

CONFIDENTIAL

American Medical Security Group, Inc.  
3100 AMS Boulevard  
Green Bay, Wisconsin 54313

August 6, 2004

Mr. Howard G. Phanstiel  
Chairman of the Board of Directors  
and Chief Executive Officer  
PacifiCare Health Systems, Inc.  
5995 Plaza Drive  
Cypress, California 90630

### **CONFIDENTIALITY AGREEMENT**

Dear Mr. Phanstiel:

In connection with PacifiCare Health Systems, Inc.'s (together with its subsidiaries, collectively, "PacifiCare") possible interest in a negotiated transaction (the "Transaction") involving American Medical Security Group, Inc. (together with its subsidiaries, collectively, the "Company"), each of PacifiCare and the Company directly and through their respective Representatives (as defined below) have furnished and will furnish to the other party and such other party's Representatives certain information relating to the disclosing party (the "Disclosing Party") or the Transaction. All such information (whether in written or oral form, electronically stored or otherwise) furnished (whether before or after the date hereof) by the Company or PacifiCare or their respective directors, officers, employees, subsidiaries, affiliates, representatives (including, without limitation, financial advisors, attorneys, accountants and actuaries) or agents (collectively, "Representatives") to the party receiving the information (a "Receiving Party") or its Representatives and all analyses, notes, compilations, summaries, forecasts, studies or other documents (whether in written or oral form, electronically stored or otherwise) prepared by the Receiving Party or its Representatives in connection with its or their review of, or interest in, the Transaction that contain, reflect or are based upon, in whole or in part, any such information is hereinafter referred to as the "Information." The term Information will not, however, include information that (i) is or becomes publicly available other than as a result of a disclosure by the Receiving Party or its Representatives in violation of this letter agreement or other obligation of confidentiality, (ii) was, is or becomes available to the Receiving Party on a nonconfidential basis from a source (other than the Disclosing Party or its Representatives) not known by the Receiving Party to be prohibited from disclosing such information to the Receiving Party by a legal, contractual or fiduciary obligation or (iii) is developed by the Receiving Party independently of, and without the benefit of, the Information as evidenced in writing by the Receiving Party's documents.

Accordingly, PacifiCare and the Company each hereby agrees that:

1. It and its Representatives (i) will keep the Information of the Disclosing Party confidential and will not (except as required by applicable law, regulation (including governmental or self regulatory), or legal process, and only after compliance with paragraph 3 below), without the prior written consent of the Disclosing Party, disclose any Information in any manner whatsoever, in whole or in part and (ii) will not use any Information other than in connection with its evaluation of the Transaction; provided, however, that the Receiving Party may disclose the Information or portions thereof to its Representatives (a) who need to know the Information for the purpose of evaluating the Transaction on the Receiving Party's behalf and (b) who are informed by the Receiving Party of the confidential nature of the Information and the terms of this letter agreement. Given the nature of the Company's and PacifiCare's respective businesses, each party agrees to comply with all federal and state privacy laws applicable to the retention and review of the Information. Each party will cause its Representatives to observe the terms of this letter agreement and will be fully responsible for any breach or threatened breach of this letter agreement by any of its Representatives.

2. It and its Representatives will not (except as required by applicable law, regulation (including governmental or self regulatory), or legal process, and only after compliance with paragraph 3 below, except as permitted by the previous paragraph and except as expressly permitted by a definitive acquisition agreement, if any, entered into by the Company and PacifiCare), without the prior written consent of the other party, disclose to any person the fact that the Information has been made available to or requested by the other party, that such other party is considering or has considered the Transaction, or that discussions or negotiations are taking or have taken place concerning the Transaction with such other party or any term, condition or other fact relating to the Transaction or such discussions or negotiations, including the status of the discussions or negotiations with such other party. The term "person" as used herein will be interpreted broadly to include, among others, any direct or indirect shareholder of the Company or PacifiCare and any corporation, company, limited liability company, partnership, trust, association, joint venture, governmental or self regulatory agency or body, other entity, group or individual.

3. In the event that a party or any of its Representatives are requested pursuant to, or required by, applicable law, regulation (including governmental or self regulatory), or legal process to disclose any of the Information or any Information regarding a Transaction, the Receiving Party will not disclose any information until the Receiving Party first notifies the Disclosing Party promptly so that the Disclosing Party may seek a protective order or other appropriate remedy or, in its sole discretion, waive compliance with the terms of this letter agreement (and if it seeks such an order, the Receiving Party will provide such cooperation as the Disclosing Party shall reasonably request); thereafter, disclosure of Information may occur only as allowed herein. In the event that there is insufficient time or it is otherwise impracticable under the circumstances to obtain a protective order, no such protective order or other remedy is obtained, or that the Disclosing Party waives compliance with the terms of this letter agreement, and that the Receiving Party or any of its Representatives are nonetheless

legally compelled to disclose such Information, the Receiving Party or its Representatives, as the case may be, will furnish only that portion of the Information that it is advised by counsel is legally required and will give the Disclosing Party written notice of the Information to be disclosed as far in advance as practicable and exercise all reasonable efforts to obtain reliable assurance that confidential treatment will be accorded the Information.

