Plan paid the Chief Executive Officer and the next four most highly compensated officers between 4.70% and 5.92% of annual compensation. This compensation was paid in 2002.

Management Incentive Plan. The Company's executive officers are eligible for an annual performance bonus under the Management Incentive Plan. The bonus paid from this plan has two components: the Corporate Component and the Individual Performance/Profit Sharing Component. The Corporate Component is equal to one times the executives' total payouts from the Profit Sharing Plan (two times the Profit Sharing payout for the Chief Executive Officer) as described above.

The Individual Performance/Profit Sharing Component has two parts. First, individual performance objectives are established for each eligible executive. These individual objectives can include both financial and non-financial measures related to the performance of the business units or corporate departments for which the executive is responsible. To determine how well executives other than the Chief Executive Officer have performed on their individual performance objectives, the Committee considers input from the Chief Executive Officer as well as other relevant factors. Not all individual performance objectives are quantifiable and the Committee did not assign quantitative relative weights to different factors or follow mathematical formulae. The Committee used discretion in evaluating the executives' achievements of their individual performance objectives. Individual performance objectives are also established for the Chief Executive Officer. The Committee evaluates all relevant data to determine to what extent Mr. Hefty has met his performance expectations. Again, the Committee uses its discretion in making this determination.

The second part of the Individual Performance/Profit Sharing Component is based on the executives' payouts from the Local Component of the 2001 Profit Sharing Plan. Bonus payments are made according to a schedule that correlates percentages of base salary paid under the Local Component of the Profit Sharing Plan with specific bonus amounts.

Bonus amounts could range from 0% to 39% of annual compensation for executives other than the Chief Executive Officer (up to 21% from the Corporate Component and up to 18% from the Individual Performance/Profit Sharing Component) and from 0% to 72% of annual compensation for the Chief Executive Officer (up to 42% from the Corporate Component and up to 30% from the Individual Performance/Profit Sharing Component). For executives to earn the maximum award, they must have achieved outstanding results on each of their individual goals; the profitability of the business unit or regional area to which they are assigned must have reached an exceptional level; and

the Company must have achieved a combined return on equity, excluding net income or loss from extraordinary items, of 20% or more. In 2001, the Company's combined return on equity, as defined by the Plan documents, was 3.4%. 2001 performance bonus awards for the executives discussed herein, other than the Chief Executive Officer, from the Individual Performance/Profit Sharing Component ranged from 8.15% to 13.83% of annual compensation. These awards were paid in 2002.

2001 Supplemental Incentive Plan. The Committee, in conjunction with the Management Review Committee of the Board of Directors of BCBSUW, established the Cobalt Corporation 2001 Supplemental Plan (the "Supplemental Plan"). The Supplemental Plan was established and designed to focus the organization on activities, behaviors and leadership that would enhance the performance, and stock price, for Cobalt and to retain key executives. The Supplemental Plan was a one-time supplemental plan, with performance targets that equated to the Annual Operating Plan for Cobalt for 2001.

Since actual performance did not meet the threshold performance level for payment, there were no awards made under the Supplemental Plan.

Long-Term Incentive Compensation

The Company's executive compensation strategy is to provide long-term compensation at a competitive level for the managed care market.

Stock Options. The Committee is responsible for administering the Company's stock option program, which is designed to motivate employees to maximize shareholder value and maintain a medium to long-term perspective. Option grants are made at the fair market price on the date of grant and become exercisable in equal annual installments over a four-year term, expiring 12 years after the date of grant.

The Final Decision and Order of the Wisconsin Commissioner of Insurance with respect to the conversion of BCBSUW prohibited equity compensation for existing officers of BCBSUW and Cobalt until after March 23, 2002; therefore, no equity grants were made during 2001 to the Chief Executive Officer and the executives described herein.

The Committee decided to consolidate equity incentive awards previously made under the Cobalt Stock Appreciation Rights ("SAR") Plan and the BCBSUW SAR Plan with those of the Plan. In connection with that consolidation, the Committee substituted options from the Plan, containing the same exercise price, vesting schedule, and expiration date, for the outstanding stock appreciation rights previously issued under the Cobalt SAR Plan and the BCBSUW SAR Plan. In exchange for the substituted options, the previously granted stock appreciation rights were cancelled. Mr. Hefty received 66,261 substituted options for previously issued stock appreciation rights under the Cobalt SAR Plan and Mr. Cullen received a total of 232,234 substituted options for previously issued stock appreciation rights under the BCBSUW SAR Plan.

Chief Executive Officer Compensation

Mr. Hefty's annual cash compensation for 2001 included his base salary, profit sharing, and management incentive bonus for a total of $901,217. Those elements paid in 2002 based on 2001 performance are discussed below.

Mr. Hefty's base salary in 2000 was approximately 96% of the average base salary for comparable positions, according to the previously mentioned Hewitt compensation survey. Mr. Hefty's base salary for 2001 was increased to an amount which represented approximately 107% of the December 2000 estimated market value of his position and represented approximately 100% of the December 2001 estimated market value of his position.

With respect to annual incentive compensation, Mr. Hefty received 4.70% of his base salary under the Profit Sharing Plan based on Cobalt's return of equity of 3.4% and Customer Satisfaction levels. Under the Individual Performance/Profit Sharing Component of the Management Incentive Plan, Mr. Hefty was awarded 18.92% of his base salary based on Cobalt's financial results and his achievement of individual performance goals set at the beginning of the year.

Conclusion

After its review of the total compensation program for the executives of the Company, the Committee continues to believe that these executive compensation policies and practices serve the interests of shareholders and the Company effectively. We also believe that the various compensation programs offered are appropriately balanced to provide increased motivation for executive officers to contribute to the Company's overall future success, thereby increasing the value of the Company for the shareholders' benefit. We will continue to monitor the effectiveness of the Company's total compensation program to meet the ongoing needs of the Company.

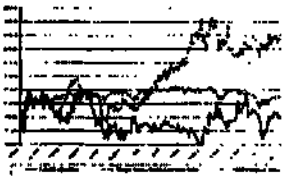
MANAGEMENT REVIEW COMMITTEE
James L. Forbes, Chairman
Barry K. Allen
Michael S. Joyce
Janet D. Steiger

Performance Graph

The following performance graph compares the cumulative shareholder return of the Company's Common Stock to the cumulative shareholder return of the NYSE Composite and the Morgan Stanley Health Care Payor Index for the period of September 28, 1998 through December 31, 2001. The graph assumes an investment of $100 in each of the Company's Common Stock, the NYSE Composite Index, and the Morgan Stanley Healthcare Payor Index on September 28, 1998, and assumes reinvestment of all dividends.

Comparison of Cumulative Total Returns Through December 31, 2001

Performance Graph for Cobalt Corporation



	09/28/98	12/31/98	12/31/99	12/31/00	12/31/01
Cobalt Corporation	$ 100.00	$ 121.59	$ 61.97	$ 48.48	$ 91.64
NYSE Composite Index	$ 100.00	$ 115.83	$ 128.50	$ 131.82	$ 120.33
Morgan Stanley Health Care Payor Index	$ 100.00	$ 118.36	$ 105.67	$ 229.16	$ 208.79

Intracompany Loan

As of September 11, 1998, The Company entered into a $70,000,000 note obligation due to BCBSUW in connection with the spin-off in 1998 of AMSG's managed care companies and specialty business. The Company pledged the common stock of Compcare subsidiaries as collateral for the note obligation. Interest is payable quarterly at a rate equal to 9.75% and 8.06% as of December 31, 2001 and 2000, respectively. The original maturity date of the principal balance was extended from April 30, 2001 to January 1, 2002. The maturity date was subsequently extended to February 15, 2002 at an interest rate of 7.38%. The note was amended and the maturity date was extended to January 2, 2003 at an interest rate of 7.38% on February 14, 2002. The terms and extension of the note are subject to approval by the Wisconsin Office of the Commissioner of Insurance.

Voting Trust and Divestiture Agreement

In March 2001, the Company completed a restructuring (the "Combination") whereby, generally speaking, (i) BCBSUW converted its form of ownership to a stock insurance corporation to a stock corporation; (ii) all of the common stock of BCBSUW was transferred to the Company; (iii) the Company issued 31,313,390 shares of Common Stock to the Foundation; and (iv) the Company, which was previously known as United Wisconsin Services, Inc., changed its name to "Cobalt Corporation." As a result, BCBSUW is now a wholly owned subsidiary of the Company, and the Foundation now owns 31,313,390 shares of Common Stock, representing approximately 77.0% of the outstanding Common Stock as of March 31, 2002.

In connection with the Combination, Blue Cross Blue Shield Association ("Association") rules required the Foundation to deposit all of its shares of Common Stock into a voting trust and to sell its shares within prescribed time periods. Accordingly, Cobalt, the Foundation and Marshall & Isley Trust Company entered into a voting trust and divestiture agreement, pursuant to which the Foundation deposited into a voting trust all of the shares of Cobalt it received in the Combination. The terms of the voting trust significantly limit the Foundation's voting rights, and the trustee of the voting trust will vote those shares in the manner described below. In addition, the Foundation must sell its shares of Common Stock within prescribed periods of time and may dispose of those shares only in a manner that would not violate the ownership requirements contained in the Company's Amended and Restated Articles of Incorporation.

In general, in order to maintain Cobalt's independence from the Foundation, the trustee of the voting trust will vote the shares of Common Stock owned by the Foundation as directed by the directors of Cobalt, except that the Foundation will decide how to vote these shares on a merger or similar business combination proposal which would result in the then existing shareholders of Cobalt owning less than 50.1% of the resulting company, or which would result in any person or entity who owned 50.1% or less of Common Stock owning more than 50.1% of the voting securities of the resulting entity. Specifically, the trustee of the voting trust will vote all of the Foundation's shares of Cobalt in the voting trust in the following manner:

- If the matter is the election of directors of Cobalt, the trustee will vote the shares in favor of each nominee whose nomination has been approved by (i) a majority of the members of the Cobalt Board of Directors who were not nominated at the initiative of the Foundation or of a person or entity owning shares of Cobalt in excess of the ownership limits contained in Cobalt's Amended and Restated Articles of Incorporation (such directors being called "Independent Directors"), and (ii) a majority of the entire Cobalt Board of Directors.

- The trustee will vote against the removal of any director of Cobalt, and against any change to Cobalt's Amended and Restated Articles of Incorporation or bylaws, unless (i) a majority of the

Independent Directors, and (ii) a majority of the entire Cobalt Board of Directors initiates or consents to such removal or amendment action.

- In the event that any candidates are eligible for election to the Board of Directors who, if elected, would not qualify as Independent Directors, the trustee will vote the Foundation's shares in the same proportion and for the same candidates as voted for by the Cobalt shareholders; *provided, however*, that if director seats are eligible for public shareholder representation, the trustee will be directed to vote its shares in the same proportion and for the same candidates voted for by the other Cobalt shareholders. This provision will sunset at such time as the Foundation owns less than 20% of the outstanding shares of Common Stock.

- The trustee will vote as directed by the Board of Directors of the Foundation on any proposed business combination transaction that if consummated would result in (1) the then existing Cobalt shareholders, including the Foundation, owning less than 50.1% of the outstanding voting securities of the resulting entity, or (2) any person or entity who, prior to the proposed transaction, owned less than 50.1% of the outstanding Common Stock of Cobalt owning 50.1% or more of the outstanding voting securities of the resulting entity.

- The trustee will vote in accordance with the recommendation of the Cobalt Board of Directors on any action requiring prior approval of the Cobalt Board of Directors as a prerequisite to becoming effective.

In addition, unless a majority of the Independent Directors and a majority of the entire Cobalt Board of Directors initiates or consents to such action, neither the Foundation nor the trustee of the voting trust may:

- nominate any candidate to fill any vacancy on the Cobalt Board of Directors;

- call any special meeting of Cobalt shareholders; or

- take any action that would be inconsistent with the voting requirements contained in the voting trust and divestiture agreement.

The Foundation also agreed not to take actions that a shareholder of a corporation ordinarily could take in its capacity as a shareholder including among other things acquiring additional shares of Common Stock (other than in a stock split or other similar transaction) making any shareholder proposal for submission at an annual meeting of shareholders of Cobalt, nominating any candidate to the Cobalt Board of Directors, or appointing any individual to fill a vacancy on the Cobalt Board of Directors.

Other

Effective January 1, 2000, Valley Health Plan, Inc. ("VHP"), a wholly-owned subsidiary of the Company, and the Company negotiated a three-year renewal of their joint venture with Midelfort Clinic, Ltd. ("Midelfort"). Midelfort Clinic is owned by Mayo Health System and is affiliated with Mayo Clinic. The joint venture enables VHP to produce, market and administer managed care products in northwestern Wisconsin through the utilization of a provider network. Pursuant to the joint venture, VHP has a capitated and a discounted fee-for-service arrangement with Midelfort. Midelfort also participates in a profit-sharing arrangement with VHP. In fiscal 2001, VHP paid $25,208,519 to Midelfort for professional services, pharmaceutical services and profit-sharing. Dr. William Rupp, one of the Company's directors, was the Chief Executive Office of Midelfort until December 31, 2001. All terms of the joint venture were negotiated at arms-length between the parties.

