

**HOULIHAN LOKEY HOWARD & ZUKIN**

FINANCIAL ADVISORS

www.hlh.com

September 14, 2004

The Board of Directors  
American Medical Security Group, Inc.  
3100 AMS Boulevard  
Green Bay, WI 54313

Dear Members of the Board of Directors:

We understand that American Medical Security Group, Inc. ("American Medical" or the "Company") intends to enter into that certain Agreement and Plan of Merger (the "Merger Agreement") by an among the Company on the one hand and Pacificare Health Systems Inc. ("Pacificare") and its wholly owned subsidiary American Medical Security Group Acquisition Corp. ("Merger Sub") on the other hand. We further understand that pursuant to the Merger Agreement, Merger Sub shall be merged with and into the Company, with the Company being the surviving entity and a wholly owned subsidiary of Pacificare. In connection with the Merger we understand that each share of the Company's common stock, other than shares held in treasury, shall be converted into the right to receive an amount in cash equal to \$32.75 (the "Merger Consideration"). The Merger and the associated payment of the Merger Consideration are referred to collectively herein as the "Transaction."

You have requested our opinion (the "Opinion") as to the matters set forth below. This opinion does not address matters that require legal, accounting, insurance, tax or other professional advice, and this Opinion does not address: (i) the underlying business decision of the Company, its security holders or any other party to effect the Transaction; (ii) the fairness of any portion or aspect of the Transaction not addressed in this Opinion; (iii) the fairness of any portion or aspect of the Transaction to any party other than those set forth in the Opinion; (iv) the tax consequences of the Transaction to either the Company, its security holders, or any other party; (v) the solvency of any party, or the effect of the Transaction on the solvency of any person or (vi) whether any security holder should vote in favor of the Transaction. We have not been requested to, and did not, solicit third party indications of interest in acquiring all or any part of the Company. Furthermore, at your request, we have not negotiated the Transaction or advised you with respect to alternatives to it.

In connection with this Opinion, we have made such reviews, analyses and inquiries as we have deemed necessary and appropriate under the circumstances. Among other things, we have:

1. reviewed the Company's annual reports to shareholders and on Form 10-K for the fiscal years ended December 31, 2001 through 2003 and quarterly report on Form 10-Q for the quarter ended June 30, 2004, which the Company's management has identified as the most current financial information available;

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2. met and/or spoke with certain members of the senior management of the Company to discuss the operations, financial condition, future prospects and projected operations and performance of the Company;
3. held discussions with advisors from JP Morgan regarding the Transaction process of the Company;
4. reviewed forecast and projections prepared by management of the Company with respect to the Company for the years ended December 31, 2004 through December 31, 2012;
5. reviewed the draft Agreement and Plan of Merger dated September 13, 2004;
6. reviewed the Company's Management Presentation ("Project Ashland") dated August 2004;
7. reviewed JP Morgan's analyses on market multiples for Project Ashland dated September 2004;
8. reviewed the board minutes from 2001 to 2004;
9. reviewed JP Morgan's bid letter for the sale of Ashland;
10. reviewed Prescott's offer letter to the Company dated September 9, 2004;
11. reviewed the historical market prices and trading volume for the Company's publicly traded securities and for certain companies we considered comparable to the Company;
12. reviewed publicly available financial data for certain transactions that we considered comparable to the Transaction;
13. reviewed certain other publicly available financial data for certain companies that we deem comparable to the Company;
14. reviewed certain acquisition premiums relevant to the Transaction; and
15. conducted such other studies, analyses and inquiries as we have deemed appropriate.

We have relied upon and assumed, without independent verification, that the financial forecasts and projections provided to us have been reasonably prepared and reflect the best currently available estimates and judgments of management of the future financial results and condition of the Company, and that there has been no material change in the assets, financial condition, business or prospects of the Company since the date of the most recent financial statements made available to us.

We have relied upon and assumed, without independent verification, the accuracy and completeness of all information that was publicly available or supplied to us with respect to the Company and do not assume any responsibility with respect to it. We have not made any physical inspection or independent appraisal of any of the properties or assets of the Company. Our opinion is necessarily based on business, economic, market and other conditions as they exist and can be evaluated by us at the date of this letter. It should be understood that subsequent events may affect the conclusions set forth in the opinion and we are under no obligation to update, revise or reaffirm this opinion.

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We have also assumed that the Transaction and any related transactions will be consummated as described in the Merger Agreement and that the definitive Agreement will not differ in any material respect for the draft thereof provided to us.

Based upon the foregoing, and in reliance thereon, it is our opinion that the Merger Consideration to be received by the holders of the Company's common stock in connection with the Transaction is fair to them from a financial point of view.

This opinion is provided to the Board of Directors of the Company solely for its benefit and may not, subject to applicable law, be relied upon by any other person or used for any other purpose without our expressed, prior written consent, except that this letter may be disclosed or reproduced pursuant to the terms of the engagement letter between the parties.

*Houlihan, Lokey, Howard & Zukin Financial Advisors, Inc.*  
HOULIHAN LOKEY HOWARD & ZUKIN FINANCIAL ADVISORS, INC.