4. If PacifiCare determines not to proceed with the Transaction, it will promptly inform the Company's Representative, J.P. Morgan Securities Inc. ("JPMorgan"), of that decision and if the Company determines not to proceed with the Transaction, it will promptly inform the Chief Executive Officer of PacifiCare. In such cases, and at any time upon the request of the Company or any of its Representatives on behalf of the Company, or upon the request of PacifiCare or any of its Representatives on behalf of PacifiCare, the Receiving Party will (i) promptly deliver to the Disclosing Party at its own expense or, at the Disclosing Party's request, destroy all copies (including permanently erasing or deleting any electronic copies) of the Information in the Receiving Party's or its Representatives' possession or control and (ii) promptly destroy all portions of analyses, notes, compilations, summaries, forecasts, studies or other documents prepared by the Receiving Party or its Representatives in connection with its or their review of, or its interest in, the Transaction that contain, reflect or are based upon, in whole or in part, any of the Information, except that inside or outside counsel of the Receiving Party may keep one copy of the documents identified in subsection (ii) in its secure archives, which documents will continue to be subject to the terms of this letter agreement. The Receiving Party will confirm any such destruction to us in writing. Any oral Information will continue to be subject to the terms of this letter agreement.

5. Each of PacifiCare and the Company and their respective Representatives acknowledges that neither it, as the Disclosing Party, nor its Representatives including, without limitation, controlling persons within the meaning of Section 20 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), nor any of the officers, directors, employees, subsidiaries, affiliates, representatives or agents of its Representatives, makes any representation or warranty, express or implied, as to the accuracy or completeness of the Information being provided by it or its Representatives to the other party or its Representatives, and, subject to the following sentences of this paragraph, each of PacifiCare and the Company agrees that (i) no such disclosing persons will have any liability on any basis (including, without limitation, in contract, tort, under federal or state securities laws or otherwise) to the other party or its Representatives and (ii) it and its Representatives will not make any claims whatsoever against such disclosing persons, with respect to or arising out of the Information or for any errors therein or omissions therefrom. Each of PacifiCare and the Company agrees that it and its Representatives is not entitled to and will not rely on the accuracy or completeness of the Information and that it will be entitled to rely solely on such representations and warranties as may be included in any definitive agreement that hereafter may be entered into ("Definitive Agreement") with respect to the Transaction, subject to such limitations and restrictions as may be contained therein. Except as specifically set forth and specifically agreed to by the parties in any Definitive Agreement, neither party nor its Representatives shall have any liability or responsibility for any decisions made by the

other party or its Representatives in reliance on any Information disclosed under this letter agreement. Except as specifically set forth and specifically agreed to by the parties in any Definitive Agreement, each of PacifiCare and the Company and their respective Representatives expressly disclaim any duty (express or implied) to update, supplement or correct any Information disclosed under this letter agreement regardless of the circumstances.

6. PacifiCare and the Company each hereby acknowledges that it is aware, and that it will advise its Representatives who are informed of the matters that are the subject of this letter agreement, (i) that the United States securities laws prohibit any person who has material, nonpublic information concerning the matters that are the subject of this letter agreement from purchasing or selling securities of the Company or PacifiCare or from communicating such information to any other person when it is reasonably foreseeable that such other person is likely to purchase or sell securities of the Company or PacifiCare and (ii) of the rules and regulations of the Exchange Act to the extent they relate to the matters referred to in this paragraph.