In October 1999, Unity Health Plans Insurance Corporation ("Unity"), a wholly-owned subsidiary of the Company, BCBSUW and the Company negotiated a five-year renewal of their joint venture with Community Health Systems, LLC ("CHS"), a Wisconsin limited liability company. The Unity joint

venture is the combination of two separate joint ventures, one with CHS and one with the University Health Care, Inc. ("UHC," the contracting agent for the University of Wisconsin Hospital and Clinics) and several of UHC's affiliates. The operations of the two joint ventures were combined and began operating as a single health plan under the auspices of a joint governing board. The joint venture enables Unity to produce, market and administer managed care products in southwestern Wisconsin through the utilization of a provider network. Pursuant to the joint venture, Community Physicians Network, Inc. ("CPN"), a part owner of CHS, provides credentialing and utilization management services for Unity and arranges for the delivery of health care services through its contracted providers to members enrolled with Unity. In fiscal 2001, Unity paid $3,283,138 to CPN for those services. In addition, CPN has an accumulated balance due to Unity of $5,875,205 relating to the current and past joint venture agreements. Dr. D. Keith Ness, one of the Company's directors, is the Chairman of CHS and the President of CPN. All terms of the joint venture were negotiated at arms-length between the parties. Additionally, on June 15, 1998, BCBSUW and CPN entered into a loan agreement that provided for a line of credit to CPN in the principal amount of $4,000,000. Use of the loan proceeds is restricted to the maintenance, operation and expansion of CPN's provider network. The maximum aggregate amount of indebtedness of CPN outstanding under this agreement for fiscal 2001 was $3,000,000. The rate of interest on such indebtedness is calculated at the prime rate (which as of December 31, 2001 was 4.75% per annum).

AUDITORS

The Audit Committee of the Board of Directors selected Ernst & Young as independent auditors for the Company for the year ending December 31, 2001. Ernst & Young has examined the accounts of the Company since 1988. Representatives of Ernst & Young will be present at the Meeting, will be available to respond to questions and may make a statement if they so desire.

Audit Fees

The aggregate fees billed by Ernst & Young for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2001, and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for that fiscal year were $542,000.

Financial Information Systems Design and Implementation Fees.

Ernst & Young did not provide any professional services to the Company for information technology services relating to financial information systems design and implementation for the fiscal year ended December 31, 2001.

All Other Fees

The aggregate fees billed by Ernst & Young for services rendered to the Company, other than for services described above under "Audit Fees" for the fiscal year ended December 31, 2001, were $1,532,000. Information system auditing and information system security certification services, amounting to $1,092,000 in 2001, will no longer be provided by Ernst & Young. "All Other Fees" also includes $224,000 of fees related to subsidiary statutory audits and employee benefit plan audits and $100,000 related to the Combination.

OTHER MATTERS

Pursuant to Article II of the Company's bylaws which provides procedures by which shareholders may raise matters at annual meetings, proposals which shareholders intend to present at the 2003 Annual Meeting of Shareholders must be received by the Company between January 29, 2003 and

February 28, 2003 to be presented at that meeting. If such a proposal is received after February [redacted], 2003, then it would be untimely. Should the Board nevertheless choose to present such proposal, the proxies will be able to vote on the proposal using their best judgment. To be eligible for inclusion in the proxy material for that meeting, shareholder proposals must be received by December 26, 2002.

The Company knows of no other matters to come before the Meeting. If any other matters properly come before the Meeting, or any adjournments or postponements thereof, it is the intention of the persons acting pursuant to the accompanying appointment of proxy form to vote the shares represented thereby in accordance with their best judgment.

Pursuant to the rules of the Securities and Exchange Commission, services that deliver the Company's communications to shareholders that hold their stock through a bank, broker or other holder of record may deliver to multiple shareholders sharing the same address a single copy of the Company's annual report to shareholders and proxy statement. Upon written or oral request, the Company will promptly deliver a separate copy of the annual report to shareholders and/or proxy statement to any shareholder at a shared address to which a single copy of each document was delivered. Shareholders may notify the Company of their requests by calling or writing Stephen E. Bablitch, Secretary, Cobalt Corporation, 401 West Michigan Street, Milwaukee, Wisconsin 53203, phone number (414) 226-5000.

COBALT
CORPORATION
Stephen E. Bablitch,
Secretary

Milwaukee, Wisconsin
April 25, 2002

A COPY (WITHOUT EXHIBITS) OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE YEAR ENDED DECEMBER 31, 2001, WILL BE PROVIDED WITHOUT CHARGE TO EACH RECORD OR BENEFICIAL OWNER OF THE COMPANY'S COMMON STOCK AS OF APRIL 12, 2002, ON THE WRITTEN REQUEST OF SUCH PERSON DIRECTED TO: STEPHEN E. BABLITCH, SECRETARY, COBALT CORPORATION, 401 WEST MICHIGAN STREET, MILWAUKEE, WISCONSIN 53203.

EQUITY INCENTIVE PLAN

COBALT CORPORATION

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

COBALT CORPORATION
EQUITY INCENTIVE PLAN
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COBALT CORPORATION
EQUITY INCENTIVE PLAN

ARTICLE 1. ESTABLISHMENT, PURPOSE, AND DURATION

1.1 *Establishment of the Plan.* Cobalt Corporation, a Wisconsin corporation (hereinafter referred to as the "Company"), has established an incentive compensation plan to be known as the "Cobalt Corporation Equity Incentive Plan" (hereinafter referred to as the "Plan"), as set forth in this document. The Plan permits the grant of Nonqualified Stock Options, Incentive Stock Options, SARs, Restricted Stock, Performance Units, and Performance Shares.

This Plan was originally created in connection with the distribution (the "Distribution"), by the corporation formerly known as United Wisconsin Services, Inc. of all of the shares in the Company in connection with the spin-off of the managed care and specialty products business to the Company. In connection with the Distribution, Options ("Substituted Awards") will be issued under this Plan in substitution for Options issued under the equity incentive plan of the corporation formerly known as United Wisconsin Services, Inc. (the "Prior Plan").

Upon approval by the Board of Directors of the Company, subject to ratification by an affirmative vote of the holders of a majority of the Shares of the Company, the Plan shall become effective as of the Distribution Date (the "Effective Date"), and shall remain in effect as provided in Section 1.3 herein.

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 shall commence 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 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, in no event may an Award be granted under the Plan more than ten years after the Effective Date.

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 the Company such as Blue Cross & Blue Shield United of Wisconsin, or such other company as the Board may designate. For purposes of Options received in connection with the Distribution, American Medical Security Group, Inc. (and its subsidiaries) will be considered Affiliates.

(b)
"Affiliated SAR" means a 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 Nonqualified 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 shall be deemed to have occurred as of the first day that any one or more of the following conditions shall have been satisfied:

(i)
Any Person (other than those Persons in control of the Company as of the Effective Date, or other than a trustee or other fiduciary holding securities under an employee benefit plan of the Company, or a corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company), becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing twenty-five percent (25%) or more of the combined voting power of the Company's then outstanding securities; or

(ii)
During any period of two (2) consecutive years (not including any period prior to the Effective Date), individuals who at the beginning of such period constitute the Board (and any new Director, whose election by the Company's stockholders was approved by a vote of at least two-thirds ($^{2}/_{3}$) of the Directors then still in office who either were Directors at the beginning of the period or whose election or nomination for election was so approved), cease for any reason to constitute a majority thereof; or

(iii)
The stockholders of the Company approve: (A) a plan of complete liquidation of the Company; or (B) an agreement for the sale or disposition of all or substantially all the Company's assets; or (C) a merger, consolidation, or reorganization of the Company with or involving any other corporation, other than a merger, consolidation, or reorganization that would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity), at least fifty percent (50%) of the combined voting power of the voting securities of the Company (or such surviving entity) outstanding immediately after such merger, consolidation, or reorganization.

However, in no event shall a "Change in Control" be deemed to have occurred, with respect to a Participant, if the Participant is part of a purchasing group which consummates the Change-in-Control transaction. A Participant shall be deemed "part of a purchasing group" for purposes of the preceding sentence if the Participant is an equity participant in the purchasing company or group (except for: (i) passive ownership of less than three percent (3%) of the stock of the purchasing company; or (ii) ownership of equity participation in the purchasing company or group which is otherwise not significant, as determined prior to the Change in Control by a majority of the nonemployee continuing Directors).

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

(j)
"Committee" means the Management Review Committee, as specified in Article 3, appointed by the Board to administer the Plan with respect to grants of Awards.

(k)
"Company" means Cobalt Corporation, a Wisconsin corporation, (until the Effective Date known as Newco/UWS, Inc.) or any successor thereto as provided in Article 17 herein.

(l)
"Director" means any individual who is a Non-Employee member of the Board of Directors of the Company.

(m)
"Directors Plan" means the 1995 Directors Stock Option Plan of United Wisconsin Services, Inc.

(n)
"Disability" means a permanent and total disability, within the meaning of Code Section 22(e)(3), as determined 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)
"Distribution Date" means the date the stock of the Company was distributed by the corporation formerly known as United Wisconsin Services, Inc.

(p)
"Employee" means any full-time employee of the Company or of the Company's Subsidiaries or Affiliates. Directors who are not otherwise employed by the Company shall not be considered Employees under this Plan.

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

(r)
"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.

(s)
"Freestanding SAR" means a SAR that is granted independently of any Options.

(t)
"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.

(u)
"Insider" shall mean a Participant who is, on the relevant date, an officer, Director or 10% shareholder of the Company, subject to Section 16 of the Exchange Act.

(v)
"Nonqualified 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.

(w)
"Option" means an Incentive Stock Option or a Nonqualified Stock Option.

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

(y)
"Participant" means an Employee or a Director who has outstanding an Award granted under the Plan.

(z)
"Performance Unit" means an Award granted to an Employee, as described in Article 9 herein.

(aa)
"Performance Share" means an Award granted to an Employee, 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 a[redacted]bject to a substantial risk of forfeiture, as pro[redacted]d 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 in the tax-qualified defined benefit retirement plan of the Company.

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

(gg)
"Stock Appreciation Right" or "SAR" means an Award, granted alone or in connection with a related Option, designated as a SAR, pursuant to the terms of Article 7 herein.

(hh)
"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.

(ii)
"Substituted Award" means an Option issued under this Plan in substitution for an award issued under another equity incentive plan, including but not limited to awards issued pursuant to the Prior Plan and the Directors Plan.

(jj)
"Tandem SAR" means a 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, a SAR shall similarly be cancelled).

(kk)
"Window Period" means the period beginning on the third business day following the date of public release of the Company's quarterly sales and earnings information, and ending of the thirtieth day following such date.

ARTICLE 3. ADMINISTRATION

3.1 *The Committee.* The Plan shall be administered by the Management Review Committee of the Board, 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.

All members of the Committee shall be Non-Employee Directors. "Non-Employee Directors," as defined in rule 16b-3 promulgated by the Securities and Exchange Commission ("SEC") under the Exchange Act, means a director who (i) is not currently an officer or otherwise employed by the Company or any affiliate (ii) does not receive compensation for consulting service or in any other capacity from the Company in excess of $60,000 in any one year. (iii) does not possess an interest in and is not engaged in business relationships required to be reported under Items 404(a) or 404(b) of Regulation S-K promulgated under the Exchange Act and (iv) is an Outside Director as defined in Treas. Reg. 1.162-27.

3.2 *Authority of the Committee.* The Committee shall have full power except as limited by law or by the Articles of Incorporation or Bylaws of the Company, and subject to the provisions herein, to determine the size and types of Awards with respect to Employees; to determine the terms and conditions of such Employee 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, Directors, 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 8,700,000. These 8,700,000 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).

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 and 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 Employees and Directors.

5.2 *Actual Participation.* Subject to the provisions of the Plan, the Committee may, from time to time, select from all eligible Employees, those to whom Awards shall be granted and shall determine the nature and amount of each Award. Directors shall receive Options as provided in Section 6.1.

ARTICLE 6. STOCK OPTIONS

6.1 *Grant of Options.* Subject to the terms and provisions of the Plan, Options may be granted to Employees at any time 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 Employee except that no Employee may receive Options (other than Substituted Awards) with respect to more than 250,000 Shares in any year. The Committee may grant ISOs, NQSOs, or a combination thereof to Employees. Directors may receive only NQSOs. Substituted Awards may be issued under the Plan. The number of Substituted Awards shall be the number of awards immediately before the substitution, adjusted to prevent dilution or enlargement of the Participant's rights. The grant date of such Substituted Awards shall be the grant date under the plan through which the awards were originally granted. Substituted Awards shall be issued to Directors and Employees who participated in the Prior Plan and in the Directors Plan in accordance with the terms of the Employee Benefits Agreement executed in connection with the Distribution, and such Substituted Awards shall be subject to the same grant date, exercise price (as adjusted pursuant to Section 6.3), vesting and exercise period such awards were subject to under the Prior Plan and the Directors Plan.

To the extent Shares are available for grant under the Plan, each Director who is first elected as a Director subsequent to the Effective Date (a "Subsequent Director") shall be granted, as of the date on which such Subsequent Director is qualified and first begins to serve as a Director, an Option to purchase 6,000 shares, subject to adjustment pursuant to Section 4.3 or to purchase such lesser number of Shares as remain available for grant under the Plan. In the event that the number of Shares available for grant under the Plan is insufficient to make all grants hereby specified on the relevant date, then all Directors who are entitled to a grant on such date shall share ratably in the number of Shares then available for grant under the Plan. The Option Price of such Option shall equal the Fair Market Value of a Share on the date the grant of this Option is effective.

