UICI
Form 10-Q
November 14, 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 SEPTEMBER 30, 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 by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ____ No X

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, 48,178,782 shares as of October 31, 2002.

INDEX

UICI AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Consolidated condensed balance sheets-September 30, 2002 (unaudited) and December 31, 2001..

Consolidated condensed statements of income (unaudited) - Three months ended September 30, 2002 and 2001 and nine months ended September 30, 2002 and 2001....

Consolidated statements of comprehensive income (unaudited) - Three months ended September 30, 2002 and 2001 and nine months ended September 30, 2002 and 2001....

Consolidated condensed statements of cash flows (unaudited) - Nine months ended September 30, 2002 and 2001..

Notes to consolidated condensed financial statements (unaudited) - September 30, 2002...

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations...

Item 3. Quantitative and Qualitative Disclosures about Market Risk.......................

Item 4. Controls and Procedures...

PART II. OTHER INFORMATION

Item 1. Legal Proceedings...

Item 5. Market for Registrant's Common Stock and Related Matters.........................

Item 6. Exhibits and Reports on Form 8-K..

SIGNATURES...

Certification of Gregory T. Mutz, Chief Executive Officer of UICI, Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 ....
Certification of Mark D. Hauptman, Chief Financial Officer of UICI, Pursuant to Rule 13a-14 under the Securities Exchange Act of 1934 ....

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	SEPTEMBER 30, 2002 (UNAUDITED)	DECEM 2
ASSETS		
Investments		
Securities available for sale --		
Fixed maturities, at fair value (cost: 2002--$1,004.5 million; 2001--$924,709)	$ 1,037,189	$
Equity securities, at fair value (cost: 2002--$53,373; 2001--$42,419)	81,007	
Mortgage and collateral loans	9,022	
Policy loans	19,540	
Investment in Healthaxis, Inc	5,673	
Short-term investments	121,354	
Total Investments	1,273,785	1,
Cash	70,508	
Student loans	1,445,690	1,
Restricted cash	503,669	
Reinsurance receivables	60,374	
Due premiums, other receivables and assets	68,173	
Investment income due and accrued	61,641	
Deferred acquisition costs	85,975	
Goodwill and other intangible assets	110,619	
Deferred income tax	12,198	
Property and equipment, net	86,535	
Other assets	18,796	
	$ 3,797,963	$ 3,
LIABILITIES AND STOCKHOLDERS' EQUITY		
Policy liabilities		
Future policy and contract benefits	$ 421,535	$
Claims	433,566	
Unearned premiums	110,343	
Other policy liabilities	18,350	
Accounts payable	31,365	
Other liabilities	139,119	
Collections payable	264,815	
Debt	9,568	
Student loan credit facilities	1,763,422	1,
Net liabilities of discontinued operations, including reserve for losses on disposal	13,295	
	3,205,378	2,

Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value $0.01 per share	--	
Common stock, par value $0.01 per share	508	
Additional paid-in capital	233,688	
Accumulated other comprehensive income	39,192	
Retained earnings	346,056	
Treasury stock, at cost	(26,859)	
	592,585	
	$ 3,797,963	$ 3,

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)

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
REVENUE		
Premiums:		
Health (includes amounts received from related parties of $2,436 and $1,563 for the three months ended September 30, 2002 and 2001, respectively, and $6,261 and $4,723 for the nine months ended September 30, 2002 and 2001, respectively)	$ 319,265	$ 195,
Life premiums and other considerations	7,924	9,
	327,189	204,
Investment income	22,047	23,
Interest income (includes amounts received from related parties of $2 and $8 for the three months ended September 20, 2002 and 2001, respectively, and $3 and $18 for the nine months ended September 30, 2002 and 2001, respectively)	14,829	17,
Other fee income (includes amounts received from related parties of $957 and $1,508 for the three months ended September 30, 2002 and 2001, respectively, and $3,822 and $5,329 for the nine months ended September 30, 2002 and 2001, respectively)	17,001	17,
Other income	317	
Gains (losses) on investments	(398)	3,
	380,985	267,
BENEFITS AND EXPENSES		
Benefits, claims, and settlement expenses	200,891	125,

Underwriting, acquisition, and insurance expenses (includes amounts paid to related parties of $2,911 and $7,255 for the three months ended September 30, 2002 and 2001, respectively and $17,285 and $22,415 for the nine months ended September 30, 2002 and 2001, respectively)	120,272	75,
Stock appreciation expense	4,496	2,
Other expenses (includes amounts paid to related parties of $798 and $1,430 for the three months ended September 30, 2002 and 2001, respectively, and $2,929 and $3,752 for the nine months ended September 30, 2002 and 2001, respectively)	20,013	20,
Depreciation (includes expense on assets purchased from related parties of $438 and $135 for the three months ended September 30, 2002 and 2001, respectively, and $1,260 and $365 for the nine months ended September 30, 2002 and 2001, respectively)	4,314	3,
Interest expense (includes expenses incurred with related parties of $-0- and $-0- for the three months ended September 30, 2002 and 2001, respectively, and $-0- and $98 for the nine months ended September 30, 2002 and 2001, respectively)	289	
Interest expense--student loan credit facilities	10,718	15,
Losses in Healthaxis, Inc. investment	796	1,
Goodwill amortization	--	1,
	361,789	246,
INCOME FROM CONTINUING OPERATIONS BEFORE FEDERAL INCOME TAXES	19,196	20,
Federal income taxes	2,974	6,
INCOME FROM CONTINUING OPERATIONS	16,222	14,
DISCONTINUED OPERATIONS (net of income tax benefit of $-0- and $1.2 million for the three months ended September 30, 2002 and 2001, respectively, and $965,000 and $1.9 million for the nine months ended September 30, 2002 and 2001, respectively)	--	(2,
INCOME BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE	16,222	11,
Cumulative effect of accounting change (net of income tax benefit of $1,742)	--	
NET INCOME	$ 16,222	$ 11,
Earnings (loss) per share:		
Basic earnings (loss)		
Income from continuing operations	$ 0.34	$ 0
Income (loss) from discontinued operations	--	(0
Income before cumulative effect of accounting change	0.34	0
Cumulative effect of accounting change	--	
Net income	$ 0.34	$ 0
Diluted earnings (loss)		
Income from continuing operations	$ 0.33	$ 0
Income (loss) from discontinued operations	--	(0
Income before cumulative effect of accounting change	0.33	0
Cumulative effect of accounting change	--	
Net income	$ 0.33	$ 0

See Notes to Consolidated Condensed Financial Statements.

