UICI
Form 10-Q
May 15, 2002

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2002.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
FOR THE TRANSITION PERIOD FROM ______________ TO ______________
COMMISSION FILE NO. 001-14953

UICI
(Exact name of registrant as specified in its charter)

Delaware	75-2044750
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4001 McEwen, Suite 200, Dallas, Texas	75244
(Address of principal executive office)	(Zip Code)

Registrant's telephone number, including area code (972) 392-6700

Not Applicable

Former name, former address and former fiscal year, if changed since last report.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___.

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, $.01 Par Value, 47,918,365 shares as of April 30, 2002.

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PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED BALANCE SHEETS
(DOLLARS IN THOUSANDS, EXCEPT SHARE AMOUNTS)

	MARCH 31, 2002 (UNAUDITED)	DECEMB 20
ASSETS		
Investments		
Securities available for sale --		
Fixed maturities, at fair value (cost: 2002--$958,849; 2001--$924,709)	$ 952,136	$ 92
Equity securities, at fair value (cost: 2002--$55,892; 2001--$42,419)	98,245	8
Mortgage and collateral loans	5,345	
Policy loans	19,959	2
Investment in Healthaxis, Inc.	8,121	
Short-term investments	130,599	17
Total Investments	1,214,405	1,21
Cash	25,815	5
Student loans	1,417,161	1,27
Restricted cash	290,973	29
Reinsurance receivables	58,954	6
Due premiums, other receivables and assets	61,205	4
Investment income due and accrued	64,424	6
Deferred acquisition costs	78,090	7
Goodwill and other intangible assets	119,179	8
Deferred income tax	9,773	2
Property and equipment, net	73,656	7
Other assets	15,870	1
	$ 3,429,505	$ 3,28
LIABILITIES AND STOCKHOLDERS' EQUITY		
Policy liabilities		
Future policy and contract benefits	$ 421,135	$ 42
Claims	380,721	35
Unearned premiums	103,213	9
Other policy liabilities	18,918	1
Accounts payable	32,296	3
Other liabilities	108,918	11
Collections payable	131,519	14
Debt	24,625	2
Student loan credit facilities	1,625,033	1,50
Net liabilities of discontinued operations, including reserve for losses on disposal	31,628	3
	2,878,006	2,74
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value $0.01 per share	--	

Common stock, par value $0.01 per share	494	
Additional paid-in capital	210,378	20
Accumulated other comprehensive income	23,176	3
Retained earnings	329,292	31
Treasury stock, at cost	(11,841)	(1
	551,499	53
	$ 3,429,505	$ 3,28

NOTE: The balance sheet data as of December 31, 2001 have been derived from the audited financial statements at that date.

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF INCOME (UNAUDITED)
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

REVENUE
Premiums:
Health (includes amounts received from related parties of $2,015 and $1,552 for the three months ended March 31, 2002 and 2001, respectively) ....
Life premiums and other considerations ....

Investment income ....
Interest income (includes amounts received from related parties of $1 and $10 for the three months ended March 31, 2002 and 2001, respectively) ....
Other fee income (includes amounts received from related parties of $1,198 and $1,845 for the three months ended March 31, 2002 and 2001, respectively) ....
Other income ....
Losses on investments ....

BENEFITS AND EXPENSES
Benefits, claims, and settlement expenses ....
Underwriting, acquisition, and insurance expenses (includes amounts paid to related parties of $6,864 and $7,501 for the three months ended March 31, 2002 and 2001, respectively) ....
Stock appreciation expense (income) ....
Other expenses (includes amounts paid to related parties of $1,134 and $1,043 for the three months ended March 31, 2002 and 2001, respectively) ....

Depreciation (includes expense on assets purchased from related parties of $386 and $104 for the three months ended March 31, 2002 and 2001, respectively) ....

Interest expense (includes expenses incurred with related parties of $0 and $98 for the three months ended March 31, 2002 and 2001, respectively) ....

Interest expense--student loan credit facilities ....

Equity in losses of Healthaxis, Inc. investment ....

Goodwill amortization ....

INCOME FROM CONTINUING OPERATIONS BEFORE FEDERAL INCOME TAXES ....

Federal income taxes ....

INCOME FROM CONTINUING OPERATIONS ....

DISCONTINUED OPERATIONS (net of income tax benefit of $965 and $413 for the three months ended March 31, 2002 and 2001, respectively) ....

NET INCOME ....

Earnings (loss) per share:

Basic earnings (loss)

Income from continuing operations ....

Income (loss) from discontinued operations ....

Net income ....

Diluted earnings (loss)

Income from continuing operations ....

Income (loss) from discontinued operations ....

Net income ....

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES CONSOLIDATED
STATEMENTS OF COMPREHENSIVE INCOME
(UNAUDITED) (DOLLARS IN THOUSANDS)

THREE MONTHS ENDED MARCH 31,	
2002	2001

Net income	$ 12,123	$ 12,10
Other comprehensive income (loss) before tax:		
Unrealized gains on securities:		
Unrealized holding gains (losses) arising during period	(10,149)	15,38
Reclassification adjustment for gains (losses) included in net income	(802)	12
Other comprehensive income (loss) before tax	(10,951)	15,51
Income tax benefit (provision) related to items of other comprehensive income	3,833	(5,42
Other comprehensive income (loss) net of tax benefit (provision)	(7,118)	10,08
Comprehensive income	$ 5,005	$ 22,19

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS (UNAUDITED)
(DOLLARS IN THOUSANDS)

OPERATING ACTIVITIES	
Net income	$
Adjustments to reconcile net income to cash provided by (used in) operating activities:	
Increase in policy liabilities	
Decrease in other liabilities	
Increase in income taxes	
Increase in deferred acquisition costs	
(Increase) decrease in accrued investment income	
(Increase) decrease in reinsurance and other receivables	
Stock appreciation expense (income)	
Depreciation and amortization	
Decrease in collections payable	
Equity in losses of Healthaxis, Inc.	

Losses on investments	
Amounts recovered from (charged to) loss on disposal of discontinued operations ..	
Other items, net	

Cash Provided by (Used in) Operating Activities	

INVESTING ACTIVITIES	
Increase in student loans	(
(Increase) decrease in other investments	
Decrease in restricted cash	
Increase in agents' receivables	
Proceeds from sale of subsidiary net of cash disposal of $145	
Purchase of subsidiaries net of cash acquired of $2,599	
Increase in property and equipment	

Cash Used in Investing Activities	(

FINANCING ACTIVITIES	
Deposits from investment products	
Withdrawals from investment products	
Proceeds from student loan borrowings	
Repayment of student loan borrowings	(
Repayment of debt	
Repayment of note payable to related party	
Issue shares to Employee Stock Plan	
Exercise of stock options	
Purchase of treasury shares	
Issuance of treasury shares	
Other items, net	

Cash Provided by Financing Activities	

Net Decrease in Cash	
Cash and cash equivalents at Beginning of Period	

Cash and cash equivalents at End of Period	$
	===

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2002

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements for UICI and its subsidiaries (the "Company" or "UICI") have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of

Regulation S-X. Accordingly, such financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments, except as otherwise described herein, consist of normal recurring accruals. Operating results for the three-month period ended March 31, 2002 are not necessarily indicative of the results that may be expected for the year ending December 31, 2002. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2001. Certain amounts in the 2001 financial statements have been reclassified to conform to the 2002 financial statement presentation.

Recently Issued Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets, superseding Statement No. 121, Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of. Statement 144 provides guidance on differentiating between assets held and used, held for sale, and held for disposal other than by sale. Statement 144 requires a three-step approach for recognizing and measuring the impairment of assets to be held and used and also superseded the accounting and reporting provisions of APB Opinion No. 30, Reporting the Results of Operations -- Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions, regarding discontinued operations. Effective January 1, 2002, the Company adopted this pronouncement.

In June 2001, FASB issued Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually, or more frequently if certain indicators arise. The review of goodwill will be at the reporting unit level, which the Company has determined to be at one level below its operating segments. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Statement 142 also requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company adopted Statements 141 and 142 on January 1, 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Statement 142 requires the completion of the initial step of a transitional impairment test within six months of adoption. Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of a change in accounting principle. The Company has not determined the impact, if any, the change in impairment testing will have on its results of operations or financial position, but expects to have such determination completed by June 30, 2002.

NOTE B - INVESTMENT IN HEALTHAXIS, INC.

At March 31, 2002, the Company held 24,697,469 shares of common stock of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI"), which at such date represented approximately 46% of the issued and outstanding shares of HAI. Of such 24,697,469 shares held by the Company, 8,581,714 shares (representing 16.1% of HAI's total issued and outstanding shares) were through November 7, 2001 subject to the terms of a Voting Trust Agreement, pursuant to which trustees unaffiliated with the Company have the right to vote such shares. In addition, the Company holds (a) a

warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per HAI share; (b) a warrant to purchase 200,100 shares of HAI common stock at an exercise price of $4.40 per HAI share; (c) a warrant to purchase 10,005 shares of HAI common stock at an exercise price of $12.00 per share; and (d) $1.67 million aggregate principal amount of HAI 2% convertible debentures, which are convertible into an aggregate of 185,185 shares of HAI common stock.

Effective November 7, 2001, (a) Gregory T. Mutz and Patrick J. McLaughlin (the President and a director of UICI, respectively) resigned from the Board of Directors of HAI; (b) the Voting Trust Agreement was terminated; and (c) for the sole purpose of electing directors to the board of directors of HAI, UICI appointed as its proxies the board of directors of HAI, with power to vote 33-1/3% of the number of HAI shares held of record from time to time by UICI, with such proxies to vote such in favor of the nominees that a majority of the directors of HAI shall have recommended stand for election. The authority granted to such proxies will terminate at the earlier to occur of (i) November 7, 2011, (ii) such date as UICI beneficially holds less than 25% of the outstanding shares of common stock of HAI on a fully diluted basis, (iii) such date as any person or persons acting as a "group" beneficially holds a greater percentage of the outstanding shares of HAI common stock on a fully diluted basis than the percentage beneficially owned by UICI, or (iv) the filing by HAI of a voluntary petition in bankruptcy or the filing by a third party of an involuntary petition in bankruptcy with respect to HAI.

HAI is an emerging technology service firm that provides web-based connectivity and applications solutions for health benefit distribution and administration. These solutions, which consist primarily of software products and related services, are designed to assist health insurance payers, third party administrators, intermediaries and employers in providing enhanced services to members, employees and providers through the application of HAI's flexible technology to legacy systems, either on a fully integrated or on an application service provider (ASP) basis.

The Company accounts for its investment in HAI utilizing the equity method and, accordingly, recognizes its ratable share of HAI income and loss. At March 31, 2002, the Company's carrying value of its investment in HAI was $8.1 million. The Company's equity in the loss of HAI in the three months ended March 31, 2002 was $(174,000), compared to $(2.1) million for the three months ended March 31, 2001.

Pursuant to the terms of an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), HAI provides information systems and software development services (including administration of the Company's computer data center) to the Company and its insurance company affiliates at HAI's cost of such services (including direct costs of HAI personnel dedicated to providing services to the Company plus a portion of HAI's overhead costs) plus a 10% mark-up. The Services Agreement has an initial five-year term ending on January 3, 2005, which is subject to extension by the Company. The Services Agreement is terminable by the Company or HAI at any time upon not less than 180 days' notice to the other party. The Services Agreement does not constitute a requirements contract, does not prevent UICI from obtaining from other third parties (or providing to itself) any or all of the services currently provided by HAI, and does not limit UICI's right or ability to decrease the demand for services from HAI.

Pursuant to the terms of the Services Agreement, UICI paid to HAI $4.4 million and $3.8 million in the three months ended March 31, 2002 and 2001, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services, for which UICI paid to HAI $758,000 and $4.7 million in the three months ended March 31, 2002 and 2001, respectively. The aggregate amounts paid by UICI to HAI in the three months ended March 31, 2002 and 2001 represented 54.8% and 78.7% of HAI's total revenues of $9.8 million and $10.8 million in such three-month periods, respectively. With a strategic goal of gaining greater control over its information technology resources and development efforts and managing its own information technology staff, the Company continues to seek to reduce its dependence upon HAI for information systems and software development services under the Services Agreement by hiring more of its technology work force directly and by outsourcing and contracting with technology service and software providers other than HAI. Accordingly, the Company believes that overall expenditures to HAI for services in 2002 will be less than such expenditures in 2001 and will likely decline each year thereafter. The Company does not currently intend to renew the Services Agreement when it expires on January 3, 2005.

