Parent Disclosure Letter

Dated as of September 15, 2004

Reference is hereby made to the Agreement and Plan of Merger (the "Agreement"), dated as of September 15, 2004, by and among American Medical Security Group, Inc., PacifiCare Health Systems, Inc. and Ashland Acquisition Corp. All capitalized terms used herein without definition shall have the meanings ascribed to such terms in the Agreement.

Pursuant to the preamble to Article V of the Agreement, attached hereto are the schedules comprising the Parent Disclosure Letter. In accordance with Section 9.10 of the Agreement, the Parent Disclosure Letter is deemed to be part of the entire agreement among the parties with respect to the subject matter of the Agreement. The section and subsection numbers in the Parent Disclosure Letter correspond to the section and subsection numbers in the Agreement.

The Company acknowledged and agreed in the preamble to Article V of the Agreement that (i) any matter set forth in any section or subsection of the Parent Disclosure Letter shall be deemed to be a disclosure for all purposes of the Agreement and all other sections or subsections of the Parent Disclosure Letter to which such matter could reasonably be expected to be pertinent, but shall expressly not be deemed to constitute an admission by Parent or any of its Subsidiaries, or otherwise imply, that any such matter rises to the level of a Material Adverse Effect on Parent or is otherwise material for purposes of the Agreement or the Parent Disclosure Letter, and (ii) any matter set forth in, or incorporated by reference in, the Parent SEC Documents shall be deemed a disclosure for all purposes of Sections 5.4, 5.5 and 5.6 of the Agreement and the section or subsections of the Parent Disclosure Letter related thereto. Matters reflected in the Parent Disclosure Letter are not necessarily limited to matters required by the Agreement to be reflected in the Parent Disclosure Letter. Such additional matters are set forth for informational purposes and do not necessarily include other matters of a similar nature.

All references in the Parent Disclosure Letter to the enforceability of agreements with Third Parties, the existence or non-existence of Third-Party rights, the absence of breaches or defaults by Third Parties, or similar matters or statements, if any, are intended only to allocate rights and risks among the parties to the Agreement and were not intended to be admissions against interests, give rise to any inference or proof of accuracy, be admissible against any party to the Agreement by any Person who is not a party to the Agreement, or give rise to any claim or benefit to any Person who is not a party to the Agreement. In addition, the disclosure of any matter in the Parent Disclosure Letter is not to be deemed an admission that such matter actually constitutes noncompliance with, or a violation of, any Law, Parent Permit or Contract or other topic to which such disclosure is applicable.

In no event will the disclosure of matters disclosed on the Parent Disclosure Letter be deemed or interpreted to broaden the Parent's representations and warranties, obligations, covenants, conditions or agreements contained in the Agreement. The headings contained in the Parent Disclosure Letter are for convenience of reference only and shall not be deemed to modify or influence the interpretation of the information contained in the Parent Disclosure Letter or the Agreement.

The information contained in the Parent Disclosure Letter is current as of the date of the Agreement and Parent and Merger Subsidiary expressly disclaim and does not undertake any duty or obligation to update or modify the information disclosed in the Parent Disclosure Letter, except as expressly required by Section 6.10 of the Agreement. The information contained in the Parent Disclosure Letter is subject to the Confidentiality Agreement.

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Sections 5.3(a) and (b)
Consents and Approvals; No Violations

Form A filings and Form A approvals from the Wisconsin Commissioner of Insurance and the Georgia Commissioner of Insurance, and Form E notice filings in other states where the Company or its Subsidiaries hold insurance or other Company Permits.

Sections 5.5(a) and (b)
Litigation

In Re Managed Care. In mid-2000, various federal actions against managed care companies, including Parent, were joined in a multi-district litigation that was coordinated for pretrial proceedings in the United States District Court for the Southern District of Florida. This litigation is known as "In re Managed Care Litigation." Thereafter, Dr. Dennis Breen, Dr. Leonard Klay, Dr. Jeffrey Book and several other physicians, along with several medical associations, including the California Medical Association, joined the "In re Managed Care" proceeding as plaintiffs. These physicians sued several managed care companies, including Parent, alleging, among other things, that the companies have systematically underpaid providers for medical services to members, have delayed payments, and that the companies impose unfair contracting terms on providers and negotiate capitation payments that are inadequate to cover the costs of health care services provided.

Parent sought to compel arbitration of all of Dr. Breen's, Dr. Book's and other physician claims against it. The District Court granted Parent's motion to compel arbitration against all of these claims except for claims for violations of the Racketeer Influenced and Corrupt Organizations Act, or RICO ("Direct RICO Claims"), and for their RICO conspiracy and aiding and abetting claims that stem from contractual relationships with other managed care companies. On April 7, 2003, the United States Supreme Court held that the District Court should have compelled arbitration of the Direct RICO Claims filed by Dr. Breen and Dr. Book. On September 15, 2003, the District Court entered another ruling on several of Parent's motions to compel arbitration, ordering arbitration of all claims arising out of Parent's contracts with plaintiffs containing arbitration clauses. The District Court, however, also ruled that (a) plaintiffs' RICO conspiracy and aiding and abetting claims against Parent that stem from contractual relationships with other managed care companies and (b) plaintiffs' claims based on services they provided to Parent's members outside of any contractual relationship with Parent or assignments from its members do not need to be arbitrated. As a result, the order to compel arbitration does not cover part of the conspiracy and aiding and abetting claims of all plaintiffs or any of the direct claims by a subset of plaintiffs (non-contracted plaintiffs who provide services to Parent's members but do not accept assignments from them). Parent filed an appeal of the District Court's ruling to the extent it did not compel arbitration of all of plaintiffs' claims with the United States Court of Appeals for the Eleventh Circuit. Oral argument for the appeal was held on August 12, 2004 and the Court of Appeals has not issue an opinion as of the date hereof.