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

	THREE MONTHS ENDED SEPTEMBER 30,		NI
	2002	2001	20
Net income	$ 16,222	$ 11,875	$ 28
Other comprehensive income:			
Unrealized gains on securities:			
Unrealized holding gains arising during period	9,699	19,451	23
Reclassification adjustment for gains (losses) Included in net income	(2,121)	1,687	(9
Other comprehensive income before tax	7,578	21,138	13
Income tax provision related to items of other comprehensive income	(2,652)	(7,399)	(4
Other comprehensive income net of tax provision ...	4,926	13,739	8
Comprehensive income	$ 21,148	$ 25,614	$ 37

See Notes to Consolidated Condensed Financial Statements.

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

	NINE MONTHS E SEPTEMBER 3
	2002

OPERATING ACTIVITIES	
Net income	$ 28,887
Adjustments to reconcile net income to cash provided by operating activities:	
Increase in policy liabilities	64,453
Increase (decrease) in other liabilities	2,269
Increase in income taxes	99
Increase in deferred acquisition costs	(11,917)
Increase in accrued investment income	(762)
Decrease in reinsurance and other receivables	17,451
Stock appreciation expense	15,812
Depreciation and amortization	20,188
Increase in collections payable	123,921
Equity in losses of Healthaxis, Inc.	2,395
Losses (gains) on investments	6,231
Amounts charged to loss on disposal of discontinued operations	(6,774)
Other items, net	(2,910)
Cash Provided by Operating Activities	259,343
INVESTING ACTIVITIES	
Increase in student loans	(167,263)
Increase in other investments	(52,027)
Increase in restricted cash	(208,487)
Increase in agents' receivables	(9,969)
Proceeds from sale of subsidiary net of cash disposal of $701	3,242
Proceeds from assignment to related party of interest in subsidiary	15,600
Purchase of subsidiaries net of cash acquired of $2,649	(30,783)
Increase in property and equipment	(26,774)
Cash Used in Investing Activities	(476,461)
FINANCING ACTIVITIES	
Deposits from investment products	10,133
Withdrawals from investment products	(18,413)
Proceeds from student loan borrowings	1,156,686
Repayment of student loan borrowings	(899,466)
Repayment of debt	(15,735)
Repayment of note payable to related party	--
Issue shares to Employee Stock Plan	3,292
Exercise of stock options	10,773
Purchase of treasury shares	(1,336)
Issuance of treasury shares	--
Exercise of Onward and Upward option	(10,129)
Other items, net	1,044
Cash Provided by Financing Activities	236,849
Net Increase (Decrease) in Cash	19,731
Cash and cash equivalents at Beginning of Period	50,777
Cash and cash equivalents at End of Period	$ 70,508

See Notes to Consolidated Condensed Financial Statements.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

September 30, 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 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 nine-month period ended September 30, 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. Adoption of this pronouncement had no impact on the financial position or results of operations of the Company.

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. In accordance

with Statement No. 142, the Company tested for goodwill impairment effective January 1, 2002. As a result of the transitional impairment testing, completed during the quarter ended June 30, 2002, the Company determined that goodwill recorded in connection with the acquisition of Academic Management Services Corp. ("AMS") and Barron Risk Management Services ("Barron") was impaired in the aggregate amount of $6.9 million ($5.1 million net of tax). The Company has reflected this impairment charge in its financial statements as a cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with Statement No. 142. On September 30, 2002, the Company transferred to an unaffiliated third party all of the capital stock of Barron, in connection with which for financial reporting purposes the Company recognized a nominal gain. See Note F of Notes to Consolidated Condensed Financial Statements.

NOTE B -- INVESTMENT IN HEALTHAXIS, INC.

At September 30, 2002, the Company held 24,224,904 shares of common stock of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI"), which at such date represented approximately 45% of the issued and outstanding shares of HAI. Of such 24,224,904 shares held by the Company, 8,581,714 shares (representing 16% 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, at September 30, 2002,

the Company held (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; and (c) a warrant to purchase 10,005 shares of HAI common stock at an exercise price of $12.00 per share.

On July 31, 2002, UICI exchanged the $1.67 million principal amount of HAI 2% convertible debentures for cash in the amount of $243,000 and 1,424 shares of a newly authorized series of HAI 2% convertible preferred stock, which preferred stock has a stated liquidation value of $1,000 per share and is convertible into 542,476 shares of HAI common stock at a conversion price per common share of $2.625.

Effective November 7, 2001, UICI appointed as its proxies the board of directors of HAI, who may vote 33-1/3% of the number of HAI shares held of record from time to time by UICI in favor of the nominees for director 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. During the three and nine months ended September 30, 2002, the Company's share of HAI's operating losses (computed prior to amortization of merger related goodwill and excluding gain on extinguishment of debt) was $796,000 and $2.4 million, respectively, compared to its reported share of operating losses of $1.3 million and $9.2 million, respectively, in the three and nine months ended September 30, 2001. For the nine months ended September 30, 2002, the total HAI segment loss in the amount of $8.9 million reflected the Company's share of HAI's operating losses ($2.4 million) plus a $6.5 million impairment charge related to the adjustment made in the second quarter of 2002 to the carrying value of the Company's investment in HAI.

Pursuant to the terms of an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), through June 15, 2002 HAI formerly provided 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 had an initial five-year term ending on January 3, 2005, which was subject to extension by the Company. The Services Agreement was terminable by the Company or HAI at any time upon not less than 180 days' notice to the other party.

