

**FORM A**

**STATEMENT REGARDING THE ACQUISITION OF CONTROL OF OR  
MERGER WITH A DOMESTIC INSURER**

Filed with the Office of the Commissioner of Insurance  
State of Wisconsin

**UNITED WISCONSIN LIFE INSURANCE COMPANY**

(Domestic Insurer)

By

**ASHLAND ACQUISITION CORP.**  
a direct wholly owned subsidiary of

**PACIFICARE HEALTH SYSTEMS, INC.**

(Applicant)

Filed with the Office of the Commissioner of Insurance, State of Wisconsin

Dated: September 30, 2004

Notices and correspondence concerning this Statement should be addressed to:

Kevin G. Fitzgerald  
Foley & Lardner LLP  
777 East Wisconsin Avenue, Suite 3800  
Milwaukee, Wisconsin 53202

Joseph Konowiecki  
Executive Vice President, General Counsel  
PacifiCare Health Systems, Inc.  
5995 Plaza Drive, Mail Stop CY20-512  
Cypress, CA 90632

## ITEM 1. INSURER AND METHOD OF ACQUISITION

This Statement relates to the proposed merger of American Medical Security Group, Inc. (“AMS”), a Wisconsin corporation, with Ashland Acquisition Corp. (“AAC”), a newly formed Wisconsin corporation and wholly owned subsidiary of PacifiCare Health Systems, Inc. (“PHS”), a Delaware corporation, pursuant to an Agreement and Plan of Merger by and among AMS, AAC, and PHS, entered into September 15, 2004 (the “Merger Agreement”). Following the proposed merger, United Wisconsin Life Insurance Company (“UWLIC”), a Wisconsin stock insurance company and indirect wholly owned subsidiary of AMS, will be an indirect wholly owned subsidiary of PHS. A copy of the Merger Agreement is attached hereto as **Exhibit 1-A**.

UWLIC is a life and accident and health insurer. UWLIC’s corporate headquarters and principal executive offices are located at 3100 AMS Boulevard, Green Bay, Wisconsin 54313. UWLIC is licensed to do business in 40 states and the District of Columbia.

Pursuant to the Merger Agreement, PHS agreed to acquire all of the outstanding shares of common stock of AMS for \$32.75 per share and agreed to cash out all of AMS’ options, restricted stock, deferred stock and deferred stock units, whether vested or unvested, at a price equal to \$32.75 per share minus the exercise price of the cashed-out options. If a holder of options does not agree to the cash-out, then the options will be assumed by PHS and become options to acquire PHS common stock, with the number of shares and exercise price adjusted based upon the Option Exchange Ratio, as defined in the Merger Agreement. PHS also will assume AMS’ debt, which was approximately \$30.2 million at June 30, 2004.

PHS will finance the aggregate purchase price of approximately \$502 million, on a fully diluted basis, using \$400 million of term debt from a new \$750 million bank facility to be entered into pursuant to a bank commitment and the use of internally generated cash. As more fully discussed in Item 4, the new \$750 million bank facility will include \$550 million of term debt, \$150 million of which will be used to refinance PHS’ existing term loan, and a new \$200 million revolving credit facility. Attached hereto as **Exhibit 1-B** is a copy of the senior secured credit facilities commitment letter, dated September 9, 2004, as issued by JPMorgan Chase Bank and J.P. Morgan Securities Inc. to PHS (“Commitment Letter”).

The conditions to closing for PHS under the Merger Agreement include: the representations and warranties of AMS are true as of the closing date (unless a representation speaks as of an earlier date), except for deviations that do not have a material adverse effect on AMS; no event or circumstance has occurred since July 2, 2004 that has a material adverse effect on AMS; no litigation by a governmental authority challenging the acquisition is pending; PHS and AMS have obtained all required regulatory approvals; and AMS’ shareholders have approved the merger.

The Merger Agreement contains representations and warranties and pre-closing covenants for both parties. The Merger Agreement contains a covenant precluding AMS from directly or indirectly soliciting, knowingly facilitating or encouraging, participating in any discussions or negotiations regarding, or providing any non-public information with respect to, any acquisition proposal for a merger or other business combination with a party other than PHS.

The covenant is subject to exceptions to allow the board of directors of AMS to respond to unsolicited proposals in compliance with its fiduciary duties.

The Merger Agreement may be terminated by either party if the conditions to closing are not satisfied by March 31, 2005 (the "End Date"). The End Date is automatically extended until June 30, 2005 if the only conditions that remain outstanding are regulatory approvals or if the Securities and Exchange Commission has not cleared the proxy statement for the AMS special meeting of shareholders to approve the merger (the "AMS Shareholder Meeting") by February 28, 2005.