If sufficient Shares are not available under the Plan to fulfill the grant of Options to any Subsequent Director first elected after the Effective Date, and thereafter additional Shares become available, such Subsequent Director receiving an Option for fewer than 6,000 Shares shall then receive an Option to purchase an amount of Shares, determined by dividing the number of Shares available pro-rata among each Subsequent Director receiving an Option for fewer than 6,000 Shares, then available under the Plan, not to exceed 6,000 Shares, subject to adjustment as to any one Subsequent Director. The date of grant shall be the date such additional Shares become available. The Option Price of an Option shall equal the Fair Market Value of a Share on the date the Option is granted.

If a Subsequent Director receives an Option to purchase fewer than 6,000 Shares, subject to adjustment pursuant to Section 4.3 hereof, and additional Shares subsequently become available under the Plan, an Option to purchase such Shares shall first be allocated as of the date of availability to any Subsequent Director who has not previously been granted an Option. Such Options shall be granted to purchase a number of Shares no greater than the number of Shares covered by Options granted to other Subsequent Directors first elected subsequent to the Effective Date, but who have received Options to purchase fewer than 6,000 Shares (subject to adjustment pursuant to Section 4.3). Thereafter, Options for any remaining Shares shall be granted pro-rata among all Subsequent Directors granted Options to purchase fewer than 6,000 Shares. No Director first elected after the Effective Date shall receive an Option to purchase more than 6,000 Shares (subject to adjustment under Section 4.3).

To the extent Shares are available for grant under the Plan, each Director shall be granted during each calendar year, other than the calendar year in which the Director receives the option with respect to 6,000 Shares as a Subsequent Director, an Option to purchase 1,000 Shares, subject to adjustment pursuant to Section 4.3 (the "Annual Director Grant"). The date of the Annual Director Grants will be the first trading day of each calendar year. In the event that the number of Shares available for grant in any calendar year is insufficient to make Annual Director Grants, then no Annual Director Grants shall be made during such calendar year. The absence of Annual Director Grants during a calendar year shall not affect the Annual Director Grants in a subsequent calendar year.

The Option Price of the Shares purchasable under each Option granted to a Director shall be equal to one hundred percent (100%) of the Fair Market Value per Share on the date of grant of such Option.

Subject to acceleration as provided below, Options granted to Directors shall vest annually at the rate of thirty-three and one third percent (33 1/3%) of the aggregate number of Shares granted annually beginning on the first anniversary of the date of grant and on each subsequent anniversary of the date of grant thereafter. If a Director's tenure ends during the applicable three-year period due to death, Disability or Retirement or following a Change in Control, however, such Director's Options shall become immediately exercisable as to one hundred percent (100%) of the Shares covered thereby as of the Director's last day of service as a Director with the Company to the extent such Option may be exercised pursuant to Section 6.5 of this Plan. Retirement with respect to a Director shall mean the date of the Company's annual shareholders' meeting at which he or she would otherwise, but for said Retirement, be a nominee for election to the Board, or the date on which the Director attains seventy (70) years of age.

Once any portion of an Option issued to a Director becomes exercisable, it shall remain exercisable for the shortest period of (1) twelve years from the date of grant; or (2) two (2) years following the date on which the Director ceases to serve in such capacity for any reason other than removal for Cause. If a Director is removed for Cause, all outstanding Options held by the Director shall immediately be forfeited to the Company and no additional exercise period shall be allowed, regardless of the vested status of the Options.

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 a 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 to an Employee 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. The Option Price for a Substituted Award shall be the award price immediately before the substitution, adjusted to prevent dilution or enlargement of the Participant's rights.

6.4 *Duration of Options.* Each Option granted 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. Substituted Awards shall expire on the earlier of the date provided in this Section 6.4 or the date such awards would have expired under the plan and agreement pursuant to which they were originally granted.

6.5 *Exercise of Options.* Options granted to Employees 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 Participant or for each Employee. However, in no event may any Option granted under this Plan to an Employee or Director 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 full payment for the Shares.

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 an Employee is terminated by reason of death, all outstanding Options granted to that Employee 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 Employee's beneficiary, or by such persons that have acquired the Employee'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 an Employee is terminated by reason of Disability, all outstanding Options granted to that Employee 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 an Employee 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 an Employee's employment terminates by reason of Disability or Retirement, and within the exercise period allowed by the Committee following such termination the Employee 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 Employee's beneficiary, or by such persons who have acquired the Employee'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 Code 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 an Employee 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 Employee 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 Employee within the period beginning on the effective date of employment termination, and ending six (6) months after such date or on such later date as is approved by the Committee.

If the employment of an Employee 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.

For Employees employed by Affiliates, termination shall mean termination of such Employee's employment with the Affiliate.

6.10 *Transferability of Options.* No ISO 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 ISOs granted to a Participant under the Plan shall be exercisable during his or her lifetime only by such Participant.

NQSOs granted hereunder may be exercised only during a Participant's lifetime by the Participant, the Participant's guardian or legal representative or by a permissible transferee. NQSOs shall be transferable by Participants pursuant to the laws of descent and distribution upon a Participant's death, and during a Participant's lifetime, NQSOs shall be transferable by Participants to members of their immediate family, trusts for the benefit of members of their immediate family, and charitable institutions ("permissible transferees") to the extent permitted under Section 16 of the Exchange Act and subject to federal and state securities laws. The term "immediate family" shall mean any child, stepchild, grandchild, parent, stepparent, grandparent, spouse, sibling, mother-in-law, father-in-law, son-in-law, daughter-in-law, sister-in-law, or brother-in-law and shall include adoptive relationships.

NQSOs also shall be transferable by Participants other than to permissible transferees with the prior approval of the Committee which shall have the authority to approve such transfers of NQSOs on a case-by-case basis in its sole discretion.

The Committee shall have the authority to establish rules and regulations specifically governing the transfer of NQSOs granted under this Plan as it deems necessary and advisable.

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 an Employee 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 Employee (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 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 a 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, an Employee 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 SAR exercise 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.

For example, if the Participant is an Insider, the ability of the Participant to exercise SARs for cash will be limited to Window Periods. However, if the Committee determines that the Participant is not an Insider, or if the securities laws change to permit greater freedom of exercise of SARs, then the Committee may permit exercise at any point in time, to the extent the SARs are otherwise exercisable under the Plan.

7.9 *Termination of Employment Due to Death, Disability, or Retirement*

(a)
Termination by Death . In the event the employment of an Employee is terminated by reason of death, all outstanding SARs granted to that Employee 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 Employee's beneficiary, or by such persons that have acquired the Employee'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 Employee 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 an Employee 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 an Employee's employment terminates by reason of Disability or Retirement, and within the exercise period allowed by the Committee following such termination the Employee 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 Employee's beneficiary, or by such persons who have acquired the Employee'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 an Employee 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 Employee 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 Employee within the period beginning on the effective date of employment termination, and ending six (6) months after such date or on such later date as is approved by the Committee.

If the employment of an Employee shall be terminated by the Company for Cause, all outstanding SARs held by the Employee 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 *Nontransferability 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 an Employee under the Plan shall be exercisable during his or her lifetime only by such Employee.

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 Employees in such amounts as the Committee shall determine.

8.2 *Restricted Stock Agreement.* Each Restricted Stock grant shall be evidenced by an Award 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 Award Agreement, or upon earlier satisfaction of any other conditions, as specified by the Committee in its sole discretion and set forth in the Award Agreement. However, in no event may any Restricted Stock granted under the Plan become vested in an Employee prior to six (6) months following the date of its grant. All rights with respect to the Restricted Stock granted to an Employee under the Plan shall be available during his or her lifetime only to such Participant.

8.4 *Other Restrictions.* The Committee shall impose such other restrictions on any Shares of Restricted Stock granted pursuant to the Plan as it may deem advisable including, without limitation, restrictions based upon the achievement of specific performance goals (Company-wide, divisional, and/or individual), 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.

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 Cobalt Corporation Equity Incentive Plan, and in an associated Award Agreement. A copy of the Plan and such Award Agreement may be obtained from the Secretary of Cobalt Corporation."

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 Employee after the last day of the Period of Restriction. Once the Shares are released from the restrictions, the Employee 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, Employees 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, Employees 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.

In the event that any dividend constitutes a "derivative security" or an "equity security" pursuant to Rule 16(a) under the Exchange Act, such dividend shall be subject to a vesting period equal to the longer of: (i) the remaining vesting period of the Shares of Restricted Stock with respect to which the dividend is paid; or (ii) six months. The Committee shall establish procedures for the application of this provision.

8.9 *Termination of Employment Due to Death, Disability, or Retirement.* In the event the employment of an Employee 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 nontransferability 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 an Employee shall terminate for any reason other than those specifically set forth in Section 8.9 herein, all Shares of Restricted Stock held by the Employee 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 on Restricted Stock following employment termination, 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 Employees at any time and from time to time, as shall be determined by the Committee. The Committee shall have complete discretion in determining the number of Performance Units and Performance Shares granted to each Employee.

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 Employee. 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 Employee 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 an Employee is terminated by reason of death or Disability or involuntary termination without Cause during a Performance Period, the Employee 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 Employee held the Performance Units/Shares during the Performance Period, and shall further be adjusted based on the achievement of the preestablished 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 an Employee'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 Employee to the Company, and shall once again be available for grant under the Plan.

9.7 *Nontransferability.* 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, an Employee's rights under the Plan shall be exercisable during the Employee's lifetime only by the Employee or the Employee'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. Each such designation shall revoke all prior designations by the same Participant, shall be in a 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.

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 an 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 Employee's employment at any time, nor confer upon any Employee 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 between Subsidiaries) or Blue Cross & Blue Shield United of Wisconsin 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 Period of Restriction 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 Participant holding such Award.

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, signed by the Participant, and elections by Insiders shall additionally comply with the applicable requirement set forth in (a) or (b) of this Section 15.2.

(a)
Awards Having Exercise Timing Within Insiders' Discretion . The Insider must either:

(i)
Deliver written notice of the stock withholding election to the Committee at least six (6) months prior to the date specified by the Insider on which the exercise of the Award is to occur; or

(ii)
Make the stock withholding election in connection with an exercise of an Award which occurs during a Window Period.

(b)
Awards Having a Fixed Exercise/Payout Schedule Which is Outside Insiders' Control . The Insider must either:

(i)
Deliver written notice of the stock withholding election to the Committee at least six (6) months prior to the date on which the taxable event (e.g., exercise or payout) relating to the Award is scheduled to occur; or

(ii)
Make the stock withholding election during a Window Period which occurs prior to the scheduled taxable event relating to the Award (for this purpose, an election may be made prior to such a Window Period, provided that it becomes effective during a Window Period occurring prior to the applicable taxable event).

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 Certificate of Incorporation or Bylaws, 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.

Notwithstanding any other provision set forth in the Plan, if required by the then-current Section 16 of the Exchange Act, any "derivative security" or "equity security" offered pursuant to the Plan to any Insider may not be sold or transferred for at least six (6) months after the date of grant of such Award. The terms "equity security" and "derivative security" shall have the meanings ascribed to them in the then-current Rule 16(a) under the Exchange Act.

18.4 *Securities Law Compliance.* With respect to Insiders, 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.

COBALT CORPORATION
401 West Michigan Street, Milwaukee, WI 53203

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned hereby appoints Thomas R. Hefty and Gail L. Hanson, and each of them, proxies of the undersigned with power of substitution, to vote all shares of the common stock the undersigned is entitled to vote at the Annual Meeting of the Shareholders of Cobalt Corporation to be held on May 29, 2002 at 11:00 a.m., and at any adjournments or postponements thereof, as indicated below.

The shares of common stock represented by this proxy will be voted as directed. If no direction is specified, the shares of common stock will be voted FOR Item 1 and FOR Item 2 and in accordance with the best judgment of the proxies named herein on any other business that may properly come before the meeting.

PLEASE MARK, SIGN, DATE AND RETURN THIS PROXY PROMPTLY
***/DETACH BELOW AND RETURN USING THE ENVELOPE PROVIDED*/**

COBALT CORPORATION 2002 ANNUAL MEETING

1. ELECTION OF DIRECTORS:
(for terms expiring at the 2005 Annual Meeting and until their successors are duly elected and qualified)

1 - James L. Forbes
2 - D. Keith Ness
3 - William C. Rupp

// FOR all nominees listed to the left (except as specified below).

// WITHHOLD AUTHORITY to vote for all nominees listed to the left.

(Instructions: To withhold authority to vote for any indicated nominee, write the number(s) of the nominee(s) in the box provided to the right.)

2. AMENDMENTS TO EQUITY INCENTIVE PLAN:
(increasing the number of shares available for grant and providing for an automatic annual grant of options to non-employee directors).
With discretionary power upon all other business that may properly come before the meeting and upon matters incident to the conduct of the meeting.

// FOR // AGAINST // ABSTAIN

The Board of Directors recommends a vote FOR Item 1 and a vote FOR Item 2.

Check appropriate box Indicate changes below:
Address Change? // Name Change? //

Date , 2002 NO. OF SHARES

Signature(s) in Box
Please sign exactly as your name appears on this proxy giving your full title if signing as attorney or fiduciary. If shares are held jointly, each joint owner should sign. If a corporation, please sign in full corporate name, by duly authorized officer. If a partnership, please sign in partnership name by authorized person.

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March 20, 2002 - Cobalt Corporation & American Medical Security Group Announce Plans For Share Repurchase by AMS; Secondary Public Offering of AMS Shares by Cobalt

(Milwaukee, Wis.) – Cobalt Corporation (NYSE: CBZ) and American Medical Security Group, Inc. (NYSE: AMZ) (AMS) announced today that they have entered into an agreement by which AMS will repurchase 1,400,000 of its shares from Cobalt for $18.2 million or $13.00 per share. In addition, Cobalt Corporation has announced that it plans to sell at least 3,000,000 of its AMS shares in an underwritten secondary offering.

