GRACO INC
Form 4
July 02, 2015

FORM 4

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

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

OMB Number:	3235-0287
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(Print or Type Responses)

1. Name and Address of Reporting Person *
MITAU LEE R

(Last) (First) (Middle)

88 11TH AVENUE NE

(Street)

MINNEAPOLIS, MN 55413

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
GRACO INC [GGG]

3. Date of Earliest Transaction (Month/Day/Year)
07/01/2015

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director _____ 10% Owner
_____ Officer (give title below) _____ Other (specify below)

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

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SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)	5. Number of Derivative Securities Acquired (A)	6. Date Exercisable and Expiration Date (Month/Day/Year)	7. Title and Amount of Underlying Securities (Instr. 3 and 4)	8. Pr Deri Secu (Inst

Derivative Security					or Disposed of (D) (Instr. 3, 4, and 5)					
			Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Phantom Stock Units	(1)	07/01/2015	A		383.29		(1)	(1)	Common Stock	383.29	$ 7

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
MITAU LEE R 88 11TH AVENUE NE MINNEAPOLIS, MN 55413	X			

Signatures

/s/ Francis J. Brixius Jr., attorney-in-fact for Mr. Mitau	07/02/2015
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The Phantom Stock Units were accrued under the Graco Inc. 2015 Stock Incentive Plan and are to be settled 100% in Graco common stock in a lump sum or installments upon reporting person's termination of service on the Board.

(2) The number of Phantom Stock Units includes Phantom Stock Units acquired in unreported dividend reinvestment transactions.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. oodwill amortization 829 829 879 State income and franchise taxes, net of federal benefit 571 415 (565)Other, net 1,206 62 301

Income tax expense (benefit) $6,257 $3,447 $(13,043)

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

	December 31, 2001		December 31, 2000	
	Federal	State	Federal	State
	(In thousands)			
Deferred tax assets:				
Insurance liabilities	$ 1,231	$ 63	$ 2,031	$ 137
Unearned income	782	56	1,348	82
Unrealized losses on investments			2,126	
Employee compensation and benefits	2,561	440	2,977	538
Accrued expenses	4,289	611	2,087	371
Specified policy acquisition costs	765	39	874	45
Net business loss carryforwards	1,082	6,384	1,082	6,176
Other deductible temporary differences	2,428	586	2,584	492
	13,138	8,179	15,109	7,841
Valuation allowances	(1,963)	(3,431)	(1,082)	(2,779)
	11,175	4,748	14,027	5,062
Deferred tax liabilities:				
Intangibles	6,457	1,459	6,790	1,533
Prepaid assets	1,145	115	1,346	151
Depreciation and amortization	1,889	361	1,462	278
Unrealized gain on investments	1,024			
Other taxable temporary differences	1,815	11	2,112	26
	12,330	1,946	11,710	1,988
Net deferred tax assets (liabilities)	$ (1,155)	$ 2,802	$ 2,317	$ 3,074

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

8. Commitments and Contingencies

On August 26, 1999, a $6,900,000 verdict was entered against the Company in a lawsuit involving allegations regarding the Company's administration of a self-funded benefit plan for Skilstaf, Inc., an employee leasing company. The Company appealed the verdict and expected the verdict to be reversed or substantially reduced following appeal. Based upon management's evaluation of the merits of the appeal, the facts of the case and consultation with outside legal counsel, management concluded that the likelihood of the appellate court affirming the verdict was not probable. As a result, the Company's accrual related to this case at the end of 1999 and 2000 was not material. Following an adverse decision from the Court of Appeals on March 12, 2001, the Company recognized an additional accrual during the first quarter of 2001 representing the full potential loss including punitive damages and other expenses. In July 2001, at the direction of the district court, the Company paid the full amount of the verdict plus interest and the case is closed.

On February 7, 2000, a $5,400,000 verdict was entered against the Company in a lawsuit filed by Health Administrators, Inc., an insurance agency owned and operated by a former agent of the Company, which alleged breach of contract involving commission amounts due to such agent. The Company appealed the verdict and on March 29, 2001, the Ohio Court of Appeals affirmed a portion of the verdict, with modifications, representing approximately $3,000,000 in damages. The affirmed portion of the verdict was paid by the Company during 2001 and is considered closed. The appeals court reversed and remanded the remaining issue in the case representing approximately $2,400,000 in damages. Briefs have been submitted for the remanded portion of the case and the parties are awaiting the trial court's decision.

In February 2000, a complaint was filed against the Company in the Circuit Court for Palm Beach County, Florida, seeking certification of a statewide class action on behalf of certain individuals insured by or formerly insured by the Company. Plaintiffs allege the Company did not follow Florida law when it discontinued writing certain health insurance policies and offered new policies in 1998. Plaintiffs claim the Company wrongfully terminated policies, improperly notified insureds of conversion rights and charged improper premium for the new policies. Plaintiffs also assert that the Company's renewal rating methodology violates Florida law. Plaintiffs are seeking unspecified damages. A motion for class certification was granted by the Circuit Court and appealed to the Fourth District Court of Appeals of the State of Florida, which upheld the class certification in October 2001. The Company has an appeal pending with the Florida Supreme Court with the ultimate objective of seeking to vacate the finding of a certifiable class. The Company and plaintiffs filed cross motions for summary judgment in Circuit Court that were heard and denied in February 2002. A memorandum filed by plaintiffs in January 2002 in support of their motion for summary judgment raised new arguments that expanded the legal theory, scope and potential damages of the case. The trial is tentatively scheduled to commence as a bench trial in March 2002. Management believes the Company acted in compliance with applicable Florida law with regard to the termination of and conversion of insurance policies and with regard to its renewal rating practices. Although the outcome of the case cannot be predicted with certainty, management believes this suit is without merit and is defending its position vigorously.