PHS may terminate the Merger Agreement if: AMS' board of directors changes its recommendation in favor of the merger; AMS' shareholders do not approve the merger at the AMS Shareholder Meeting; a law or Restraint (as defined in the Merger Agreement) makes the consummation of the merger illegal; or AMS breaches the Merger Agreement and the breach is not cured within the cure period specified in the Merger Agreement.

AMS may terminate the Merger Agreement if: AMS' shareholders do not approve the merger at the AMS Shareholder Meeting; a law or Restraint makes the consummation of the merger illegal; PHS breaches the Merger Agreement and the breach is not cured within the cure period specified in the Merger Agreement; or AMS receives a Superior Proposal (as defined in the Merger Agreement) and after following the process outlined in the Merger Agreement, exercises its right to terminate the Merger Agreement in order to accept the Superior Proposal.

If the Merger Agreement is terminated under certain circumstances, including, without limitation, following a change in recommendation of AMS' board of directors or AMS' decision to accept a Superior Proposal, then AMS will owe PHS a termination fee of \$17,475,000 (less any Paid Expenses, as defined in the Merger Agreement).

Resolutions of the Boards of Directors of AMS, AAC and PHS approving the merger are attached as **Exhibits 1-C** through **1-E** hereto. A copy of the press release issued by PHS relating to the merger is attached as **Exhibit 1-F** hereto.

## **ITEM 2. IDENTITY AND BACKGROUND OF THE APPLICANT**

(a) This Statement is filed by Ashland Acquisition Corp. and PacifiCare Health Systems, Inc. pursuant to Wis. Stat. Sec. 611.72. The corporate headquarters and principal executive offices of AAC and PHS are located at 5995 Plaza Drive, Cypress, California 90630.

(b) PHS was formed in 1996 as a Delaware corporation and is the successor to a California corporation that was formed in 1983 and reincorporated as a Delaware corporation in 1985.

PHS offers managed care and other health insurance products to employer groups and Medicare beneficiaries primarily in eight western states and Guam. PHS' commercial and senior plans are designed to deliver quality health care and customer service to members cost-effectively. These programs include health maintenance organizations, preferred provider organizations, and Medicare Supplement products. PHS also offers a variety of specialty

managed care products and services that employees can purchase as a supplement to its basic commercial and senior medical plans or as stand-alone products. These products include pharmacy benefit management (“PBM”) services, behavioral health services, group life and health insurance and dental and vision benefit plans. As of December 31, 2003, PHS had approximately 2.9 million HMO and other commercial and senior product members and approximately 9.4 million members in its PBM, dental and behavioral plans, including both members covered by its commercial or senior HMOs, and members who are unaffiliated with its HMOs.

PHS’ mission is to create long-term stockholder value as a consumer health organization committed to making people’s lives healthier and more secure. Its strategy to achieve this mission is to continue the innovative expansion of its health care services portfolio, increase membership in its commercial and specialty businesses, and maintain and grow its Medicare+Choice business. PHS intends to accomplish this by taking advantage of opportunities in some markets to compete with the standard government Medicare program for new members, and by aligning its organization to meet the financial, health and wellness needs of its members.

### **Products**

PHS believes that employers and consumers desire innovative health care products that provide flexible network benefit design and financing components. PHS is continuing to design and offer new products such as its self-directed health plan product, a low cost plan which offers incentives to consumers to help contain costs through a broad based PPO network, as well as tiered network products and value network products that allow consumers to make trade-offs based upon breadth of network, quality measures and costs.

#### **Commercial Products**

PHS’ commercial HMO and PPO products may be offered on a stand-alone basis or may be bundled with its specialty products and services, including PBM, behavioral health services, group life and health insurance products, and dental and vision services, providing employer groups and individuals with more benefit options from a single source and the ability to design tailored benefit programs. PHS also sells its specialty products and services on a stand-alone basis to unaffiliated health plans and employer groups.

PHS’ HMO plans provide health care benefits to commercial members through a defined provider network in which members typically pay a fixed copayment for services accessed. PHS has a broad network that as of December 31, 2003 included approximately 700 hospitals and 63,000 primary care and specialty physicians.

PHS’ PPO network supplements its existing HMO network with additional health care providers and generally provides members with a broad selection of providers in any given geographic area. Additionally, access is extended to health care providers located outside of a given geographic area through out-of-network benefits that allow choice beyond the organized PPO network in exchange for reduced coverage or higher coinsurance or copayments. Its PPO products provide members open access to network providers, with no primary care physician coordinating care and simplified medical management practices.

PHS targets a variety of plan sponsors including employer groups and other purchasing coalitions, as well as state and federal government agencies. PHS offers both HMO and PPO products in a broad spectrum of customer segments ranging from individuals and small groups to large employers. PHS also has contracts with the United States Office of Personnel Management to provide HMO services to members under the Federal Employee Health Benefit Program for federal employees, annuitants and their dependents.