7. PacifiCare agrees that, for a period of nine months from the date of this letter agreement (the "Standstill Period"), neither PacifiCare nor any of its Representatives, on its behalf, will (and neither PacifiCare nor its Representatives will assist or encourage others to), unless and until PacifiCare shall hereafter have been specifically invited in writing by the Board of Directors of the Company: (i) acquire or agree, offer, seek or propose to acquire, or cause to be acquired, directly or indirectly, by purchase or otherwise, ownership (including, without limitation, beneficial ownership as defined in Rule 13d-3 of the Exchange Act) of any voting securities or direct or indirect rights or options to acquire any voting securities of the Company or any subsidiary thereof, or of any successor to or person in control of the Company, any of the assets (except in the ordinary course of business) or businesses of the Company or any subsidiary or division thereof or of any such successor or controlling person or any bank debt, claims or other obligations of the Company or any rights or options to acquire such ownership (including from a third party), other than purchase for value of any equity securities as part of a basket of equity securities represented in any recognized index of securities so long as PacifiCare does not acquire more than 1.0% beneficial ownership of the outstanding voting securities of the Company in the aggregate; (ii) seek or propose to influence or control the management or policies of the Company or to obtain representation on the Company's Board of Directors, or solicit, or participate in the "solicitation" of, any "proxies" (as such terms are used in the Exchange Act) or consents with respect to any securities of the Company, or make any public announcement with respect to any of the foregoing or request permission to do any of the foregoing; (iii) make any public announcement with respect to, or submit a proposal for, or offer of (with or without conditions) any merger, consolidation, business combination, tender or exchange offer, restructuring or other extraordinary transaction involving the Company or any of its subsidiaries or their securities or assets; (iv) enter into any discussions, negotiations, arrangements or understandings with any third party with respect to any of the foregoing, or otherwise form, join or in any way participate in a "group" (as defined in Section 13(d)(3) of the Exchange Act) in connection with any of the foregoing; (v) seek or request permission or participate in any effort to do any of the foregoing or make

or seek permission to make any public announcement with respect to any of the foregoing; or (vi) request the Company or any of our Representatives, directly or indirectly, to amend, waive or terminate any provision of this paragraph. PacifiCare and its Representatives, on PacifiCare's behalf, also agree during the Standstill Period not to make any proposal, statement or inquiry, or disclose any intention, plan or arrangement, whether written or oral, inconsistent with the foregoing. Notwithstanding the foregoing provisions of this paragraph, PacifiCare may, solely on a confidential and non-public basis, request permission from the Company to amend or waive subsection (vi) of the second preceding sentence solely for the purpose of inquiring whether the Company wishes to invite PacifiCare to submit a confidential and non-public, bona fide proposal to enter into a Transaction, provided, however, that such right to make such request shall be conditioned on (x) PacifiCare's continuing compliance with all of the provisions of this letter agreement and (y) such request not having the purpose or effect of requiring any public disclosure of such request on the part of the Company or PacifiCare or any of its respective Representatives. PacifiCare represents that, as of the date hereof, it does not, directly or indirectly, beneficially own any of the outstanding voting securities of the Company.

8. Each of PacifiCare and the Company agrees that, for a period of fifteen months from July 12, 2004, it will not, without the prior written consent of the other party, solicit for employment or hire any officer or senior level employee (*i.e.* director or above) of the other party with whom the soliciting party had contact in connection with its consideration of the Transaction. For purposes of this paragraph 8, (i) neither an advertisement in a newspaper of general circulation, magazine or other publication of general or industry-wide circulation nor a search performed by an independent search firm in each case in which the employees of the other party are not specifically targeted will constitute a direct or indirect solicitation by the party placing the advertisement or hiring the independent search firm and (ii) neither the Company nor PacifiCare shall be prohibited from employing any person who (a) contacts the Company or PacifiCare, as the case may be, on his or her own initiative, and without any direct or indirect solicitation by the Company or PacifiCare, (b) responds to an advertisement in a newspaper, magazine or other publication of general or industry-wide circulation in which the employees of the other party are not specifically targeted or (c) responds to a search performed by an independent search firm in which the employees of the other party are not specifically targeted.

9. PacifiCare and its Representatives agree that all (i) communications regarding the Transaction, (ii) requests for additional information, facility tours or management meetings and (iii) discussions or questions regarding procedures with respect to the Transaction, will be submitted or directed only to a representative of JPMorgan and not to the Company, unless otherwise agreed by an authorized officer of the Company. PacifiCare acknowledges and agrees that (a) the Company and its Representatives are free to conduct the process relating to a possible Transaction as the Company and its Representatives, in their sole discretion, determine (including, without limitation, conduct of the due diligence process subject to written rules, negotiating with one or more prospective purchasers (unless restricted by any written agreement between the parties) and entering into a preliminary or definitive agreement to effect a

Transaction) without prior notice to PacifiCare and its Representatives or any other person, (b) the Company reserves the right, in its sole discretion, to change the procedures at any time without prior notice to PacifiCare and its Representatives or any other person, to reject any and all proposals made by PacifiCare and its Representatives with respect to the Transaction and to suspend or terminate discussions and negotiations with PacifiCare and its Representatives at any time and for any reason and (c) unless and until a written definitive agreement concerning the Transaction has been executed, neither (x) the Company nor any of its Representatives and (y) PacifiCare nor any of its Representatives, will have any liability to the other party or such other party's Representatives with respect to the Transaction or any obligation of any kind whatsoever with respect to the Transaction, whether by virtue of this letter agreement, any other written or oral expression with respect to the Transaction or otherwise. Neither this letter agreement nor any action taken in connection with this letter agreement will give rise to any obligation on the part of PacifiCare to (x) engage in any discussions or negotiations with the Company or its Representatives or (y) pursue or enter into any transaction of any nature with the Company.