Set forth below is summary condensed balance sheet and income statement data for HAI as of and for the three month period ended March 31, 2002. This financial information has been adjusted to exclude the effects of push-down accounting for the January 7, 2000 merger of Insurdata Incorporated with and into HealthAxis.com (the subsidiary of HAI that was merged with and into HAI in January 2001).

	MARCH 31, 2002 (IN THOUSANDS)
Assets	
Cash and current assets	$ 18,885
Property and equipment	2,936
Other assets	4,923
Total assets	$ 26,744
Liabilities	
Accounts payable and accrued expenses	$ 3,664
Debt	27,168
Other liabilities	2,330
Total liabilities	33,162
Stockholders' deficit	(6,418)
Total liabilities and stockholders' deficit	$ 26,744

	THREE MONTHS ENDED MARCH 31, 2002
	(IN THOUSANDS)
Revenue	$ 9,792
Expenses	(10,168)
Net loss	$ (376)

NOTE C - GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted Statements 141 and 142 on January 1, 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. Statement 142 requires the completion of the initial step of a transitional impairment test within six months of adoption. Any impairment loss resulting from the transitional impairment test will be recorded as a cumulative effect of a change in accounting principle. The Company has not determined the impact, if any, on the results of operations or financial position for the change in impairment testing, but expects to have such determination completed by June 30, 2002.

Set forth in the table below is a summary of the goodwill and other intangible assets by operating segment as of March 31, 2002 and December 31, 2001:

	MARCH 31, 2002 (IN THOUSANDS)			
	GOODWILL	OTHER INTANGIBLE ASSETS	ACCUMULATED AMORTIZATION	
Self Employed Agency Division	$ 9,405	$ --	$ (3,972)	$
Group Insurance Division	17,513	8,858	(143)	
Life Insurance Division	552	--	(193)	
Senior Market Division	5,325	1,637	(21)	
Academic Management Services Corp.	90,360	--	(12,610)	
Other Key Factors	4,423	--	(1,955)	
	$127,578	$ 10,495	$ (18,894)	$1

DECEMBER 31, 2001

(IN THOUSANDS)

OTHER

	GOODWILL	INTANGIBLE ASSETS	ACCUMULATED AMORTIZATION	
Self Employed Agency Division	$ 9,405	$ --	$ (3,972)	$
Group Insurance Division	--	--	--	
Life Insurance Division	552	--	(193)	
Senior Market Division	--	--	--	
Academic Management Services Corp.	90,360	--	(12,610)	7
Other Key Factors	4,423	--	(1,955)	
	$104,740	$ --	$(18,730)	$ 8

Following is the impact to the Company's net income for the three months ended March 31, 2002 and 2001 as a result of the non-amortization provisions of Statement 142:

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)	
Reported net income	$ 12,123	$ 12,103
Add: Goodwill amortization	--	1,129
Adjusted Net income	$ 12,123	$ 13,232
Basic earnings per share		
As reported	$ 0.26	$ 0.26
Goodwill amortization	--	0.02
Adjusted basic earnings per share	$ 0.26	$ 0.28
Diluted earnings per share		
As reported	$ 0.25	$ 0.25
Goodwill amortization	--	0.02
Adjusted diluted earnings per share	$ 0.25	$ 0.27

Other intangible assets consist of present value of future commissions, customer lists, trademark and non-compete agreements related to the acquisitions of SeniorsFirst and STAR HRG completed in the three months ended March 31, 2002. (See Note F).

Set forth in the table below is a summary of the estimated amortization expense for the next five years and thereafter for intangible assets:

	(IN THOUSANDS)
2002..................	$ 1,550
2003..................	1,568
2004..................	1,357
2005..................	1,158
2006..................	1,023
2007 and thereafter...	3,839
	$ 10,495

NOTE D - DEBT

At December 31, 2001 and March 31, 2002, the Company had outstanding consolidated short and long-term indebtedness (exclusive of indebtedness secured by student loans) in the amount of $25.3 million and $24.6 million, respectively, of which $19.4 million and $18.9 million, respectively, constituted indebtedness of the holding company.

On June 22, 1994, the Company authorized an issue of its 8.75% Senior Notes due June 2004 in the aggregate amount of $27.7 million. In accordance with the agreement governing the terms of the notes (the "Note Agreement"), commencing on June 1, 1998 and on each June 1 thereafter to and including June 1, 2003, the Company is required to repay approximately $4.0 million aggregate principal together with accrued interest thereon to the date of such repayment. The principal amount of the notes outstanding was $11.9 million at each of December 31, 2001 and March 31, 2002, respectively. The Company incurred $259,000 and $346,000 of interest expense on the notes in the three months ended March 31, 2002 and 2001, respectively. The Note Agreement contains restrictive covenants that include certain financial ratios, limitations on additional indebtedness as a percentage of certain defined equity amounts and the disposal of certain subsidiaries, including primarily the Company's regulated insurance subsidiaries.

Effective June 29, 2000, UICI executed and delivered an unsecured promissory note payable to a systems vendor in the amount of $10.0 million, which note bore interest at LIBOR plus 150 basis points (1.5%) (3.38% at March 31, 2002), and was payable as to principal in equal quarterly installments in the amount of $500,000, commencing October 1, 2000, with a final maturity scheduled for June 30, 2005. The note was delivered to discharge an account payable by United CreditServ ("UCS") in the amount of $10.0 million owing to the systems vendor, which payable was reflected in the consolidated balance sheet of the Company. At December 31, 2001 and March 31, 2002, the outstanding balance on the note was $7.5 million and $7.0 million, respectively. The Company made its scheduled quarterly $500,000 principal payment on April 1, 2002, and on April 29, 2002, the Company paid in full all remaining outstanding principal in the amount of $6.5 million and accrued interest on the note.

On January 25, 2002, the Company entered into a three-year bank credit facility with Bank of America, NA and LaSalle Bank National Association. Under the facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. The Company intends to utilize the proceeds of the facility for general working capital purposes. At March 31, 2002, the Company had no borrowings outstanding under the facility.

NOTE E - STUDENT LOAN CREDIT FACILITIES

At December 31, 2001 and March 31, 2002, the Company, through its Academic Management Services Corp ("AMS") subsidiary and the College Fund Life Insurance Division, had outstanding an aggregate of $1,506.2 million and $1,625.0 million of indebtedness, respectively, under secured student loan credit facilities, of which $1,242.8 million and $1,542.6 million, respectively, were issued by bankruptcy-remote special purpose entities (a "Special Purpose Entity") which are included in the Company's Consolidated Financial Statements. At December 31, 2001 and March 31, 2002, indebtedness outstanding under secured student loan credit facilities (including indebtedness issued by Special Purpose Entities) was secured by federally guaranteed and alternative (i.e., non-federally guaranteed) student loans in the carrying amount of $1,276.1 million and $1,416.5 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments in the amount of $129.4 million and $133.4 million, respectively. All such indebtedness issued under secured student loan credit facilities is reflected as student loan indebtedness on the Company's consolidated balance sheet; all such student loans pledged to secure such facilities are reflected as student loan assets on the Company's consolidated balance sheet; and all such cash, cash equivalents and qualified investments specifically pledged under the student loan credit facilities are reflected as restricted cash on the Company's consolidated balance sheet.

In January 2002, AMS completed the sale of $335.0 million principal amount of auction rate notes issued by a Special Purpose Entity. The notes are secured by a pledge of federally guaranteed student loans, are rated Aaa by Moody's Investor Service and AAA by Fitch, Inc. and are insured by MBIA. As part of the transaction, the Special Purpose Entity acquired a $269.1 million portfolio of student loans from AMS and a loan acquisition fund in the amount of $50.0 million (consisting of cash and cash equivalents) was established to acquire in the future additional student loans originated by AMS. The notes represent obligations solely of the Special Purpose Entity and not of the Company, AMS or any other subsidiary of the Company. However, for financial reporting and accounting purposes the structured finance facility has been classified as a financing. Accordingly, in connection with the financing neither AMS nor the Company recorded any gain on sale of the assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company will continue to carry on its consolidated balance sheet the student loans and cash and cash equivalents held by the Special Purpose Entity and the associated indebtedness arising from the transaction.

On April 10, 2002, the Company completed a $50.0 million securitization of alternative (i.e., non-federally guaranteed) student loans originated by the Company's College Fund Life Insurance Division ("CFLD") through its College First Alternative Loan Program. The securitization consisted of a $50.0 million series of Student Loan Asset Backed Notes issued by a Special Purpose Entity. Interest rates on the series of notes reset monthly in a Dutch auction process, with the initial rate set at 2.10%. The notes are secured by a pledge of alternative student loans and cash and cash equivalents, are rated Aaa by Moody's Investor Service and AAA by Fitch, Inc. and are insured by MBIA. As part of the transaction, the Special Purpose Entity established a loan acquisition fund in the amount of $49.8 million (consisting of cash and cash equivalents) to acquire in the future additional student loans originated by the Company's College Fund Life Insurance Division. The notes represent obligations solely of the Special Purpose Entity and not of the Company or any other subsidiary of the Company. For financial reporting and accounting purposes the CFLD structured finance facility has been classified as a financing.

NOTE F - ACQUISITIONS AND DISPOSAL

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the Company's Third Party Administration ("TPA") business unit. The results of operations of UICI Administrators, Inc. are reflected in discontinued operations for all periods presented. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets associated with the UICI Administrators, Inc. unit, of which $700,000 represented a write-down of fixed assets (which was reflected in depreciation for the full year and fourth quarter of 2001) and $1.6 million represented a write-down of goodwill (which was reflected in goodwill amortization for the full year and fourth quarter of 2001). As a result of the charge in the fourth quarter of 2001, the Company recognized no gain or loss on the sale of UICI Administrators, Inc. Through January 17, 2002 (the date of sale), the UICI Administrators, Inc. unit reported income in the amount of $67,000 net of tax.

On January 17, 2002 the Company completed the purchase of a 50% interest in SeniorsFirst, a Dallas-based career agency specializing in the sale of long-term care and Medicare supplement insurance products for a cash purchase price of $8.0 million. In connection with the acquisition, Company recorded non-amortizable goodwill in the amount of $5.3 million and amortizable intangible assets in the amount of $1.6 million.

Effective February 28, 2002, the Company acquired all of the outstanding capital stock of STAR Human Resources Group, Inc. and STAR Administrative Services, Inc. (collectively referred to by the Company as its "STAR HRG" unit), a Phoenix, Arizona based business specializing in the marketing and administration of limited benefit plans for entry level, high turnover, hourly employees. Commencing March 1, 2002, health insurance policies offered under the STAR HRG program have been issued by The MEGA Life and Health Insurance Company, a wholly-owned subsidiary of UICI. UICI acquired STAR HRG for an initial cash purchase price of $25.0 million, plus additional contingent consideration based on the future performance of STAR HRG over the period ending May 31, 2003. The contingent consideration will be in an amount not to exceed $15.0 million and is payable, at the Company's option, by delivery of UICI's 6.0% convertible subordinated notes due March 1, 2012 or in cash plus interest computed at a rate of 6% from the initial closing. In connection with the acquisition, the Company recorded non-amortizable goodwill in the amount of $17.5 million and amortizable intangible assets in the amount of $8.9 million.

The Company's Consolidated Condensed Statement of Operations for the three months ended March 31, 2002 includes the results of operations of each acquired company from their respective dates of acquisition. The effect of these acquisitions on the Company's results of operations was not material.

NOTE G - INCOME TAXES

The Company's effective tax rate on continuing operations for the three month period ended March 31, 2002 was approximately 32.3% compared to 34.0% for the same period in 2001. The decrease in the effective tax rate for the 2002 period can primarily be attributed to the reduction of the Company's deferred tax liability following its assessment of potential additional tax obligations. This decrease was partially offset by the non-deductible portion of the variable stock-based compensation expense recorded in the three months ended March 31, 2002.