As of December 31, 2003, PHS had approximately 2 million commercial HMO members and over 182,000 enrollees in its PPO products.

### Specialty Products

PHS uses its existing employer group and senior relationships to offer its specialty products and services in conjunction with its commercial and senior products. These specialty products and services include PBM, behavioral health services, group life and health insurance products, and dental and vision services. In addition, PHS sells its specialty products and services to unaffiliated health plans, union trusts, third party administrators and employer groups.

*Prescription Solutions®.* Prescription Solutions offered integrated PBM services (including mail order pharmacy services) to approximately 5 million people, including approximately 682,000 seniors, as of December 31, 2003. Prescription Solutions offers a broad range of innovative programs, products and services designed to enhance clinical outcomes with appropriate financial results for employers and members.

PHS believes Prescription Solutions' strength lies in its ability to influence medical outcomes and reduce overall health care costs by focusing on appropriate prescription drug use. For example, through its formulary management program, Prescription Solutions uses lists of physician-recommended drugs in different therapeutic classes that have been reviewed for safety, efficacy and value to ensure that drugs prescribed are the lowest cost option among equally effective alternatives. Prescription Solutions operates independently of pharmaceutical or retail drug organizations, which allows it to focus primarily on improving clinical outcomes.

PHS believes that Prescription Solutions' mail order capabilities also differentiate it from its health insurance competitors who do not have captive PBMs. Prescription Solutions operates an 84,000 square foot, fully automated facility in Carlsbad, California, which PHS believes can support its projected internal growth for the foreseeable future. Prescription Solutions aggressively promotes mail order pharmacy services as a convenient and cost-effective service for its members.

*Behavioral Health Services.* PHS provides behavioral health care services including managed mental health, employee assistance, care management and chemical dependency benefit programs. As of December 31, 2003, PHS provided these behavioral health care services to approximately 3.7 million affiliated and unaffiliated members through its provider network. Managed mental health and chemical dependency services are offered as a standard part of most of its commercial health plans and are sold in conjunction with its other commercial and Medicare products, and are sold on a stand-alone basis to unaffiliated health plans and employer groups.

*Dental and Vision Services.* PHS provides a broad range of dental and vision insurance and discount services. Plans include HMO, PPO and indemnity fee-for-service dental, and PPO vision benefits to individuals and employer groups. PHS also provides dental services to seniors through Secure Horizons. PHS provides a complete range of dental and vision product offerings for small, mid-size and large employers, regardless of their existing medical plan offering. As of December 31, 2003, PHS provided these dental and vision services to approximately 720,000 affiliated and unaffiliated members.

*Group Life and Health Insurance.* PHS is licensed to issue life and health care insurance in 40 states, including each of the states where its HMOs operate, the District of Columbia and Guam. By marketing its commercial health care product line in conjunction with supplemental insurance products, PHS is able to offer multi-option health and financial benefit programs. Other supplementary benefits offered to employer groups include basic life insurance, group term life insurance, indemnity dental and indemnity behavioral health benefits. PHS also offers life, accidental death and dismemberment and short-term and long-term disability products to its commercial employer groups under a private label arrangement with Continental Assurance Company, Continental Casualty Company and CNA Group Life Assurance Company.

#### Senior Products

PHS offers eligible Medicare beneficiaries access to Medicare+Choice and Medicare Supplement products through its Secure Horizons programs.

*Medicare+Choice HMO.* PHS is one of the largest Medicare+Choice HMOs in the United States as measured by membership with approximately 682,000 members as of December 31, 2003. Medicare is a federal program that provides persons age 65 and over and some disabled persons under the age of 65 with a variety of hospital and medical insurance benefits. Most individuals eligible for Medicare are entitled to receive inpatient hospital care under Part A without the payment of any premium, but are required to pay a premium to the federal government, which is adjusted annually, to be eligible for physician care and other services under Part B. Even though they participate in both Part A and Part B of the traditional Medicare program, beneficiaries are still required to pay out-of-pocket deductibles and coinsurance.

PHS contracts with the Centers for Medicare and Medicaid Services, or CMS, under the Medicare+Choice program to provide health insurance coverage in exchange for a fixed monthly payment per member that varies based on the geographic areas in which the members reside. Individuals who elect to participate in the Medicare+Choice program are relieved of the obligation to pay some or all of the deductible or coinsurance amounts and may receive benefits greater than the government program such as pharmacy drug coverage, but are generally required to use the services provided by the HMO exclusively and are required to pay a Part B premium to the Medicare program. These individuals also may be required to pay a monthly premium to the HMO.