10. (i) Each of PacifiCare and the Company acknowledges that remedies at law may be inadequate to protect the other party against any actual or threatened breach of this letter agreement by it or its Representatives, and, without prejudice to any other rights and remedies otherwise available to a party (including, without limitation, monetary damages), each of PacifiCare and the Company agrees to the granting of specific performance and injunctive or other equitable relief in favor of the other party without proof of actual damages and further agrees to waive, and to use all reasonable efforts to cause its Representatives to waive, any requirement for the securing or posting of any bond in connection with any such remedy. In the event of litigation relating to this letter agreement, if a court of competent jurisdiction determines in a final, nonappealable order that this letter agreement has been breached by either party or its Representatives, then the breaching party will reimburse the other party for its costs and expenses (including, without limitation, reasonable legal fees and expenses) incurred in connection with all such litigation.

(ii) Each of PacifiCare and the Company agrees that no failure or delay by the other party or any of its Representatives in exercising any right hereunder will operate as a waiver thereof, nor will any single or partial exercise thereof preclude any other or further exercise thereof or the exercise of any right hereunder.

(iii) This letter agreement will be governed by and construed in accordance with the laws of the State of New York without regard to any conflicts of law principles.

(iv) This letter agreement shall inure to the benefit of and be binding upon each of PacifiCare and the Company and the respective successors and assigns of each party; provided that no assignment of this letter agreement without the prior written consent of the other party is permitted. This letter agreement contains the entire agreement between PacifiCare and the Company concerning

the subject matter of this letter agreement and supersedes in its entirety the letter agreement dated July 12, 2004 between the parties relating to the same subject matter, and no provision of this letter agreement may be waived, amended or modified, in whole or in part, nor any waiver or consent given, unless approved in writing by a duly authorized officer of each of the parties, which writing specifically refers to this letter agreement and the provision so waived, amended or modified or for which such waiver or consent is given. In the event that any provision of this letter agreement is deemed invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions of this letter agreement will not in any way be affected or impaired thereby.

(v) This letter agreement may be executed in counterparts, each of which shall be deemed an original, but both of which shall constitute the same agreement.

(vi) No licenses or rights under any patent, copyright, trademark, or trade secret are granted or are to be implied by this letter agreement. Neither party is obligated under this letter agreement to purchase from or provide to the other party any service or product.


(vii) Any notice hereunder shall be made in writing and shall be considered given when received, by first class mail, by overnight courier or by facsimile with original copy to follow by first class mail or overnight courier as follows: (a) if to PacifiCare, to: PacifiCare Health Systems, Inc., attention: Joseph Konowiecki, Executive Vice President, General Counsel and Secretary, 5995 Plaza Drive, Cypress, California 90630, facsimile no.(714) 226-3171; with a copy (which shall not constitute notice) to: Cooley Godward LLP, attention: Barbara Borden, 4401 Eastgate Mall, San Diego, California 92121-1909, facsimile no.: (858) 550-6420; and (b) if to us, to American Medical Security Group, Inc., attention: Timothy J. Moore, Senior Vice President of Corporate Affairs, General Counsel and Secretary, 3100 AMS Boulevard, Green Bay, Wisconsin 54313, facsimile no.: (920) 661-1131; with a copy (which shall not constitute notice) to: Skadden, Arps, Slate, Meagher & Flom LLP, attention: Paul T. Schnell, Four Times Square, New York, New York 10036-6522, facsimile no.: (917) 777-2322.

*(The remainder of this page is intentionally left blank.)*

Please confirm PacifiCare's agreement with the foregoing by signing and returning to the undersigned the duplicate copy of this letter enclosed herewith.


Very truly yours,

AMERICAN MEDICAL SECURITY GROUP,  
INC.

By:   
Name: Samuel V. Miller  
Title: Chairman of the Board of  
Directors, President and Chief  
Executive Officer

Accepted and agreed to as  
of the date first written above:

PACIFICARE HEALTH SYSTEMS, INC.

By:   
Name: Michael E. Jansen  
Title: Deputy General Counsel