NOTE H - EARNINGS (LOSS) PER SHARE

The following table sets forth the computation of basic and diluted earnings (loss) per share:

	THREE MONTHS ENDED MARCH 31, 2002	THREE MONTHS ENDED MARCH 31, 2001
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Income (loss) available to common shareholders:		
Income from continuing operations available to common shareholders	$ 12,056	$ 13,000
Income (loss) from discontinued operations	67	(897)
Net income	$ 12,123	$ 12,103
Weighted average shares outstanding -- basic earnings (loss) per share	46,901	46,997
Effect of dilutive securities:		
Employee stock options and other shares	1,213	1,164
Weighted average shares outstanding-- dilutive earnings (loss) per share	48,114	48,161
Basic earnings (loss) per share		
From continuing operations	$ 0.26	$ 0.28
From discontinued operations	0.00	(0.02)
Net income	$ 0.26	$ 0.26
Diluted earnings (loss) per share		
From continuing operations	$ 0.25	$ 0.27
From discontinued operations	0.00	(0.02)
Net income	$ 0.25	$ 0.25

NOTE I - LEGAL PROCEEDINGS

The Company is a party to the following material legal proceedings:

Securities Class Action Litigation

As previously disclosed, in December 1999 and February 2000, the Company and certain of its executive officers were named as defendants in three securities class action lawsuits alleging, among other things, that the Company's periodic filings with the SEC contained untrue statements of material facts and/or failed to disclose all material facts relating to the condition of the Company's credit card business, in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The three cases have been subsequently consolidated as Herbert R. Silver, et al. v. UICI et al, which is pending in U.S. District Court for the Northern District of Texas. Plaintiffs purport to represent a class of persons who purchased UICI common stock from February 10,1999 through December 9, 1999. On June 12, 2000, plaintiffs filed a consolidated amended class action complaint, amending, consolidating and supplementing the allegations made in the original cases.

On October 10, 2001, the Court denied defendants' motion to dismiss the case, and on December 7, 2001 UICI filed its answer to the second amended consolidated class action complaint. At a required scheduling meeting held in November 2001, the parties agreed to voluntarily submit the dispute to early mediation, and the parties designated a mediator and scheduled the mediation. Discovery and other pretrial motions have been suspended pending the outcome of the mediation. At the first mediation session held on April 23, 2002, the parties reached no resolution in the case. The parties did agree to continue the stay in the discovery phase of the proceeding until the second mediation date, scheduled for May 23, 2002.

The Company believes that the allegations in the complaint are without merit, and the Company intends to vigorously contest the allegations in the case.

Sun Communications Litigation

As previously disclosed, UICI and Ronald L. Jensen (the Company's Chairman) are parties to litigation (Sun Communications, Inc. v. SunTech Processing Systems, LLC, UICI, Ronald L. Jensen, et al) (the "Sun Litigation") with a third party concerning the distribution of the cash proceeds from the sale and liquidation of SunTech Processing Systems, LLC ("STP") assets in February 1998.

Effective April 2, 2002, the Company and Mr. Jensen entered into an Assignment and Release Agreement, which is intended to effectively transfer the Company's 80% interest in STP to Mr. Jensen and to terminate the Company's active participation in, and limit the Company's financial exposure associated with, the Sun Litigation. In accordance with the terms of the Assignment and Release Agreement, on April 2, 2002 Mr. Jensen made a total payment to UICI of $15.6 million and granted to UICI various indemnities against possible losses which UICI might incur resulting from the Sun Litigation, including (i) any losses arising from the breach of fiduciary duty claim asserted by Sun Communications, Inc. ("Sun") against the Company and Sun's related claim for attorneys' fees, (ii) Sun's claim for attorneys' fees arising out of the distribution issue in the Sun Litigation, and (iii) all other claims of any nature asserted by Sun against the Company in the Sun Litigation arising out of or relating directly to the March 1997 agreement governing the distribution of cash proceeds from the sale and liquidation of STP. In exchange therefor, (i) UICI assigned to Mr. Jensen all of UICI's right, title and interest to the funds held in the registry of the Court in the Sun Litigation and released Mr. Jensen from any and all obligations arising under the Jensen 1996 Guaranty and the Assurance Agreement; (ii) UICI granted to Mr. Jensen an option, exercisable at a nominal exercise price, to transfer to Mr. Jensen UICI's 80% interest in STP; and (iii) UICI granted to Mr. Jensen an irrevocable proxy to vote UICI's membership interest in STP all matters coming before the members of STP for a vote.

Shareholder Derivative Litigation

As previously disclosed, on June 1, 1999, the Company was named as a nominal defendant in a shareholder derivative action captioned Richard Schappel v. UICI, Ronald Jensen, Richard Estell, Vernon Woelke, J. Michael Jaynes, Gary Friedman, John Allen, Charles T. Prater, Richard Mockler and Robert B. Vlach, which was filed in the District Court of Dallas County, Texas (the "Shareholder Derivative Litigation").

On December 21, 2001, the District Court of Dallas County, Texas, approved the terms of a Settlement Agreement and Mutual Release between UICI and each of Richard J. Estell, Vernon Woelke, J. Michael Jaynes, Gary L. Friedman, John E. Allen, Charles T. Prater, Richard T. Mockler, and Robert B. Vlach (collectively, the "Individual Defendants"), on the one hand, and Richard Schappel and Mr. Schappel's counsel, on the other hand. Pursuant to the Settlement Agreement, the parties reached agreement with respect to the payment of attorneys' fees and expenses on termination of the Shareholder Derivative Action, and the Court also entered a Modified Final Judgment in the case, vacating certain findings of fact that formed a part of an earlier ruling by the Court rendered on October 14, 2001. The Settlement Agreement and the Modified Final Judgment had the effect of fully and finally resolving the matters in dispute in the Shareholder Derivative Litigation between UICI and the Individual Defendants, on the one hand, and Mr. Schappel, on the other hand. The terms of the settlement did not have a material effect on the results of operations or financial condition of UICI.

In accordance with the terms of a Release Agreement, dated as of April 2, 2002, the Company has agreed to release Mr. Jensen from any and all claims that the derivative plaintiff in the Shareholder Derivative Litigation brought or could have brought against Mr. Jensen on behalf of UICI in the Shareholder Derivative Litigation, and Mr. Jensen agreed to waive and release UICI from any obligation to indemnify Mr. Jensen for any future costs and/or out-of-pocket expenses associated with any claims that the derivative plaintiff brought or could have brought against Mr. Jensen in the Shareholder Derivative Litigation.

ACE and AFCA Litigation

As previously disclosed, the Company is a party to a lawsuit (American Credit Educators, LLC and American Fair Credit Association, Inc. v. UICI and United Credit National Bank, pending in the United States District Court for the District of Colorado), which was initially filed as separate lawsuits in February 2000 by American Credit Educators, LLC ("ACE") and American Fair Credit Association, Inc. ("AFCA"), organizations through which United CreditServ formerly marketed its credit card programs. In the suit, plaintiffs initially alleged, among other things, that UCNB breached its agreements with ACE and AFCA, sought injunctive relief and a declaratory judgment and claimed money damages in an indeterminate amount. ACE and AFCA are each controlled by Phillip A. Gray, the former head of UICI's credit card operations.

On June 11, 2001, UICI and UCNB filed a motion for a preliminary and permanent injunction against ACE to prevent ACE from further collection activities with respect to certain UCNB cardholder accounts and to require ACE to remove all negative credit bureau reports related to such collection activities. A hearing on the injunction motion was held on November 2, 2001.

On July 26, 2001, the Court issued an order granting UICI's motion to substitute UICI for UCNB as a party defendant and dismissing a significant number of plaintiffs' claims. UICI's motion to dismiss was denied by the Court as to AFCA's claims for breach of contract, declaratory judgment and interference with contractual relations and ACE's claims for breach of contract and for an accounting.

In its answer filed on August 15, 2001, the Company asserted numerous defenses to the plaintiffs' remaining claims. UICI and United CreditServ also asserted numerous counterclaims against ACE and AFCA, including, among other things, breach of contract, breach of fiduciary duty, fraud and civil conspiracy, and UICI and UCS have claimed damages in an indeterminate amount. ACE and AFCA have filed a partial motion to dismiss the counterclaims, and UICI's and United CreditServ's response to that motion was filed on October 29, 2001.

In a separate suit filed on March 26, 2001 (UICI, United Membership Marketing Group, Inc., and UMMG-Colorado, LLC f/k/a United Membership Marketing Group Ltd. Liability Co. v. Philip A. Gray and PAG Family Partners, LLC. pending in the District Court of Dallas County, Texas), the Company sued Philip A. Gray

individually ("Gray") and a related limited liability company, alleging, among other things, fraud, negligent misrepresentation, and breach of fiduciary duty in connection with the Company's sub prime credit card business.

On April 30, 2001, Gray answered and removed the case to the United States District Court for the Northern District of Texas. The Company subsequently moved to remand the case back to Texas state court, which motion is pending before the court.

The parties agreed to submit the entire dispute to mediation, which was held on April 15, 2002. At that mediation, the parties were unable to reach agreement on a resolution of the dispute. The Company intends to continue to vigorously defend and pursue its counterclaims in the Colorado litigation and its claims in the Texas litigation. The Company is not currently in a position to assess its ultimate exposure, if any, in connection with the consolidated case.

Credit Card Marketing Litigation

As previously disclosed, the Company is a party to three disputes arising out of the marketing of its American Fair Credit Association ("AFCA") credit card program prior to the termination of the program in January 2000.

Mitchell Litigation

The Company is one of three named defendants in a class action suit filed in 1997 (Dadra Mitchell v. American Fair Credit Association, United Membership Marketing Group, LLC and UICI) pending in California state court (the "Mitchell case"), in which plaintiffs have alleged that defendants violated California law regarding unfair and deceptive trade practices by making misleading representations about, and falsely advertising the nature and quality of, the benefits of membership in American Fair Credit Association ("AFCA").

In October 2000, the state court in the Mitchell case granted, in part, and denied, in part the joint motions of UICI, AFCA and United Membership Marketing Group ("UMMG") to compel arbitration and to narrow the scope of the plaintiff class. The court severed from the class action the claims for recovery of money by way of damages or restitution of class members who joined AFCA after January 1, 1998 and who executed signed arbitration agreements. However, the state court denied UICI's motion to compel arbitration with respect to these class members' claims for injunctive relief and, as a result, their claims for injunctive relief remain part of the class action. With respect to class members who were existing members of AFCA in January of 1998 and who received through the mail an amendment adding arbitration of disputes to their AFCA membership agreement, the state court denied UICI's motion to compel arbitration unless the member also signed a separate arbitration agreement. In addition, the state court clarified that its prior April 12, 1999 order certified a class with respect to all claims pleaded in the complaint, not solely claims under the California Credit Services Act of 1984.

On October 12, 2000, UICI, jointly with defendants AFCA and UMMG, filed a Notice of Appeal from the state court's October 2000 orders and from its original class certification order dated April 12, 1999. By letter dated October 12, 2000, defendants notified plaintiffs of the filing of their Notice of Appeal and, consequently, all trial court proceedings in the Mitchell case were stayed.

UICI has not received notice from plaintiff Mitchell of a motion for any relief from the stay, and there have been no further proceedings in the state court. Accordingly, at this time, it is unclear whether or not plaintiffs will move for relief from the stay of proceedings, and, if so, what relief from the stay, if any, will be granted to plaintiffs pending the outcome of UICI's appeal. On April 16, 2002, the Court of Appeals heard oral argument on the appeal but has not yet rendered a decision.

BankFirst Case

Plaintiffs in the Mitchell case also filed a companion case in federal district court in San Francisco captioned Dadra Mitchell v. BankFirst, N.A. (the "BankFirst case"), which alleges violations of the federal Truth in Lending Act and Regulation Z. on the theory that the 90-day notice period required for termination of AFCA membership was not properly disclosed. The sole defendant in BankFirst case is BankFirst, N.A., a bank that issued a VISA credit card made available through the AFCA program.

On May 4, 2000, the court in the BankFirst case granted BankFirst's motion for summary judgment and entered a judgment terminating the case in favor of BankFirst and against plaintiff Mitchell. Plaintiff Mitchell subsequently filed a notice of appeal to the United States Court of Appeals for the Ninth Circuit. Oral argument on the appeal was held on November 6, 2001.

By Memorandum dated November 21, 2001, the Ninth Circuit affirmed, in part, and vacated, in part, the judgment entered by the district court, and remanded the Bankfirst case to the district court for further proceedings. Among other things, the Ninth Circuit held that the district court erred in failing to grant Mitchell's motion for additional discovery pursuant to Rule 56(f) of the Federal Rules of Civil Procedure.

On December 28, 2001, plaintiff Mitchell moved for class certification. By order entered February 20, 2002, the district court deferred ruling on Mitchell's motion for class certification pending completion of discovery and the filing of cross motions for summary judgment. The parties expect to file their cross-motions for summary judgment in late 2002.

Roe Litigation

On March 8, 2001, UICI and UCNB were named as defendants in a case (Timothy M. Roe v. Phillip A. Gray, American Fair Credit Association, Inc., UICI, UCNB, et al) filed in the U.S. District Court for the District of Colorado. On his own behalf and on behalf of a purported class of similarly situated individuals, plaintiff in connection with the AFCA credit card program has alleged breach of contract and violations of the federal Credit Repair Organizations Act and the Truth-In-Lending Act and seeks certain declaratory relief.

