

PACIFICARE HEALTH SYSTEMS, INC.
CORPORATE GOVERNANCE GUIDELINES

ADOPTED AS OF FEBRUARY 26, 2004

PACIFICARE HEALTH SYSTEMS, INC.

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The following Corporate Governance Guidelines have been adopted by the Board of Directors (the “Board”) of PacifiCare Health Systems, Inc. (the “Company”) to assist the Board in the exercise of its responsibilities. These Corporate Governance Guidelines reflect the Board’s commitment to monitor the effectiveness of policy and decision making both at the Board and management level, with a view toward enhancing long-term stockholder value. These Corporate Governance Guidelines are not intended to change or interpret any Federal or state law or regulation, including the Delaware General Corporation Law, or the Certificate of Incorporation or Bylaws of the Company. These Corporate Governance Guidelines are subject to modification from time to time by the Board.

THE ROLE OF THE BOARD AND MANAGEMENT

The Board oversees the management of the Company and its business and represents the interests of the Company’s stockholders in optimizing long-term value by providing the Company with guidance and strategic oversight. A director is expected to spend the time and effort necessary to properly discharge such director's responsibilities. Accordingly, a director is expected to regularly attend meetings of the Board and committees on which such director sits, and to review prior to meetings material distributed in advance for such meetings. A director who is unable to attend a meeting (which it is understood will occur on occasion) is expected to notify the Chairman of the Board or the Chairperson of the appropriate committee in advance of such meeting.

THE BOARD'S GOALS

The Board's goal is to build long-term value for the Company's stockholders and to balance the interests of its diverse constituents. To achieve this goal the Board will monitor both the performance of the Company (in relation to its goals, strategy and competitors) and the performance of the principal executive officer, who shall be the highest ranking employee executive of the Company (the "Principal Executive Officer"), and offer him or her constructive advice and feedback. When it is appropriate or necessary, it is the Board's responsibility to remove the Principal Executive Officer and to select his or her successor.

SELECTION OF THE CHAIRMAN OF THE BOARD

The Board does not require the separation of the offices of the Chairman of the Board and the Principal Executive Officer. The Board shall be free to choose its Chairman of the Board in any way that it deems best for the Company at any given point in time.

BOARD COMPOSITION, SIZE AND MEMBERSHIP CRITERIA

Size of the Board

The authorized number of directors shall not be more than twelve (12) nor less than five (5), with the actual number of authorized directors within this range to be fixed from time to time by resolution of the Board.

Selection of New Directors

The Board shall be responsible for nominating members for election to the Board and for filling vacancies on the Board that may occur between annual meetings of stockholders.

The Governance and Nominating Committee is responsible for identifying, screening and recommending candidates to the Board for Board membership. When formulating its Board membership recommendations, the Governance and Nominating Committee shall also consider advice and recommendations from other Board members as it deems appropriate.

Board Membership Criteria

Nominees for director shall be selected on the basis of, among other things, experience, knowledge, skills, expertise, integrity, diversity, ability to make independent analytical inquiries, understanding of the Company's business environment and willingness to devote adequate time and effort to Board responsibilities. The Governance and Nominating Committee shall be responsible for assessing the appropriate balance of criteria required of Board members. Each director shall be expected, within 5 years following his or her election to the Board, to own stock in the Company in an amount equal to 5 times his or her annual retainer.

Other Public Company Directorships

A director shall notify the Board in advance of accepting an appointment to sit on the board of directors of another public or other company (or comparable governing body). Although the Company does not have a policy limiting the number of other public company boards or other boards (or comparable governing bodies) upon which a director may sit, the Governance and Nominating Committee shall consider the number of other public company boards and other boards (or comparable governing bodies) on which a

prospective nominee is a member when formulating its Board membership recommendations.

INDEPENDENCE OF THE BOARD

The Board shall be comprised of a majority of directors who qualify as independent directors ("Independent Directors") under the listing standards of the New York Stock Exchange (the "NYSE").

The Board, through its Governance and Nominating Committee, shall review annually the relationships that each director has with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company). Following such annual review, only those directors who the Board affirmatively determines have no material relationship with the Company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company) will be considered Independent Directors, subject to additional qualifications prescribed under the listing standards of the NYSE or under applicable law. The Board may adopt and disclose categorical standards to assist it in determining director independence.