The Company is involved in various legal and regulatory actions occurring in the normal course of business. Based on current information including consultation with outside counsel, management believes any ultimate liability that may arise from the above-mentioned and all other legal and regulatory actions would not materially affect the Company's consolidated financial position, results of operations or cash flow. However, management's evaluation of the likely impact of these actions could change in the future and an unfavorable outcome could have a material effect on the Company's consolidated financial position, results of operations or cash flow of a future period.

9. Shareholders' Equity

Statutory Financial Information

State insurance laws and regulations prescribe accounting practices for determining statutory net income and equity for insurance companies. These regulations require, among other matters, the filing of financial statements prepared in accordance with statutory accounting practices prescribed or permitted for insurance companies. The combined statutory capital and surplus of the Company's insurance subsidiaries, United Wisconsin Life Insurance Company and American Medical Security

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Insurance Company of Georgia, at December 31, 2001 and 2000, was $161,789,000 and $153,912,000, respectively. The combined statutory net income of the Company's insurance subsidiaries was $18,052,000 and $7,808,000 for the years ended December 31, 2001 and 2000, respectively, and the combined statutory net loss was $20,782,000 for the year ended December 31, 1999.

State insurance regulations also require the maintenance of a minimum compulsory surplus based on a percentage of premiums written. At December 31, 2001, the Company's insurance subsidiaries were in compliance with these compulsory regulatory requirements.

Effective January 1, 2001, the National Association of Insurance Commissioners revised the Accounting Practices and Procedures Manual in a process referred to as Codification. Codification has changed certain prescribed statutory accounting practices resulting in changes to the accounting practices that the insurance subsidiaries of the Company use to prepare their statutory-basis financial statements. The impact of Codification to the Company's insurance subsidiaries' statutory-basis capital and surplus was not material.

Restrictions on Dividends From Subsidiaries

Dividends paid by the insurance subsidiaries to the parent Company are limited by state insurance regulations. The insurance regulator in the insurer's state of domicile may disapprove any dividend which, together with other dividends paid by an insurance company in the prior 12 months, exceeds the regulatory maximum, computed as the lesser of 10% of statutory surplus or total statutory net gain from operations as of the end of the preceding calendar year. Based upon the financial statements of the Company's insurance subsidiaries as of December 31, 2001, as filed with the insurance regulators, dividends are limited to $6,963,000 without prior regulatory approval until September 2002, at which time the aggregate amount available without regulatory approval is $14,963,000. In February 2002, a $5,000,000 dividend was paid to the parent

Company by an insurance subsidiary.

Shareholders' Rights Agreement

In August 2001, the Board of Directors of the Company adopted a shareholders' rights agreement (the "rights agreement") and declared a dividend of one preferred share purchase right for each outstanding share of common stock of the Company. When exercisable, each right entitles the registered holder to purchase from the Company a unit consisting of one ten-thousandth of a share of Series B Junior Cumulative Preferred Stock of the Company at a price of $30.00. The rights agreement, as amended, is designed to deter takeover initiatives not considered to be in the best interests of the Company's shareholders. In the event that a person or a group has become the beneficial owner of 12% or more of the common shares then outstanding, in certain circumstances the rights become exercisable, and each holder of a right will have the right to receive, upon exercise, common shares having a value equal to two times the exercise price of the right. The rights are redeemable by action of the Company's Board of Directors at any time prior to their becoming exercisable. The rights expire on August 20, 2011.

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10. Employee Benefit Plans

Retirement Savings Plan

The Company's employees are included in a qualified defined contribution plan (the "Retirement Savings Plan") with profit sharing and discretionary savings provisions covering all eligible salaried and hourly employees. Participant contributions up to 6% of the participant's compensation are matched 60% by the Company. Effective January 1, 2002, participant contributions up to 6% of the participant's compensation are matched 70% by the Company. Profit sharing contributions to the Retirement Savings Plan are determined annually by the Company. Participants vest in Company contributions in three years. The Company recognized expense associated with the Retirement Savings Plan of $1,881,000, $1,944,000 and $1,610,000 in 2001, 2000 and 1999, respectively.

Nonqualified Executive Retirement Plan

During 2000, the Company adopted a nonqualified executive retirement plan (the "Nonqualified Plan") to provide key management with the opportunity to accumulate deferred compensation which cannot be accumulated under the Retirement Savings Plan due to compensation limitations imposed by the Internal Revenue Service. The Nonqualified Plan is funded through a rabbi trust and has contribution and investment options similar to those of the Retirement Savings Plan. The Company recognized expense associated with the Nonqualified Plan of $53,000 and $77,000 during 2001 and 2000, respectively.