Effective June 15, 2002, UICI and HAI terminated the Services Agreement. As part of the termination arrangement, UICI made a one-time payment to HAI in the amount of $6.5 million and tendered 500,000 shares of HAI common stock to HAI. Substantially all of HAI's technical personnel formerly supporting UICI under the Services Agreement were hired by UICI on June 17, 2002. Following the transaction, UICI continues to hold approximately 45% of the issued and outstanding shares of HAI. Because UICI constitutes a significant shareholder of HAI, the aggregate amount of consideration paid to HAI by UICI for the early termination of the Services Agreement (approximately $6.5 million) was reflected for financial reporting purposes as a contribution by UICI to the capital of HAI, the effect of which was to increase the Company's carrying value of its investment in HAI. Effective June 30, 2002, UICI determined the carrying value in its investment in HAI was impaired in the amount of $6.5 million and therefore the investment was written down to an estimated realizable value. In determining the estimated realizable value of its investment in HAI at June 30, 2002, the Company gave due consideration, among other things, to HAI's recognition of an extraordinary gain in July 2002 in the amount of $16.4 million associated with the early extinguishment of indebtedness, which extraordinary gain was recorded by HAI in connection with the exchange of $27.5 million aggregate principal amount of HAI's convertible debentures for $4.0 million in cash and shares of a newly authorized series of HAI 2% convertible preferred stock. Giving effect to the capital contribution and subsequent write down during the quarter ended June 30, 2002 and equity in losses at HAI in the nine months ended September 30, 2002 in the amount of $8.9 million, the Company's carrying value of its investment in HAI was $5.7 million at September 30, 2002.

Pursuant to the terms of the Services Agreement, UICI paid to HAI $-0- and $8.1 million, respectively, in the three and nine months ended September 30, 2002, compared to $5.1 million and $15.6 million, respectively, in the three and nine months ended September 30, 2001. 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 $71,000 and $2.5 million, respectively, in the three and nine months ended September 30, 2002, compared to $1.7 million and $7.8 million, respectively, in the three and nine months ended September 30, 2001. The aggregate amount paid by UICI to HAI in the three months ended September 30, 2002 and 2001 represented 1.4% and 61.0%, respectively, of HAI's total revenues of $5.0 million and $11.2 million in such periods. The aggregate amount paid by UICI to HAI in the nine months ended September 30, 2002 and 2001 represented 46.1% and 69.6%, respectively, of HAI's total revenues of $23.0 million and $33.6 million, respectively, in such periods.

Set forth below is a summary condensed balance sheet (unaudited) for HAI as of September 30, 2002.

	SEPTEMBER 30, 2002 (IN THOUSANDS) (UNAUDITED)
Assets	
Cash and current assets	$ 16,719
Goodwill and intangible assets	22,070
Other assets	2,352
Total assets	$ 41,141
Liabilities	
Current liabilities	$ 3,406
Other liabilities	2,057
Total liabilities	5,463
Preferred stock	6,426
Other stockholders' equity	29,252
Total liabilities and stockholders' equity	$ 41,141

Set forth below is condensed income statement data for HAI (unaudited) as reported by HAI for the three and nine-month periods ended September 30, 2002, as adjusted to exclude (a) the effects of push-down accounting for the January 7, 2000 merger of Insurdata Incorporated with and into HealthAxis.com and (b) the extraordinary gain of $16.4 million resulting from the exchange of HAI's $27.5 million of long-term convertible debt for $4.0 million of cash and the issuance of permanent equity in July 2002. The Company's reported share of losses in HAI include the ratable share of HAI losses as adjusted and the Company's write down of its investment in HAI in the quarter ended June 30, 2002 in the amount of $6.5 million:

	THREE MONTHS ENDED SEPTEMBER 30, 2002	NIN SEP
	(IN THOUSANDS)	

Revenue	$ 4,850
Expenses	(7,139)
Gain on extinguishment of debt	16,388
Net income (loss) reported per HAI	14,099
Reconciliation to UICI equity in HAI losses:	
Less: Gain on extinguishment of debt	(16,388)
Add: Asset impairment and amortization of goodwill created in merger	264
HAI adjusted net loss	$ (2,025)
UICI's ratable share of HAI adjusted net loss	$ (796)
Impairment of investment in HAI	--
UICI's reported share of losses in HAI	$ (796)

NOTE C -- GOODWILL AND OTHER INTANGIBLE ASSETS

The Company adopted FASB Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets on January 1, 2002. In accordance with Statement No. 142, the Company tested for goodwill impairment as of January 1, 2002. As a result of the transitional impairment testing, completed during the quarter ended June 30, 2002, the Company determined that goodwill recorded in connection with the acquisitions of AMS and Barron was impaired in the aggregate amount of $6.9 million ($5.1 million net of tax). The Company has reflected this impairment charge in its financial statements as a cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with Statement No. 142.

Set forth in the table below is a summary of the goodwill and other intangible assets by operating segment as of September 30, 2002 and December 31, 2001:

	SEPTEMBER 30, 2002 (IN THOUSANDS)		
	GOODWILL	OTHER INTANGIBLE ASSETS	ACCUMULATED AMORTIZATION
Self Employed Agency Division	$ 9,405	$ --	$ (3,972)
Group Insurance Division	17,513	8,858	(1,000)
Life Insurance Division	552	--	(193)
Senior Market Division	5,300	1,637	(253)
Academic Management Services Corp	85,382	--	(12,610)
	$118,152	$ 10,495	$(18,028)

	DECEMBER 31, 2001 (IN THOUSANDS)		
	GOODWILL	OTHER 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)
Other Key Factors........................	4,423	--	(1,955)
	$104,740	$ --	$(18,730)

Following is the impact to the Company's net income for the three and nine months ended September 30, 2002 and 2001 as a result of the non-amortization provisions of Statement 142:

	THREE MONTHS ENDED SEPTEMBER 30,		N
	2002	2001	200
	(IN THOUSANDS, EXCEPT PER SHAR		
Reported net income	$ 16,222	$ 11,875	$ 28,
Add: Goodwill amortization, net of tax	--	988	
Adjusted net income.................................	$ 16,222	$ 12,863	$ 28,
Basic earnings per share			
As reported.......................................	$ 0.34	$ 0.25	$ 0
Goodwill amortization, net of tax.................	--	0.02	
Adjusted basic earnings per share.................	$ 0.34	$ 0.27	$ 0
Diluted earnings per share			
As reported.......................................	$ 0.33	$ 0.25	$ 0
Goodwill amortization, net of tax.................	--	0.02	
Adjusted diluted earnings per share	$ 0.33	$ 0.27	$ 0

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 other 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 September 30, 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 $9.6 million, respectively, of which $19.4 million and $7.9 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 pay 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 and $7.9 million at December 31, 2001 and September 30, 2002, respectively. The Company incurred $663,000 and $922,000 of interest expense on the notes in the nine months ended September 30, 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.