Currently, Cobalt Corporation, through its wholly owned subsidiary, Blue Cross & Blue Shield United of Wisconsin, owns 6,309,525, or approximately 45%, of the outstanding AMS shares. Following the repurchase, Cobalt will own 4,909,525, or approximately 39%, of the approximately 12,555,000 then outstanding AMS shares. Assuming a successful secondary offering by Cobalt, if the minimum of 3,000,000 AMS shares were sold, Cobalt would own approximately 1,909,000 shares, or approximately 15% of the approximately 12,555,000 shares then outstanding.

According to AMS, the share repurchase will require no additional financing. The share repurchase is expected to close promptly following the receipt of necessary consents.
Cobalt expects the secondary public offering of its AMS shares will take place in the second quarter of 2002.

"This agreement is in the best interest of both companies," said Thomas R. Hefty, Cobalt's President, Chairman and CEO. "However, AMS is no longer a strategic asset of Cobalt, and this agreement allows us to reduce our position in an orderly fashion."
Samuel V. Miller, AMS Chairman, President & CEO, stated, "We believe these transactions are in the best long-term interest of all AMS shareholders."

As part of the agreement, Cobalt Corporation will withdraw the slate of directors it had nominated for election to AMS' board. In addition, the AMS board of directors has appointed Thomas R. Hefty and Kenneth L. Evason, nominated by Cobalt, to serve as

directors on the AMS board of directors, effective as of the date the share repurchase is closed.

Cobalt has agreed to certain standstill provisions and to vote in favor of the slate of directors nominated by the AMS board of directors, and has also agreed not to present any new AMS shareholder proposals or nominate for election to the company's board of directors any additional directors for a period as specified in the agreement.

Cobalt Corporation is the Blue Cross and Blue Shield licensee for the state of Wisconsin. It is one of the leading, publicly traded health care companies in the nation, offering a diverse portfolio of complementary insurance and managed care products to employer, individual, insurer and government customers. Headquartered in Milwaukee and formed by the combination of Blue Cross & Blue Shield United of Wisconsin and United Wisconsin Services, Inc., Cobalt Corporation serves 2.9 million lives in 50 states.

American Medical Security Group, through its operating subsidiaries, markets health care benefits and insurance products to small businesses, families and individuals. Insurance products of American Medical Security Group are underwritten by United Wisconsin Life Insurance Company. The company serves customers nationwide through partnerships with professional, independent agents and quality health care providers. It provides medical and dental coverage for 557,716 members.

This press release shall not constitute an offer to sell or the solicitation of an offer to buy the shares nor shall there be any sale of the shares in any state in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such state.

Cautionary Statement: This release contains forward-looking statements with respect to the financial condition, results of operations and business of Cobalt Corporation. Such 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 forward-looking statements. Factors that may cause actual results or events to differ materially from those contemplated by such forward-looking statements include rising health care costs, business conditions, competition in the managed care industry, developments in health care reform and other regulatory issues.

CONTACT:
Cobalt Corporation
Bill Zaferos, 414/226-5431
Manager
Corporate Communications

AMS

Cliff Bowers, 920/661-2766
Vice President
Corporate Communications

Back

AVERY

[EXECUTION COPY]

STOCK PURCHASE AGREEMENT

By and among

BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN,

COBALT CORPORATION,

and

AMERICAN MEDICAL SECURITY GROUP, INC.

Dated as of March 19, 2002

STOCK PURCHASE AGREEMENT, dated as of March 19, 2002 (the "Agreement"), by and among Cobalt Corporation, a Wisconsin corporation (the "Seller's Parent"), Blue Cross & Blue Shield United of Wisconsin, a Wisconsin corporation and a wholly-owned subsidiary of Seller's Parent (the "Seller" and, together with the Seller's Parent, the "Seller Group"), and American Medical Security Group, Inc., a Wisconsin corporation (the "Company").

This Agreement sets forth the terms and conditions pursuant to which the Seller shall sell to the Company, and the Company shall purchase from the Seller, an aggregate of 1,400,000 shares of common stock, without par value, of the Company owned by the Seller. The common stock, without par value, of the Company is referred to herein as the "Common Stock". As used in this Agreement, the term "Shares" shall mean the 1,400,000 shares of the Common Stock owned by the Seller to be sold to the Company pursuant to the terms hereof, and the term "Share" shall mean one of the Shares, and the term "Additional Shares" shall mean any shares of the Common Stock (other than the Shares) beneficially owned as of the date of this Agreement by the Seller Group together with any shares of the Common Stock or other voting securities which may be issued and beneficially owned by the Seller Group in respect of such shares of the Common Stock in connection with any stock-split, stock dividend, distribution of any securities, reclassification, recapitalization or other similar transaction of the Company.

In consideration of the mutual agreements contained herein, and for other good and valuable consideration, the parties hereto agree as follows:

ARTICLE I

SALE AND PURCHASE OF THE SHARES

1.01 Sale and Purchase. Subject to the terms and conditions of this Agreement, and in reliance on the other party's representations, warranties, agreements and covenants contained herein, at the closing of the repurchase of the Shares by the Company, as contemplated by this Agreement (the "Closing"), the Seller agrees to sell, transfer and deliver to the Company, and the Company agrees to purchase from the Seller, the Shares, free and clear of all liens, claims, options, proxies, voting agreements, charges and encumbrances of whatever nature affecting the Shares (collectively, "Liens").

1.02 Consideration. Subject to the terms and conditions of this Agreement, and in reliance on the Seller Group's representations, warranties,

agreements and covenants contained herein, and in consideration of the sale, transfer and delivery of the Shares as provided for herein and of the covenants of the Seller Group set forth in Article IV hereof, at the Closing, the Company shall deliver to the Seller, in full payment therefor, a purchase price of U.S. $13.00 per Share, or an aggregate of U.S. $18,200,000 for all of such Shares, payable by wire transfer of immediately available funds to an account designated in writing by the Seller at least two business days prior to the Closing Date (as defined below).

ARTICLE II

THE CLOSING

2.01 Date and Place. Subject to the satisfaction or waiver of all of the conditions to the Closing set forth in Article VII of this Agreement, the Closing shall take place at the offices of Foley & Lardner, Firstar Center, 777 East Wisconsin Avenue, Milwaukee, Wisconsin, as promptly as practicable after the satisfaction or waiver (by the party entitled to waive the condition) of all of the conditions set forth in Article VII hereof (other than those conditions that by their nature are to be fulfilled only at the Closing, but subject to the fulfillment or waiver of all such conditions at the time of the Closing), unless another date and/or place is agreed to in writing by the parties hereto (the "Closing Date").

2.02 Deliveries at the Closing. At the Closing, the Seller shall deliver to the Company stock certificates representing all of the Shares, duly endorsed or accompanied by stock powers relating to such Shares duly executed in blank with appropriate transfer stamps, if any, affixed, with documentations satisfactory to the Company evidencing the transfer of good and valid title to the Shares, free and clear of all Liens, in form acceptable to the Company for transfer on the Company's books. At the Closing, the Company shall deliver to the Seller the cash payment provided for in Section 1.02 hereof.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

3.01 Representations and Warranties of the Seller Group. The Seller and Seller's Parent hereby jointly and severally represent and warrant to the Company as follows:

(a) Each of the Seller and Seller's Parent is a corporation duly organized and validly existing under the laws of the State of Wisconsin and has filed its most recent required annual report and has not filed articles of dissolution. Each of the Seller and the Seller's Parent has the full corporate power and authority to execute, deliver and carry out the terms and provisions of this Agreement and to consummate the transactions contemplated by this Agreement, and has taken all necessary action to authorize the execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby.

(b) This Agreement has been duly and validly authorized, executed and delivered by each of the Seller and the Seller's Parent, and constitutes a valid and binding obligation of each of the Seller and the Seller's Parent, enforceable in accordance with its terms.

(c) The Seller has complete and unrestricted power and the unqualified right to sell, assign, transfer and deliver the Shares to the Company. The execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby, by each of the Seller and the Seller's Parent do not require any authorization, consent, waiver, approval, exemption, permit or order of or other action by, or notice or declaration to, or filing with, any governmental agency or organization, under any law applicable to the Seller or the Seller's Parent, as appropriate, or any of their respective assets, or of, by or with any other Person (as hereinafter defined), except for (i) notification to the Office of the Commissioner of Insurance of the State of Wisconsin with respect to the repurchase of the Shares by the Company from the Seller, (ii) any filings required to be made under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or any regulations promulgated thereunder, and (iii) where the failure to obtain such authorization, consent, waiver, approval, exemption, permit or order or to make such notice or declaration or filing would not adversely affect the ability of the Seller and the Seller's Parent to consummate or perform the transactions contemplated by this Agreement. As used in this Agreement, the term "Person" means an individual, a corporation, a company, a limited liability company, a partnership, a governmental agency or body, an association, a trust or other entity, group, organization or individual.

(d) The Seller has good and valid title to the Shares, free and clear of all Liens. Upon consummation of the transactions contemplated hereby, the Seller shall deliver to the Company good and valid title to the Shares, free and clear of all Liens.

(e) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby, in each case with or without the giving of notice or the lapse of time or both, (i) violate or conflict with

any term or provision of the articles of incorporation or by-laws of the Seller or Seller's Parent, (ii) violate or conflict with any statute, law, rule, regulation, order, judgment or decree affecting the Seller or Seller's Parent, (iii) result in the creation of any Lien, liability or obligation upon the Seller, Seller's Parent or the Shares, or (iv) violate or conflict with, constitute a breach or default, or give rise to any right of termination, acceleration of any obligation or amendment under, or require any notice, or result in the loss of material benefit under, any term or provision of any contract, commitment, understanding, arrangement, agreement or restriction of any kind or character to which the Seller or Seller's Parent is a party, by which the Seller or the Seller's Parent is bound or to which any of their respective assets are subject.

(f) As of the date hereof, there are no claims pending or, to the knowledge of the Seller Group, threatened which, if adversely determined, could, directly or indirectly, limit or impair the ability of Seller or Seller's Parent to consummate the transactions contemplated by this Agreement. There are no outstanding or unsatisfied judgments, orders, decrees or stipulations to which the Seller or Seller's Parent is a party that could limit or impair the ability of the Seller or Seller's Parent to consummate the transactions contemplated by this Agreement.

3.02 Representations and Warranties of the Company. The Company hereby represents and warrants to the Seller Group as follows:

(a) The Company is a corporation duly organized and validly existing under the laws of the State of Wisconsin and has filed its most recent required annual report and has not filed articles of dissolution. The Company has the full corporate power and authority to execute, deliver and carry out the terms and provisions of this Agreement and to consummate the transactions contemplated by this Agreement, and has taken all necessary action to authorize the execution, delivery and performance of this Agreement and consummation of the transactions contemplated hereby.

(b) This Agreement has been duly and validly authorized, executed and delivered by the Company and constitutes a valid and binding obligation of the Company, enforceable in accordance with its terms.

(c) The execution, delivery and performance of this Agreement, and the consummation of the transactions contemplated hereby, by the Company do not require any authorization, consent, waiver, approval, exemption, permit or order of, or other action by, or notice or declaration to, or filing with (collectively, "Consents"), any governmental agency or organization, under any law applicable to the Company, or any of its assets or of, by or with any other Person, except for (i) the approval of the Office of the Commissioner of Insurance of the State of Wisconsin approving the extraordinary cash dividends to be declared and

paid by subsidiaries of the Company to the Company to fund the payment to be made by the Company pursuant to Section 1.02 of this Agreement (the "Insurance Regulatory Approval"), (ii) any filings required to be made under the Exchange Act, or any regulations promulgated thereunder, (iii) any Consents required under the Credit Agreement, dated as of March 24, 2000, among the Company, LaSalle Bank National Association and the other Lenders (as amended, the "Credit Agreement"), and (iv) where the failure to obtain such Consent would not adversely effect the ability of the Company to consummate or perform the transactions contemplated by this Agreement.

(d) Neither the execution and delivery of this Agreement nor the consummation of the transactions contemplated hereby, in each case with or without the giving of notice or the lapse of time or both, (i) violate or conflict with any term or provision of the articles of incorporation or by-laws of the Company, (ii) violate or conflict with any statute, law, rule, regulation, order, judgment or decree affecting the Company, (iii) result in the creation of any Lien, liability or obligation upon the Company, or (iv) violate or conflict with, constitute a breach or default, or give rise to any right of termination, acceleration of any obligation or amendment under, or require any notice, or result in the loss of material benefit under, any term or provision of any contract, commitment, understanding, arrangement, agreement or restriction of any kind or character to which the Company is a party, by which the Company is bound or to which any of its assets are subject.

(e) The Company has received an opinion of Banc of America Securities LLC, financial advisor to the Company, to the effect that, as of the date hereof, the consideration to be paid by the Company pursuant to Section 1.02 hereof is fair from a financial point of view to the Company and shareholders of the Company (other than Seller's Parent and its subsidiaries).

(f) As of the date hereof, there are no claims pending or, to the knowledge of the Company, threatened which, if adversely determined, could, directly or indirectly, limit or impair the ability of the Company to consummate the transactions contemplated by this Agreement. There are no outstanding or unsatisfied judgments, orders, decrees or stipulations to which the Company is a party that could limit or impair the ability of the Company to consummate the transactions contemplated by this Agreement.