Stock Based Compensation Plans

The Company has a stock-based compensation plan, the Equity Incentive Plan (the "Plan"), for the benefit of eligible employees and directors of the Company. The Plan permits the grant of nonqualified stock options ("NQSO"), incentive stock options, stock appreciation rights, restricted stock awards and performance awards. Persons eligible to participate in the Plan include all full-time active employees and outside directors of the board of directors. The Plan allows for the granting of up to 4,000,000 shares of which 472,297 shares are available for grant as of December 31, 2001. The Company's 1995 Director Stock Option Plan also permits the grant of NQSOs. The plan allows for the granting of up to 75,000 shares of which 14,000 shares are available for grant, as of December 31, 2001.

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

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

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

During 1998, the Company and a key executive entered into a deferred stock agreement. Under the agreement the Company has an obligation to issue 73,506 shares of the Company's common stock provided the executive remains continuously employed with the Company through November 17, 2002. The Company incurred expense of $225,000 in each of the three years ended 2001, 2000 and 1999 related to this agreement.

On July 9, 2001, the Company and a key executive entered into a restricted stock agreement. Under the agreement, the Company granted the executive 25,000 shares of common stock, subject to certain rights and restrictions, in exchange for the surrender for cancellation of 443,857 shares of the executive's nonqualified stock options. The 25,000 shares of restricted stock vested in December 2001 upon the occurrence of certain triggering events, as specified under the restricted stock agreement. The Company incurred expense of $139,000 during 2001 related to this agreement.

Effective January 1, 2000, the Company adopted a deferred compensation plan for the benefit of certain outside directors of the Company who wish to defer the receipt of eligible compensation which they may otherwise be entitled to receive from the Company. Directors who choose to participate in the plan may elect to have their deferred compensation credited to, in whole or in part, either an interest account or a Company stock unit account.

Stock option activity for all plans is as follows:

	December 31,		
	2001	**2000**	**1999**
Total number of NQSOs			
Outstanding at beginning of year	3,460,130	2,809,143	2,918,893
Granted	426,000	715,000	999,000
Exercised	(26,756)		
Forfeited	(615,607)	(64,013)	(1,108,750)
Outstanding at end of year	3,243,767	3,460,130	2,809,143
Exercisable at end of year	1,826,017	1,807,963	1,504,976
Available for grant at end of year	486,297	296,690	947,677
Weighted average exercise price of NQSOs			
Outstanding at beginning of year	$ 9.86	$ 11.10	$ 15.18
Granted Exercise price equals market price on grant date	9.97	5.28	7.33
Granted Exercise price is less than market price on grant date			
Granted Exercise price exceeds market price on grant date			
Exercised	5.15		
Forfeited	14.09	13.14	18.45
Outstanding at end of year	9.11	9.86	11.10
Exercisable at end of year	10.33	12.60	13.68

NQSOs by exercise price range			
Range of exercise prices	$ 3.01 - $8.88	$ 3.01 - $8.88	$ 3.01 - $8.88
Weighted average exercise price	$ 5.75	$ 5.71	$ 6.07
Weighted average remaining contractual life (years)	10.08	11.03	11.34
Exercisable at end of year	605,954	260,877	47,960
Outstanding at end of year	1,471,454	1,571,960	856,960
Weighted average exercise price of options exercisable at end of year	$ 5.77	$ 5.64	$ 3.01
Range of exercise prices	$ 10.20 - $14.38	$ 10.25 - $14.38	$ 10.25 - $14.38
Weighted average exercise price	$ 11.07	$ 11.54	$ 11.53
Weighted average remaining contractual life (years)	8.78	8.75	9.79

Exercisable at end of year		964,984		848,151		734,848
Outstanding at end of year		1,517,234		1,189,234		1,230,015
Weighted average exercise price of options exercisable at end of year	$	11.48	$	11.66	$	11.76
Range of exercise prices	$	15.76 - $22.74	$	15.76 - $22.74	$	15.76 - $22.74
Weighted average exercise price	$	16.83	$	16.33	$	16.33
Weighted average remaining contractual life (years)		6.45		7.48		8.50
Exercisable at end of year		255,079		698,936		722,168
Outstanding at end of year		255,079		698,936		722,168
Weighted average exercise price of options exercisable at end of year	$	16.83	$	16.33	$	16.33

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

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

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

	Year ended December 31,					
	2001		2000		1999	
	(In thousands, except per share data)					
Net income (loss)	$	4,175	$	2,669	$	(25,946)
Compensation expense in accordance with SFAS No. 123		(1,119)		(933)		(483)
Pro forma net income (loss)	$	3,056	$	1,736	$	(26,429)
Earnings (loss) per common share:						
Basic	$	0.30	$	0.18	$	(1.58)
Diluted	$	0.29	$	0.18	$	(1.58)
Pro forma earnings (loss) per common share:						
Basic	$	0.22	$	0.12	$	(1.60)
Diluted	$	0.21	$	0.12	$	(1.60)