LEAD INDEPENDENT DIRECTOR

If the Chairman of the Board is not an Independent Director, the Board, upon recommendation of the Governance and Nominating Committee, will designate one of the Independent Directors on the Board to serve as a lead Independent Director (the "Lead Independent Director"). If the Chairman of the Board is an Independent Director

then he or she shall serve as Lead Independent Director. The Lead Independent Director shall represent the interests of the Independent Directors, help to ensure that Independent Directors are provided with timely and accurate information and, to the extent necessary, ensure that the Board's guidance is being appropriately followed by the Principal Executive Officer. The Lead Independent Director's duties will also include, to the extent appropriate, leading the evaluation of the Board with the coordination of the Governance and Nominating Committee, overseeing the Principal Executive Officer with the coordination of the Executive Committee, coordinating the agenda for and leading sessions of the Board's Independent Directors, and facilitating communications between the other members of the Board. In addition, if the Lead Independent Director is not the Chairman of the Board, he or she shall serve as the Vice Chairman of the Board in the absence of the Chairman of the Board. No director may serve as the Lead Independent Director for more than three consecutive one-year terms.

In performing the duties described above, the Lead Independent Director is expected to consult with the Chairpersons of the appropriate Board committees and solicit their participation.

DIRECTORS WHO CHANGE THEIR PRESENT JOB RESPONSIBILITY

Directors who are also employees of the Company are expected to resign from the Board at the same time they leave employment with the Company.

The Board does not believe that non-employee directors who retire or change the position they held when they became a member of the Board should necessarily leave the Board. Promptly following such event, the director must notify the Governance and Nominating

Committee, which shall review the continued appropriateness of the affected director remaining on the Board under the circumstances. The affected director is expected to act in accordance with the Governance and Nominating Committee's recommendation following such review.

RETIREMENT AGE

It is the general policy of the Company that no director having attained the age of 70 years shall be nominated for election, re-election or reappointment to the Board, provided, however, that, directors serving on the Board on January 1, 2004 may be nominated for re-election or reappointment to the Board until he or she attains the age of 75 years. The Board may determine to waive this policy on a case-by-case basis after considering all of the applicable facts and circumstances.

DIRECTOR TENURE

In connection with each director nomination recommendation, the Governance and Nominating Committee shall consider the issue of continuing director tenure and take steps as may be appropriate to ensure that the Board maintains an openness to new ideas and a willingness to critically re-examine the status quo. An individual director's renomination is dependent upon such director's performance evaluation, as well as a suitability review, each to be conducted by the Governance and Nominating Committee in connection with each director nomination recommendation.

BOARD COMPENSATION

A director who is also an officer of the Company shall not receive additional compensation for such service as a director.

The Company believes that compensation for non-employee directors should be competitive and should encourage increased ownership of the Company's stock through the payment of a portion of director compensation in Company stock, options to purchase Company stock or similar compensation. The Compensation Committee will periodically review the level and form of the Company's director compensation including how such compensation relates to director compensation of companies of comparable size, industry and complexity. Such review will also include a review of both direct and indirect forms of compensation to the Company's directors, including any charitable contributions by the Company to organizations in which a director is affiliated and consulting or other similar arrangements between the Company and a director. Changes to director compensation will be proposed to the full Board for consideration.

Director's fees (including any additional amounts paid to chairs of committees and to members of committees of the Board) are the only compensation a member of the Audit and Ethics Committee (the "Audit Committee") may receive from the Company.

SEPARATE SESSIONS OF NON-MANAGEMENT DIRECTORS

The non-management directors of the Company shall meet in executive session without management on a regularly scheduled basis, but no less than four times a year. The Lead Independent Director shall preside at such executive sessions, or in such director's

absence, another Independent Director designated by the Lead Independent Director shall preside at such executive sessions.