*Medicare Supplement Products.* PHS is licensed in 22 states to offer group and individual senior supplement products and has licenses pending in ten states. These products are designed to fill gaps left by traditional Medicare coverage. For example, the Individual

Supplement products pay for hospital deductibles, physician copayments and coinsurance for which an individual enrolled in the traditional Medicare program would otherwise be responsible. The Senior Supplement product provides employer groups with similar coverage options for their Medicare eligible retirees. The Secure Horizons Prescription Advantages Plan has no annual deductible, no annual maximums, and provides unlimited coverage for approximately 400 generic medications covering many chronic conditions and ailments. This plan offers discounts on most other drugs depending on how the drugs are purchased.

For additional description of PHS' business, please see the following:

- PHS' Annual Reports on Form 10-K, for the years ended 2003, 2002, 2001, 2000, 1999, attached as **Exhibits 2-A** through **2-E**, respectively.
- PHS' Annual Reports to Stockholders for the years ended 2003, 2002, 2001, 2000, 1999, attached as **Exhibits 2-F** through **2-J**, respectively.
- PHS' Quarterly Report on 10-Q for the quarterly periods ending March 31, 2004, and June 30, 2004, attached as **Exhibits 2-K** and **2-L**, respectively.

(c) Attached hereto as **Exhibit 2-M** is an organizational chart representing the current identities of and interrelationships among all affiliated persons within the PHS insurance holding company system. Attached hereto as **Exhibit 2-N** is an organizational chart representing the corporate structure of PHS and its affiliates after the reorganization.

### **ITEM 3. IDENTITY AND BACKGROUND OF INDIVIDUALS ASSOCIATED WITH THE APPLICANT**

Biographical affidavits relating to the members of the Board of Directors and executive officers of PHS were included with the Certificate of Authority application of PacifiCare Life and Health Insurance Company to the Wisconsin Office of the Commissioner of Insurance, filed on September 3, 2003, as periodically supplemented. Following is biographical information relating to the Board of Directors and executive officers:

#### **Directors:**

Name:	<b>Aida M. Alvarez</b>
Business Address:	5995 Plaza Drive Cypress, CA 90630
Principal Occupation:	Director, PHS
Officers/Positions Held in Last 5 Years:	Director, PHS, from October 2003 to present. Previously Administrator of the U.S. Small Business Administration from 1997 to 2001, and Director of the Office of Federal Housing Enterprise Oversight from 1993 to 1997.

Crime conviction: None

Name: **Bradley C. Call**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Co-Founder and Managing Partner of Argonaut Capital Partners, LLC, a middle market, Southern California investment banking firm.

Officers/Positions Held in Last 5 Years: Managing Director of JMW Capital Partners, Inc. – Southern California Region from November 2001 to December 2003. President and Chief Executive Officer of Stellex Aerospace, Inc., a privately held aerospace component-manufacturing firm with multiple plant operations throughout the U.S., from 1988 to 2001. A member of the board of directors of UniHealth Foundation from 1998 until June 2001, and its predecessor UniHealth, from 1995 to 1998. Member of the board of directors of UniHealth Foundation again in November 2002.

Crime conviction: None

Name: **Terry O. Hartshorn**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Director of PHS

Officers/Positions Held in Last 5 Years: Appointed to the PHS Board in 1985 and was Chairman of the PHS board from 1993 to 1998. Was President and Chief Executive Officer of UniHealth from 1994 to 1997.

Crime conviction: None

Name: **Dominic Ng**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630



Principal Occupation: President and CEO of East West Bancorp

Officers/Positions Held in Last 5 Years: President and CEO of East West Bancorp from 1992 to present and Chairman of the Board of East West Bancorp since 1998. Member of the board of directors of ESS Technology, Inc. and is a certified public accountant.

Crime conviction: None

Name: **Howard G. Phanstiel**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Chairman of the Board and CEO, PHS

Officers/Positions Held in Last 5 Years: Appointed Chairman of the Board and Chief Executive Officer of PHS in February 2004, after having served as President and Chief Executive Officer since December 2000 and as acting Chief Executive Officer and director since October 2000. Appointed Executive Vice President and Chief Financial Officer of PHS in July 2000. Prior to that, was an executive of NetCatalyst from January 2000 to June 2000, Chairman and Chief Executive Officer of ARV Assisted Living, Inc. from 1997 to 1999, and Executive Vice President of Finance and Information Services at WellPoint Health Networks Inc. from 1994 to 1997. Also served as a member of the board of directors of Wedbush Morgan Securities from January 2000 to June 2003.

Crime conviction: None

Name: **Warren E. Pinckert II**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: President and CEO, Cholestech Corporation

Officers/Positions Held in Last 5 Years: President and CEO and a member of the board of directors of Cholestech Corporation, a medical device-manufacturing firm since 1993 to present.

Crime conviction: None

Name: **David A. Reed**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Lead Independent Director, PHS; President, DAR Consulting Group

Officers/Positions Held in Last 5 Years: Chairman of the Board, PHS, 1999 to 2004; President, DAR Consulting Group and previously served as chairman of the American Hospital Association. Mr. Reed is a member of the board of directors of In Vitro International and Medstone International.