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

In determining compensation expense in accordance with SFAS No. 123, the fair value for these options was estimated at the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions:

	Year ended December 31,		
	2001	2000	1999

	Year ended December 31,		
Expected life of options	6.00 years	6.00 years	6.00 years
Risk-free interest rate	4.67%	5.73%	6.13%
Expected dividend yield	0.00%	0.00%	0.00%
Expected volatility factor	53%	56%	45%
Grant date fair value of options:			
Exercise price equals market price	$ 5.51	$ 3.09	$ 3.84
Exercise price is less than market price	$	$	$
Exercise price exceeds market price	$	$	$

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11. Quarterly Financial Information (Unaudited)

Selected quarterly financial data for the years ended December 31, 2001 and 2000 are as follows:

	Quarter				
	First	Second	Third	Fourth	Total
	(In thousands, except per share data)				
2001					
Total revenues	$ 232,258	$ 223,306	$ 213,388	$ 207,669	$ 876,621
Net income (loss)	(5,140)	1,466	3,504	4,345	4,175
Earnings (loss) per common share:					
Basic	(0.36)	0.10	0.25	0.31	0.30
Diluted	(0.36)	0.10	0.25	0.30	0.29
2000					
Total revenues	$ 257,677	$ 250,326	$ 241,756	$ 240,106	$ 989,865
Net income (loss)	1,659	2,260	(1,376)	126	2,669
Earnings (loss) per common share:					
Basic	0.11	0.15	(0.09)	0.01	0.18
Diluted	0.11	0.15	(0.09)	0.01	0.18

12. Segments of the Business

The Company has two reportable segments: 1) health insurance products; and 2) life insurance products. The Company's health insurance products consist of the following coverages related to small group PPO products: MedOne^{SM} and small group medical, self-funded medical, dental and short-term disability. Life products consist primarily of group term life insurance. The "All Other" category includes operations not directly related to the business segments and unallocated corporate items (i.e., corporate investment income, interest expense on corporate debt, amortization of goodwill and intangibles and unallocated overhead expenses). The reportable segments are managed separately because they differ in the nature of the products offered and in profit margins.

The Company evaluates segment performance based on income or loss before income taxes, excluding gains and losses on the Company's investment portfolio. The accounting policies of the reportable segments are the same as those described in the summary of significant accounting policies. Significant intercompany transactions have been eliminated prior to reporting reportable segment information.

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Selected financial data for the Company by segment is as follows:

Year ended December 31, 2001:	Health Insurance	Life Insurance	All Other	Total Consolidated

	(In thousands)			
Revenues:				
Insurance premiums	$ 820,658	$ 17,424	$ 590	$ 838,672
Net investment income	9,197	656	7,590	17,443
Net realized investment losses			(779)	(779)
Other revenue	17,272	154	3,859	21,285
Total revenues	847,127	18,234	11,260	876,621
Expenses:				
Medical and other benefits	595,811	6,334	(203)	601,942
Selling, general and administrative	244,453	5,446	7,843	257,742
Interest			2,877	2,877
Amortization of goodwill and other intangibles			3,628	3,628
Total expenses	840,264	11,780	14,145	866,189
Income (loss) before income taxes(a)	$ 6,863	$ 6,454	$ (2,885)	$ 10,432
As of December 31, 2001:				
Segment assets	$ 147,889	$ 3,958	$ 321,168	$ 473,015

(a) Excluding the first quarter 2001 litigation charge, pre-tax income for the health segment would have been $15,863,000 and consolidated pre-tax income would have been $19,432,000.

Year ended December 31, 2000:	Health Insurance	Life Insurance	All Other	Total Consolidated
	(In thousands)			
Revenues:				
Insurance premiums	$ 907,722	$ 22,578	$ 20,771	$ 951,071
Net investment income	9,513	638	8,856	19,007
Net realized investment losses			(325)	(325)
Other revenue	16,115	217	3,780	20,112
Total revenues	933,350	23,433	33,082	989,865
Expenses:				
Medical and other benefits	700,511	7,781	16,321	724,613
Selling, general and administrative	235,649	6,581	9,537	251,767
Interest			3,584	3,584
Amortization of goodwill and other intangibles			3,785	3,785
Total expenses	936,160	14,362	33,227	983,749

Year ended December 31, 2000:		Health Insurance		Life Insurance		All Other		Total Consolidated
Income (loss) before income taxes	$	(2,810)	$	9,071	$	(145)	$	6,116
As of December 31, 2000:								
Segment assets	$	180,683	$	4,292	$	286,948	$	471,923

Year ended December 31, 2000:		Health Insurance		Life Insurance		All Other		Total Consolidated
				(In thousands)				
Revenues:								
Insurance premiums	$	985,322	$	26,183	$	44,602	$	1,056,107
Net investment income		9,254		202		10,310		19,766
Net realized investment losses						(854)		(854)
Other revenue		17,857		258		4,246		22,361
Total revenues		1,012,433		26,643		58,304		1,097,380
Expenses:								
Medical and other benefits		805,768		10,270		44,435		860,473
Selling, general and administrative		245,676		7,640		14,743		268,059
Interest						3,564		3,564
Amortization of goodwill and other intangibles						4,273		4,273
Total expenses		1,051,444		17,910		67,015		1,136,369
Income (loss) before income taxes(a)	$	(39,011)	$	8,733	$	(8,711)	$	(38,989)
As of December 31, 1999:								
Segment assets	$	186,611	$	4,229	$	312,254	$	503,094

(a) Excluding the third quarter 1999 premium deficiency charge, pre-tax loss for the health segment would have been $23,926,000 and consolidated pre-tax loss would have been $17,904,000.