AMS has a note payable to Fleet National Bank in the outstanding principal amount of $1.6 million and $1.8 million at September 30, 2002 and December 31, 2001, respectively. The note bore interest at 3.6% at September 30, 2002, matures on June 30, 2004, requires principal and interest payments quarterly and is secured by a first mortgage on real estate held by AMS.

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. 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. At December 31, 2001, the outstanding balance on the note was $7.5 million.

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 September 30, 2002, the Company had no borrowings outstanding under the facility.

On July 19, 2002, the Company prepaid in full all outstanding principal in the amount of $3.9 million and accrued interest on indebtedness owing to the South Dakota Board of Economic Development. At December 31, 2001, the outstanding balance on the indebtedness was $4.1 million.

NOTE E -- STUDENT LOAN CREDIT FACILITIES

At December 31, 2001 and September 30, 2002, the Company, through its AMS subsidiary and the College Fund Life Insurance Division, had outstanding an aggregate of $1,506.2 million and $1,763.4 million of indebtedness, respectively, under secured student loan credit facilities, of which $1,242.8 million and $1,754.4 million, respectively, were issued by bankruptcy-remote special purpose entities (a "Special Purpose Entity"). The accounts of all of the Company's Special Purpose Entities are included in the Company's Consolidated Financial Statements. At December 31, 2001 and September 30, 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 $1,436.1 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments in the amount of $129.4 million and $213.3 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.

During the nine months ended September 30, 2002, AMS completed two financings secured by federally guaranteed student loans:

- 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.

- In August 2002, AMS completed the sale to institutional investors of $300.0 million principal amount of student loan asset- backed notes

issued by a Special Purpose Entity, consisting of a series of Class A senior notes in the aggregate principal amount of $288.0 million and a series of Class B subordinate notes in the aggregate principal amount of $12.0 million. The notes are secured by a pledge of federally guaranteed student loans. The Class A notes are rated AAA by Standard & Poor's and Fitch, Inc. and Aaa by Moody's Investor Service, and the Class B notes are rated A by Standard & Poor's, A2 by Moody's Investor Service and A+ by Fitch, Inc. The final scheduled payment date of the Class A Notes is January 2033, and the final

11

scheduled payment date to the Class B notes is April 2037. The notes are prepayable by the issuer at any time and from time to time at 100% of the principal amount thereof. Interest on the Class A senior notes is payable and reset quarterly at a rate equal to LIBOR plus 0.30%, and interest on the Class B subordinate notes is payable and reset quarterly at a rate equal to at LIBOR plus 0.85%. As part of the transaction, the Special Purpose Entity acquired a $192.9 million portfolio of student loans from AMS and a loan acquisition fund in the amount of $101.2 million (consisting of cash and cash equivalents) was established to acquire in the future additional student loans originated by AMS.

The securities issued in 2002 represent obligations solely of the Special Purpose Entities and not of the Company, AMS or any other subsidiary of the Company. However, for financial reporting and accounting purposes each of the structured finance facilities has been classified as a financing. Accordingly, in connection with the financings neither AMS nor the Company recorded any gain on sale of the assets transferred to the Special Purpose Entities 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 Entities and the associated indebtedness arising from the transactions.

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. At September 30, 2002, the loan acquisition fund balance was $46.4 million. 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 DISPOSALS

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 net income in the amount of $67,000.

On January 17, 2002, the Company completed the purchase, for a cash purchase price of $8.0 million, of a 50% interest in SeniorsFirst, a Dallas-based career agency specializing in the sale of long-term care and Medicare supplement insurance products. In connection with the acquisition, the 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 annualized performance of STAR HRG measured over the three-month 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.

12

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.

On September 30, 2002, the Company transferred to an unaffiliated third party all of the capital stock of Barron Risk Management Services, Inc., a company engaged in the business of administration of workers' compensation and non-subscriber plans and the sole remaining component of the Company's former Third Party Administration unit. For financial reporting purposes the Company recognized a nominal gain in connection with the transaction.

The Company's Consolidated Condensed Statement of Operations for the three and nine months ended September 30, 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 and nine month periods ended September 30, 2002 was 15.5% and 27.4%, respectively, compared to an effective tax rate of 31.5% and 30.2%, respectively, in the corresponding periods of 2001. The lower effective tax rates in the 2002 periods was attributable primarily to the release of a deferred tax asset valuation allowance in the amount of $4.0 million, which valuation allowance had been established with respect to a deferred tax asset associated with the net operating loss carryforward of AMS. The valuation allowance was released following management's determination that AMS will generate sufficient taxable income in the carryforward period to utilize the net operating loss carryforward and realize the related deferred tax asset.

NOTE H -- EARNINGS (LOSS) PER SHARE

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
	(IN THOUSANDS, EXCEPT PER S	
Income (loss) available to common shareholders:		
Income from continuing operations available to common shareholders	$ 16,222	$ 14,258
Income (loss) from discontinued operations	--	(2,383)
Income before cumulative effect of accounting change	16,222	11,875
Cumulative effect of accounting change	--	--
Net income	$ 16,222	$ 11,875
Weighted average shares outstanding -- basic earnings (loss) per share	47,874	46,255
Effect of dilutive securities:		
Employee stock options and other shares	667	940
Weighted average shares outstanding--dilutive earnings (loss) per share	48,541	47,195
Basic earnings (loss) per share		
From continuing operations	$ 0.34	$ 0.31
From discontinued operations	--	(0.06)
Income before cumulative effect of accounting change	0.34	0.25
Cumulative effect of accounting change	--	--
Net income	$ 0.34	$ 0.25
Diluted earnings (loss) per share		

From continuing operations	$ 0.33	$ 0.30	$
From discontinued operations	--	(0.05)	
Income before cumulative effect of accounting change	0.33	0.25	
Cumulative effect of accounting change	--	--	
Net income	$ 0.33	$ 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 were 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.