DISCLOSURE OF GOVERNANCE AND NOMINATING COMMITTEE FUNCTIONS AND COMMUNICATIONS BETWEEN STOCKHOLDERS AND THE BOARD

As part of providing stockholders with a means by which to communicate with members of the Board and improving the transparency of Board operations, the Company will include in its proxy materials (or place on its website and disclose the website address in its proxy materials) information as required under the listing standards of the NYSE or under applicable law regarding the operation of the Governance and Nominating Committee, the process by which stockholders can send communications to the Board and, if applicable, to individual directors, and a description of the Company's policy, if any, with regard to Board members' attendance at annual meetings and a statement telling the number of Board members who attended the prior year's annual meeting.

SELF-EVALUATION BY THE BOARD

The Governance and Nominating Committee will sponsor an annual self-assessment of the Board's performance as well as the performance of each committee of the Board, the results of which will be discussed with the full Board and each committee. The assessment should include a review of any areas in which the Board or management believes the Board can make a better contribution to the Company. The Governance and Nominating Committee will utilize the results of this self-evaluation process in assessing and determining the characteristics and critical skills required of prospective candidates

for election to the Board and making recommendations to the Board with respect to prospective candidates and assignments of Board members to various committees.

STRATEGIC DIRECTION OF THE COMPANY

Normally it is management's job to formalize, propose and implement strategic choices and the Board's role to approve strategic direction and evaluate strategic results. However, as a practical matter, the Board and management will be better able to carry out their respective strategic responsibilities if there is an ongoing dialogue among the Principal Executive Officer, other members of top management and other Board members. To facilitate such discussions, members of senior management who are not directors may be invited to participate in Board meetings when appropriate.

BOARD ACCESS TO MANAGEMENT AND OUTSIDE ADVISORS

Board members shall have access to the Company's management and, as appropriate, to the Company's outside advisors. Any meetings or contacts that a Board member wishes to initiate should be arranged through the Principal Executive Officer, the Secretary or, under circumstances where it would be appropriate, directly by the Board member. Board members will use judgment to assure that this access is not distracting to the business operations of the Company.

The Board and its committees (consistent with the provisions of their respective charters) have the authority to retain such outside counsel, experts and other advisors as they determine necessary to assist them in the performance of their functions.

ATTENDANCE OF MANAGEMENT PERSONNEL AT BOARD MEETINGS

The Board encourages the Principal Executive Officer to bring members of management from time to time into Board meetings to (i) provide management insight into items being discussed by the Board which involve members of management; (ii) make presentations to the Board on matters which involve members of management; and (iii) bring members of management with significant potential into contact with the Board. Attendance of such management personnel at Board meetings is at the discretion of the Board. Should the Principal Executive Officer desire to add additional members of management as attendees on a regular basis, this should be suggested to the Board for its concurrence.

BOARD INTERACTION WITH INSTITUTIONAL INVESTORS, ANALYSTS, PRESS AND CUSTOMERS

The Board believes that management should speak for the Company. Each director shall refer all inquiries from institutional investors, analysts, the press or customers to the Principal Executive Officer or his or her designee.

BOARD ORIENTATION AND CONTINUING EDUCATION

The Company shall provide new directors with a director orientation program to familiarize such directors with, among other things, the Company's business, strategic plans, significant financial, accounting and risk management issues, compliance programs, conflict of interest policies, code of business conduct and ethics, corporate governance guidelines, principle officers, internal auditors and independent auditors. Each director is expected to participate in continuing educational programs in order to

maintain the necessary level of expertise to perform his or her responsibilities as a director.

BOARD MEETINGS

Frequency of Meetings

At least one regularly scheduled meeting of the Board shall be held quarterly, and such other meetings shall be held as determined by the Board.

Selection of Agenda Items for Board Meetings

The Chairman of the Board, in consultation with the Lead Independent Director and the Principal Executive Officer, shall prepare a general agenda items to be considered by the Board at each of its specified meetings during the year. Each Board member shall be free to suggest inclusion of items on the agenda as well as free to raise at any Board meeting subjects that are not specifically on the agenda for that meeting.

Board Materials

Information and materials that are important to the Board's understanding of the agenda items and other topics to be considered at a Board meeting should, to the extent practicable, be distributed sufficiently in advance of the meeting to permit prior review by the directors. In the event of a pressing need for the Board to meet on short notice or if such materials would otherwise contain highly confidential or sensitive information, it is recognized that written materials may not be available in advance of the meeting.