Schedule II

American Medical Security Group, Inc.
(Parent Company Only)

Condensed Financial Information of Registrant

Condensed Balance Sheets

	December 31, 2001	December 31, 2000
	(In thousands)	
Assets:		
Cash and cash equivalents	$ 3,137	$ 1,671
Other assets:		
Investment in consolidated subsidiaries	250,794	240,784
Goodwill and other intangibles, net	19,666	20,229
Due from affiliates		1,761
Other assets	239	309
Total other assets	270,699	263,083
Total assets	$ 273,836	$ 264,754
Liabilities and Shareholders' Equity:		
Liabilities:		
Notes payable	$ 35,158	$ 35,158
Taxes payable	7,821	7,019
Payables and accrued expenses	5	50
Due to affiliates	634	
Other liabilities	818	1,350
Total liabilities	44,436	43,577
Shareholders' equity:		
Common stock	16,654	16,654
Paid-in capital	187,927	187,956
Retained earnings	40,470	36,295
Accumulated other comprehensive gain (loss)	1,903	(3,948)
Treasury stock	(17,554)	(15,780)
Total shareholders' equity	229,400	221,177
Total liabilities and shareholders' equity	$ 273,836	$ 264,754

Schedule II

American Medical Security Group, Inc.
(Parent Company Only)

Condensed Financial Information of Registrant

Condensed Statements of Operations

	Year ended December 31,		
	2001	**2000**	**1999**
		(In thousands)	
Revenues:			
Fees from consolidated subsidiaries	$ 4,427	$ 4,139	$ 3,199
Other revenue	103	140	92
Total revenues	4,530	4,279	3,291
Expenses:			
General and administrative	563	430	1,071
Interest	2,377	2,972	2,802
Amortization of goodwill and other intangibles	563	563	563
Total expenses	3,503	3,965	4,436
Income (loss) before income tax expense (benefit) and equity in net income (loss) of subsidiaries	1,027	314	(1,145)
Income tax expense (benefit)	874	154	(347)
Income (loss) before equity in net income (loss) of subsidiaries	153	160	(798)
Equity in net income (loss) of subsidiaries	4,022	2,509	(25,148)
Net income (loss)	$ 4,175	$ 2,669	$ (25,946)

Schedule II

American Medical Security Group, Inc.
(Parent Company Only)

Condensed Financial Information of Registrant

Condensed Statements of Cash Flows

	Year ended December 31,		
	2001	2000	1999
	(In thousands)		
Operating Activities:			
Net income (loss)	$ 4,175	$ 2,669	$ (25,946)
Adjustments to reconcile net income (loss) to net cash provided by operating activities:			
Equity in net (income) loss of subsidiaries	(4,022)	(2,509)	25,148
Dividends received from subsidiaries		16,400	15,250
Amortization of intangibles	563	563	563
Deferred income tax expense (benefit)	72	186	(399)
Changes in operating accounts:			
Net other assets and liabilities	2,481	(7,622)	3,011
Net cash provided by operating activities	3,269	7,018	17,627
Investing Activities:			
Net cash used in investing activities			
Financing Activities:			
Issuance of common stock	413	4	5
Purchase of treasury stock	(2,216)	(8,292)	(7,488)
Proceeds from notes payable borrowings		39,158	5,000
Repayment of notes payable		(39,158)	(15,000)
Net cash used in financing activities	(1,803)	(8,288)	(17,483)
Cash and cash equivalents:			
Net increase during year	1,466	1,399	144
Balance at beginning of year	1,671	272	128
Balance at end of year	$ 3,137	$ 1,671	$ 272

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Schedule III

American Medical Security Group, Inc.

Supplementary Insurance Information

Segment	Deferred Policy	Medical and Other	Advance Premiums	Other Policyholder

	Acquisition Costs	Benefits Payable		Funds
		(In thousands)		
December 31, 2001:				
Health	$	$ 125,834	$ 15,472	$
Life		9,480	816	
All Other		190	449	
Total	$	$ 135,504	$ 16,737	$
December 31, 2000:				
Health	$	$ 133,001	$ 16,367	$
Life		9,924	745	
All Other		2,385	456	
Total	$	$ 145,310	$ 17,568	$
December 31, 1999:				
Health	$	$ 150,201	$ 16,171	$
Life		9,328	530	
All Other		9,588	576	
Total	$	$ 169,117	$ 17,277	$