On September 26, 2002, the District Court certified a class action of physicians in the "In re Managed Care Litigation." On September 1, 2004, the Court of Appeals affirmed the certification of the plaintiffs' federal RICO-related claims and reversed the District Court's certification of the plaintiffs' state claims for breach of contract and prompt pay claims. The District Court has set a trial date in March 2005.

Several additional lawsuits have been filed against Parent and the other defendants in the "In re Managed Care Litigation" by non-physician providers of health care services, such as chiropractors and podiatrists. Those lawsuits have been assigned to the District Court for pretrial proceedings, but are currently stayed while discovery continues in the physician class action.

PacifiCare of Texas, Inc. v. The Texas Department of Insurance and the State of Texas. In November 2001, Parent's Texas subsidiary, PacifiCare of Texas, Inc., filed a lawsuit against the Texas Department of Insurance, or TDI, and the State of Texas challenging the TDI's interpretation and enforcement of state statutes and regulations that would make Texas a "double-pay" state. The lawsuit relates to the financial insolvency of three physician groups that had capitation contracts with PacifiCare of Texas. Under these contracts, the responsibility for claims payments to health care providers was delegated to the contracted physician groups. PacifiCare of Texas made capitation payments to each of these physician groups, but they failed to pay all of the health care providers who provided health care services covered by the capitation payments. On February 11, 2002, after the date PacifiCare of Texas filed its lawsuit, the Attorney General of Texas, or AG, on behalf of the State of Texas and the TDI, filed a civil complaint against PacifiCare of Texas in the District Court of Travis County, Texas alleging violations of the Texas Health Maintenance Organization Act, Texas Insurance Code and regulations under the Code and the Texas Deceptive Trade Practices Consumer Protection Act.

The AG's complaint primarily alleged that despite its capitation payments to the physician groups, PacifiCare of Texas, Inc. was still financially responsible for the failure of the physician groups to pay the health care providers who provided health care services covered by the capitation payments. The AG sought an injunction requiring us to comply with state laws plus unspecified damages, civil penalties and restitution. As disclosed in the Parent SEC Documents, on July 23, 2004, all settlement amounts were paid to the AG and the TDI, and the settlement and mutual releases between the parties became effective. On July 26, 2004, the Court entered orders dismissing with prejudice all of the pending litigation between the parties and issued a final judgment in the lawsuit.

Also, on July 20, 2004, the Texas Medical Association and various physicians and providers who had intervened as plaintiffs were severed from the lawsuit. Litigation regarding payment of claims of the physicians and providers who intervened in the lawsuit will continue under the case name *Texas Medical Association, et al. v. PacifiCare of Texas, Inc.*

Irwin v. AdvancePCS, Inc. et al. On March 26, 2003, Robert Irwin filed a complaint in the California Superior Court of Alameda County, California, against Parent's PBM company, Prescription Solutions, as well as nine other PBM companies. On July 17, 2003, the *Irwin* case was coordinated with *American Federation of State, County & Municipal Employees v. AdvancedPCS, et al.*, and transferred to Los Angeles Superior Court for coordinated proceedings. The case purports to be filed on behalf of members of non-ERISA health plans and individuals with no prescription drug coverage who have purchased drugs at retail rates. The first amended complaint, filed on November 25, 2003, alleges that each of the defendants violated California's unfair competition law. The complaint challenges alleged business practices of PBMs, including practices relating to pricing, rebates, formulary management, data utilization and accounting and administrative processes. The complaint seeks unspecified monetary damages and injunctive relief. On May 5, 2004, Prescription Solutions filed a petition to compel arbitration. On July 9, 2004, the Superior Court granted the petition, holding that Irwin's request for monetary relief can only be resolved in arbitration and staying Irwin's request for injunctive relief against

Prescription Solutions until an appropriate arbitration is completed. Discovery is proceeding against most other defendants but is stayed as to Prescription Solutions pending arbitration. *Anthony Bradley, et al., v. First Health Services Corp, et al.* On July 30, 2004, plaintiffs filed a complaint in the California Superior Court of Los Angeles County, California, against Prescription Solutions, Inc., as well as fifteen other PBM companies. The complaint alleges that each of the defendants failed to conduct studies of California pharmacies retail drug pricing as required by California Civil Code §2527. The complaint seeks unspecified monetary damages and injunctive relief. On September 8, 2004, the parties entered into a tolling agreement in which the plaintiffs agreed to dismiss Prescriptions Solutions (without prejudice) from the present complaint, while the parties determine whether Prescription Solutions is exempt from the requirements of California Civil Code §2527.

Ronald Allen Gass v. Wellpoint Health Networks, Inc., et al. On July 19, 2004, Gass filed a complaint in the California Superior Court of Los Angeles County, California, against Parent, as well as eleven other managed care companies. The first amended complaint, filed on August 13, 2004, alleges that the defendants have unlawfully allowed their contracting hospitals to charge for services that should be covered by the defendants. The complaint seeks unspecified monetary damages and injunctive relief. No responsive pleadings have been filed in this action.

Sections 5.6(a), (b), (c) and (d)
Compliance with Laws

See Sections 5.5(a) and (b) of this Parent Disclosure Letter.