ARTICLE IV

COVENANTS OF THE SELLER GROUP

4.01 Certain Restrictions. Subject to Section 4.06 hereof, each of the Seller and the Seller's Parent jointly and severally covenants and agrees with the Company that, for so long as the Seller Group shall have, at least one Seller-Nominated Director on the Board of Directors of the Company pursuant to Section 6.01 hereof, it shall not, and shall cause its respective directors, officers, affiliates and, on its behalf, representatives, agents and advisors not to, whether individually or as part of any "group" (within the meaning of Section 13(d)(3) of the Exchange Act), directly or indirectly:

(a) purchase, offer to purchase or otherwise acquire or offer or agree to acquire any shares of the Common Stock or other securities of the Company which are entitled to vote generally for the election of directors, or any securities which are convertible or exchangeable into or exercisable for any securities of the Company which are entitled to vote generally for the election of directors (the Common Stock, together with such other securities, are referred to herein as "Voting Securities");

(b) (i) (x) make, or in any way participate, directly or indirectly, in any "solicitation" (as such term is used in the proxy rules of the Securities and Exchange Commission ("SEC") as in effect on the date hereof) of proxies or consents, (y) seek to advise, encourage or influence any Person with respect to the voting (either at a meeting or by written consent) of any Voting Securities, or (z) initiate, propose or otherwise "solicit" (as such term is used in the proxy rules of the SEC as in effect on the date hereof) shareholders of the Company, in each case for (A) the election of Persons to the Board of Directors or (B) the approval of shareholder proposals, whether made pursuant to Rule 14a-8 of the Exchange Act or otherwise, or (ii) induce or attempt to induce any other Person to initiate any such solicitation for the election of Persons to the Board of Directors or the approval of shareholder proposals or otherwise communicate with the Company's shareholders pursuant to Rule 14a-2(a) or (b) under the Exchange Act; provided, however, that, subject only to Section 4.02 hereof, nothing in this Section 4.01(b) shall prohibit or otherwise limit the Seller Group's ability to vote its Additional Shares in connection with any solicitation by or on behalf of the Board of Directors of the Company; and provided, further, that, notwithstanding any other provision in this Agreement, the provisions of this Section 4.01(b) with respect to the election of Persons to the Board of Directors shall terminate upon the later to occur of (i) December 31, 2003 and (ii) the date upon which the Seller Group shall no longer have any Seller-Nominated Directors on the Board of Directors of the Company pursuant to Section 6.01 hereof;

(c) without the prior consent of the Company, seek, propose, or make any statement that is critical of management of the Company or reasonably likely to be publicly disclosed with respect to, any merger, consolidation, business combination, tender or exchange offer, sale or purchase of assets, sale or purchase of securities, dissolution, liquidation, reorganization, restructuring, recapitalization, change in capitalization, change in corporate structure or business or similar transaction or other extraordinary transaction involving the Company or its subsidiaries; provided, however, that nothing in this Agreement shall prohibit or otherwise limit the Seller Group's right to seek or propose the sale of, or sell any of its Additional Shares;

(d) deposit any Voting Securities in any voting trust or subject any Voting Securities to any arrangement or agreement with respect to the voting of any Voting Securities, except as set forth in this Agreement, other than a voting trust, arrangement or agreement that is not formed for the purpose of taking, and does not result in the taking of, any of the actions prohibited by this Section 4.01;

(e) call or seek to have called any meeting of the shareholders of the Company;

(f) otherwise act to control or seek to control or influence or seek to influence the management, Board of Directors or policies of the Company, other than as provided in Section 6.01 hereof or make any statement that is critical of any of the Persons nominated by the Board of Directors of the Company for election as directors of the Company;

(g) seek representation on the Board of Directors of the Company, or seek the removal of any member of such Board or a change in the composition or size of such Board, other than as provided in Section 6.01 hereof; provided, however, that, notwithstanding any other provision in this Agreement, the provisions of this Section 4.01(g) shall terminate upon the later to occur of (i) December 31, 2003 and (ii) the date upon which the Seller Group shall no longer have any Seller-Nominated Directors on the Board of Directors of the Company pursuant to Section 6.01 hereof;

(h) make any publicly disclosed proposal, comment, statement or communication (including, without limitation, any request to amend, waive or terminate any provision of this Agreement other than Section 4.01), or make any proposal, comment, statement or communication (including, without limitation, any request to amend, waive or terminate any provision of this Agreement other than Section 4.01) in a manner that would require any public disclosure by the Company, the Seller, the Seller's Parent or any other Person, or enter into any

discussion with any Person (other than the then current directors and officers of the Company), regarding any of the foregoing;

(i) have any discussions or communications, or enter into any arrangements, understandings or agreements (whether written or oral) with, or advise, finance, assist, encourage or act in concert with, any other Person in connection with any of the foregoing or make any investment in any Person for the purpose of engaging in any of the foregoing, or take any action inconsistent with the foregoing; or

(j) make any written request, or any request to the Board of Directors of the Company, written or oral, to amend, waive or terminate any of the foregoing or disclose any request to amend, waive or terminate any of the foregoing to any Person, other than oral disclosure to management of the Company in a manner that would not require any public disclosure by the Company, the Seller, the Seller's Parent or any other Person.

4.02 Voting of Additional Shares. Subject to Section 4.06 hereof, the Seller Group agrees that, until the date on which the Seller Group shall beneficially own less than 10% of the then issued and outstanding shares of the Common Stock and each of the Seller-Nominated Directors (as hereinafter defined) shall have resigned from the Board and any Committee thereof, all of the Additional Shares beneficially owned by any the Seller Group (a) shall be present, in person or by proxy, at all of the annual and special meetings of shareholders of the Company at which directors will be elected in order to participate in a quorum at such meetings, and (b) shall be voted on the election of directors at any such meeting, and consented to on the election of directors, if submitted to shareholders for action by consent of shareholders without a meeting, in favor of each of the nominees recommended by the Board of Directors of the Company; provided, however, that, notwithstanding the foregoing, (i) the Seller Group may vote Additional Shares as it determines, in its sole discretion, on any matter other than the election of directors and (ii) the Seller Group may vote Additional Shares as it determines, in its sole discretion, at any annual or special meeting of shareholders, and may act by written consent, on the election of directors in the event that the Company shall then be in material breach of its obligations under Section 6.01 hereof.

4.03 Cooperation Regarding Regulatory Filings. The Seller Group (i) shall file the necessary documentation with the Office of the Commissioner of Insurance of the State of Wisconsin and shall use commercially reasonable efforts to obtain any approval required in connection with the Share repurchase as soon as reasonably practicable following the date of this Agreement and (ii) shall cooperate with the Company in preparing any filings made in connection with obtaining the

Insurance Regulatory Approval, and in responding to any inquiries of the Office of the Commissioner of Insurance of the State of Wisconsin relating thereto.

4.04 Cooperation Regarding Consents. Each of the Seller Group shall use commercially reasonable efforts to obtain all Consents of all governmental authorities and all third parties required in connection with the consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing, none of the Seller Group shall have any obligation to pay any fee to any third party (which does not include filing or other fees payable by the Seller Group to governmental authorities) for the purpose of obtaining any Consent or any costs and expenses of any third party resulting from the process of obtaining such Consents. Each of the Seller Group shall make or cause to be made all filings and submissions under laws and regulations applicable to it as may be required for the consummation of the transactions contemplated by this Agreement.

4.05 Withdrawal of Nomination Notice. The Seller hereby agrees to irrevocably withdraw, concurrently with the execution of this Agreement, the Seller's notice, dated January 28, 2002, of its intent to nominate directors at the Company's next annual meeting of shareholders, by executing and delivering to the Company a withdrawal letter in the form attached hereto as Exhibit A (the "Withdrawal Letter").

4.06 Seller Group's Right to Terminate. Notwithstanding anything to the contrary contained herein, the Seller Group shall have the right, effective at any time after December 31, 2002, upon thirty (30) days' prior written notice to the Company, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 hereof (other than the covenants and agreements in Sections 4.01(b) (with respect to the election of directors) and 4.01(g), which may not be terminated hereunder until after December 31, 2003); provided, however, that, in the event that the Company shall be in material breach of this Agreement, the Seller Group shall have the right, upon thirty (30) days' prior written notice to the Company, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 hereof at any time after the date hereof (other than the covenants and agreements in Sections 4.01(b) (with respect to the election of directors) and 4.01(g), which may not be terminated hereunder until after December 31, 2003); provided, further, that in the event of any termination pursuant to this Section 4.06, each Seller-Nominated Director then serving as a director on the Company's Board of Directors shall have resigned from the Company's Board of Directors, effective immediately on the date on which such notice is given, pursuant to the Resignation Letter (as hereinafter defined) delivered by such Seller-Nominated Director.

ARTICLE V

COVENANTS OF THE COMPANY

5.01 Regulatory Approval. The Company shall file the necessary documentation with the Office of the Commissioner of Insurance of the State of Wisconsin and shall use commercially reasonable efforts to obtain the Insurance Regulatory Approval as soon as reasonably practicable following the date of this Agreement.

5.02 Cooperation Regarding Consents. The Company shall use commercially reasonable efforts to obtain all Consents of all governmental authorities and all third parties required in connection with the consummation of the transactions contemplated by this Agreement. Notwithstanding the foregoing, the Company shall not have any obligation to pay any fee to any third party (which does not include filing or other fees payable by the Company to governmental authorities) for the purpose of obtaining any Consent or any costs and expenses of any third party resulting from the process of obtaining such Consents. The Company shall make or cause to be made all filings and submissions under laws and regulations applicable to it as may be required for the consummation of the transactions contemplated by this Agreement.

5.03 Rights Agreement Amendment. If, immediately upon consummation of the Secondary Sale, the Seller Group shall own more than twelve percent (12%) of the then issued and outstanding shares of Common Stock, the Company shall execute an amendment to the Rights Agreement between the Company and Firstar Bank, N.A., dated as of August 9, 2001, as amended (the "Rights Agreement"), substantially in the form attached hereto as Exhibit B (the "Amendment"), which shall provide that the definition of "Acquiring Person" shall be amended to mean any Person beneficially owning such percentage of issued and outstanding shares of Common Stock as is equal to the lesser of (i) 20% of the issued and outstanding shares of Common Stock or (ii) the percentage (rounded up to the nearest whole number) of the then issued and outstanding shares of Common Stock beneficially owned by the Seller Group immediately upon consummation of the Secondary Sale. The Company shall deliver the Amendment to the Rights Agent for execution, together with the certificate required by Section 27 of the Rights Agreement, and shall use commercially reasonable efforts to take all other actions necessary to effect such amendment. The Seller Group acknowledges and agrees that, to the extent that following consummation of the Secondary Sale, the Seller Group's percentage ownership of Common Stock thereafter decreases, the Company shall have the right from time to time to further amend the Rights Agreement to lower the definition of "Acquiring Person" to the percentage (rounded up to the

nearest whole number) of the issued and outstanding shares of Common Stock then beneficially owned by the Seller Group.

ARTICLE VI

CERTAIN AGREEMENTS

6.01 Board Representation.

(a) Prior to execution of this Agreement, the Board of Directors of the Company (the "Board") has taken all actions necessary to increase the size of the Board to fourteen (14) directors and cause Thomas R. Hefty and Kenneth L. Evason to become directors of the Company, effective immediately following consummation of the purchase and sale of Shares at the Closing, to fill the vacancies created by such increase in size of the Board. Thomas R. Hefty shall be included in the class of directors whose terms expire at the second annual meeting of shareholders following the Closing Date, and Kenneth L. Evason shall be included in the class of directors whose terms expire at the third annual meeting of shareholders following the Closing Date. Each of Thomas R. Hefty and Kenneth L. Evason (or any successor of Thomas R. Hefty or Kenneth L. Evason pursuant to Section 6.01(c) hereof) and each Seller Nominee (as hereinafter defined) elected to the Board pursuant to Section 6.01(b) shall be referred to as a "Seller-Nominated Director" herein.

(b) Subject to Section 4.06, for so long as the Seller Group beneficially owns 20% or more of the then outstanding shares of Common Stock, the Seller Group shall be entitled to designate two (2) nominees to the Board, which nominees shall be reasonably acceptable to the Company ("Seller Nominees"), and the Company shall use its best efforts to take all action necessary so that such Seller Nominees shall be nominated for election or re-election to the Board, as the case may be. Subject to Section 4.06, for so long as the Seller Group beneficially owns 10% or more, but less than 20%, of the then issued and outstanding shares of the Common Stock, the Seller Group shall be entitled to designate only one (1) nominee to the Board, which nominee shall be reasonably acceptable to the Company, and the Company shall use its best efforts to take all action necessary so that such Seller Nominee shall be nominated for election or re-election to the Board, as the case may be. If the Seller Group at any time beneficially owns less than 10% of the then issued and outstanding shares of the Common Stock, then the Seller Group shall not be entitled to designate any directors to the Board, and the Seller Group shall cause each of the Seller-Nominated Directors (including any successors pursuant to Section 6.01(c)) to immediately resign from the Board and any Committee thereof.

The Seller Group shall notify the Company in writing promptly in the event that, at any time, the Seller Group shall (i) own 10% or more, but less than 20%, of the then issued and outstanding shares of Common Stock, and (ii) own less than 10% of the then issued and outstanding shares of Common Stock. In the event that the Company requests the Seller Group to inform the Company of the number of shares of Common Stock then beneficially owned by the Seller Group, the Seller Group shall promptly provide such information to the Company. For purposes of this Section 6.01, Thomas R. Hefty and Kenneth L. Evason shall be deemed "reasonably acceptable to the Company."