Segment	Premium Revenue	Net Investment Income	Medical and Other Benefit Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
			(In thousands)			
December 31, 2001:						
Health	$ 820,658	$ 9,197	$ 595,811	$	$ 244,453	$ 819,763
Life	17,424	656	6,334		5,446	
All Other	590	6,811	(203)		7,843	583
Total	$ 838,672	$ 16,664	$ 601,942	$	$ 257,742	
December 31, 2000:						
Health	$ 907,722	$ 9,513	$ 700,511	$	$ 235,649	$ 907,918
Life	22,578	638	7,781		6,581	
All Other	20,771	8,531	16,321		9,537	20,651
Total	$ 951,071	$ 18,682	$ 724,613	$	$ 251,767	
December 31, 1999:						
Health	$ 985,322	$ 9,254	$ 805,768	$	$ 245,676	$ 984,715
Life	26,183	202	10,270		7,640	

Segment	Premium Revenue	Net Investment Income	Medical and Other Benefit Expenses	Amortization of Deferred Policy Acquisition Costs	Other Operating Expenses	Premiums Written
All Other	44,602	9,456	44,435		14,743	44,726
Total	$ 1,056,107	$ 18,912	$ 860,473	$	$ 268,059	

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Schedule IV

American Medical Security Group, Inc.

Reinsurance

	Direct Business	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage Of Amount Assumed to Net
			(In thousands)		
Year Ended December 31, 2001:					
Life insurance in force	$ 9,351,321	$ 6,913,662	$	$ 2,437,659	0.0%
Premiums:					
Accident and Health	821,994	2,259	1,513	821,248	0.2%
Life	17,695	273	2	17,424	0.0%
Total Premiums	839,689	2,532	1,515	838,672	0.2%
Year Ended December 31, 2000:					
Life insurance in force	$ 14,839,256	$ 11,412,772	$ 1,942	$ 3,428,426	0.1%
Premiums:					
Accident and Health	922,087	2,236	8,642	928,493	0.9%
Life	22,782	287	83	22,578	0.4%
Total Premiums	944,869	2,523	8,725	951,071	0.9%
Year Ended December 31, 1999:					
Life insurance in force	$ 14,355,089	$ 12,731,969	$ 9,455	$ 1,632,575	0.6%
Premiums:					
Accident and Health	976,457	4,309	57,776	1,029,924	5.6%
Life	25,642	607	1,148	26,183	4.4%

	Direct Business	Ceded to Other Companies	Assumed From Other Companies	Net Amount	Percentage Of Amount Assumed to Net
Total Premiums	1,002,099	4,916	58,924	1,056,107	5.6%

Schedule V

American Medical Security Group, Inc.

Valuation and Qualifying Accounts

	Balance at Beginning of Period	Additions Charged to Costs and Expenses	Deductions	Balance at End of Period
		(In thousands)		
Year ended December 31, 2001:				
Allowance for bad debts	$ 344	$ 1,250	$ 302	$ 1,292
Valuation allowance for deferred taxes	3,861	1,810	277	5,394
Total	$ 4,205	$ 3,060	$ 579	$ 6,686
Year ended December 31, 2000:				
Allowance for bad debts	$ 651	$ 7	$ 314	$ 344
Valuation allowance for deferred taxes	3,549	398	86	3,861
Total	$ 4,200	$ 405	$ 400	$ 4,205
Year ended December 31, 1999:				
Allowance for bad debts	$ 1,118	$ 14	$ 481	$ 651
Valuation allowance for deferred taxes	2,654	1,029	134	3,549
Total	$ 3,772	$ 1,043	$ 615	$ 4,200

3,500,000 Shares

Common Stock

PROSPECTUS

, 2002

CIBC World Markets

Robert W. Baird & Co.

Stifel, Nicolaus & Company
Incorporated

You should rely only on the information contained in this prospectus. No dealer, salesperson or other person is authorized to give information that is not contained in this prospectus. This prospectus is not an offer to sell nor is it seeking an offer to buy these securities in any jurisdiction where the offer or sale is not permitted. The information contained in this prospectus is correct only as of the date of this prospectus, regardless of the time of the delivery of this prospectus or any sale of these securities.

PART II

INFORMATION NOT REQUIRED IN PROSPECTUS

Item 14. Other Expenses of Issuance and Distribution.

SEC registration fee	$	6,647
NASD filing fee		7,725
Transfer agent fees and expenses		*
Printing and engraving expenses		*
Legal fees and expenses		*
Accounting fees and expenses		*
Miscellaneous expenses		*
Total	$	*

* To be provided by amendment.

All of the above fees and expenses up to an aggregate of $650,000 will be paid by American Medical Security Group, Inc. (the "registrant"). Any expenses in excess of such amount will be borne equally by the registrant and the selling shareholder. Other than the SEC filing fee and the NASD filing fee, all fees and expenses are estimated.

Item 15. Indemnification of Directors and Officers.