Crime Conviction: None

Name: **Lloyd E. Ross**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Chairman of the Board of American States Water Company

Officers/Positions Held in Last 5 Years: Managing Partner of InverMex, L.P. from 1996 to 1997. Prior to that, Vice President/Division Manager of SMI Corporation, a division of ARB, Inc., a commercial and industrial building company.

Crime conviction: None

Name: **Charles R. Rinehart**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Member of the board of directors of UnionBanCal Corporation

Officers/Positions Held in Last 5 Years: Member of the board of directors of UnionBanCal Corporation and Chairman. From 1994 through 1998

Chairman and Chief Executive Officer of HF Ahmanson & Co. and its principal subsidiary, Homes Savings of America.

Crime conviction: None

Name: **Linda Rosenstock, M.D., M.P.H.**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Dean of the UCLA School of Public Health and Professor of Environmental Health Sciences in the School of Public Health and Professor of Medicine in the School of Medicine at UCLA

Officers/Positions Held in Last 5 Years: Director of the National Institute for Occupational Safety and Health (“NIOSH”) from 1994 to 2000

Crime conviction: None

**Executive Officers:**

Name: **Howard G. Phanstiel**  
Chairman of the Board and CEO of PHS  
(See information above)

Name: **Bradford A. Bowlus**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Executive Vice President & CEO, PacifiCare Health Plans

Officers/Positions Held in Last 5 Years: Executive Vice President and President and CEO, PacifiCare Health Plans Division, 1999 to present, Regional Vice President, Western Region, PHS, October 1997 to 1999; President and CEO, PacifiCare of California, Inc., October 1997 to present; Regional Vice President, Northwest Region, PHS, President and CEO, PacifiCare of Washington, Inc., 1996 to October 1997; President and CEO, California Dental Health Plan and Dental Plan Administrators, 1995 to 1996; Vice

President/Sales, PacifiCare of California, 1994 to 1995; various positions with Blue Cross of California, 1979 to 1994.

Crime conviction: None

Name: **Joseph S. Konowiecki**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Executive Vice President, General Counsel and Secretary, PHS; Partner, Konowiecki & Rank LLP

Officers/Positions Held in Last 5 Years: Partner, Konowiecki & Rank LLP, 1980 to 2002; General Counsel, PHS, 1989 to present; Secretary, PHS, 1993 to present.

Crime conviction: None

Name: **Gregory W. Scott**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Executive Vice President and Chief Financial Officer of PHS

Officers/Positions Held in Last 5 Years: Executive Vice President and Chief Financial Officer, PHS, January 2001 to present; Chief Operating Officer and Chief Financial Officer, Medsit.com, Inc., 1999 to January 2001; Senior Vice President and Chief Financial Officer, Prudential Insurance Company of America, 1995 to 1999.

Crime conviction: None

Name: **Sharon D. Garrett, Ph.D.**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Executive Vice President, Enterprise Services

Officers/Positions Held in Last 5 Years: Executive Vice President, Enterprise Services, December 2002 to present. Dr. Garrett provided interim executive management expertise to large companies in various industries. Dr. Garrett served as Chief Information Officer of the Walt Disney Company from 1989 to 2000.

Crime conviction: None

Name: **Katherine F. Feeny**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Executive Vice President Senior Solutions

Officers/Positions Held in Last 5 Years: Executive Vice President Senior Solutions, 2003 to present, Senior Vice President, Secure Horizons Sales and Marketing, PacifiCare Health Plans Division, January 2000 to 2003; Vice President, Sales and Marketing, Secure Horizons of California, 1997 to 1999; Regional Sales Director, Secure Horizons of California, 1995 to 1997.

Crime conviction: None

Name: **Jacqueline B. Kosecoff**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Executive Vice President, Pharmaceutical Services

Officers/Positions Held in Last 5 Years: President & COO, Protocare, Inc. from 1998 to 2002

Crime conviction: None

Name: **Peter A. Reynolds**

Business Address: 5995 Plaza Drive  
Cypress, CA 90630

Principal Occupation: Senior Vice President, Corporate Controller

Officers/Positions Held in Last 5 Years: Vice President/Assistant Controller from December 2001 to 2002, PHS, Controller of PacifiCare of California from 1997 to 2001.

Crime conviction: None

FMR Corp. and Edward C. Johnson 3d (the chairman of FMR Corp.) are identified as beneficial owners of approximately 14.3% of the outstanding common stock of PHS based on information filed with the Securities and Exchange Commission on February 16, 2004. FMR Corp. is a parent holding company of an investment advisor for various Fidelity mutual funds and is located at 82 Devonshire Street, Boston, Massachusetts. Notwithstanding its beneficial ownership interests, FMR Corp. has the sole power to vote or to direct the vote of only 1,551,074 shares of common stock, which represent less than 2% of the outstanding common stock of PHS. According to the Schedule 13G filed by FMR Corp., “[n]either FMR Corp. nor Edward C. Johnson 3d, Chairman of FMR Corp., has the sole power to vote or direct the voting of shares owned directly by the Fidelity Funds, which power resides with the respective Funds’ Boards of Trustees.”