(c) In the event that any Seller-Nominated Director shall cease to serve as a director as a result of the death, removal or resignation of such Seller-Nominated Director (other than by reason of the fact that the Seller Group no longer has a right to designate any directors to the Board or the fact that the Seller Group is entitled to designated fewer directors to the Board pursuant to Section 6.01(b)), the vacancy created thereby shall be filled by a designee nominated by the Seller Group, which nominee shall be reasonably acceptable to the Company. Upon the appointment of any such nominee to the Board, such nominee shall be a "Seller Nominated Director" hereunder, and all of the provisions of this Section 6.01 shall apply to such nominee, including, without limitation, Section 6.01(e).

(d) The Company shall provide the Seller with notice of the estimated mailing date for proxy materials relating to an annual meeting of shareholders at which a Seller Nominee may be considered for election or re-election at least 10 business days prior to such mailing date. The Seller shall provide in a timely manner all information required by Regulation 14A and Schedule 14A under the Exchange Act with respect to any Seller Nominee.

(e) Prior to nomination to the Board, (i) Thomas R. Hefty (and any successor of Thomas R. Hefty pursuant to Section 6.01(b) or (c) hereof) shall execute and deliver to the Company a resignation letter, in the form attached hereto as Exhibit C-1, which shall provide that Thomas R. Hefty (or any successor of Thomas R. Hefty pursuant to Section 6.01(b) or (c) hereof) shall resign effective immediately upon the earlier of (x) the date upon which the Seller Group shall deliver written notice to the Company that it is exercising its right, pursuant to Section 4.06, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 hereof and (y) the first date that the Seller owns less than 20% of the then issued and outstanding shares of the Common Stock and (ii) Kenneth L. Evason (and any successor of Kenneth L. Evason pursuant to Section 6.01(b) or (c) hereof) shall execute and deliver to the Company a resignation letter, in the form attached hereto as Exhibit C-2, which shall provide that Kenneth L. Evason (or any successor of Kenneth L. Evason pursuant to Section 6.01(b) or (c) hereof) shall resign effective immediately upon the earlier of (x) the date upon which the Seller Group shall

deliver written notice to the Company that it is exercising its right, pursuant to Section 4.06, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 hereof and (y) the first date that the Seller owns less than 10% of the then issued and outstanding shares of the Common Stock. Notwithstanding any other provision of this Agreement, from and after the date upon which the Seller Group shall deliver written notice to the Company that it is exercising its right, pursuant to Section 4.06, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 hereof, the Seller shall no longer have the right to designate any Seller-Nominated Directors pursuant to this Agreement, and the resignation of each Seller-Nominated Director then in office shall become immediately effective on such date.

(f) In the event that the Seller Group shall deliver written notice to the Company that it is exercising its right, pursuant to Section 4.06, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 hereof, the provisions of this Section 6.01 shall terminate immediately and shall be of no further force and effect.

6.02 Private Placement. If, at any time following the date hereof and irrespective of whether the Secondary Sale has been consummated, the Seller chooses to sell any of its Additional Shares pursuant to a private placement to reduce its holdings of the Common Stock, the Company shall cooperate to facilitate such sale at mutually agreed upon terms and conditions, subject to receipt by the Company of a confidentiality agreement, in form and substance reasonably satisfactory to the Company, duly executed by the prospective purchaser in such private placement.

6.03 Registration.

(a) Promptly following the date hereof, the Seller and the Company shall cooperate to prepare and file with the SEC a registration statement, including all exhibits and financial statements required to be filed therewith, to effect the registration and sale of at least three million (3,000,000) Additional Shares, with the exact number of Additional Shares to be sold to be as many Additional Shares as the Underwriters (as hereinafter defined) advise may be sold therein (the "Secondary Sale"), and to cause such registration statement to become effective under the Securities Act of 1933, as amended (the "Securities Act") as expeditiously as possible following the date hereof. The Company and the Seller hereby agree to use commercially reasonable efforts to complete the Secondary Sale as promptly as reasonably practicable on commercially reasonable terms, mutually acceptable to the parties, in order to sell as many Additional Shares as the Underwriters advise may be sold therein. The registration of Additional Shares contemplated by this Section 6.01(a) shall be conducted pursuant to the terms and conditions of the Registration Rights Agreement by and between the Seller and the Company dated as of

September 1, 1998 (the "Registration Rights Agreement"), including, without limitation, Section 1.05 thereof; provided, however, that (i) the engagement of the Underwriters shall be determined pursuant to Section 6.03(b); (ii) payment of expenses incurred in connection with the Secondary Sale shall be determined pursuant to Section 6.03(c); (iii) the registration of Additional Shares contemplated herein shall be considered a registration pursuant to Section 1.02 of the Registration Rights Agreement, and Section 1.02 of the Registration Rights Agreement shall otherwise apply to the registration of Additional Shares contemplated herein; except that, notwithstanding the foregoing, in the event the Secondary Sale is not effected, other than as a result of a breach of this Section 6.03 by the Seller Group, then the registration of Additional Shares contemplated herein shall not be considered a registration pursuant to Section 1.02 of the Registration Rights Agreement; and (iv) the Company shall not sell securities for its own account in the registration of Additional Shares contemplated herein and shall not permit the sale of any securities other than the Additional Shares in such registration.

(b) Seller's Parent shall engage the following lead managing underwriters for the Secondary Sale: CIBC Oppenheimer Corp., Robert W. Baird & Co., Incorporated and one other underwriter reasonably acceptable to the Company (collectively, the "Underwriters").

(c) Except for all underwriters' discounts, fees and commissions related to the Secondary Sale, which shall be borne exclusively by the Seller, all reasonable out-of-pocket registration, qualification, legal, printers', extraordinary accounting and other reasonable, out-of-pocket fees and expenses required to be disclosed in connection with the Secondary Sale by Item 511 of Regulation S-K under the Securities Act ("Expenses"), up to an aggregate of U.S. $650,000 of Expenses, shall be borne by the Company; and any Expenses incurred in excess of such U.S. $650,000 amount shall be borne equally by the Company and the Seller.

(d) In the event that, prior to the consummation of the Secondary Sale, the Board shall receive an unsolicited bona fide, written offer to acquire all of the outstanding shares of Common Stock at a price, to be paid in cash, in excess of the then current market price of the Common Stock, the Seller Group shall have the right to postpone the Secondary Sale for a period of ten (10) business days in order to give the Board an opportunity to review and evaluate such offer. In the event the Board approves such offer, the Seller Group shall have the right to terminate the Secondary Sale.

6.03. Press Release. The Company and the Seller's Parent hereby agree to jointly issue, concurrently with the execution of this Agreement, a mutually

acceptable joint press release regarding the transactions contemplated hereby, in substantially the form attached as Exhibit D hereto.

ARTICLE VII

CONDITIONS TO CLOSING

7.01 Conditions to the Obligations of the Company and the Seller Group. The obligations of the Company and the Seller Group to effect the Closing are subject to the satisfaction (or waiver, to the extent permitted by applicable law) at or prior to the Closing of the following conditions:

(a) No Injunctions; Orders. There shall not be in effect any order, writ, judgment, injunction or decree entered by any governmental agency or organization or arbitrator of competent jurisdiction that prohibits or enjoins the transactions contemplated by this Agreement.

(b) Approvals. All waiting periods shall have expired or have been earlier terminated and all required Consents of governmental authorities of appropriate jurisdiction and of all third parties shall have been obtained, including, without limitation, the Insurance Regulatory Approval and the Consent under the Credit Agreement.

7.02 Conditions to the Obligations of the Company. The obligation of the Company to effect the Closing is further subject to the satisfaction (or waiver by the Company, to the extent permitted by applicable law) at or prior to the Closing of the following conditions:

(a) Representations, Warranties and Covenants. The representations and warranties of the Seller Group contained herein shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made as of the Closing Date, and the covenants and agreements of the Seller Group to be performed at or prior to the Closing shall have been duly performed in all material respects.

(b) Pending Litigation. No action shall be pending by any Person (i) seeking to enjoin or prohibit the performance of this Agreement or the consummation of the transactions contemplated hereby or (ii) seeking material damages from the Company as a result of the performance of this Agreement or the consummation of the transactions contemplated hereby.

(c) Resignation Letters. The Company shall have received resignation letters, in the form of Exhibits C-1 and C-2 hereto, duly executed by Thomas R. Hefty and Kenneth L. Evason, respectively.

(d) Withdrawal Letter. The Company shall have received the Withdrawal Letter, in the form of Exhibit A hereto, duly executed by an authorized officer of Seller.

7.03 Conditions to the Obligations of the Seller Group. The obligation of the Seller Group to effect the Closing is further subject to the satisfaction (or waiver by the Seller, to the extent permitted by applicable law) at or prior to the Closing of the following conditions:

(a) Representations, Warranties and Covenants. The representations and warranties of the Company contained herein shall be true and correct in all material respects as of the date of this Agreement and as of the Closing Date as if made as of the Closing Date, and the covenants and agreements of the Company to be performed at or prior to the Closing shall have been duly performed in all material respects.

(b) Pending Litigation. No action shall be pending by any Person (i) seeking to enjoin or prohibit the performance of this Agreement or the consummation of the transactions contemplated hereby or (ii) seeking material damages from the Seller Group as a result of the performance of this Agreement or the consummation of the transactions contemplated hereby.

ARTICLE VIII

MISCELLANEOUS

8.01 Indemnification.

(a) Indemnification by Company. The Company agrees to indemnify and hold harmless, to the full extent permitted by law, Seller, Seller's Parent, and the Underwriters, and their respective officers and directors, and each Person who controls (within the meaning of the Securities Act or the Exchange Act) any of the foregoing Persons (each, an "Indemnified Party" and collectively, the "Indemnified Parties"), from and against any and all losses, claims, damages, liabilities and expenses, joint or several (including reasonable costs of investigation and legal expenses) (each, a "Loss" and collectively "Losses"), arising out of or based upon (i) any untrue or alleged untrue statement of a material fact contained in the registration statement under which the Additional Shares are registered under the

Securities Act in connection with the Secondary Sale contemplated hereby (including any final, preliminary or summary prospectus contained therein or any amendment thereof or supplement thereto or any documents incorporated by reference therein), or (ii) any omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein (in the case of a prospectus or preliminary prospectus, in light of the circumstances under which they were made) not misleading; provided, however, that the Company shall not be liable in any such case to the extent that any such Loss arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in any such registration statement in reliance upon information furnished to the Company by the Seller Group for inclusion therein or the Seller Group's failure to deliver a copy of the registration statement (or prospectus or any amendments or supplements thereto) after the Company has furnished the Seller Group with a sufficient number of copies of the same.

(b) Indemnification by the Seller Group. Seller and Seller's Parent agree to jointly and severally indemnify and hold harmless, to the full extent permitted by law, the Company, its directors and officers and each Person who controls the Company (within the meaning of the Securities Act and the Exchange Act) from and against any Losses arising out of or based on any untrue or alleged untrue statement of a material fact contained in, or any omission or alleged omission of a material fact required to be stated in, the registration statement under which the Additional Shares are registered under the Securities Act in connection with the Secondary Sale contemplated hereby (including any final, preliminary or summary prospectus contained therein or any amendment thereof or supplement thereto or any documents incorporated by reference therein), or necessary to make the statements therein (in the case of a prospectus or preliminary prospectus, in light of the circumstances under which they were made) not misleading, to the extent, but only to the extent, that such untrue or alleged untrue statement or omission or alleged omission is made in reliance upon information furnished to the Company by the Seller Group for inclusion therein. In no event shall the liability of the Seller Group be greater in amount than the dollar amount of the proceeds received by the Seller Group under the sale of the Additional Shares in connection with the Secondary Sale contemplated hereby.

(c) Conduct of Indemnification Proceedings. Any Person entitled to indemnification hereunder shall (i) give prompt written notice to the indemnifying party of any claim with respect to which it seeks indemnification (provided, that any delay or failure to so notify the indemnifying party shall relieve the indemnifying party of its obligations hereunder only to the extent, if at all, that it is actually prejudiced by reason of such delay or failure) and (ii) permit such indemnifying party to assume the defense of such claim with counsel reasonably satisfactory to the indemnified party; provided, however, that any Person entitled to

indemnification hereunder shall have the right to select and employ separate counsel and to participate in the defense of such claim, but the fees and expenses of such counsel shall be at the expense of such Person unless (A) the indemnifying party has agreed in writing to pay such fees or expenses, (B) the indemnifying party shall have failed to assume the defense of such claim within a reasonable time after receipt of notice of such claim from the Person entitled to indemnification hereunder and employ counsel reasonably satisfactory to such Person, (C) the indemnified party has reasonably concluded (based on advice of counsel) that there may be legal defenses available to it or other indemnified parties that are different from or in addition to those available to the indemnifying party, or (D) in the reasonable judgment of any such Person, based upon advice of its counsel, a conflict of interest may exist between such Person and the indemnifying party with respect to such claims (in which case, if the Person notifies the indemnifying party in writing that such Person elects to employ separate counsel at the expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such claim on behalf of such Person). If such defense is not assumed by the indemnifying party, the indemnifying party will not be subject to any liability for any settlement made without its consent, but such consent may not be unreasonably withheld. If the indemnifying party assumes the defense, the indemnifying party shall have the right to settle such action without the consent of the indemnified party; provided, however, that the indemnifying party shall be required to obtain such consent (which consent shall not be unreasonably withheld) if the settlement includes any admission of wrongdoing on the part of the indemnified party or any decree or restriction on the indemnified party or its officers or directors. No indemnifying party shall consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such indemnified party of an unconditional release from all liability in respect to such claim or litigation or which would impose any material obligations on such indemnified party (given against an appropriate cross-release). Except as provided above it is understood that the indemnifying party or parties shall not, in connection with any proceeding or related proceedings in the same jurisdiction, be liable for the reasonable fees, disbursements and other charges of more than one separate firm admitted to practice in such jurisdiction at any one time from all such indemnified party or parties unless the employment of more than one counsel has been authorized in writing by the indemnified party or parties.