Following a mediation held on May 23, 2002, the parties to the litigation entered into a memorandum of understanding, pursuant to which the parties have agreed, without admitting or denying liability and provided that certain conditions are satisfied, to fully and finally resolve the litigation. The Company believes that the terms of the settlement as contemplated by the memorandum of understanding will not have a material adverse effect upon the financial condition or results of operations of the Company. Funding of the settlement amount was completed on July 15, 2002 in accordance with the terms of the memorandum of agreement. Final settlement is subject to execution and delivery of definitive settlement and release documentation, preliminary approval by the U.S. District Court of the terms of the settlement, notice of settlement to the plaintiff class, and final approval of, and granting of a final judgment by, the U.S. District Court. There can be no assurance that these conditions will in fact be satisfied.

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.

ACE/AFCA and Philip A. Gray Litigation

As previously disclosed, the Company is a party to a lawsuit (the "ACE/AFCA" Litigation) (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 two 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 ACE/AFCA Litigation, 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 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 filed a partial motion to dismiss the counterclaims. While such motion was pending, UICI and UCS sought leave to amend their counterclaims and asserted additional claims against ACE and AFCA. On September 12, 2002, the Court granted UICI's and UCS' motion for leave and denied ACE's and AFCA's partial motion to dismiss the counterclaims previously filed.

Written discovery has commenced in the case, and the parties will soon begin to conduct depositions. No trial date has been set for the case.

In a separate suit filed on March 26, 2001 in the District Court of Dallas County, Texas (the "Gray Litigation") (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), the Company sued Philip A. Gray individually ("Gray") and a related limited liability company (the "LLC"), alleging, among other things, fraud, negligent misrepresentation, and breach of fiduciary duty in connection with the Company's sub prime credit card business. Gray removed the case to the United States District Court for the Northern District of Texas, and UICI substituted PAG Family Partners Ltd. ("PAG") and the PAG Family Trust for the LLC as defendants. By order dated May 6, 2002, the Texas Federal Court denied PAG's motion to dismiss the fraud, negligent misrepresentation and certain other claims, but dismissed certain of the named defendants from the Gray Litigation. In addition, the Court ordered the transfer of the Gray Litigation to the United States District Court for the District of Colorado.

On May 31, 2002, in an answer and third-party complaint Gray denied all allegations and asserted counterclaims against UICI and third-party claims against certain individuals, including Ronald L. Jensen (the Company's Chairman) and Gregory T. Mutz (the Company's President and Chief Executive Officer), in which Gray has alleged, among other things, violations of Colorado securities laws, fraudulent misrepresentations, breach of fiduciary duty, unjust enrichment and negligent misrepresentations and has sought a declaratory judgment and an accounting. Certain third-party defendants have not yet been served. At an October 11, 2002 hearing, the Court ordered defendants Gray, the LLC, and Marguerite Gray, as Trustee, to produce certain documents and Gray and others to appear for depositions. A status conference is set for December 13, 2002.

The Company intends to continue to vigorously defend and pursue its counterclaims in the ACE/AFCA Litigation and defend the counterclaims and pursue its claims in the Gray Litigation.

Credit Card Marketing Litigation

As previously disclosed, the Company is involved in three disputes arising out of the marketing of the American Fair Credit Association credit card program prior to the termination of the Company's participation in the program in January 2000.

Mitchell Litigation

The Company is one of three named defendants in a class action suit filed in 1997 pending in California state court (Dadra Mitchell v. American Fair Credit Association, United Membership Marketing Group, LLC and UICI) (the "Mitchell case"). In the Mitchell case, 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.

On July 10, 2002, the Court of Appeal issued a decision affirming the order entered by the trial court in October 2000 regarding defendants' motion to compel arbitration. The Court of Appeal dismissed for want of appellate jurisdiction the appeal respecting the orders certifying the class and defining the scope of the class entered by the trial court in April 1999 and October 2000, respectively. On August 19, 2002, UICI, along with AFCA, timely filed a petition for review of the Court of Appeal's decision with the California Supreme Court. On October 23, 2002, the California Supreme Court denied UICI's and AFCA's petition for review.

On August 6, 2002, Plaintiffs filed a motion in the trial court for limited relief from the stay (to pursue injunctive relief against AFCA) pending appeal, which stay has been in effect since October 12, 2000. On or about September 19, 2002, the trial court denied the motion for limited relief from the stay pending the California Supreme Court's order denying UICI's petition for review (which was issued on October 23, 2002).

The Company intends to continue to vigorously defend the Mitchell case.

BankFirst Case

Plaintiffs in the Mitchell case also filed a companion case in federal district court in San Francisco (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.

The Company intends to continue to vigorously defend the Bankfirst case.

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) initially filed in the United States District Court for the District of Colorado. Plaintiff, on his own behalf and on behalf of a purported class of similarly situated individuals, in connection with the AFCA credit card program, 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.

16

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. The Tenth Circuit has not yet rendered a decision on 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, and the Court held in reserve plaintiff's request for discovery on other issues pending its decision on the contemplated summary judgment motions.

On September 4, 2002, a hearing was held on the cross-motions for summary judgment. At the conclusion of the hearing, the Court solicited additional briefing. The parties filed their Supplemental Memoranda on summary judgment on September 25, 2002. The District Court has not yet rendered any decision on summary judgment.

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 intends to vigorously contest these allegations in the proper forum.

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 United Credit National Bank ("UCNB") (the Company's former credit card issuing bank). 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 in First Judicial District Court (Santa Fe, New Mexico). On her own behalf and on behalf of an alleged class of similarly situated individuals, plaintiff 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 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.

On August 13, 2002, the parties agreed to fully and finally resolve the litigation upon terms that will not have a material adverse effect upon the financial condition or results of operations of the Company. The suit was formally dismissed on August 23, 2002 by joint motion of the parties, who are currently in the process of drafting final settlement documentation.

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 federal mail and wire fraud claims 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. On July 17, 2002, the United States Court of Appeals for the Eleventh Circuit affirmed the District Court's dismissal of the case in its entirety.