#### **ITEM 4. NATURE, SOURCE AND AMOUNT OF CONSIDERATION**

(a) Pursuant to the terms and conditions of the Merger Agreement, PHS has agreed to acquire all of the outstanding shares of common stock of AMS for \$32.75 per share and agreed to cash out all of AMS’ options, restricted stock, deferred stock and deferred stock units, whether vested or unvested, at a price equal to \$32.75 per share minus the exercise price of the cashed-out options. If a holder of options does not agree to the cash-out, then the options will be assumed by PHS and become options to acquire PHS common stock (with the number of shares and exercise price adjusted based upon the Option Exchange Ratio, as defined in the Merger Agreement). PHS also will assume AMS’ debt, which was approximately \$30.2 million at June 30, 2004.

PHS will finance the aggregate purchase price of approximately \$502 million, on a fully diluted basis, using \$400 million of term debt from a new \$750 million bank facility to be entered into pursuant to a bank commitment (the “New Credit Facility”) and the use of internally generated cash. The New Credit Facility will include \$550 million of term debt, \$150 million of which will be used to refinance PHS’ existing term loan, and a new \$200 million revolving credit facility. Attached hereto as **Exhibit 1-B** is a copy of the Commitment Letter for the New Credit Facility issued by JPMorgan Chase Bank and J.P. Morgan Securities Inc. to PHS.

The term debt under the New Credit Facility will require quarterly principal payments with a final maturity six years after closing. Annual principal payments of 1% of the original principal balance of the term debt in years one through four of the New Credit Facility will increase to 30% and 66% of the original principal balance in years five and six, respectively.

The revolving credit facility will be available on a revolving basis from closing until the fifth anniversary of closing, when that facility will mature. Up to \$50 million of the revolving credit facility may be used for the issuance of letters of credit.

Interest on the outstanding principal will accrue, at PHS' option, at a variable rate based upon JPMorgan Chase Bank's prime rate plus 75 basis points or at a fixed rate for interest periods of one, two, three, six or (if available) twelve months based upon the quoted rate for eurodollar deposits for the applicable interest period plus 175 basis points. Interest will be payable quarterly in the case of variable rate loans and at the end of each interest period (or quarterly, for interest periods longer than three months) in the case of eurodollar loans.

The New Credit Facility will require principal prepayments with 50% of the net cash proceeds generated in the event of certain issuances of additional indebtedness or equity and will require principal prepayments of 100% of the net cash proceeds generated in the event of certain asset sales. The New Credit Facility will include customary conditions to the initial loans and subsequent loans, representations and warranties, affirmative and negative covenants and events of default. The covenants will include financial covenants that PHS maintain the ratio of its total debt to EBITDA at no greater than 2.75 to 1.0, the ratio of its EBITDA minus capital expenditures to interest expense at not less than 2.0 to 1.0 and its consolidated net worth at an amount not less than 80% of its consolidated net worth as of December 31, 2003 (giving pro forma effect to the acquisition contemplated by the Merger Agreement) plus 50% of future positive net income.

The New Credit Facility will be guaranteed by certain subsidiaries of PHS other than its insurance company subsidiaries and certain other regulated entities. In addition, the New Credit Facility will be secured by the assets of PHS. Pursuant to the New Credit Facility, PHS will pledge the stock of AMS subject to any requisite regulatory approvals.

(b) The amount and nature of the merger consideration set forth in the Merger Agreement was the result of extensive arm's length negotiations conducted between the parties. The negotiation process, in which legal counsel and independent financial advisors from each side actively participated, resulted in what the parties and their financial advisors believe to be fair consideration for the merger. AMS has received the opinions of J.P. Morgan Securities Inc. and Houlihan Lokey Howard & Zukin Financial Advisors, Inc., attached as **Exhibits 4-A** and **4-B** hereto, to the effect that, as of the date of their respective opinions, the merger consideration is fair from a financial point of view to the AMS stockholders.

## **ITEM 5. APPLICANT'S FUTURE PLANS FOR THE INSURER**

Except as described below, PHS intends that UWLIC will be operated following the merger substantially as UWLIC operates at present. Except as noted herein, PHS has no plans or proposals to otherwise merge, liquidate, sell the assets of, or make any material change in the business operations, corporate structure or management of UWLIC and does not intend to declare or pay any extraordinary dividend without first seeking prior regulatory approval in accordance with all applicable laws.