The registrant is incorporated under the Wisconsin Business Corporation Law ("WBCL"). Under Section 180.0851(1) of the WBCL, the registrant is required to indemnify a director or officer, to the extent such person is successful on the merits or otherwise in the defense of a proceeding, for all reasonable expenses incurred in the proceeding if such person was a party because he or she was a director or officer of the registrant. In all other cases, the registrant is required by Section 180.0851(2) of the WBCL to indemnify a director or officer against liability incurred in a proceeding to which such person was a party because he or she was an officer or director of the registrant, unless it is determined that he or she breached or failed to perform a duty owed to the registrant and the breach or failure to perform constitutes: (i) a willful failure to deal fairly with the registrant or its shareholders in connection with a matter in which the director or officer has a material conflict of interest; (ii) a violation of criminal law, unless the director or officer had reasonable cause to believe his or her conduct was lawful or no reasonable cause to believe his or her conduct was unlawful; (iii) a transaction from which the director or officer derived an improper personal profit; or (iv) willful misconduct. Section 180.0858(1) of the WBCL provides that, subject to certain limitations, the mandatory indemnification provisions do not preclude any additional right to indemnification or allowance of expenses that a director or officer may have under the registrant's articles of incorporation, bylaws, a written agreement or a resolution of the board of directors or shareholders.

Section 180.0859 of the WBCL provides that it is the public policy of the State of Wisconsin to require or permit indemnification, allowance of expenses and insurance to the extent required or permitted under Sections 180.0850 to 180.0858 of the WBCL for any liability incurred in connection with a proceeding involving a federal or state statute, rule or regulation regulating the offer, sale or purchase of securities.

Section 180.0828 of the WBCL provides that, with certain exceptions, a director is not liable to a corporation, its shareholders, or any person asserting rights on behalf of the corporation or its shareholders, for damages, settlements, fees, fines, penalties or other monetary liabilities arising from a breach of, or failure to perform, any duty resulting solely from his or her status as a director, unless the

person asserting liability proves that the breach or failure to perform constitutes any of the four exceptions to mandatory indemnification under Section 180.0851(2) referred to above.

Under Section 180.0833 of the WBCL, directors of the registrant against whom claims are asserted with respect to the declaration of an improper dividend or other distribution to shareholders to which they assented are entitled to contribution from other directors who assented to such distribution and from shareholders who knowingly accepted the improper distribution, as provided therein.

Article VII of the registrant's bylaws contains provisions that generally parallel the indemnification provisions of the WBCL. Directors and officers of the registrant are also covered by directors' and officers' liability insurance under which they are insured (subject to certain exceptions and limitations specified in the policy) against expenses and liabilities arising out of proceedings to which they are parties by reason of being or having been directors or officers.

The underwriting agreement provides that the underwriters will indemnify the directors, certain officers of the registrant, the selling shareholder, and the selling shareholder's parent, Cobalt Corporation, against certain liabilities, including liabilities under the Securities Act of 1933, or will contribute to payments which may be made in respect thereof.

Section 8.01 of the stock purchase agreement by and among the selling shareholder, its parent and the registrant, dated as of March 19, 2002, provides that the registrant agrees to indemnify the selling shareholder, its parent and the underwriters, and their respective officers, directors and controlling persons, against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments which may be made in respect thereof, and provides that the selling shareholder and its parent agree to indemnify the registrant, its directors and officers and each controlling person of the registrant against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments which may be made in respect thereof.

Section 4.01 of the distribution and indemnity agreement between Newco/UWS, Inc. and United Wisconsin Services, Inc. dated as of September 11, 1998 provides that Cobalt Corporation (formerly Newco/UWS) shall indemnify the registrant's directors and officers from certain liabilities, including those arising from any breach of the distribution agreement by Cobalt Corporation.

Item 16. Exhibits.

The exhibits listed in the accompanying exhibit index are filed or incorporated by reference as exhibits to this registration statement.

Item 17. Undertakings.

The undersigned registrant hereby undertakes (in accordance with the corresponding lettered undertaking in Item 512 of Regulation S-K):

(b) That, for purposes of determining any liability under the Securities Act of 1933, each filing of the registrant's annual report pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 that is incorporated by reference in the registration statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial bona fide offering thereof.

(h) Insofar as indemnification for liabilities arising under the Securities Act of 1933 may be permitted to directors, officers and controlling persons of the registrant pursuant to the indemnification

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provisions described in Item 15 of this registration statement, or otherwise, the registrant has been advised that in the opinion of the Securities and Exchange Commission such indemnification is against public policy as expressed in the Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the registrant of expenses incurred or paid by a director, officer or controlling person of the registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Act and will be governed by the final adjudication of such issue.

(i) (1) For purposes of determining any liability under the Securities Act of 1933, the information omitted from the form of prospectus filed as part of this registration statement in reliance upon Rule 430A and contained in a form of prospectus filed by the registrant pursuant to Rule 424(b)(1) or (4) or 497(h) under the Securities Act shall be deemed to be part of this registration statement as of the time it was declared effective.

(2) For the purpose of determining any liability under the Securities Act of 1933, each post-effective amendment that contains a form of prospectus shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

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SIGNATURES

Pursuant to the requirements of the Securities Act of 1933, the registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-3 and has duly caused this registration statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Green Bay, State of Wisconsin, on April 19, 2002.

AMERICAN MEDICAL SECURITY GROUP, INC.