Plaintiffs have 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. In light of the United States Court of Appeals' affirmation of the District Court's dismissal of the federal case, a hearing has been set for December 16, 2002, in state court to hear plaintiff's motion to lift the stay and to set scheduling for responses to the state complaint and discovery requests. At that hearing AMS intends to renew its previously filed motion to dismiss the case in its entirety.

Insurance Regulatory Matters

The Company's insurance subsidiaries are subject to extensive regulation in their states of domicile and the other states in which they do business under statutes that typically delegate broad regulatory, supervisory and administrative powers to state insurance departments and agencies. The method of regulation varies, but the subject matter of such regulation covers, among other things, the amount of dividends and other distributions that can be paid by the Company's insurance subsidiaries without prior approval or notification; the granting and revoking of licenses to transact business; trade practices, including with respect to the protection of consumers; disclosure requirements; privacy standards; minimum loss ratios; premium rate regulation; underwriting standards; approval of policy forms; methods and timing of claims payment; licensing of insurance agents and the regulation of their conduct; the amount and type of investments that the Company's subsidiaries may hold; minimum reserve and surplus requirements; risk-based capital requirements; and compelled participation in, and assessments in connection with, risk sharing pools and guaranty funds. Such regulation is intended to protect policyholders rather than investors.

The Company's insurance subsidiaries are required to file detailed annual statements with the state insurance regulatory departments, and state insurance departments have also periodically conducted and continue to conduct periodic financial and market conduct examinations of UICI's insurance subsidiaries. As of September 30, 2002, either or both of The MEGA Life and Health Insurance Company and Mid-West National Life Insurance Company of Tennessee were subject to ongoing market conduct examinations in five states. State insurance regulatory agencies have broad authority to levy monetary fines and penalties resulting from findings made during the course of such financial and market conduct examinations. Historically, the Company's insurance subsidiaries have from time to time been assessed such fines and penalties, none of which individually or in the aggregate have had a material adverse effect on the results of operations or financial condition of the Company.

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, which includes the Company's College Fund Life 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.

The Company's Other Key Factors segment 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, (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). On September 30, 2002, the Company transferred to an unaffiliated third party all of the capital stock of Barron Risk Management Services, Inc., the sole remaining component of the Company's former Third Party Administration unit.

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 SEPTEMBER 30,		NINE SE
	2002	2001	2002
	(IN THOUSANDS)		
Revenues			
Insurance:			
Self Employed Agency Division	$ 269,009	$ 179,342	$ 727,93
Group Insurance Division	65,406	23,163	164,67

Life Insurance Division	17,773	25,826	56,38
Senior Market Division	520	2	1,63
	352,708	228,333	950,62
Financial Services:			
Academic Management Services Corp.	23,074	28,475	77,78
Other Key Factors	5,284	10,953	9,68
Intersegment Eliminations	(81)	(591)	(40
Total revenues from continuing operations	$ 380,985	$ 267,170	$ 1,037,69

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
		(IN THO
Income (loss) from continuing operations before federal income taxes:		
Insurance:		
Self Employed Agency Division	$ 25,231	$ 19,219
Group Insurance Division	3,563	1,235
Life Insurance Division	1,405	3,025
Senior Market Division	(2,102)	(537)
	28,097	22,942
Financial Services:		
Academic Management Services Corp.	(1,611)	(852)
Losses in Healthaxis, Inc. investment	(796)	(1,272)
	(2,407)	(2,124)
Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness)	(1,998)	3,761
Variable stock-based compensation	(4,496)	(2,638)
Goodwill amortization	--	(1,129)
	(6,494)	(6)
Total income from continuing operations before federal income taxes	$ 19,196	$ 20,812

	SEPTEMBER 30, 2002	DECEMBER 31, 2001
	(IN THOUSANDS)	
Assets		
Insurance:		
Self Employed Agency Division	$ 624,592	$ 485,664
Group Insurance Division	131,348	78,274
Life Insurance Division	640,262	625,205
Senior Market Division	1,782	--
	1,397,984	1,189,143
Financial Services:		
Academic Management Services Corp.	1,887,685	1,557,434
Investment in Healthaxis, Inc.	5,673	8,278
	1,893,358	1,565,712
Other Key Factors:		
General corporate and other	396,002	440,367
Goodwill and other intangible assets	110,619	86,010
	506,621	526,377
Total assets	$ 3,797,963	$ 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 recorded no gain or loss in connection with this transaction and will continue to include the accounts of STP in its consolidated financial statements until final distribution of cash proceeds from the sale and liquidation of STP or such time as Mr. Jensen shall exercise the option to acquire UICI's 80% membership interest in STP. Because the Company has assigned all of its rights to any cash proceeds from the sale and liquidation of STP, the Company has established and will continue to record a liability equal to the total cash and cash equivalents on deposit in the registry of the Court in the Sun Litigation (which amount was $22.5 million at September 30, 2002 and is reflected as restricted cash on the Company's consolidated balance sheet).

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").

20

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.

Exercise of Onward and Upward Option

As previously disclosed, effective September 15, 1999, the Company and Onward & Upward, Inc. ("OUI") entered into a Put/Call Agreement, pursuant to which, for a thirty day period commencing on July 1 of each year, the Company was granted an option to purchase from OUI, and OUI was granted a corresponding right to require the Company to purchase, up to 369,174 shares of Common Stock at a purchase price per share equal to $28.50 in 2000, $30.25 in 2001, $32.25 in 2002, $34.25 in 2003, $36.25 in 2004, $38.25 in 2005 and $40.25 in 2006. Mr. Jensen's five adult children hold in the aggregate 100% of the equity interest in OUI, which is the holder of approximately 6.5% of the Company's outstanding Common Stock. On July 1, 2002, pursuant to the terms of the Put/Call Agreement, the Company exercised its option to purchase from OUI 369,174 shares of Common Stock at the then-effective call price of $32.25 per share, or $11.9 million in the aggregate. For financial reporting purposes, the Company treated the transaction as a repurchase of Company common stock in the amount of $10.1 million (which represented the fair market value of 369,174 shares of Common Stock of the Company at September 15, 1999) and a discharge of a liability in the amount of $1.8 million (which represented accrued interest expense previously recorded over the term of the put/call arrangement), resulting in an overall decrease in consolidated stockholders' equity in the amount of $11.9 million.