PHS intends that UWLIC will continue to sell and administer its current product portfolio at UWLIC's existing location in Green Bay, Wisconsin. PHS also anticipates utilizing UWLIC as a platform for future growth for PHS' small group and individual products by: (1) offering UWLIC's current and new customers increased flexibility in product offerings as well as access to PHS' provider networks, and (2) expanding UWLIC's product offerings into states where PHS operates but UWLIC does not currently conduct business.

Specific to UWLIC's operations, the sales, financial and operational areas will remain in Wisconsin, including sales and sales management, marketing, underwriting and pricing, actuarial, customer service, membership accounting, claims payment, accounting services, network development, human resources, and information technology. The oversight of selected functions that require consistency with PHS' corporate policies and requirements as a public corporation will be centralized in PHS but will often maintain a significant presence and shared responsibility with UWLIC in Wisconsin, including financial planning and reporting, payroll, accounts payable, insurance, tax, corporate marketing, regulatory filings, Sarbanes Oxley compliance, and investments.

## **ITEM 6. VOTING SECURITIES TO BE ACQUIRED**

Pursuant to the terms and conditions of the Merger Agreement and as described above, PHS has agreed to acquire all of the outstanding shares of common stock of AMS and agreed to cash out all of AMS' options, restricted stock, deferred stock and deferred stock units, whether vested or unvested.

As described above, the amount and nature of the merger consideration set forth in the Merger Agreement was the result of extensive arm's length negotiations conducted between the parties. The negotiation process, in which legal counsel and independent financial advisors from each side actively participated, resulted in what the parties and their financial advisors believe to be fair consideration for the merger.

## **ITEM 7. OWNERSHIP OF VOTING SECURITIES**

Neither PHS, its affiliates, nor any person listed in Item 3 hereof beneficially owns or has the right to acquire beneficial ownership of any voting security of AMS or its subsidiaries other than possible de minimis amounts of voting securities held or acquired in the ordinary course of business. As set forth above, upon completion of the merger, PHS will directly own and control all of the outstanding voting securities of AMS.



## **ITEM 8. CONTRACTS, ARRANGEMENTS, OR UNDERSTANDINGS WITH RESPECT TO VOTING SECURITIES OF THE INSURER**

The Merger Agreement sets forth the terms and conditions of the proposed agreement amongst the parties in relation to the merger and the resulting disposition and transfer of control of the voting securities of AMS. With the exception of the foregoing Merger Agreement and any additional agreements contemplated thereby, none of PHS, its affiliates or any person listed in Item 3 above has entered into any contract, arrangement or understanding with any person with respect to any voting securities of AMS.

## **ITEM 9. RECENT PURCHASES OF VOTING SECURITIES**

During the 12 calendar months preceding the date of this Statement, none of PHS, its affiliates or any person listed in Item 3 above has acquired any shares of the voting securities of AMS other than possible de minimis amounts of voting securities held or acquired in the ordinary course of business.

## **ITEM 10. RECENT RECOMMENDATIONS TO PURCHASE**

Except for the board recommendations set forth in **Exhibit 1-D** and **Exhibit 1-E**, during the 12 calendar months preceding the date of this Statement, none of PHS, its affiliates or any person listed in Item 3 above has made any recommendation to others to acquire the voting securities of AMS, nor has PHS, its affiliates or any person listed in Item 3 above suggested (at interviews or otherwise) that any person make any such recommendation.

## **ITEM 11. AGREEMENTS WITH BROKER-DEALERS**

None of PHS, its affiliates, or any person listed in Item 3 above has entered into any agreement, contract or understanding with any broker-dealer as to the solicitation of voting securities of AMS for tender.

## **ITEM 12. FINANCIAL STATEMENTS AND EXHIBITS**

(a) The financial statements of PHS and exhibits relating to this acquisition statement are attached hereto and incorporated herein by reference, and are listed in the chart below.

<b><u>Exhibit Reference</u></b>	<b><u>Description of Exhibit</u></b>
Exhibit 1-A	Agreement and Plan of Merger, dated September 15, 2004, among AMS, PHS and AAC.
Exhibit 1-B	Senior Secured Credit Facilities Commitment Letter, dated September 9, 2004, issued by JPMorgan Chase Bank and J.P. Morgan Securities Inc. to PHS (Confidential)
Exhibit 1-C	Resolutions of the Board of Directors of AMS

