



State of Wisconsin / OFFICE OF THE COMMISSIONER OF INSURANCE

Jim Doyle, Governor
Jorge Gomez, Commissioner

Wisconsin.gov

October 28, 2004

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Advanced Via Facsimile

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

Re: Acquisition of Control of United Wisconsin Life Insurance Company by PacifiCare Health Systems, Inc. and Ashland Acquisition Corp. (Case No. 04-C29284)

Dear Mr. Konowiecki:

I am writing to confirm receipt of the Form A regarding the above-captioned subject on September 30, 2004. The following items are requested in connection with this Office's review of the proposed acquisition of control of United Wisconsin Life Insurance Company (hereinafter, "UWLIC").

Requests for Additional Documentation

1. I need a complete copy of the Company Disclosure Schedule and Parent Disclosure Schedule to the Agreement and Plan of Merger dated as of September 15, 2004, by and among American Medical Security Group, Inc., PacifiCare Health Systems, Inc., and Ashland Acquisition Corp., so that I might obtain a complete understanding of the proposed transaction. If the parties wish to seek confidentiality for certain aspects of the transaction, please provide a written legal analysis in support of your position that the filing or any portion of the filing should be kept confidential under s. 19.36(5), Wis. Stat., or other applicable Wisconsin law. Please describe this in a distinct and separate written communication, so that this Office's legal unit can review the merits of your legal analysis.
2. Please provide a copy of the Confidentiality Agreement dated August 6, 2004.
3. Please provide a copy of the Rights Agreement, dated as of August 9, 2001, by and between American Medical Security Group, Inc. and LaSalle Bank National Association (as successor to Firststar Bank, N.A.).
4. Please provide a copy of American Medical Security Group, Inc.'s Change of Control Severance Benefit Plan (as Amended and Restated November 29, 2001).
5. Please provide a copy of the Employment Agreement by and between American Medical Security Group, Inc. and Samuel V. Miller.

6. Please provide a copy of the Deferred Stock Agreement by and between American Medical Security Group, Inc. and Samuel V. Miller, effective November 17, 1998.
7. What was the situation, from PacifiCare management's perspective, behind the \$2,000,000 monetary penalty assessed against PacifiCare of Texas Inc. by Texas in 1997?
8. What was the situation, from PacifiCare management's perspective, behind the \$125,000 monetary penalty assessed against PacifiCare of Arizona Inc. by Arizona in 2002?
9. What was the situation, from PacifiCare management's perspective, behind the \$41,000 monetary penalty assessed against PacifiCare of Colorado Inc. by Colorado in 2003?
10. In 2003, Florida lifted restrictions from PacifiCare Life and Health Insurance Company on the writing of new business. Why was the writing of new business restricted in Florida?
11. Please send me biographical affidavits for the following directors and officers:
 - a. Aida M. Alvarez
 - b. Bradley C. Call
 - c. Terry O. Hartshorn
 - d. Dominic Ng
 - e. Howard G. Phanstiel
 - f. Warren E. Pinckert II
 - g. David A. Reed
 - h. Lloyd E. Ross
 - i. Charles R. Reinhart
 - j. Sharon D. Garrett, Ph.D.
 - k. Katherine F. Feeny
 - l. Jacqueline B. Kosecoff
 - m. Peter A. Reynolds

The Holding Company System, its Governance, and Resources

12. After the acquisition, will the form of UWLIC's articles of incorporation and bylaws closely follow those currently in use by UWLIC? If not, please file the forms of articles and bylaws that are anticipated after the change in control.
13. What changes are anticipated with respect to service, management, cost allocation, or other written agreements among members of the holding company system in consequence of the proposed merger? For the types of agreements that PacifiCare Health Systems, Inc. believes might be applicable, please file relevant sample agreements that are currently in use among the current members of the PacifiCare Group.
14. Please file a Consent to Jurisdiction on Form E by PacifiCare Health Systems, Inc. and PacifiCare Health Plan Administrators, Inc.
15. Is it anticipated that PacifiCare Health Systems, Inc. or its subsidiaries will contribute capital to UWLIC during 2005 or thereafter?