(d) Contribution. If for any reason the indemnification provided for in Section 8.01(a) or Section 8.01(b) is unavailable to an indemnified party, other than as specified therein, then the indemnifying party shall contribute to the amount paid or payable by the indemnified party as a result of such Loss in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and the indemnified party on the other. The relative fault shall be determined by reference to, among other things, whether the untrue or alleged untrue

statement of a material fact or the omission or alleged omission to state a material fact relates to information supplied by the indemnifying party or the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such untrue statement or omission. Notwithstanding anything in this Section 8.01(d) to the contrary, no indemnifying party (other than the Company) shall be required pursuant to this Section 8.01(d) to contribute any amount in excess of the amount by which the net proceeds received by such indemnifying party from the sale of Additional Shares in connection with the Secondary Sale contemplated hereby exceeds the amount of any Losses which such indemnifying party has otherwise been required to pay by reason of such untrue statement or omission. The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 8.01(d) were determined by pro rata allocation or by any other method of allocation that does not take account of the equitable considerations referred to in this Section 8.01(d). No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any Person who was not guilty of such fraudulent misrepresentation.

8.02 Survival. All representations, warranties, agreements and covenants made by each of the parties pursuant to this Agreement shall survive the Closing hereunder.

8.03 Expenses. Except as provided in Section 6.02(c), all fees and expenses incurred by either the Seller or Seller's Parent in connection with this Agreement (including, without limitation, any applicable stock transfer taxes) shall be borne by the Seller Group, and all fees and expenses incurred by the Company in connection with this Agreement shall be borne by the Company.

8.04 Commissions and Fees. Except as provided in Section 6.02(c), each of the Company, on the one hand, and the Seller and Seller's Parent, on the other hand, represents and warrants that there are no claims for any brokerage commissions, fees or like payments in connection with the transactions contemplated by this Agreement, except that the Company has engaged Banc of America Securities LLC and the Seller and Seller's Parent have engaged Bear, Stearns & Co. Inc., in each case to render financial advisory services in connection with the transactions contemplated hereby, and the Company is solely responsible for all amounts due Banc of America Securities LLC, (including, without limitation, fees, expenses and other amounts related to the fairness opinion of Banc of America Securities, LLC referenced in Section 3.02(e), which fees, expenses and other amounts shall not be considered Expenses for purposes of this Agreement) and the Seller and Seller's Parent are solely responsible for all amounts due Bear, Stearns & Co. Inc., as a result thereof. Each of the Company, on the one hand, and the Seller and Seller's Parent, on the other hand, shall pay or discharge, and shall indemnify

and hold harmless the other from and against, any and all claims or liabilities for any other brokerage commissions, fees or other like payments incurred by reason of any action taken by the other hereunder.

8.05 Entire Agreement and Amendment. This Agreement and the Registration Rights Agreement, together with all exhibits hereto, contain the entire understanding of the parties with respect to its subject matter. There are no restrictions, agreements, promises, representations, warranties, covenants or undertakings other than those expressly set forth herein and in the Registration Rights Agreement. This Agreement supersedes all prior written or oral agreements or understandings between the parties with respect to its subject matter, other than the Registration Rights Agreement. This Agreement may not be amended, modified or supplemented except upon the execution and delivery of a written amendment executed by the Company, the Seller and Seller's Parent.

8.06 Assignment; Binding Effect. This Agreement shall not be assigned or delegated by either party hereto, and any attempted assignment or delegation shall be null and void. This Agreement shall be binding upon and inure to the benefit of, and be enforceable by, the successors of each of the parties hereto.

8.07 Waiver of Compliance. Any failure of the Company, on the one hand, or the Seller or Seller's Parent, on the other hand, to comply with any obligation, covenant, agreement or condition herein may be waived by the Seller on behalf of the Seller Group or the Company, as the case may be, only by a written instrument signed by the party granting such waiver, but such waiver or failure to insist upon strict compliance with such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent or other failure.

8.08 Descriptive Headings. Descriptive headings in this Agreement are for convenience only and shall not control or affect the meaning or construction of any provision of this Agreement.

8.09 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally, by facsimile transmission (except for legal process), or mailed (registered or certified mail, postage prepaid, return receipt requested) to the respective parties at the following addresses:

If to the Company:

American Medical Security Group, Inc.
3100 AMS Boulevard
P.O. Box 19032
Facsimile No.: (920) 661-1131
Attention: Timothy J. Moore, Esquire

with copies to:

Skadden, Arps, Slate, Meagher & Flom LLP
Four Times Square
New York, NY 10036-6522
Facsimile No.: (917) 777-2322
Attention: Paul T. Schnell, Esq.

If to the Seller:

Blue Cross & Blue Shield United of Wisconsin
401 West Michigan Street
Milwaukee, Wisconsin 53203
Facsimile No.: (414) 226-2697
Attention: Stephen E. Bablitch, Esquire

with a copy to:

Foley & Lardner
Firstar Center
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-5367
Facsimile No.: (414) 297-4900
Attention: Joseph C. Branch, Esquire

If to the Seller's Parent:

Cobalt Corporation
401 West Michigan Street
Milwaukee, Wisconsin 53203
Facsimile No.: (414) 226-2697
Attention: Stephen E. Bablitch, Esquire

with a copy to:

Foley & Lardner
Firstar Center
777 East Wisconsin Avenue
Milwaukee, Wisconsin 53202-5367
Facsimile No.: (414) 297-4900
Attention: Joseph C. Branch, Esquire

or to such other address as either party hereto may, from time to time, designate in a written notice given in the manner provided for herein.

8.10 Governing Law. This Agreement shall be governed by, and construed and enforced in accordance with, the laws of the State of Wisconsin, without regard to its rules regarding conflict of laws.

8.11 Counterparts. For the convenience of the parties, this Agreement may be executed in counterparts and each such executed counterpart shall be, and shall be deemed to be, an original instrument.

8.12 Specific Performance. The Seller, the Seller's Parent and the Company each acknowledges and agrees that the other party would be irreparably injured by a breach of this Agreement by the other party or its representatives and that money damages are an inadequate remedy for an actual or threatened breach of this Agreement because of the difficulty of ascertaining the amount of damage that will be suffered by either party in the event that this Agreement is breached. Therefore, each party agrees to the granting of specific performance of this Agreement and injunctive or other equitable relief in favor of the other party as a remedy for any such breach, without proof of actual damages, and each party further waives any requirement for the securities or posting of any bond in connection with any such remedy. Such remedy shall not be deemed to be the exclusive remedy for a party's breach of this Agreement, but shall be in addition to all other remedies available at law or equity to the other party.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, this Agreement has been duly executed and delivered by the parties hereto as of the date first above written.

BLUE CROSS & BLUE SHIELD UNITED OF WISCONSIN

By:_____
Name:
Title:

COBALT CORPORATION

By:_____
Name:
Title:

AMERICAN MEDICAL SECURITY GROUP, INC.

By:_____
Name:
Title:

Exhibit A

FORM OF WITHDRAWAL LETTER

[BCBSUW letterhead]

March 19, 2002

Mr. Tim Moore, Secretary
American Medical Security Group, Inc.
3100 AMS Boulevard
Green Bay, WI 54313

Re: Withdrawal of Notice of Intent to Submit Nominations

Dear Tim:

Reference is made to the notice submitted to American Medical Security Group, Inc. (the "Company") by Blue Cross & Blue Shield United of Wisconsin ("BCBSUW") on January 28, 2002, stating the intent of BCBSUW to nominate four persons for election to the Company's Board of Directors at the Company's next annual meeting of shareholders (the "Notice"). Please be advised that BCBSUW hereby irrevocably withdraws the Notice and thereby will not propose such nominees for election.

BLUE CROSS & BLUE SHIELD UNITED
OF WISCONSIN

By:_____
Name:
Title:

Exhibit B

AMENDMENT TO RIGHTS AGREEMENT

AMENDMENT, dated as of _____, 2002, to Rights Agreement by and between American Medical Security Group, Inc., a Wisconsin corporation (the "Company"), and Firstar Bank, N.A., as Rights Agent, dated as of August 9, 2001, as amended (the "Rights Agreement").

WHEREAS, Firstar Bank, N.A. and the Company entered into a Termination Agreement, dated as of December 21, 2001, terminating the appointment of Firstar Bank, N.A. as Rights Agent under the Rights Agreement;

WHEREAS, LaSalle Bank National Association, a national banking association (the "Rights Agent"), and the Company entered into an Appointment and Assumption Agreement, dated as of December 17, 2001, appointing LaSalle Bank National Association as Rights Agent;

WHEREAS, the Company, Cobalt Corporation and Blue Cross & Blue Shield United of Wisconsin entered into a Stock Purchase Agreement, dated as of March 19, 2002 (the "Stock Purchase Agreement"), providing for this amendment to the Rights Agreement;

WHEREAS, the Company and the Rights Agent desire to formally amend the Rights Agreement, in accordance with Section 27 of the Rights Agreement, as contemplated by the Stock Purchase Agreement;

NOW, THEREFORE, in consideration of the mutual agreements contained herein, and for other good and valuable consideration, the parties hereto agree as follows:

1. The definition of "Acquiring Person" in Section 1(a) of the Rights Agreement is hereby replaced by the following definition:

> "Acquiring Person" shall mean any Person (as such term is hereinafter defined) who or which, together with all Affiliates and Associates (as such terms are hereinafter defined) of such Person, shall become the Beneficial Owner (as such term is hereinafter defined) of such number of Common Shares (the "Maximum Number") as is equal to

_____% of the Common Shares of the Company then outstanding after the date hereof. Notwithstanding the foregoing, the term "Acquiring Person" shall not include (i) the Company; (ii) any Subsidiary (as such term is hereinafter defined) of the Company; (iii) any employee benefit plan or employee stock ownership plan of the Company or any Subsidiary of the Company; (iv) any entity holding Common Shares for or pursuant to the terms of any such plan; (v) BCBS and its Affiliates and Associates, provided that from time to time after the date hereof BCBS and its Affiliates and Associates do not increase the aggregate number of Common Shares over which such Persons have beneficial ownership as of any such time (other than Common Shares the beneficial ownership of which was acquired through (A) any dividend or distribution of any Common Shares or any Company securities convertible or exchangeable into Common Shares or any stock split or (B) any grants of Common Shares or any Company securities exercisable for Common Shares (or the exercise of any such securities for Common Shares) under any benefit plan of the Company generally available for directors of the Company), provided, however, that nothing in this clause (v) shall prohibit BCBS and its Affiliates and Associates from collectively owning less than the Maximum Number of the Common Shares of the Company then outstanding; or (vi) any Person who or which together with all Affiliates and Associates of such Person shall become an "Acquiring Person" as the result of an acquisition of Common Shares by the Company which, by reducing the number of shares outstanding, increases the proportional number of shares beneficially owned by such Person together with all Affiliates and Associates of such Person to the Maximum Number or more of the Common Shares of the Company then outstanding, provided, however, that if a Person shall become the Beneficial Owner of the Maximum Number or more of the Common Shares of the Company then outstanding by reason of share purchases by the Company and shall, after such share purchases by the Company, become the Beneficial Owner of any additional Common Shares of the Company, then such Person shall be deemed to be an "Acquiring Person". Notwithstanding the foregoing, if the Board of Directors of the Company determines in good faith that a Person who would otherwise be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), has become such inadvertently, and such Person divests as promptly as practicable a sufficient number of Common Shares so that such Person would no longer be an "Acquiring Person," as defined pursuant to the foregoing provisions of this paragraph (a), then such Person shall not be deemed to be an "Acquiring Person" for any purposes of this Agreement. For

the avoidance of doubt, a Person who merely enters into an agreement to acquire, directly or indirectly, the stock of BCBS or Cobalt Corporation, shall not, by reason of that act alone, become an "Acquiring Person," provided that such Person does not, at the time of such agreement beneficially own any of the Company's Common Shares, or any Company securities convertible or exchangeable into, or exercisable for, Common Shares, in each case other than those Common Shares then beneficially owned by BCBS and Cobalt Corporation that are indirectly acquired by virtue of such acquisition of the stock of BCBS or Cobalt Corporation, and provided further that if, following such agreement to acquire, or acquisition of, the stock of BCBS or Cobalt Corporation, such Person increases the aggregate number of Common Shares, (or any Company securities convertible or exchangeable into, or exercisable for, Common Shares), over which such Person has beneficial ownership or otherwise becomes the Beneficial Owner of or beneficially owns other Common Shares (or any Company Securities convertible or exchangeable into, or exercisable for, Common Shares) (other than Common Shares the beneficial ownership of which was acquired through (x) any dividend or distribution of any Common Shares or any Company securities convertible or exchangeable into Common Shares or any stock split or (y) any grants of Common Shares or any Company securities exercisable for Common Shares (or the exercise of any such securities for Common Shares) under any benefit plan of the Company generally available for directors of the Company), then such Person shall be deemed an "Acquiring Person" for all purposes of this Agreement.