Authorizing the Merger

Exhibit 1-D	Resolutions of the Board of Directors of AAC Authorizing the Merger
Exhibit 1-E	Resolutions of the Board of Directors of PHS Authorizing the Merger
Exhibit 1-F	Press Release Issued by PHS Relating to the Merger
Exhibit 2-A	Annual Report on Form 10-K of PHS for the year ending December 31, 2003
Exhibit 2-B	Annual Report on Form 10-K of PHS for the year ending December 31, 2002
Exhibit 2-C	Annual Report on Form 10-K of PHS for the year ending December 31, 2001
Exhibit 2-D	Annual Report on Form 10-K of PHS for the year ending December 31, 2000
Exhibit 2-E	Annual Report on Form 10-K of PHS for the year ending December 31, 1999
Exhibit 2-F	Annual Report to Stockholders of PHS for the year ending December 31, 2003
Exhibit 2-G	Annual Report to Stockholders of PHS for the year ending December 31, 2002
Exhibit 2-H	Annual Report to Stockholders of PHS for the year ending December 31, 2001
Exhibit 2-I	Annual Report to Stockholders of PHS for the year ending December 31, 2000
Exhibit 2-J	Annual Report to Stockholders of PHS for the year ending December 31, 1999
Exhibit 2-K	Quarterly Report on Form 10-Q of PHS for the period ending June 30, 2004
Exhibit 2-L	Quarterly Report on Form 10-Q of PHS for the period ending March 31, 2004

Exhibit 2-M	Pre-Merger Organizational Chart of PHS and its Affiliates
Exhibit 2-N	Post-Merger Organizational Chart of PHS and its Affiliates
Exhibit 4-A	Fairness Opinion Issued by J.P. Morgan Securities Inc. to the Board of Directors of AMS
Exhibit 4-B	Fairness Opinion Issued by Houlihan Lokey Howard & Zukin Financial Advisors, Inc. to the Board of Directors of AMS
Exhibit 12-A	Annual Report to Stockholders of AMS for the year ending December 31, 2003
Exhibit 12-B	Annual Report to Stockholders of AMS for the year ending December 31, 2002
Exhibit 12-C	Amendment to Employment Agreement by and between American Medical Security Group, Inc. and Samuel V. Miller, effective September 15, 2004
Exhibit 12-D	Amendment to the Deferred Stock Agreement between American Medical Security Group, Inc. and Samuel V. Miller, dated September 15, 2004
Exhibit 12-E	Amendment to the American Medical Security Group, Inc. Change of Control Severance Benefit Plan (as Amended and Restated November 29, 2001), effective September 15, 2004
Exhibit 12-F	Amendment to Rights Agreement, dated September 15, 2004

(b) The financial statements of PHS for the preceding five fiscal years and two most recent calendar quarters are attached as **Exhibits 2-A** through **2-L**. These financial statements contain consolidated financial statements for PHS.

(c) The Merger Agreement is the only agreement in connection with the proposed transaction and there are no other tender offers for, requests or invitations for, tenders of, exchange offers for, or other agreements involving PHS or its affiliates to acquire or exchange any voting securities of AMS. Attached as **Exhibits 2-F** through **2-J** are Annual Reports to Stockholders of PHS for the years ending December 31, 1999 through December 31, 2003. Attached as **Exhibits 12-A** and **12-B** are Annual Reports to Stockholders of AMS for the years ending December 31, 2002 and December 31, 2003. Attached as **Exhibit 12-C** is

Amendment to Employment Agreement by and between American Medical Security Group, Inc. and Samuel V. Miller, effective September 15, 2004. Attached as **Exhibit 12-D** is Amendment to the Deferred Stock Agreement between American Medical Security Group, Inc. and Samuel V. Miller, dated September 15, 2004. Attached as **Exhibit 12-E** is Amendment to the American Medical Security Group, Inc. Change of Control Severance Benefit Plan (as amended and restated November 29, 2001), effective September 15, 2004. Attached as **Exhibit 12-F** is Amendment to Rights Agreement, dated September 15, 2004.

**ITEM 13. SIGNATURE AND CERTIFICATION**

**SIGNATURE**

Pursuant to the requirements of ch. Ins 40, Wis. Adm. Code, PacifiCare Health Systems, Inc. has caused this application to be duly signed on its behalf in the City of Cypress and State of California on this \_\_\_\_ day of September, 2004.

PacifiCare Health Systems, Inc.

By: \_\_\_\_\_  
Michael Jansen  
Deputy General Counsel and  
Assistant Secretary

Attest: \_\_\_\_\_  
(Signature of Officer)

Title: \_\_\_\_\_

**CERTIFICATION**

The undersigned deposes and says that he has duly executed the attached application dated this \_\_\_\_ day of September, 2004 for and on behalf of PacifiCare Health Systems, Inc.; that he is the Deputy General Counsel and Assistant Secretary of such company, and that he is authorized to execute and file such instrument. Deponent further says that he is familiar with the instrument and the contents thereof, and that the facts therein set forth are true to the best of his knowledge, information and belief.

By: \_\_\_\_\_  
Michael Jansen  
Deputy General Counsel and  
Assistant Secretary

Subscribed and sworn to this \_\_\_\_ day of  
September, 2004.

\_\_\_\_\_  
Notary Public  
My commission expires \_\_\_\_\_.