16. Enclosed are my calculations of PacifiCare Group members' capital positions in terms of risk-based capital ratios and Wisconsin's compulsory surplus requirements and security surplus standards. Please advise me if you believe that any of my calculations are incorrect. What is PacifiCare Health Systems, Inc. view on what represents a proper level of capitalization for a subsidiary? How will this view be implemented with respect to UWLIC?

Business Plan

17. What is planned level of capitalization for UWLIC following the change in control? What is the intended form of capitalization, that is, among common stock, preferred stock, surplus notes, gross paid-in and contributed surplus, and unassigned funds?
18. What is the anticipated impact of integration expenses upon UWLIC following the proposed change in control?
19. Is any reorganization of the succession of control or ownership of American Medical Security Group, Inc.'s present subsidiaries contemplated following the proposed change in control?
20. Which types of insurance programs and services will PacifiCare Health Systems, Inc. direct UWLIC to prioritize for growth and development following the proposed change in control?
21. Which types of insurance programs and services will PacifiCare Health Systems, Inc. direct UWLIC to seek to reduce or terminate following the proposed change in control?
22. Will PacifiCare Health Systems, Inc. direct UWLIC to seek to reduce or terminate services in any region of this State in which it is currently active?
23. Does PacifiCare Health Systems, Inc. plan to direct UWLIC to purchase or sell any books of business over the next twelve months?
24. Does PacifiCare Health Systems, Inc. anticipate any changes to UWLIC's marketing practices or distribution channels?
25. What effect, if any, would the change in control have on the factors determining rate levels?
26. Does PacifiCare Health Systems, Inc. have any plans, within the foreseeable future, to enter into discussions or negotiations with other entities concerning the purchase, sale, merger, or affiliation of UWLIC with such entities?
27. What cash flow, time frame and sources of funds do the parties anticipate will be needed to pay principal and interest on the debt that will be incurred to fund the purchase of American Medical Security Group, Inc.?
28. What assets, if any, would be pledged to secure the debt that will be incurred to fund the purchase of American Medical Security Group, Inc.?
29. Who will serve as directors and officers of UWLIC immediately following the merger?
30. This Office has expressed reservations concerning UWLIC's participation in the PacifiCare Group's royalty fee arrangement, but PacifiCare's Wisconsin counsel has represented that PacifiCare Health Systems, Inc. intends to preserve use of the American Medical Security

brand name. Please confirm and elaborate on PacifiCare Health System's plans for the American Medical Security brand identity.

Personnel

31. Is it anticipated that the number of people employed by American Medical Security Group, Inc. and the holding company system that it presently controls will increase or decrease? If so, what is the anticipated magnitude of the change?
32. Will the existing employees of American Medical Security Group, Inc. and UWLIC be transferred to become employees of one or more other companies in the holding company system?
33. With respect to the transactions described in the Form A, have any executive employment agreements, side agreements, written plans, or assurances been made or placed under development concerning staff retention, salaries and benefits, or severance packages, for the officers or employees that currently provide services to American Medical Security Group, Inc. or its subsidiaries?
34. Will the acquisition of American Medical Security Group, Inc. trigger any change in control provisions under the terms of any executive employment agreement? What is the anticipated amount of change-in-control payments as a consequence of the proposed merger?
35. What is the anticipated effect of the merger of pension plans on the combined plans' funded status?

As our review of the transaction continues, we might have additional questions concerning this proposed acquisition.

If you have questions on this or any other matter in which I might be of some assistance, please call me at (608) 267-4388.

Sincerely,

Steven J. Junior
Senior Insurance Examiner
Bureau of Financial Analysis and Examinations

cc: Kevin G. Fitzgerald, Foley & Lardner LLP (via facsimile)
Timothy J. Moore, American Medical Security Group, Inc. (via facsimile)