On October 10, 2001, the Court granted the motion of UICI, UCNB and each of the other named defendants to stay the litigation (the "Colorado action") pending arbitration pursuant to the Federal Arbitration Act. Accordingly, the court in the Colorado action entered an order administratively retiring the Colorado action from its docket subject to reactivation for good cause shown. The defendants had previously filed a petition to compel arbitration against the individual named plaintiff in the United States District Court for the Eastern District of North Carolina, the judicial district wherein the named plaintiff resides. The petitions to compel arbitration are pending.

Two defendants unaffiliated with UICI timely appealed from the Colorado District Court's order, arguing that the Colorado court should have decided the merits of the arbitration controversy rather than defer to the Eastern District of North Carolina. On April 22, 2002, UICI and the remaining defendants timely filed their opposition briefs to the unaffiliated defendants' appeal.

On April 8, 2002, a hearing was held in the Eastern District of North Carolina regarding plaintiff's request for discovery in connection with plaintiff's contention that the arbitration agreements are unenforceable because they impose prohibitive costs on plaintiff. By order entered April 9, 2002, the Eastern District of North Carolina held that cost is not a viable issue to oppose arbitration in light of UICI's offer to bear the forum-imposed costs arising from any arbitration between UICI and plaintiff. Further, the Eastern District of North Carolina ordered the parties to file cross-motions for summary judgment on or before May 10, 2002. The Eastern District of North Carolina held in reserve plaintiff's request for discovery on other issues pending its decision on the contemplated summary judgment motions.

The Company intends to pursue arbitration in North Carolina of the individual plaintiff's claims (as set forth in the complaint in the Colorado action). The Company believes that it has meritorious defenses to these allegations and intends to vigorously contest these allegations in the proper forum.

State of Connecticut Investigation

As previously disclosed, on April 19, 2000, the Connecticut Attorney General's Office served upon UCNB a Civil Investigative Demand, seeking information regarding UCNB's credit card fees, disclosures, marketing practices, affinity relationships and the handling of payments from consumers to UCNB. On May 26, 2000, UCNB submitted a timely response to the information request.

Comptroller of the Currency Consent Order

As previously disclosed, the Company is subject to a Consent Order, initially issued by the United States Office of the Comptroller of the Currency (the "OCC") on June 29, 2000 and as modified on January 29, 2001, confirming the obligations of the Company to assume all obligations of UCNB. Until January 29, 2001, UCNB was a special purpose national bank headquartered in Sioux Falls, South Dakota, and an indirect wholly owned (except for directors' qualifying shares) subsidiary of the Company. On January 29, 2001, the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the OCC.

In the event that UICI fails to comply with the terms of the Consent Order, as modified, such failure could result in sanctions brought against the Company and its officers and directors, including the assessment of civil money penalties and enforcement of the Consent Order in Federal District Court.

New Mexico Class Action Litigation

As previously disclosed, on June 1, 2001, UICI and MEGA were served as parties defendant in a purported class action (Frances C. Chandler, Individually and as a Representative of a Class of Similarly Situated Persons, vs. PFL Life Insurance Company, UICI, The MEGA Life and Health Insurance Company, et al.) initially filed on January 12, 2001 and pending in United States District Court for the District of New Mexico (Albuquerque). On her own behalf and on behalf of an alleged class of similarly situated individuals, plaintiff has alleged that sales materials associated with a group hospital benefit health insurance plan sponsored, marketed, underwritten, reinsured and/or administered by defendants contained incomplete, inaccurate, misleading and/or false statements, and that benefits and treatment were denied plaintiffs with attendant credit damage, pain and suffering and loss of enjoyment. Plaintiffs have alleged, among other things, breach of contract, misrepresentation, breach of fiduciary duties, unjust enrichment, and the violation of the duty of good faith and fair dealing.

Plaintiffs initially brought the case in New Mexico state court, and the case was subsequently removed to federal court on the basis of diversity and amount in controversy. Defendants filed an answer denying all claims on July 6, 2001, and the Court subsequently granted plaintiffs' motion to remand the case back to state court. Since this class action suit is in a preliminary stage, no discovery has been conducted and the Company is unable at this time to assess its ultimate exposure, if any, in the case.

United Credit National Bank Shareholder Derivative Litigation

As previously disclosed, various former directors and officers of United Credit National Bank have been named as defendants in a shareholder derivative action (William K. Lester, on behalf of United Credit National Bank, v. Ronald L. Jensen, Gregory T. Mutz, et al), which was filed on June 29, 2001 and is pending in the District Court of Harris County, Texas. The plaintiff has asserted on behalf of UCNB various derivative claims brought against the individual defendants, alleging, among other things, negligence in connection with the operations of UCNB. In December 2000, plaintiff made a demand on the Board of Directors of United Credit National Bank to investigate and assess certain alleged derivative claims. The Board of Directors constituted a special committee to investigate and assess the asserted derivative claims, and the special committee determined that the claims were wholly without merit.

A number of defendants have filed special appearances challenging the Court's personal jurisdiction, and the remaining defendants who have been served in the case have filed a motion to transfer the case to Texas state court in Dallas. Several individual defendants have not yet been personally served in the case. In January 2002, the derivative plaintiff consented to the entry of an order granting defendants' motion to transfer the case to Texas state court in Dallas and the case has been formally transferred to the state court in Dallas.

UICI has agreed to advance the expenses of the individual defendants incurred in connection with the defense of the case, subject to the defendants' undertaking to repay such advances unless it is ultimately determined that they are or would have been entitled to indemnification by UICI under the terms of the Company's bylaws.

Academic Management Services Corp. Class Action Litigation

As previously disclosed, Academic Management Services Corp. (formerly Education Finance Group, Inc.) has been named as a party defendant in a purported class action suit (Timothy A. McCulloch, et al. v. Educational Finance Group Inc. et al) filed on June 20, 2001 in the United States District Court for the Southern District of Florida (Miami). On his own behalf and on behalf of an alleged class of similarly situated individuals, plaintiff has alleged, among other things, that, in connection with the marketing and origination of federally-insured Parent Plus student loans, AMS and other defendants violated certain provisions of the federal Higher Education Act, were negligent, committed mail and wire fraud, breached a fiduciary duty owed to plaintiffs and made negligent misrepresentations.

On October 19, 2001, the Court granted defendants' motion to dismiss the case in its entirety, dismissing with prejudice plaintiffs' claims under the Higher Education Act and dismissing without prejudice plaintiffs' state law claims. The District Court subsequently denied plaintiffs' motion for reconsideration/rehearing. On December 27, 2001, plaintiffs appealed the District Court's ruling and filed an appeal with the United States Court of Appeals for the Eleventh Circuit in Atlanta, Georgia. Plaintiffs also filed a parallel state class action complaint in the Eleventh Judicial Circuit, Dade County, Florida. The state class action complaint asserts essentially the same tort causes of action previously dismissed by the federal District Court and adds a claim alleging violations of the Florida state deceptive trade practices statute. On April 9, 2002, the court in the Florida state action granted AMS' petition for a stay in the state court proceedings pending resolution of the federal action.

The Company believes that the claims are wholly without merit, and AMS intends to vigorously contest the case.

Other Matters

The Company and its subsidiaries are parties to various other pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of counsel as to the ultimate disposition of such lawsuits and claims, management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

NOTE J - SEGMENT INFORMATION

The Company's operating segments included in operations are: (i) Insurance, which includes the businesses of the Self Employed Agency Division, the Group Insurance Division (formerly the Company's Student Insurance Division, which includes the operations of the Company's recently-acquired STAR HRG business unit effective February 28, 2002), the Life Insurance Division (formerly the Company's OKC Division) and the Senior Market Division, (ii) Financial Services, which includes the businesses of Academic Management Services Corp. ("AMS") and the Company's investment in Healthaxis, Inc., and (iii) Other Key Factors.

Other Key Factors includes (a) investment income not allocated to other business segments, (b) interest expense on non-student loan indebtedness, (c) general expenses relating to corporate operations, (d) realized gains or losses on sale of investments (e) the operations of the Company's AMLI Realty Co. subsidiary (including AMLI Realty Co.'s 20% equity interest in AMLI Commercial

Properties Trust, a private real estate investment trust), (f) minority interest, (g) variable stock-based compensation, (h) operations that do not constitute reportable operating segments (consisting primarily of the remaining portion of the Company's former TPA Division) and (i) amortization of goodwill (with respect to periods ended prior to January 1, 2002). Allocations of investment income and certain general expenses are based on a number of assumptions and estimates, and the business segments reported operating results would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income. Depreciation expense and capital expenditures are not considered material. Management does not allocate income taxes to segments. Transactions between reportable operating segments are accounted for under respective agreements, which provide for such transactions generally at cost.

Revenues from continuing operations, income from continuing operations before federal income taxes, and assets by operating segment are set forth in the tables below:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(IN THOUSANDS)	
Revenues		
Insurance:		
Self Employed Agency Division	$ 215,776	$ 156,521
Group Insurance Division	41,645	27,993
Life Insurance Division	19,920	23,365
Senior Market Division	437	--
	277,778	207,879
Financial Services:		
Academic Management Services Corp.	26,475	37,397
Other Key Factors	4,217	6,980
Intersegment Eliminations	(137)	(1,030)
Total revenues from continuing operations	$ 308,333	$ 251,226

	THREE MONTHS MARCH 3
	2002
	(IN THOUS
Income (loss) from continuing operations before federal income taxes:	
Insurance:	
Self Employed Agency Division	$ 18,333
Group Insurance Division	2,060
Life Insurance Division	2,761
Senior Market Division	(1,385)
	21,769
Financial Services:	
Academic Management Services Corp.	4,183
Equity in Healthaxis, Inc. operating loss	(174)
	4,009
Other Key Factors:	
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness)..................	(3,467)
Variable stock-based compensation	(4,511)
Goodwill amortization	--
	(7,978)
Total income from continuing operations before federal income taxes	$ 17,800

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	MARCH 31, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
Assets		
Insurance:		
Self Employed Agency Division	$ 656,993	$ 613,884
Group Insurance Division	128,095	100,978
Life Insurance Division	735,872	771,143
Senior Market Division	9,563	--
	1,530,523	1,486,005
Financial Services:		
Academic Management Services Corp.	1,665,099	1,557,434
Investment in Healthaxis, Inc.	8,121	8,278

	1,673,220	1,565,712
Other Key Factors:		
General corporate and other	106,583	143,505
Goodwill and other intangible assets	119,179	86,010
	225,762	229,515
Total assets	$3,429,505	$3,281,232

NOTE K - RELATED PARTY TRANSACTIONS

Historically, the Company and its subsidiaries have engaged from time to time in transactions and joint investments with executive officers and entities controlled by executive officers, particularly Ronald L. Jensen (the Company's Chairman) and entities in which Mr. Jensen and his adult children have an interest.

Transfer of Interest in Sun Litigation

As previously disclosed, UICI and Ronald L. Jensen (the Company's Chairman) are parties to litigation (Sun Communications, Inc. v. SunTech Processing Systems, LLC, UICI, Ronald L. Jensen, et al) (the "Sun Litigation") with a third party concerning the distribution of the cash proceeds from the sale and liquidation of SunTech Processing Systems, LLC ("STP") assets in February 1998.

Effective April 2, 2002, the Company and Mr. Jensen entered into an Assignment and Release Agreement, which is intended to effectively transfer the Company's 80% interest in STP to Mr. Jensen and to terminate the Company's active participation in, and limit the Company's financial exposure associated with, the Sun Litigation. In accordance with the terms of the Assignment and Release Agreement, on April 2, 2002 Mr. Jensen made a total payment to UICI of $15.6 million and granted to UICI various indemnities against possible losses which UICI might incur resulting from the Sun Litigation, including (i) any losses arising from the breach of fiduciary duty claim asserted by Sun Communications, Inc. ("Sun") against the Company and Sun's related claim for attorneys' fees, (ii) Sun's claim for attorneys' fees arising out of the distribution issue in the Sun Litigation, and (iii) all other claims of any nature asserted by Sun against the Company in the Sun Litigation arising out of or relating directly to the March 1997 agreement governing the distribution of cash proceeds from the sale and liquidation of STP. In exchange therefor, (i) UICI assigned to Mr. Jensen all of UICI's right, title and interest to the funds held in the registry of the Court in the Sun Litigation and released Mr. Jensen from any and all obligations arising under the Jensen 1996 Guaranty and the Assurance Agreement; (ii) UICI granted to Mr. Jensen an option, exercisable at a nominal exercise price, to transfer to Mr. Jensen UICI's 80% interest in STP; and (iii) UICI granted to Mr. Jensen an irrevocable proxy to vote UICI's membership interest in STP all matters coming before the members of STP for a vote.