Termination of Healthaxis, Inc. Services Agreement

Effective June 15, 2002, UICI and HAI (of which UICI holds approximately 45% of the issued and outstanding shares) terminated a Services Agreement. As part of the termination arrangement, UICI made a one-time payment to HAI in the amount of $6.5 million and tendered 500,000 shares of HAI common stock to HAI See Note B of Notes to Consolidated Condensed Financial Statements. Because UICI constitutes a significant shareholder of HAI, the aggregate amount of consideration paid to HAI by UICI for the early termination of the Services Agreement was reflected for financial reporting purposes as a contribution by UICI to the capital of HAI, the effect of which was to increase the Company's carrying value of its investment in HAI. Effective June 30, 2002, UICI determined the carrying value in its investment in HAI was impaired in the amount of $6.5 million and therefore the investment was written down to an estimated realizable value. In determining the estimated realizable value of its investment in HAI at June 30, 2002, the Company gave due consideration, among other things, to HAI's recognition of an extraordinary gain in July 2002 in the amount of $16.4 million associated with the early extinguishment of indebtedness, which extraordinary gain was recorded by HAI in connection with the exchange of $27.5 million aggregate principal amount of HAI's convertible debentures for $4.0 million in cash and shares of a newly authorized series of HAI 2% convertible preferred stock.

Funding of BOB Program

In August 1998, Ronald L. Jensen (the Company's Chairman) and his wife established an incentive program (the "BOB Program"), pursuant to which they agreed to distribute to "eligible participants" on August 15, 2002, in cash an aggregate of the dollar equivalent value of 100,000 UICI shares. Eligible participants in the BOB Program consisted of full-time employees of UICI and its subsidiaries and independent agents associated with UICI's insurance subsidiaries who were employed by or contracted with UICI, as the case may be, at the close of business

on August 14, 1998, and who remain employed by or contracted with UICI at the close of business on August 14, 2002. In accordance with the BOB Program, each eligible participant was entitled to receive his or her portion of the aggregate cash payment determined by reference to a formula based on, among other things, such eligible participant's tenure with UICI and level of compensation.

For financial reporting purposes, UICI incurred non-cash variable compensation expense associated with the BOB Program over the four-year vesting period, which expense included adjustments due to periodic changes in the value of UICI common stock. The Company established a corresponding liability associated with the future benefits payable under the BOB Program. For the nine months ended September 30, 2002, the Company recorded compensation expense associated with the BOB Program in the amount of $751,000, compared to compensation expense of $631,000 in the corresponding period of 2001. At December 31, 2001 and August 15, 2002 (the date of vesting of benefits under the BOB Program), UICI had recorded a liability for the benefits associated with the BOB Program in the amount of $1.1 million and $1.8 million, respectively.

In a series of celebrations occurring in August 2002, Mr. and Mrs. Jensen distributed cash in the aggregate amount of $1.8 million to the eligible participants in the BOB Program. In connection with the funding of the BOB Program, UICI extinguished the liability in the amount of $1.8 million at August 15, 2002 and credited an equivalent amount ($1.2 million net of tax) to the Company's additional paid-in capital account.

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 six-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 ending in November 2002 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 and nine months ended September 30, 2002, the Company recorded compensation expense associated with contributions to the Employee Plan in the amount of $4.4 million and $10.5 million, respectively, of which $3.1 million and $7.3 million, respectively, were recorded as non-cash variable stock-based compensation expense. During the three and nine months ended September 30, 2001, the Company recorded compensation expense associated with contributions to the Employee Plan in the amount of $1.9 million and $4.4 million, respectively, of which $1.0 million and $1.9 million, respectively, were recorded as non-cash variable stock-based compensation expense. The amount classified as variable stock-based compensation expense with respect to the Employee Plan in the 2002 periods represented the incremental compensation expense associated with the allocation during the nine months ended September 30, 2002 of 626,000 $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 has recorded additional non-cash compensation expense equal to the excess, if any, between the fair value of the shares allocated and $5.25 per share. As of September 30, 2002, the Company had allocated substantially all of the remaining $5.25 ESOP Shares to participants' accounts. The Company expects that the remaining unallocated shares will be allocated to participants' accounts during November 2002, after which the Company will recognize no additional variable stock based compensation associated with the ESOP feature of the Employee Plan. The allocated $5.25 ESOP Shares are considered outstanding for purposes of the computation of earnings per share.

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 its field force agencies, including UGA -- Association Field Services, New United Agency, Cornerstone Marketing of America, Guaranty Senior Assurance, SeniorsFirst and CFL Agency.

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 July 31, 2002, the Company agreed to 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 transferred to the holding company $5.25 per share for any newly issued shares utilized to fund vested matching credits under the plans. In accordance with such arrangement, during the period commencing July 1, 2000 and ending on July 31, 2002, the Company issued to the subsidiaries an aggregate of 1,765,251 shares, for which the Company's subsidiaries transferred to the Company at the holding company level cash in the aggregate amount of $9.3 million.

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 compensation 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, compensation 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 and nine months ended September 30, 2002, the Company recorded total compensation expense associated with these agent plans in the amount of $3.0 million and $11.9 million, respectively, of which $1.3 million and $7.1 million, respectively, represented the non-cash stock based compensation expense associated with the adjustment to the liability for future unvested benefits. For the three and nine months ended September 30, 2001, the Company recorded total compensation expense associated with these agent plans in the amount of $2.3 million and $4.3 million,

respectively, of which $1.4 million and $1.5 million, respectively, 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 September 30, 2002, the Company had recorded approximately 1.8 million unvested matching credits.

The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based compensation expense charges, dependent upon 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. In periods of general decline in the quoted price of UICI common stock, if any, the Company will recognize less stock based compensation 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 compensation expense may result as the Company adjusts the cumulative liability for unvested stock-based compensation expense.