2. The term "Agreement" as used in the Rights Agreement shall be deemed to refer to the Rights Agreement as amended hereby.

3. The foregoing amendment shall be effective as of the date hereof and, except as set forth herein, the Rights Agreement shall remain in full force and effect and shall be otherwise unaffected hereby.

4. This amendment may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this amendment to be duly executed as of the day and year first above written.

ATTEST:

American Medical Security Group, Inc.

_____
Name:
Title:

By:_____
Name:
Title:

ATTEST:

LaSalle Bank National Association
Rights Agent

_____
Name:
Title:

By:_____
Name:
Title:

Exhibit C-1

FORM OF RESIGNATION LETTER

[date]

To the Board of Directors of
American Medical Security Group Inc.

I hereby resign as director of American Medical Security Group, Inc. (the "Company") effective upon the earliest to occur of (i) the date upon which Blue Cross & Blue Shield United of Wisconsin ("BCBSUW") shall beneficially own less than twenty percent (20%) of the then issued and outstanding shares of common stock, no par value, of the Company and (ii) the date upon which the Seller Group shall deliver written notice to the Company that it is exercising its right, pursuant to Section 4.06, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 of the Stock Purchase Agreement, dated as of March 19, 2002, by and among BCBSUW, Cobalt Corporation and the Company. For purposes hereof, "beneficially own" shall be determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

_____

Thomas R. Hefty

Exhibit C-2

FORM OF RESIGNATION LETTER

[date]

To the Board of Directors of
American Medical Security Group Inc.

I hereby resign as director of American Medical Security Group, Inc. (the "Company") effective upon the earliest to occur of (i) the date upon which Blue Cross & Blue Shield United of Wisconsin ("BCBSUW") shall beneficially own less than ten percent (10%) of the then issued and outstanding shares of common stock, no par value, of the Company and (ii) the date upon which the Seller Group shall deliver written notice to the Company that it is exercising its right, pursuant to Section 4.06, to terminate the covenants and agreements set forth in Sections 4.01 and 4.02 of the Stock Purchase Agreement, dated as of March 19, 2002, by and among BCBSUW, Cobalt Corporation and the Company. For purposes hereof, "beneficially own" shall be determined pursuant to Rule 13d-3 of the General Rules and Regulations under the Securities Exchange Act of 1934, as amended.

_____

Kenneth L. Evason

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 Registerable 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 Registerable 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

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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: T 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

EXHIBIT A

ARTICLES OF AMENDMENT TO RESTATED ARTICLES OF INCORPORATION
WITH RESPECT TO DESIGNATION, PREFERENCES,
LIMITATIONS AND RELATIVE RIGHTS

of

SERIES B JUNIOR CUMULATIVE PREFERRED STOCK

of

AMERICAN MEDICAL SECURITY GROUP, INC.

American Medical Security Group, Inc., a corporation organized and existing under the Wisconsin Business Corporation Law (the "WBCL") (hereinafter called the "Corporation"), hereby certifies that the following resolution was adopted by the Board of Directors of the Corporation at a meeting duly called and held on August 9, 2001 in accordance with Sections 180.0602 and 180.1002 of the WBCL:

RESOLVED, that pursuant to the authority granted to and vested in the Board of Directors of this Corporation (hereinafter called the "Board of Directors" or the "Board") in accordance with the provisions of the Restated Articles of Incorporation, the Board of Directors hereby creates a series of Preferred Stock, no par value per share (the "Preferred Stock"), of the Corporation and hereby states the designation and number of shares, and fixes the relative rights, preferences, and limitations thereof as follows:

"Series B Junior Cumulative Preferred Stock:

Section 1. Designation and Amount. The shares of such series shall be designated as "Series B Junior Cumulative Preferred Stock" (the "Series B Preferred Stock") and the number of shares constituting the Series B Preferred Stock shall be Ten Thousand (10,000).

Section 2. Dividends and Distributions.

A. Subject to the rights of the holders of any shares of any series of Preferred Stock (or any similar stock) ranking prior and superior to the Series B Preferred Stock with respect to dividends, the holders of shares of Series B Preferred Stock, in preference to the holders of Common Stock, no par value per share (the "Common Stock"), of the Corporation, and of any other junior stock, shall be entitled to receive, when and as declared by the Board of Directors out of funds legally available for the purpose, cumulative dividends payable in cash quarterly on the first days of January, April, July and October in each year (each such date being referred to herein as a "Quarterly Dividend Payment Date"), commencing on the first Quarterly Dividend Payment Date after the first issuance of a share or fraction of a share of Series B Preferred Stock, in an amount per share (rounded to the nearest cent) equal to the greater of (a) $1 or (b) subject to the provision for adjustment hereinafter set forth, 10,000 times the aggregate per share

amount of all cash dividends, and 10,000 times the aggregate per share amount (payable in kind) of all non-cash dividends or other distributions, other than a dividend payable in shares of Common Stock or a subdivision of the outstanding shares of Common Stock (by reclassification or otherwise), declared on the Common Stock since the immediately preceding Quarterly Dividend Payment Date or, with respect to the first Quarterly Dividend Payment Date, since the first issuance of any share or fraction of a share of Series B Preferred Stock. In the event the Corporation shall at any time after August 9, 2001 (the "Rights Declaration Date") declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event under clause (b) of the preceding sentence shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

B. The Corporation shall declare a dividend or distribution on the Series B Preferred Stock as provided in paragraph A of this Section immediately after it declares a dividend or distribution on the Common Stock (other than a dividend payable in shares of Common Stock); provided that, in the event no dividend or distribution shall have been declared on the Common Stock during the period between any Quarterly Dividend Payment Date and the next subsequent Quarterly Dividend Payment Date, a dividend of $1 per share on the Series B Preferred Stock shall nevertheless be payable on such subsequent Quarterly Dividend Payment Date.

C. Dividends shall begin to accrue and be cumulative on outstanding shares of Series B Preferred Stock from the Quarterly Dividend Payment Date next preceding the date of issue of such shares, unless the date of issue of such shares is prior to the record date for the first Quarterly Dividend Payment Date, in which case dividends on such shares shall begin to accrue from the date of issue of such shares, or unless the date of issue is a Quarterly Dividend Payment Date or is a date after the record date for the determination of holders of shares of Series B Preferred Stock entitled to receive a quarterly dividend and before such Quarterly Dividend Payment Date, in either of which events such dividends shall begin to accrue and be cumulative from such Quarterly Dividend Payment Date. Accrued but unpaid dividends shall not bear interest. Dividends paid on the shares of Series B Preferred Stock in an amount less than the total amount of such dividends at the time accrued and payable on such shares shall be allocated pro rata on a share-by-share basis among all such shares at the time outstanding. The Board of Directors may fix a record date for the determination of holders of shares of Series B Preferred Stock entitled to receive payment of a dividend or distribution declared thereon, which record date shall be not more than 60 days prior to the date fixed for the payment thereof.

Section 3. Voting Rights. The holders of shares of Series B Preferred Stock shall have the following voting rights:

A. Subject to the provision for adjustment hereinafter set forth, each share of Series B Preferred Stock shall entitle the holder thereof to 10,000 votes on all matters submitted to a vote of the Shareholders of the Corporation. In the event the Corporation shall at any time after the Rights Declaration Date declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the number of votes per share to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such number by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

B. Except as otherwise provided herein, in any other amendment creating a series of Preferred Stock or any similar stock, or by law or by the resolution or resolutions providing for the issue of any series of Preferred Stock, the holders of shares of Series B Preferred Stock and the holders of shares of Common Stock and any other capital stock of the Corporation having general voting rights shall vote together as one class on all matters submitted to a vote of shareholders of the Corporation.

C. Except as set forth herein or as otherwise provided by law, the holders of Series B Preferred Stock shall have no special voting rights and their consent shall not be required (except to the extent they are entitled to vote with holders of Common Stock as set forth herein) for taking any corporate action.

Section 4. Certain Restrictions.

A. Whenever quarterly dividends or other dividends or distributions payable on the Series B Preferred Stock as provided in Section 2 are in arrears, thereafter and until all accrued and unpaid dividends and distributions, whether or not declared, on shares of Series B Preferred Stock outstanding shall have been paid in full, the Corporation shall not:

(i) declare or pay dividends, or make any other distributions, on any shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock;

(ii) declare or pay dividends, or make any other distributions, on any shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, except dividends paid ratably on the Series B Preferred Stock and all such parity stock on which dividends are payable or in arrears in proportion to the total amounts to which the holders of all such shares are then entitled;

(iii) redeem or purchase or otherwise acquire for consideration shares of any stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock, provided that the Corporation may at any time redeem, purchase or otherwise acquire shares of any such junior stock in exchange for shares of any stock of the Corporation ranking junior (either as to dividends or upon dissolution, liquidation or winding up) to the Series B Preferred Stock; or

(iv) redeem or purchase or otherwise acquire for consideration any shares of Series B Preferred Stock, or any shares of stock ranking on a parity with the Series B Preferred Stock, except in accordance with a purchase offer made in writing or by publication (as determined by the Board of Directors) to all holders of such shares upon such terms as the Board of Directors, after consideration of the respective annual dividend rates and other relative rights and preferences of the respective Series and classes, shall determine in good faith will result in fair and equitable treatment among the respective series or classes.

B. The Corporation shall not permit any subsidiary of the Corporation to purchase or otherwise acquire for consideration any shares of stock of the Corporation unless the Corporation could, under paragraph A of this Section 4, purchase or otherwise acquire such shares at such time and in such manner.

Section 5. Reacquired Shares. Any shares of Series B Preferred Stock purchased or otherwise acquired by the Corporation in any manner whatsoever shall be retired and canceled promptly after the 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 subject to the conditions and restrictions on issuance set forth herein, in the Restated Articles of Incorporation, or in any other amendment creating a series of Preferred Stock or any similar stock or as otherwise required by law.

Section 6. Liquidation, Dissolution or Winding Up. Upon any liquidation, dissolution or winding up of the Corporation, no distribution shall be made (1) to the holders of shares of stock ranking junior (either as to dividends or upon liquidation, dissolution or winding up) to the Series B Preferred Stock unless, prior thereto, the holders of shares of Series B Preferred Stock shall have received $100 per share, plus an amount equal to accrued and unpaid dividends and distributions thereon, whether or not declared, to the date of such payment, provided that the holders of shares of Series B Preferred Stock shall be entitled to receive an aggregate amount per share, subject to the provision for adjustment hereinafter set forth, equal to 10,000 times the aggregate amount to be distributed per share to holders of shares of Common Stock, or (2) to the holders of shares of stock ranking on a parity (either as to dividends or upon liquidation, dissolution or winding up) with the Series B Preferred Stock, except distributions made ratably on the Series B Preferred Stock and all such parity stock in proportion to the total amounts to which the holders of all such shares are entitled upon such liquidation, dissolution or winding up. In the event the Corporation shall at any time declare or pay any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than

by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock then in each such case the aggregate amount to which holders of shares of Series B Preferred Stock were entitled immediately prior to such event shall be adjusted by multiplying such amount by a fraction the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 7. Consolidation, Merger, etc. In case the Corporation shall enter into any consolidation, merger, combination or other transaction in which the shares of Common Stock are exchanged for or changed into other stock or securities, cash and/or any other property, then in any such case each share of Series B Preferred Stock shall at the same time be similarly exchanged or changed into an amount per share, subject to the provision for adjustment hereinafter set forth, equal to 10,000 times the aggregate amount of stock, securities, cash and/or any other property (payable in kind), as the case may be, into which or for which each share of Common Stock is changed or exchanged. In the event the Corporation shall at any time after the Rights Declaration Date declare any dividend on the Common Stock payable in shares of Common Stock, or effect a subdivision or combination or consolidation of the outstanding shares of Common Stock (by reclassification or otherwise than by payment of a dividend in shares of Common Stock) into a greater or lesser number of shares of Common Stock, then in each such case the amount set forth in the preceding sentence with respect to the exchange or change of shares of Series B Preferred Stock shall be adjusted by multiplying such amount by a fraction, the numerator of which is the number of shares of Common Stock outstanding immediately after such event and the denominator of which is the number of shares of Common Stock that were outstanding immediately prior to such event.

Section 8. Redemption. The shares of Series B Preferred Stock shall not be redeemable.

Section 9. Rank. The Series B Preferred Stock shall rank, with respect to the payment of dividends and the distribution of assets, junior to all other series of the Corporation's Preferred Stock, unless the terms of any such series shall provide otherwise.

Section 10. Amendment. At any time when any shares of Series B Preferred Stock are outstanding, the Restated Articles of Incorporation of the Corporation shall not be amended in any manner which would materially alter or change the powers, preferences or special rights of the Series B Preferred Stock so as to affect them adversely without the affirmative vote of the holders of at least two-thirds of the outstanding shares of Series B Preferred Stock, voting together as a single class.

Section 11. Fractional Shares. Series B Preferred Stock may be issued in fractions of a share which shall entitle the holder, in proportion to such holder's fractional shares, to exercise voting rights, receive dividends, participate in distributions and to have the benefit of all other rights of holders of Series B Preferred Stock."

None of the shares of the Series B Preferred Stock have been issued as of the date hereof.

IN WITNESS WHEREOF, these Articles of Amendment are executed on behalf of the Corporation by its Executive Vice President this 14th day of August 2001.

Executive Vice President