COMMITTEE MATTERS

Number and Names of Board Committees

The Company shall have four standing committees: Audit, Governance and Nominating, Compensation and Executive. The purpose and responsibilities for each of these committees shall be outlined in committee charters adopted by the Board. The Board may want, from time to time, to form a new committee or disband a current committee depending on the circumstances. In addition, the Board may determine to form ad hoc committees from time to time, and determine the composition and areas of competence of such committees.

Independence of Board Committees

Each of the Audit Committee, the Governance and Nominating Committee and the Compensation Committee shall be composed entirely of Independent Directors satisfying applicable legal, regulatory and stock exchange requirements necessary for an assignment to any such committee. All other standing Board committees shall be chaired by Independent Directors, and the Executive Committee shall be chaired by the Lead Independent Director.

Assignment and Rotation of Committee Members

The Governance and Nominating Committee shall be responsible for making recommendations to the Board with respect to the assignment of Board members to various committees and the designation of the Lead Independent Director. After reviewing the Governance and Nominating Committee's recommendations, the Board

shall be responsible for appointing the committee chairpersons, members to the committees and the Lead Independent Director on an annual basis or other periodic basis, giving consideration to the timing of the annual stockholders' meetings.

The Governance and Nominating Committee shall annually review the committee assignments and shall consider the rotation of the chairpersons, members of the committees and the Lead Independent Director with a view toward balancing the benefits derived from continuity against the benefits derived from the diversity of experience and viewpoints of the various directors.

LEADERSHIP DEVELOPMENT

Selection of the Principal Executive Officer

The Board, with the assistance of the Executive Committee, shall be responsible for identifying potential candidates for, and selecting, the Company's Principal Executive Officer. In identifying potential candidates for, and selecting, the Company's Principal Executive Officer, the Board shall consider, among other things, a candidate's experience, understanding of the Company's business environment, leadership qualities, knowledge, skills, expertise, integrity and reputation in the business community. Based on these criteria, the Executive Committee shall evaluate the suitability of potential candidates qualified to serve as the Principal Executive Officer and make its recommendations to the Board.

Evaluation of the Principal Executive Officer

The Compensation Committee will provide the Principal Executive Officer with an

annual performance review for the prior year. The following steps will be utilized to carry out this review:

- The Principal Executive Officer will provide the Compensation Committee with a self-evaluation, either orally or in writing, promptly after the end of each fiscal year.

- The Compensation Committee will use this information to make an assessment of the Principal Executive Officer's performance for the prior year. The Compensation Committee's assessment shall take into account:
 - The Company's performance and the Principal Executive Officer's contribution to it, both compared to competitors and the Company's own strategic goals;

 - Achievement of personal goals set by the Principal Executive Officer for the year, as part of his or her self-evaluation; and

 - Other aspects of the Principal Executive Officer's performance which the Compensation Committee deems relevant.

The Compensation Committee will provide a report of their assessment to the non-management directors in executive session at a Board meeting. After agreement by the

non-management directors to the evaluation, the Chairperson of the Compensation Committee and/or the Lead Independent Director will meet with the Principal Executive Officer to discuss the Board's assessment. The Principal Executive Officer may then take the opportunity to discuss his or her reaction to the evaluation.

Succession Planning

The Board shall plan for the succession to the position of the Principal Executive Officer. To assist the Board, the Principal Executive Officer shall prepare and distribute to the Board an annual report on succession planning for all senior officers of the Company with an assessment of senior officers and their potential to succeed the Principal Executive Officer and other senior management positions. In addition, the Principal Executive Officer shall prepare, on a continuing basis, a short-term succession plan which delineates a temporary delegation of authority to certain officers of the Company, if all or a portion of the senior officers should unexpectedly become unable to perform their duties. The short-term succession plan shall be approved by the Board and shall be in effect until the Board has the opportunity to consider the situation and take action, when necessary.

Management Development

The Board shall from time to time ensure that a satisfactory system is in effect for education, development, and orderly succession of senior and mid-level managers throughout the Company.