For financial reporting purposes, the Company will record no gain or loss in connection with this transaction.

Release of Ronald L. Jensen

As previously disclosed, on June 1, 1999, the Company was named as a nominal defendant in a shareholder derivative action captioned Richard Schappel v. UICI, Ronald Jensen, Richard Estell, Vernon Woelke, J. Michael Jaynes, Gary Friedman, John Allen, Charles T. Prater, Richard Mockler and Robert B. Vlach, which was filed in the District Court of Dallas County, Texas (the "Shareholder Derivative Litigation").

On December 21, 2001, the District Court of Dallas County, Texas, approved the terms of a Settlement Agreement and Mutual Release between UICI and each of Richard J. Estell, Vernon Woelke, J. Michael Jaynes, Gary L. Friedman, John E. Allen, Charles T. Prater, Richard T. Mockler, and Robert B. Vlach (collectively, the "Individual Defendants"), on the one hand, and Richard Schappel and Mr. Schappel's counsel, on the other hand. Pursuant to the Settlement Agreement, the parties reached agreement with respect to the payment of attorneys' fees and expenses on termination of the Shareholder Derivative Action, and the Court also entered a Modified Final Judgment in the case, vacating certain findings of fact that formed a part of an earlier ruling by the Court rendered on October 14, 2001. The Settlement Agreement and the Modified Final Judgment had the effect of fully and finally resolving the matters in dispute in the Shareholder Derivative Litigation between UICI and the Individual Defendants, on the one hand, and Mr. Schappel, on the other hand. The terms of the settlement did not have a material effect on the results of operations or financial condition of UICI.

In accordance with the terms of a Release Agreement, dated as of April 2, 2002, the Company agreed to release Mr. Jensen from any and all claims that the derivative plaintiff in the Shareholder Derivative Litigation brought or could have brought against Mr. Jensen on behalf of UICI in the Shareholder Derivative Litigation, and Mr. Jensen agreed to waive and release UICI from any obligation to indemnify Mr. Jensen for any future costs and/or out-of-pocket expenses associated with any claims that the derivative plaintiff brought or could have brought against Mr. Jensen in the Shareholder Derivative Litigation.

NOTE L - EMPLOYEE AND AGENT STOCK ACCUMULATION PLANS

UICI Employee Stock Ownership and Savings Plan

The Company maintains for the benefit of its and its subsidiaries' employees the UICI Employee Stock Ownership and Savings Plan (the "Employee Plan"). The Employee Plan through its 401(k) feature enables eligible employees to make pre-tax contributions to the Employee Plan in an amount not in excess of 15% of compensation (subject to overall limitations) and to direct the investment of such contributions among several investment options, including UICI common stock. A second feature of the Employee Plan constitutes an employee stock ownership plan (the "ESOP"), contributions to which are invested primarily in shares of UICI common stock. The ESOP feature allows participants to receive from UICI and its subsidiaries discretionary matching contributions and to share in certain supplemental contributions made by UICI and its subsidiaries. Contributions by UICI and its subsidiaries to the Employee Plan under the ESOP feature currently vest in prescribed increments over a seven-year period.

On August 11, 2000, the Company issued to the Employee Plan 1,610,000 shares of UICI common stock at a purchase price of $5.25 per share or $8.5 million in the aggregate. The purchase price for the shares was paid by delivery to UICI of the Employee Plan's $8.5 million promissory note (the "Plan Note"), which matures in three years and is secured by a pledge of the purchased shares. The shares of UICI common stock purchased with the Plan Note (the "$5.25 ESOP Shares") are held in a suspense account for allocation among participants as and when the Company's matching and supplemental contributions to the ESOP are made.

It is expected that the Plan Note will be extinguished over a period of approximately two years by crediting the Company's matching and supplemental contribution obligations under the ESOP feature of the Employee Plan against principal and interest due on the Plan Note.

During the three months ended March 31, 2002, the Company recorded compensation expense associated with contributions to the Employee Plan in the amount of $3.2 million, of which $2.0 million was recorded as non-cash variable stock-based compensation expense. The amount classified as variable stock-based compensation expense with respect to the Employee Plan represented the incremental compensation expense associated with the allocation during the three months ended March 31, 2002 of 217,102 $5.25 Shares to fund the Company's matching and supplemental contributions to participants' accounts in the ESOP. As and when the Company makes matching and supplemental contributions to the ESOP by allocating to participants' accounts these $5.25 ESOP Shares, the Company will continue to record additional non-cash compensation expense equal to the excess, if any, between the fair value of the shares allocated and $5.25 per share. The allocated $5.25 ESOP Shares are considered outstanding for purposes of the computation of earnings per share. The Company currently estimates that all of the remaining 413,000 unallocated $5.25 ESOP Shares will be allocated to participants' ESOP accounts during 2002. At March 31, 2002, the excess between the fair value of the 413,000 unallocated $5.25 ESOP Shares and such shares at $5.25 per share totaled $5.7 million.

Agent Stock Accumulation Plans

The Company sponsors a series of stock accumulation plans (the "Agent Plans") established for the benefit of the independent insurance agents and independent sales representatives associated with UGA - Association Field Services, New United Agency, Cornerstone Marketing of America and CFLD Association Field Services.

The Agent Plans generally combine an agent-contribution feature and a Company-match feature. The agent-contribution feature generally provides that eligible participants are permitted to allocate a portion (subject to prescribed limits) of their commissions or other compensation earned on a monthly basis to purchase shares of UICI common stock at the fair market value of such shares at the time of purchase. Under the Company-match feature of the Agent Plans, participants are eligible to have posted to their respective Agent Plan accounts book credits in the form of equivalent shares based on the number of shares of UICI common stock purchased by the participant under the agent-contribution feature of the Agent Plans. The "matching credits" vest over time (generally in prescribed increments over a ten-year period, commencing the plan year following the plan year during which contributions are first made under the agent-contribution feature), and vested matching credits in a participant's plan account in January of each year are converted from book credits to an equivalent number of shares of UICI common stock. Matching credits forfeited by participants no longer eligible to participate in the Agent Plans are reallocated each year among eligible participants and credited to eligible participants' Agent Plan accounts.

The Agent Plans do not constitute qualified plans under Section 401(a) of the Internal Revenue Code of 1986 or employee benefit plans under the Employee Retirement Income Security Act of 1974 ("ERISA"), and the Agent Plans are not subject to the vesting, funding, nondiscrimination and other requirements imposed on such plans by the Internal Revenue Code and ERISA.

Prior to July 1, 2000, the Company granted matching credits in an amount equal to the number of shares of UICI common stock purchased by the participant under the agent-contribution feature of the Agent Plans. Effective July 1, 2000, the Company modified the formula for calculating the number of matching credits to be posted to participants' accounts. During the period beginning July 1, 2000 and ending on the earlier of June 30, 2002 or the date that an aggregate of 2,175,000 share equivalents have been granted under this revised formula, the number of matching credits issued to an individual participant will be the greater of (a) the number of matching credits determined each month by dividing the dollar amount of the participant's contribution for that month by $5.25, or (b) the actual number of shares acquired, at then-current fair market value, by the participant's contribution amount.

Prior to July 1, 2000, the Company purchased UICI shares in the open market from time to time to satisfy its commitment to issue its shares upon vesting of matching credits under the Agent Plans. During the period beginning July 1, 2000 and ending June 30, 2002, the Company will utilize up to 2,175,000 newly-issued shares to satisfy its commitment to deliver shares that will vest under the Company-match feature of the Agent Plans. Under the arrangement effective July 1, 2000, the Company's subsidiaries will transfer to the Company $5.25 per share for any newly issued shares utilized to fund vested matching credits under the Plans.

For financial reporting purposes, the Company accounts for the Company-match feature of its Agent Plans under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," by recognizing commission expense over the vesting period in an amount equal to the fair market value of vested shares at the date of their vesting and distribution to the participants. At each quarter-end, the Company estimates its current liability for unvested matching credits by reference to the number of unvested credits, the current market price of the Company's common stock, and the Company's estimate of the percentage of the vesting period that has elapsed up to the current quarter end. Changes in the liability from one quarter to the next are accounted for as an increase in, or decrease to, commission expense, as the case may be. Upon vesting, the Company releases the accrued liability (equal to the market value of the vested shares at date of vesting) with a corresponding increase to paid-in capital. Unvested matching credits are considered share equivalents outstanding for purposes of the computation of earnings per share. For the three months ended March 31, 2002, the Company recorded total commission expense associated with these agent plans in the amount of $3.3 million, of which $1.8 million represented the non-cash stock based compensation expense associated with the adjustment to the liability for future unvested benefits.

At December 31, 2001, the Company had recorded approximately 1.6 million unvested matching credits associated with the Agent Plans of which 596,000 vested in January 2002. At March 31, 2002, the Company had recorded approximately 1.4 million of unvested matching credits.

The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission expense charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. In periods of general decline in the quoted price of UICI common stock, if any, the Company will recognize less stock based commission expense than in periods of general appreciation in the quoted price of UICI common stock. In addition, in circumstances where increases in the quoted price of UICI common stock are followed by declines in the quoted price of UICI common stock, negative commission expense may result as the Company adjusts the cumulative liability for unvested stock-based commission expense.

Other Variable Stock-Based Compensation Plans

Effective August 15, 1998, the Company's Chairman agreed to contribute the value of 100,000 shares of UICI stock to all agents and employees of UICI and certain others as of August 15, 1998. The value of these shares vest at August 15, 2002. The value of these shares will be distributed in cash per capita at the time of vesting to those employees and agents who were employed or engaged by the Company on August 15, 1998 and remain employed or engaged on the vesting date. At December 31, 2001 and March 31, 2002, the Company's liability for this future compensation was $1.1 million and $1.6 million, respectively, and the increase in the liability ($500,000) was recorded as non-cash stock based compensation expense in the three months ended March 31, 2002.

In January 2000, the Company established a plan, pursuant to which 25% of the cash equivalent value of 100,000 shares of UICI common stock will be distributed to eligible employees in each of January 2001, 2002, 2003 and 2004. At December 31, 2001 and March 31, 2002, the Company's liability for this compensation was $731,000 and $622,000, respectively, and $213,000 was recorded as non-cash stock based compensation expense in the three months ended March 31, 2002.

NOTE M - SUBSEQUENT EVENT

On April 25, 2002, the Company sold its 50% ownership interest in Resolution Reinsurance Intermediaries, LLC ("Res Re"), a reinsurance intermediary formerly constituting a part of the Company's Special Risk business unit. The purchaser of the 50% interest constituted the remaining 50% equity holder in Res Re and the unit's chief executive officer. The sale was structured as a liquidation by Res Re of UICI's 50% ownership interest for a total liquidation price of $650,000, payable at closing in cash in the amount of $150,000 and by delivery of a promissory note issued by Res Re in the amount of $500,000. The note bears interest, payable quarterly, at 5.00% per annum, is payable in annual principal installments in the amount of $75,000 on each of March 31, 2003; March 31, 2004; and March 31, 2005, with a final balloon payment of principal due on March 31, 2006, and is secured by a pledge of 100% of the membership interest in Res Re.

ITEM 2 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company's business segments included in operations are: (i) Insurance, which includes the businesses of the Self Employed Agency Division, the Group Insurance Division (formerly the Company's Student Insurance Division, which includes the operations of the Company's recently acquired STAR HRG business unit effective February 28, 2002), the Life Insurance Division (formerly the Company's OKC Division) and the Senior Market Division, (ii) Financial Services, which includes the businesses of Academic Management Services Corp. ("AMS") and the Company's investment in Healthaxis, Inc. , and (iii) Other Key Factors, which includes (a) investment income not allocated to other business segments, (b) interest expense on non-student loan indebtedness, (c) general expenses relating to corporate operations, (d) realized gains or losses on sale of investments, (e) the operations of the Company's AMLI Realty Co. subsidiary (including AMLI Realty Co.'s 20% equity interest in AMLI Commercial Properties Trust, a private real estate investment trust), (f) minority interest, (g) variable stock-based compensation, (h) operations that do not constitute reportable operating segments (consisting primarily of the remaining portion of the Company's former TPA Division) and (i) amortization of goodwill (with respect to periods ended prior to January 1, 2002). Allocation of investment income is based on a number of assumptions and estimates and the

business segments reported operating results would change if different methods were applied. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income.

On March 17, 2000 the Board of Directors of UICI determined, after a thorough assessment of the unit's prospects, that the Company would exit from its United CreditServ sub-prime credit card business. In September 2000, the Company completed the sale of substantially all of United CreditServ's non-cash assets, and in January 2001 the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the OCC. Accordingly, the United CreditServ unit has been reflected as a discontinued operation for financial reporting purposes for all periods presented.