By: /s/ SAMUEL V. MILLER

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

POWER OF ATTORNEY

KNOW ALL MEN BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Samuel V. Miller, Gary D. Guengerich and Timothy J. Moore, and each of them, his true and lawful attorneys-in-fact and agents, with full power of substitution and resubstitution, for him and in his name, place and stead, in any and all capacities, to sign any and all amendments (including post-effective amendments) to this registration statement, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, and any other regulatory authority, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in and about the premises, as fully to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents or any of them, or their substitutes, may lawfully do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act of 1933, this registration statement has been signed by the following persons in the capacities and on the date indicated.*

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

/s/ MARK A. BRODHAGEN Mark A. Brodhagen	Director
/s/ KENNETH L. EVASON Kenneth L. Evason	Director
/s/ THOMAS R. HEFTY Thomas R. Hefty	Director
/s/ JAMES C. HICKMAN	Director

James C. Hickman

/s/ WILLIAM R. JOHNSON	Director
William R. Johnson	
/s/ EUGENE A. MENDEN	Director
Eugene A. Menden	
/s/ EDWARD L. MEYER, JR.	Director
Edward L. Meyer, Jr.	
/s/ MICHAEL T. RIORDAN	Director
Michael T. Riordan	
/s/ H.T. RICHARD SCHREYER	Director
H.T. Richard Schreyer	
/s/ FRANK L. SKILLERN	Director
Frank L. Skillern	
/s/ J. GUS SWOBODA	Director
J. Gus Swoboda	

* Each of the above signatures is affixed as of April 19, 2002.

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

EXHIBIT INDEX
to
FORM S-3 REGISTRATION STATEMENT

Exhibit Number	Document Description	Incorporated Herein by Reference to	Filed Herewith
1*	Form of Underwriting Agreement		
2.1	Distribution and Indemnity Agreement between United Wisconsin Services, Inc., now known as American Medical Security Group, Inc. ("AMSG f/k/a UWS" or "Registrant") and Newco/UWS, Inc. ("Newco/UWS") dated as of September 11, 1998	Exhibit 2.1 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	

Exhibit Number	Document Description	Incorporated Herein by Reference to	Filed Herewith
2.2	Employee Benefits Agreement dated as of September 11, 1998, by and between AMSG f/k/a UWS and Newco/UWS	Exhibit 10.1 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	
2.3	Tax Allocation Agreement, entered into as of September 11, 1998, by and between AMSG f/k/a UWS and Newco/UWS	Exhibit 10.2 to Newco/UWS' Registration Statement on Form 10, as amended (File No. 1-14177)	
4.1(a)	Restated Articles of Incorporation of Registrant dated as February 17, 1999	Exhibit 3.1 to the Registrant's Form 10-K for the year ended December 31, 1998 (the "1998 10-K")	
4.1(b)	Articles of Amendment to Restated Articles of Incorporation with Respect to Designation, Preferences, Limitations and Relative Rights of Series B Junior Cumulative Preferred Stock	Exhibit 3 to the Registrant's Form 10-Q for the quarter ended June 30, 2001.	
4.2	Bylaws of Registrant as amended and restated November 17, 1999	Exhibit 3.2 to the Registrant's Form 10-K for the year ended December 31, 1999	
4.3(a)	Credit Agreement dated as of March 24, 2000, (the "Credit Agreement") among the Registrant, LaSalle Bank National Association and other Lenders	Exhibit 4 to the Registrant's Form 10-Q for the quarter ended March 31, 2000	
4.3(b)	First Amendment dated as of July 18, 2000 to Credit Agreement	Exhibit 4 to the Registrant's Form 10-Q for the quarter ended June 30, 2000	

4.3(c)	Second Amendment dated as of November 10, 2000 to Credit Agreement	Exhibit 4 to the Registrant's Form 10-Q for the quarter ended September 30, 2000	
4.3(d)	Third Amendment dated as of January 29, 2001 to Credit Agreement	Exhibit 4.4 to the Registrant's Form 10-K for the year ended December 31, 2000	
4.3(e)	Fourth Amendment dated as of April 27, 2001 to Credit Agreement	Exhibit 4 to the Registrant's Form 10-Q for the quarter ended March 31, 2001	
4.3(f)(i)	Fifth Amendment dated as of March 21, 2002 to Credit Agreement	Exhibit 4 to the Registrant's Form 8-K dated March 25, 2002	
4.3(f)(ii)	Revised Fifth Amendment dated as of March 21, 2002 to Credit Agreement (replacing Exhibit 4.3(f)(i))		X
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 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	Exhibit 4.2 to the 2/1/02 8-K	

	December 17, 2001, between the Registrant and Firstar Bank, N.A., appointing LaSalle Bank, N.A. as Rights Agent for the Rights Agreement		
5*	Opinion of Quarles & Brady LLP		
23.1	Consent of Ernst & Young LLP		X
23.2	Consent of Quarles & Brady LLP		To be contained in Exhibit 5
24	Power of Attorney		Contained in Signatures page to this registration statement

99.1	Registration Rights Agreement between the Registrant and Blue Cross & Blue Shield United of Wisconsin dated as of September 1, 1998	Exhibit 10.19 to 1998 10-K	
99.2	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	
99.3	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	

* To be filed by amendment or as an exhibit to a report on Form 8-K.

QuickLinks