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes for all periods presented. The Company's Special Risk Division has specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services.

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA Division. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets associated with the UICI Administrators, Inc. unit, of which $700,000 represented a write-down of fixed assets (which was reflected in depreciation for the full year and fourth quarter of 2001) and $1.6 million represented a write-down of goodwill (which was reflected in goodwill amortization for the full year and fourth quarter of 2001). As a result of the charge in the fourth quarter of 2001, the Company recognized no gain or loss on the sale of UICI Administrators, Inc. Through January 17, 2002 (the date of sale), the UICI Administrators, Inc. unit reported income in the amount of $67,000 net of tax.

In accordance with FASB Statement 144, the results of operations of UICI Administrators, Inc. have been reflected in discontinued operations for all periods presented. The remaining portion of the former TPA Division (consisting primarily of Barron Risk Management, Inc.) has been reclassified to the Company's Other Key Factors segment for all periods presented.

Revenues and income from continuing operations before federal income taxes ("operating income") by business segment are summarized in the tables below:

	THREE MONTHS ENDED MARCH 31,	
	2002	2001
	(IN THOUSANDS)	

Revenues		
Insurance:		
Self Employed Agency Division	$ 215,776	$ 156,521
Group Insurance Division	41,645	27,993
Life Insurance Division	19,920	23,365
Senior Market Division	437	--
	277,778	207,879
Financial Services:		
Academic Management Services Corp.	26,475	37,397
Other Key Factors	4,217	6,980
Intersegment Eliminations	(137)	(1,030)
Total revenues from continuing operations	$ 308,333	$ 251,226

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	THREE MONTHS MARCH 3
	2002
	(IN THOUSA
Income (loss) from continuing operations before federal income taxes:	
Insurance:	
Self Employed Agency Division	$ 18,333
Group Insurance Division	2,060
Life Insurance Division	2,761
Senior Market Division	(1,385)
	21,769
Financial Services:	
Academic Management Services Corp.	4,183
Equity in Healthaxis, Inc. operating loss	(174)
	4,009
Other Key Factors:	
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness).................	(3,467)
Variable stock-based compensation	(4,511)
Goodwill amortization	--
	(7,978)

Total income from continuing operations before federal income taxes	$ 17,800

Three Months ended March 31, 2002 compared to Three Months ended March 31, 2001

For the three months ended March 31, 2002, the Company generated revenues and net income in the amount of $308.3 million and $12.1 million ($0.25 per diluted share), respectively, compared to revenues and net income of $251.2 million and $12.1 million ($0.25 per diluted share), respectively, in the corresponding three-month period of 2001, including income or (loss) from discontinued operations in the three months ended March 31, 2002 and 2001 in the amount of $67,000 ($-0- per diluted share) and $(897,000) ($(0.02) per diluted share), respectively. In the three months ended March 31, 2002, the Company reported income from continuing operations of $12.1 million ($0.25 per diluted share), compared to income from continuing operations of $13.0 million ($0.27 per diluted share) in the three months ended March 31, 2001.

In the three months ended March 31, 2002, the Company's Insurance Segment reported moderate increases in operating income at the Company's Self Employed Agency and Group Insurance Divisions, which increases were offset by a decrease in operating income at the Company's Life Insurance Division and $1.4 million of operating loss associated with the Senior Market Division initiative, in each case compared to the corresponding period of the prior year. In the first quarter of 2002, the Company also reported a significant quarter-over-quarter increase in operating results at the Company's Academic Management Services Corp. unit (which recorded $4.2 million of operating income in the first quarter of 2002 compared to operating income of $269,000 in the comparable 2001 period). Overall results in the first quarter of 2002 were adversely impacted by a decrease in unallocated investment income and increase in corporate expense.

Results in the first quarter of 2002 were also negatively impacted by a significant increase in non-cash stock-based compensation expense associated with the Company's employee stock ownership plan, agent stock accumulation plans and other stock based plans, which increase was attributable to the favorable market performance of the Company's stock in the first quarter of 2002. In the quarter ended March 31, 2002, the Company recorded non-cash stock-based compensation expense in the amount of $(4.5) million ($(0.08) per diluted share, net of tax), compared to non-cash stock-based compensation income of $190,000 ($-0- per diluted share) in the quarter ended March 31, 2001.

Self-Employed Agency ("SEA") Division

Operating income at UICI's Self Employed Agency ("SEA") Division increased to $18.3 million for the three months ended March 31, 2002 from $17.6 million for the comparable 2001 period. In the 2002 period, SEA continued to experience significant increases in submitted annualized premium volume ($227.2 million in the first quarter of 2002 compared to $123.6 million in the first quarter of 2001), which in any period is the aggregate

annualized premium amount associated with health insurance applications submitted by the Company's agents in such period for underwriting by the Company. Earned premium revenue at SEA increased from $144.6 million in the first quarter of 2001 to $203.2 million in the first quarter of 2002, a 40.1% increase. Operating income as a percentage of earned premium revenue decreased to 9.0% in the 2002 quarter from 12.2% in the comparable 2001 period. This decrease in operating margin was attributable primarily to the higher commission expense associated with the significant increase in first year earned premium revenue, offset by a nominal decrease in loss ratio (60.6% for three months ended March 31, 2001 compared to 59.8% for the three months ended March 31, 2002).

Group Insurance Division

The Company has classified the results of its Student Insurance Division and its STAR HRG unit (which was acquired on February 28, 2002) as its Group Insurance Division. For the three months ended March 31, 2002, the Group Insurance Division reported operating income of $2.1 million compared to operating income of $459,000 in 2001. The increase in operating income at the Group Insurance Division for the three months ended March 31, 2002, compared to the corresponding period in 2001, was primarily attributable to an increase in earned premium revenue and decrease in administrative expenses as a percentage of earned premium (offset by a nominal increase in the loss ratio) at the Student Insurance Division. The Company also benefited from the incremental operating income attributable to the recently acquired STAR HRG unit.

Life Insurance Division

For the three months ended March 31, 2002, the Company's Life Insurance Division (which includes the results of the Company's OKC life insurance operations and its College Fund Life Division) reported operating income of $2.8 million compared to operating income of $3.8 million in 2001. The decrease in operating income for the three months ended March 31, 2002 was primarily attributable to unfavorable experience in the group accident block of business, increased administrative expenses associated with the OKC division and decreased production from the College Fund Life Division.

Senior Market Division

For financial reporting purposes the Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of insurance products for the senior market (including long term care and Medicare supplement products), and the development of distribution channels for the products. Through March 31, 2002, the Company has realized nominal revenues associated with this Division, and the Company has expensed all expenditures as they have been incurred.

Academic Management Services Corp. ("AMS")

For the three months ended March 31, 2002, UICI's Academic Management Services Corp. subsidiary ("AMS") reported operating income of $4.2 million compared to operating income of $269,000 for the comparable period in 2001. The significant improvement in operating results for the three months ended March 31, 2002 resulted primarily from increased student loan spread income (i.e., the difference between interest earned on outstanding student loans and interest expense associated with indebtedness incurred to fund such loans) attributable to a favorable interest rate environment and a reduction in interest expense on corporate borrowings. These increases were offset by lower realized gains on sale of loans and reduced yields on the trust balances associated with AMS' tuition installment plan business, in each case as compared to gains realized in the corresponding 2001 period.

During the latter half of 2001 and the period ending June 30, 2002, AMS benefited and will continue to benefit significantly from a favorable prescribed minimum rate earned on its student loan portfolio. The benchmark for yields on federally guaranteed student loans is reset annually in accordance with Department of Education regulations effective July 1 for the succeeding twelve-month period. While yields on student loans are indexed to the 91-day

Treasury bill rate, the benchmark establishes a floor, below which a lender's yield will not fall during the succeeding twelve-month period. On July 1, 2001, the floor rates on FFELP loans for the period July 1, 2001 through June 30, 2002 reset 220 basis points lower than the floor rates for the period July 1, 2000 through June 30, 2001. Nevertheless, due to rapidly declining market interest rates, shortly before September 30, 2001 the rate that AMS earned on its student loan portfolio again fell to the statutorily prescribed minimum rate, and the reduced level of prevailing market interest rates over the three months ended March 31, 2002 had the effect of continuing to reduce AMS' overall borrowing costs. As a result, AMS' spread income in the first quarter of 2002 in the amount of

$7.9 million exceeded spread income in the fourth quarter of 2001 in the amount of $6.9 million and spread income of $3.7 million earned in the first quarter of 2001.

On July 1, 2002, the floor rates on loans made under the federal FFELP student loan program for the period July 1, 2002 through June 30, 2003 will again be reset. Based on current prevailing market interest rates, the Company currently expects a decrease in the prescribed floor rates on its student loan portfolio, and, as a result, AMS believes that spread income in the second half of 2002 will be significantly less than the level of spread income experienced in the second half of 2001 and the level of spread income currently expected in the first six months of 2002. In addition, results at AMS in the fourth quarter of 2002 will be negatively impacted by the seasonality of its tuition installment business, which historically has generated its highest levels of fee income (and operating profits) in the second and third quarters of the calendar year and an operating loss in the fourth quarter of the calendar year.

Income from AMS' tuition payment programs in the three months ended March 31, 2002 was $2.2 million compared to income in three months ended March 31, 2001 of $2.1 million. For the three months ended March 31, 2002, an increase in fees attributable to additional tuition payment accounts and the imposition of late fees on delinquent accounts were offset by a decline in investment income from tuition payment program funds held in trust, as a result of lower prevailing market interest rates. Investment income on funds held in connection with tuition payment programs declined to $1.0 million in the three months ended March 31, 2002 from $2.2 million in the year earlier period (despite a 43% increase in the average trust fund balance). AMS' tuition payment program business has historically generated its highest levels of fee income (and operating profits) in the second and third quarters of the calendar year and an operating loss in the fourth quarter of the calendar year.

Operating expenses at AMS in the three months ended March 31, 2002 and 2001 were $12.0 million and $14.7 million, respectively. This reduction in operating expenses was primarily attributable to reduced interest expense associated with non-student loan indebtedness and reduced administrative expenses. For the three months ended March 31, 2002, interest expense on non-student loan indebtedness was $20,000 compared to interest expense on non-student loan indebtedness of $440,000 in the three months ended March 31, 2001. On June 28, 2001, AMS paid off its remaining senior indebtedness in the amount of $14.3 million, the proceeds of which were utilized in 1999 to fund a portion of the purchase price for AMS' tuition installment business.

AMS sold $58.0 million and $135.4 million principal amount of student loans during the three months ended March 31, 2002 and 2001, respectively, from which AMS generated gains on net sales in the amount of $1.0 million and $1.8 million, respectively. Due to the inherent uncertainty surrounding spread income and the seasonality of its tuition installment business, in any given financial period AMS may continue to rely on gains from timely sales of student loans to remain profitable for such period.

Investment in Healthaxis, Inc.

At March 31, 2002, the Company held approximately 46% of the issued and outstanding shares of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI"). The Company accounts for its investment in HAI utilizing the equity method and, accordingly, recognizes its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded by HealthAxis.com in connection with the January 7, 2000 merger of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com). See Note B of Notes to Consolidated Condensed Financial Statements.

During the three months ended March 31, 2002, the Company's share of HAI's operating losses (computed prior to amortization of merger related goodwill) was $(174,000), compared to its reported share of operating losses of $(2.1) million in the three months ended March 31, 2001. The Company's carrying value of its investment in HAI was $8.1 million and $8.3 million at March 31, 2002 and December 31 2001, respectively.

Other Key Factors

The Other Key Factors category includes (a) investment income not allocated to other business segments, (b) interest expense on non-student loan indebtedness, (c) general expenses relating to corporate operations, (d) realized gains or losses on investments, (e) the operations of the Company's AMLI Realty Co. subsidiary (including AMLI Realty Co.'s 20% equity interest in AMLI Commercial Properties Trust, a private real estate investment trust), (f) minority interest, (g) variable stock-based compensation, (h) operations that do not constitute reportable operating segments (consisting primarily of the remaining portion of the Company's former TPA Division) and (i),

amortization of goodwill (with respect to periods ended prior to January 1, 2002). For the three months ended March 31, 2002, Other Key Factors reported an operating loss of $(8.0) million, compared to an operating loss of $(319,000) in 2001. This increase in operating loss was attributable to various factors, including a $1.8 million decrease in investment income not allocated to other segments (which in turn resulted from a decrease in yield on invested assets and a decrease in amount available for investment due to acquisitions made in the first quarter of 2002), a $1.9 million increase in corporate expenses, a $856,000 impairment charge on the Company's investment portfolio, and an increase in variable stock-based compensation of $4.7 million (see discussion below). These factors contributing to the increase in Other Key Factors operating loss in the three months ended March 31, 2002 were offset by the positive impact of the non-amortization of goodwill as required by FASB Statement 142 for all periods after January 1, 2002. In the three months ended March 31, 2001, the Company recorded amortization of goodwill in the amount of $1.1 million.

Variable Stock-Based Compensation

The Company maintains for the benefit of its employees and independent agents various stock-based compensation plans, in connection with which it records non-cash variable stock-based compensation expense in amounts that depend and fluctuate based upon the market performance of the Company's common stock. See Note L of Notes to Consolidated Condensed Financial Statements.

In the quarter ended March 31, 2002, the Company recorded non-cash stock-based compensation expense in the aggregate amount of $4.5 million ($(0.08) per diluted share, net of tax), of which $2.0 million was attributable to the ESOP feature of the Company's Employee Stock Ownership and Savings Plan (the "Employee Plan"), $1.8 million was attributable to the Company's stock accumulation plans established for the benefit of its independent agents and $721,000 was attributable to other stock-based plans.

During the quarter ended March 31, 2002, the amount classified as stock appreciation expense with respect to the Employee Plan represented the incremental compensation expense associated with the allocation during the quarter of 217,102 shares previously purchased in 2000 by the Employee Plan from the Company at $5.25 per share ("$5.25 ESOP Shares") to fund the Company's matching and supplemental contributions to the ESOP. As and when the Company makes matching and supplemental contributions to the ESOP by allocating to participants' accounts these $5.25 ESOP Shares, the Company will continue to record additional non-cash compensation expense equal to the excess, if any, between the fair value of the shares allocated and $5.25 per share. The allocated $5.25 ESOP Shares are considered outstanding for purposes of the computation of earnings per share. The Employee Plan initially purchased in 2000 an aggregate of 1,610,000 $5.25 ESOP Shares, and the Company currently estimates that all of the remaining 413,000 unallocated $5.25 ESOP Shares will be allocated to participants' ESOP accounts during 2002. At March 31, 2002, the excess between the fair value of the 413,000 unallocated $5.25 ESOP Shares and such shares at $5.25 per share totaled $5.7 million.

The Company sponsors a series of stock accumulation plans established for the benefit of the independent insurance agents and independent sales representatives associated with UGA -- Association Field Services, New United Agency, Cornerstone Marketing of America, Guaranty Senior Assurance, SeniorsFirst, CFLD Association Field Services and CFL Agency. The agent plans generally combine an agent-contribution feature and a Company-match feature. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," the Company has established a liability for future unvested benefits under the plans and adjusts the liability based on the market value of the Company's common stock. For the three months ended March 31, 2002, the Company recorded total commission expense associated with these agent plans in the amount of $3.3 million, of which $1.8 million represented the non-cash stock based compensation expense associated with the adjustment to the liability for future unvested benefits.

The accounting treatment of the Company's agent plans will continue to result in unpredictable stock-based compensation charges, primarily dependent upon future fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based compensation charges may result in material non-cash fluctuations in the Company's results of operations. Unvested benefits under the agent plans vest in January of each year; accordingly, in periods of general appreciation in the quoted price of UICI common stock, the Company's cumulative liability, and corresponding charge to income, for unvested stock-based compensation is expected to be greater in each successive quarter during any given year.

DISCONTINUED OPERATIONS

The Company's reported results in the three months ended March 31, 2002 reflected income from discontinued operations (consisting of the Company's former sub-prime credit card unit, the Special Risk Division and the Company's' UICI Administrators Inc. unit) in the amount of $67,000, compared to a loss from discontinued operations in the three months ended March 31, 2001 in the amount of $(897,000).

United CreditServ, Inc.

Through the Company's United CreditServ, Inc. subsidiary ("United CreditServ"), prior to 2000 the Company marketed credit support services to individuals with no, or troubled, credit experience and assisted such individuals in obtaining a nationally recognized credit card. The activities of United CreditServ were conducted primarily through its wholly-owned subsidiaries United Credit National Bank ("UCNB") (a special purpose national bank, based in Sioux Falls, South Dakota, chartered solely to hold credit card receivables); Specialized Card Services, Inc. (provider of account management and collections services for all of the Company's credit card programs); United Membership Marketing Group, Inc. ("UMMG") (a Lakewood, Colorado-based provider of marketing, administrative and support services for the Company's credit card programs); and UICI Receivables Funding Corporation ("RFC"), a single-purpose, bankruptcy-remote entity through which certain credit card receivables were securitized.

In March 2000, the Board of Directors of UICI, after a thorough assessment of the unit's prospects, determined that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit is reflected as a discontinued operation for financial reporting purposes for all periods presented effective December 31, 1999. At December 31, 1999, the Company established a liability for loss on the disposal of the discontinued operation in the amount of $130.0 million (pre-tax), which liability was included in net liabilities of discontinued operations. The liability for loss on disposal established by the Company at December 31, 1999 represented the Company's then-current estimate of all additional losses (including asset write-downs, the estimated loss on the sale of the business and/or the assets and continuing operating losses through the date of sale) that it then believed it would incur as part of any sale of the United CreditServ unit.

Reflecting the terms of the Company's then-pending sale of its United CreditServ business, during the quarter ended June 30, 2000 the Company recorded an additional pre-tax loss, and correspondingly increased the liability for loss on the disposal of the discontinued operation, in the amount of $36.0 million ($23.4 million net of tax). Accordingly, for the full year 2000, the Company reported a pre-tax loss from discontinued operations in the amount of $36.0 million ($23.4 million net of tax).

During the year ended December 31, 2000, the discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal. At December 31, 2000, the remaining assets of the discontinued operations in the amount of $54.3 million (consisting of cash and short-term investments in the amount of $27.8 million and other assets in the amount of $26.5 million) were reclassified to cash and other assets, respectively, on the Company's consolidated balance sheet, and the remaining liabilities of the discontinued operations in the amount of $53.0 million (consisting of notes payable in the amount of $4.3 million and other liabilities in the amount of $48.7 million) were reclassified to notes payable and other liabilities, respectively, on the Company's consolidated balance sheet.

On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price at closing of approximately $124.0 million. The Company retained United CreditServ's Texas collections facility, and UICI continues to hold United CreditServ's building and real estate in Sioux Falls, South Dakota. The Company has leased the Sioux Falls facilities to the purchaser of the credit card assets pursuant to a long-term lease. UICI also retained the right to collect approximately $250.0 million face amount of previously written off credit card receivables. In connection with the sale, UICI or certain of its subsidiaries retained substantially all liabilities and contingencies associated with its credit card business, including liability for payment of all certificates of deposit issued by UCNB, loans payable and liabilities associated with pending litigation and other claims.

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On January 29, 2001, UCNB completed its voluntary liquidation in accordance with the terms of a plan of voluntary liquidation approved by the OCC by surrendering to the OCC its national bank charter and distributing to a wholly-owned subsidiary of UICI the residual assets of UCNB, including available cash and cash equivalents in the amount of approximately $26.0 million.

In addition to the cash sales price received at the September 2000 closing of the sale of the non-cash assets associated with its United CreditServ credit card unit, the sale transaction contemplated an incentive cash payment contingent upon the post-closing performance of the ACE credit card portfolio over a one-year period. The Company's results from discontinued operations in 2001 and the fourth quarter of 2001 included net income after tax in the amount of $3.7 million, associated with the receipt of a $5.7 million cash payment, representing the final settlement of the deferred contingent portion of the purchase price.

Special Risk Division

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has specialized in certain niche health-related products (including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services.

Effective January 1, 2000, the Company entered into reinsurance and specific retrocession agreements with an unaffiliated insurance carrier with respect to a block of special risk business formerly managed by Excess, Inc. ("Excess"), a managing general underwriter of special health-related coverages acquired by the Company in 1997. These agreements effectively permitted the Company to transfer to the unaffiliated insurance carrier the insurance revenue and risk portion of that business as the business renews over the life of the policies.

UICI Administrators, Inc.

The Company formerly classified the operations of its subsidiaries UICI Administrators, Inc. (a company engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation), Insurdata Marketing Services, LLC (a subsidiary of the Company engaged in the business of marketing third party benefits administration services) and Barron Risk Management, Inc. as its Third Party Administration ("TPA") Division.

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA Division. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets associated with the UICI Administrators, Inc. unit, of which $700,000 represented a write-down of fixed assets (which was reflected in depreciation for the full year and fourth quarter of 2001) and $1.6 million represented a write-down of goodwill (which was reflected in goodwill amortization for the full year and fourth quarter of 2001). As a result of the charge in the fourth quarter of 2001, the Company recognized no gain or loss on the sale of UICI Administrators, Inc. Through January 17, 2002 (the date of sale), the UICI Administrators, Inc. unit reported income in the amount of $67,000 net of tax.

In accordance with FASB Statement 144, the results of operations of UICI Administrators, Inc. have been reflected in discontinued operations for all periods presented. The remaining portion of the former TPA Division (consisting primarily of Barron Risk Management, Inc.) has been reclassified to the Company's Other Key Factors segment for all periods presented.

LIQUIDITY AND CAPITAL RESOURCES

Historically, the Company's primary sources of cash on a consolidated basis have been premium revenues from policies issued, investment income, fees and other income, and borrowings to fund student loans. The primary uses of cash have been payments for benefits, claims and commissions under those policies, operating expenses and the funding of student loans. In the three-month period ended March 31, 2002, net cash provided by operations totaled approximately $42.1 million. In the three-month period ended March 31, 2001, net cash used in operations totaled approximately $21.5 million.

During the three months ended March 31, 2002, the Company reduced its consolidated short and long-term indebtedness (exclusive of indebtedness incurred to fund student loans) from $25.3 million at December 31, 2001 to $24.6 million at March 31, 2002.

UICI is a holding company, the principal assets of which are its investments in its separate operating subsidiaries, including its regulated insurance subsidiaries. The holding company's ability to fund its cash requirements is largely dependent upon its ability to access cash, by means of dividends or other means, from its subsidiaries. The laws governing the Company's insurance subsidiaries restrict dividends paid by the Company's domestic insurance subsidiaries in any year. Inability to access cash from its subsidiaries could have a material adverse effect upon the Company's liquidity and capital resources.

At March 31, 2002 and December 31, 2001, UICI at the holding company level held cash and cash equivalents in the amount of $44.6 million and $57.3 million, respectively, and had short and long-term indebtedness outstanding in the amount of $24.6 million and $25.3 million, respectively. The Company currently estimates that, through December 31, 2002, the holding company will have operating cash requirements in the amount of approximately $39.9 million. The Company currently anticipates that these cash requirements at the holding company level will be funded by cash on hand, cash received from interest income, the balance of dividends to be paid from domestic and offshore insurance companies and tax sharing reimbursements from subsidiaries (which will be partially offset by holding company operating expenses).

On January 25, 2002, the Company entered into a three-year bank credit facility with Bank of America, NA and LaSalle Bank National Association. Under the facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. The Company intends to utilize the proceeds of the facility for general working capital purposes. At March 31, 2002, the Company had no borrowings outstanding under the facility.

STATUTORY ACCOUNTING

The NAIC revised the Accounting Practices and Procedures Manual ("Manual") in a process referred to as Codification. The revised Manual became effective January 1, 2001. The domiciled states of the Company's domestic insurance subsidiaries (Oklahoma, Tennessee and Texas) adopted the provisions of the Manual. The Manual changed, to some extent, prescribed statutory accounting practices and resulted in changes to the accounting practices that the Company's domestic insurance subsidiaries use to prepare its statutory-basis financial statements.

Statutory accounting changes adopted to conform to the provisions of the Manual are reported as changes in accounting principles in the Company's statutory-based financial statements. The cumulative effect of changes in accounting principles is reported as an adjustment to unassigned funds (surplus) in the period of the change in accounting principle. The cumulative effect is the difference between the amount of statutory capital and surplus at the beginning of the year and the amount of statutory capital and surplus that would have been reported at that date if the new accounting principles had been applied retroactively for all prior periods. As a result of these changes, the Company's domestic insurance subsidiaries reported a change in accounting principle, as an adjustment that increased statutory capital and surplus, of $18.6 million as of January 1, 2001. Included in this total adjustment is an increase in statutory capital and surplus of $23.4 million related to deferred tax assets.

STOCK REPURCHASE PLAN

In November 1998, the Company's board of directors authorized the repurchase of up to 4,500,000 shares of the Company's Common Stock. The shares were authorized to be purchased from time to time on the open market or in private transactions. As of December 31, 2000, the Company had repurchased 198,000 shares pursuant to such authorization, all of which were purchased in 1999. At its regular meeting held on February 28, 2001, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program. Following reconfirmation of the program, through May 3, 2002, the Company had purchased an additional 980,400 shares pursuant to the program (with the last purchase made on December 13, 2001). The timing and extent of additional repurchases, if any, will depend on market conditions and the Company's evaluation of its financial resources at the time of purchase.

ACCOUNTING FOR AGENT STOCK ACCUMULATION PLANS

The Company sponsors a series of stock accumulation plans (the "Agent Plans") established for the benefit of the independent insurance agents and independent sales representatives associated with UGA - Association Field Services, New United Agency, Cornerstone Marketing of America and CFLD Association Field Services. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with

Selling Goods and Services," the Company has established a liability for future unvested benefits under the Agent Plans and adjusts the liability based on the market value of the Company's Common Stock. The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. See Note L of Notes to Consolidated Condensed Financial Statements.

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to health and life insurance claims and reserves, bad debts, investments, intangible assets, income taxes, financing operations and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the critical accounting policies related to claims reserves, accounting for health policy acquisition costs, goodwill and other identifiable intangible assets, accounting for agent stock accumulation plans, investments, deferred taxes, and loss contingencies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

For a more detailed discussion on the application of these and other accounting policies, see the Company's Annual Report on Form 10-K for the year ended December 31, 2001.

PRIVACY INITIATIVES

Recently-adopted legislation and regulations governing the use and security of individuals' nonpublic personal data by financial institutions, including insurance companies, may have a significant impact on the Company's business and future results of operations.

Gramm-Leach-Bliley Act and State Insurance Laws and Regulations

The business of insurance is primarily regulated by the states and is also affected by a range of legislative developments at the state and federal levels. The recent Financial Services Modernization Act of 1999 (the so-called Gramm-Leach-Bliley Act, or "GLBA") includes several privacy provisions and introduces new controls over the transfer and use of individuals' nonpublic personal data by financial institutions, including insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities. Additional federal legislation aimed at protecting the privacy of nonpublic personal financial and health information is proposed and over 400 state privacy bills are pending.

GLBA provides that there is no federal preemption of a state's insurance related privacy laws if the state law is more stringent than the privacy rules imposed under GLBA. Accordingly, state insurance regulators or state legislatures will likely adopt rules that will limit the ability of insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities to disclose and use non-public information about consumers to third parties. These limitations will require the disclosure by these entities of their privacy policies to consumers and, in some circumstances, will allow consumers to prevent the disclosure or use of certain personal information to an unaffiliated third party. Pursuant to the authority granted under GLBA to state insurance regulatory authorities to regulate the privacy of nonpublic personal information provided to consumers

and customers of insurance companies, insurance agents and brokers and certain other entities licensed by state insurance regulatory authorities, the National Association of Insurance Commissioners has recently promulgated a new model regulation called Privacy of Consumer Financial and Health Information Regulation. Some states issued this model regulation before July 1, 2001, while other states must pass certain legislative reforms to implement new state privacy rules pursuant to GLBA. In addition, GLBA requires state insurance regulators to establish standards for administrative, technical and physical safeguards pertaining to customer records and information to (a) ensure their security and confidentiality, (b) protect against anticipated threats and hazards to their security and integrity, and (c) protect against unauthorized access to and use of these records and information. However, no state insurance regulators have yet issued any final regulations in response to such security and confidentiality requirements. The privacy and security provisions of GLBA will significantly affect how a consumer's nonpublic personal information is transmitted through and used by diversified financial services companies and conveyed to and used by outside vendors and other unaffiliated third parties.

Due to the increasing popularity of the Internet, laws and regulations may be passed dealing with issues such as user privacy, pricing, content and quality of products and services, and those regulations could adversely affect the growth of the online financial services industry. If Internet use does not grow as a result of privacy or security concerns, increasing regulation or for other reasons, the growth of UICI's Internet-based business would be hindered. It is not possible at this time to assess the impact of the privacy provisions on UICI's financial condition or results of operations.

Health Insurance Portability and Accountability Act of 1996

The federal Health Insurance Portability and Accountability Act of 1996 ("HIPAA") contains provisions requiring mandatory standardization of certain communications between health plans (including health insurance companies), electronic clearinghouses and health care providers who transmit certain health information electronically. HIPAA requires health plans to use specific data-content standards, mandates the use of specific identifiers (e.g., national provider identifiers and national employer identifiers) and requires specific privacy and security procedures. HIPAA authorized the Secretary of the federal Department of Health and Human Services ("HHS") to issue standards for the privacy and security of medical records and other individually identifiable patient data.

In December 2000, HHS issued final regulations regarding the privacy of individually-identifiable health information. This final rule on privacy applies to both electronic and paper records and imposes extensive requirements on the way in which health care providers, health plan sponsors, health insurance companies and their business associates use and disclose protected information. Under the new HIPAA privacy rules, the Company will now be required to (a) comply with a variety of requirements concerning its use and disclosure of individuals' protected health information, (b) establish rigorous internal procedures to protect health information and (c) enter into business associate contracts with other companies that use similar privacy protection procedures. The final rules do not provide for complete federal preemption of state laws, but, rather, preempt all contrary state laws unless the state law is more stringent. These rules must be complied with by April 14, 2003.

Sanctions for failing to comply with standards issued pursuant to HIPAA include criminal penalties of up to $250,000 per violation and civil sanctions of up to $25,000 per violation. Due to the complex and controversial nature of the privacy regulations, they may be subject to court challenge, as well as further legislative and regulatory actions that could alter their effect.

In August 2000, HHS published for comment proposed rules related to the security of electronic health data, including individual health information and medical records, for health plans, health care providers, and health care clearinghouses that maintain or transmit health information electronically. The proposed rules would require these businesses to establish and maintain responsible and appropriate safeguards to ensure the integrity and confidentiality of this information. The standards embraced by these rules include the implementation of technical and organization policies, practices and procedures for security and confidentiality of health information and protecting its integrity, education and training programs, authentication of individuals who access this information, system controls, physical security and disaster recovery systems, protection of external communications and use of electronic signatures. These proposed rules have not yet become final.

UICI is currently reviewing the potential impact of the HIPAA privacy regulations on its operations, including its information technology and security systems. The Company cannot at this time predict with specificity what impact (a) the recently adopted final HIPAA rules governing the privacy of individually-identifiable health information and (b) the proposed HIPAA rules for ensuring the security of individually-identifiable health information may have on the business or results of operations of the Company. However, these new rules will likely increase the Company's burden of regulatory compliance with respect to our life and health insurance products and other information-based products, and may reduce the amount of information the Company may disclose and use if the Company's customers do not consent to such disclosure and use. There can be no assurance that the restrictions and duties imposed by the recently adopted final rules on the privacy of individually-identifiable health information, or the proposed rule on security of individually-identifiable health information, will not have a material adverse effect on UICI's business and future results of operations.

SAFE HARBOR STATEMENT UNDER THE PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995

Certain statements set forth herein or incorporated by reference herein from the Company's filings that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act. Actual results may differ materially from those included in the forward-looking statements. These forward-looking statements involve risks and uncertainties including, but not limited to, the following: changes in general economic conditions, including the performance of financial markets, and interest rates; competitive, regulatory or tax changes that affect the cost of or demand for the Company's products; health care reform; the ability to predict and effectively manage claims related to health care costs; and reliance on key management and adequacy of claim liabilities.

The Company's future results will depend in large part on accurately predicting health care costs incurred on existing business and upon the Company's ability to control future health care costs through product and benefit design, underwriting criteria, utilization management and negotiation of favorable provider contracts. Changes in mandated benefits, utilization rates, demographic characteristics, health care practices, provider consolidation, inflation, new pharmaceuticals/technologies, clusters of high-cost cases, the regulatory environment and numerous other factors are beyond the control of any health plan provider and may adversely affect the Company's ability to predict and control health care costs and claims, as well as the Company's financial condition, results of operations or cash flows. Periodic renegotiations of hospital and other provider contracts coupled with continued consolidation of physician, hospital and other provider groups may result in increased health care costs and limit the Company's ability to negotiate favorable rates. Recently, large physician practice management companies have experienced extreme financial difficulties, including bankruptcy, which may subject the Company to increased credit risk related to provider groups and cause the Company to incur duplicative claims expense. In addition, the Company faces competitive pressure to contain premium prices. Fiscal concerns regarding the continued viability of government-sponsored programs such as Medicare and Medicaid may cause decreasing reimbursement rates for these programs. Any limitation on the Company's ability to increase or maintain its premium levels, design products, and implement underwriting criteria or negotiate competitive provider contracts may adversely affect the Company's financial condition or results of operations.

The Company's Academic Management Services Corp. business could be adversely affected by changes in the Higher Education Act or other relevant federal or state laws, rules and regulations and the programs implemented thereunder may adversely impact the education credit market. In addition, existing legislation and future measures by the federal government may adversely affect the amount and nature of federal financial assistance available with respect to loans made through the U.S. Department of Education. Finally the level of competition currently in existence in the secondary market for loans made under the Federal Loan Programs could be reduced, resulting in fewer potential buyers of the Federal Loans and lower prices available in the secondary market for those loans.

ITEM 3 - QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the risk of loss arising from adverse changes in market rates and prices, such as interest rates, foreign currency exchange rates, and other relevant market rate or price changes. Market risk is directly influenced by the volatility and liquidity in the markets in which the related underlying assets are traded.

The primary market risk to the Company's investment portfolio is interest rate risk associated with investments and the amount of interest that policyholders expect to have credited to their policies. The interest rate risk taken in the investment portfolio is managed relative to the duration of the policy liabilities. The Company's investment

portfolio consists mainly of high quality, liquid securities that provide current investment returns. The Company believes that the annuity and universal life-type policies are generally competitive with those offered by other insurance companies of similar size. The Company does not anticipate significant changes in the primary market risk exposures or in how those exposures are managed in the future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Profitability of the student loans is affected by the spreads between the interest yield on the student loans and the cost of the funds borrowed under the various credit facilities. Although the interest rates on the student loans and the interest rate on the credit facilities are variable, the gross interest earned by lenders on Stafford student loans uses the results of 91-day T-bill auctions as the base rate, while the base rate on the credit facilities is LIBOR. The effect of rising interest rates on earnings on Stafford loans is generally small, as both revenues and costs adjust to new market levels. In addition to Stafford loans, the Company holds PLUS loans on which the interest rate yield is set annually beginning July 1 through June 30 by regulation at a fixed rate. The Company had approximately $215.2 million principal amount of PLUS loans outstanding at March 31, 2002. The fixed yield on PLUS loans was 8.99% for the twelve months ended June 30, 2001 and was reset to 6.79% for the twelve months beginning July 1, 2001. These loans are financed with borrowings whose rates are subject to reset, generally monthly. During the twelve months beginning July 1, 2002, the cost of borrowings to finance this portion of the student loan portfolio could rise or fall while the rate earned on the student loans will remain fixed.

PART II. OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The Company is a party to various material legal proceedings, all of which are described in Note I of Notes to the Consolidated Condensed Financial Statements included herein and in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2001 under the caption "Item 3 - Legal Proceedings." The Company and its subsidiaries are parties to various other pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of counsel as to the ultimate disposition of such lawsuits and claims, management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

ITEM 5 - MARKET FOR REGISTRANT'S COMMON STOCK AND RELATED MATTERS

During the three months ended March 31, 2002, the Company issued 3,500 shares of unregistered common stock pursuant to its 2001 Restricted Stock Plan.

ITEM 6 - EXHIBIT AND REPORTS ON FORM 8-K

(a) Exhibit.

10.68 - Stock purchase agreement dated February 28, 2002 among The S.T.A.R. Human Resource Group, Inc., STAR Administrative Services, Inc. and certain Shareholders and UICI.

(b) Reports on Form 8-K.

1. Current Report on Form 8-K dated February 8, 2002

2. Current Report on Form 8-K dated February 28, 2002

3. Current Report on Form 8-K dated April 2, 2002

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	UICI --------------------------------------- (Registrant)
Date: May 14, 2002	/s/ Gregory T. Mutz --------------------------------------- Gregory T. Mutz, President, Chief Executive Officer and Director
Date: May 14, 2002	/s/ Matthew R. Cassell --------------------------------------- Matthew R. Cassell, Vice President and Chief Financial Officer

EXHIBIT INDEX

EXHIBIT NUMBER		DESCRIPTION
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