Other Variable Stock-Based Compensation Plans

In August 1998, Ronald L. Jensen (the Company's Chairman) and his wife established an incentive program (the "BOB Program"), pursuant to which they agreed to distribute to "eligible participants" on August 15, 2002, in cash an aggregate of the dollar equivalent value of 100,000 UICI shares. Eligible participants in the BOB Program consisted of full-time employees of UICI and its subsidiaries and independent agents associated with UICI's insurance subsidiaries who were employed by or contracted with UICI, as the case may be, at the close of business on August 14, 1998 and who remain employed by or contracted with UICI at the close of business on August 14, 2002. In accordance with the BOB Program, each eligible participant was entitled to receive his or her portion of the aggregate cash payment determined by reference to a formula based on, among other things, such eligible participant's tenure with UICI and level of compensation.

For financial reporting purposes, UICI incurred non-cash variable compensation expense associated with the BOB Program over the four-year vesting period, which expense included adjustments due to periodic changes in the value of UICI common stock. The Company established a corresponding liability associated with the future benefits payable under the BOB Program. For the nine months ended September 30, 2002, the Company recorded non-cash compensation expense associated with the BOB Program in the amount of $751,000, compared to non-cash compensation expense of $631,000 in the corresponding period of 2001. At December 31, 2001 and August 15, 2002 (the date of vesting of benefits under the BOB Program), UICI had recorded a liability for the benefits associated with the BOB Program in the amount of $1.1 million and $1.8 million, respectively.

In August 2002, Mr. and Mrs. Jensen distributed cash in the aggregate amount of $1.8 million to the eligible participants in the BOB Program. In connection with the funding of the BOB Program, UICI extinguished the liability in the amount of $1.8 million at August 15, 2002 and credited an equivalent amount ($1.2 million net of tax) to the Company's additional paid-in capital account.

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 in cash to eligible employees in each of January 2001, 2002, 2003 and 2004. At December 31, 2001 and September 30, 2002, the Company's liability for future benefits payable under this plan was $731,000 and $669,000, respectively. For the nine months ended September 30, 2002 the Company recorded stock based compensation expense associated with this plan in the amount of $250,000. For the nine months ended September 30, 2001, the Company recorded stock based compensation expense associated with this plan in the amount of

$294,000.

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

INTRODUCTION

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, which includes the operations of the Company's College Fund Life 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, (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.

In March 2000 the Board of Directors of UICI designated its former United CreditServ sub-prime credit card business as a discontinued operation for financial reporting purposes and the United CreditServ unit has been so reflected for all periods presented. 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.

In December 2001 the Company determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, the Company also designated and 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 its former Third Party Administration (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 net income in the amount of $67,000.

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 Services) have been reclassified to the Company's Other Key Factors segment for all periods presented. Effective September 30, 2002, Barron was sold for a nominal gain.

Sarbanes-Oxley Act of 2002

On July 30, 2002, President Bush signed into law the Public Accounting Reform and Investor Protection Act of 2002 - - commonly referred to as the Sarbanes-Oxley Act of 2002 (the "Act"). The stated purpose of the Act is to improve the independence and oversight of public accounting firms engaged in practice before the Securities and Exchange Commission, to expand the scope and timeliness of certain public disclosures by reporting companies, to strengthen corporate governance practices by reporting companies, their directors and executive officers and to increase the accountability of directors and executive officers for violations of the securities laws. The Act, together with recent proposals to amend the listing standards imposed by the New York Stock Exchange, will have a significant impact on the corporate governance obligations of public companies, including UICI.

In accordance with Section 302(a) of the Act, the Securities and Exchange Commission adopted rules effective August 29, 2002 requiring an issuer's principal executive officer and financial officer to certify the financial and other information contained in an issuer's quarterly and annual reports. The newly-adopted rules also require these officers to certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the issuer's internal controls, that they have made certain disclosures to the issuer's auditors and the audit committee of the board of directors about the issuer's internal controls, and that they have included information in the issuer's quarterly and annual reports about their evaluation and whether there have been significant changes in the issuer's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation. The certifications required by Section 302(a) of the Act and newly-adopted Rule 13a-14 under the Securities Exchange Act of 1934 of each of Gregory T. Mutz (President and Chief Executive Officer of UICI) and Mark D. Hauptman (Vice President and Chief Financial Officer of UICI) are included as part of this Quarterly Report on Form 10-Q and may be found immediately following the signature page hereof.

In accordance with Section 906 of the Act, and in connection with the filing of the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 2002 (the "Report"), each of Gregory T. Mutz (President and Chief Executive Officer of UICI) and Mark D. Hauptman (Vice President and Chief Financial Officer of UICI) has also submitted to the SEC a statement certifying, to his knowledge, that the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

RESULTS OF OPERATIONS

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

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
	(IN THOUSAN	
Revenues		
Insurance:		
Self Employed Agency Division	$ 269,009	$ 179,342
Group Insurance Division	65,406	23,163
Life Insurance Division	17,773	25,826
Senior Market Division	520	2
	352,708	228,333
Financial Services:		
Academic Management Services Corp.	23,074	28,475
Other Key Factors	5,284	10,953
Intersegment Eliminations	(81)	(591)
Total revenues from continuing operations	$ 380,985	$ 267,170

	THREE MONTHS ENDED SEPTEMBER 30,	
	2002	2001
	(IN TH	
Income (loss) from continuing operations before federal income taxes:		
Insurance:		
Self Employed Agency Division	$ 25,231	$ 19,219
Group Insurance Division	3,563	1,235
Life Insurance Division	1,405	3,025
Senior Market Division	(2,102)	(537)
	28,097	22,942
Financial Services:		
Academic Management Services Corp.	(1,611)	(852)
Losses in Healthaxis, Inc. investment	(796)	(1,272)
	(2,407)	(2,124)

Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest expense on non-student loan indebtedness)	(1,998)	3,761
Variable stock-based compensation	(4,496)	(2,638)
Goodwill amortization	--	(1,129)
	(6,494)	(6)
Total income from continuing operations before federal income taxes	$ 19,196	$ 20,812

Three and Nine Months ended September 30, 2002 compared to Three and Nine Months ended September 30, 2001

The Company reported third quarter 2002 revenues and income from continuing operations in the amount of $381.0 million and $16.2 million ($0.33 per diluted share), respectively, compared to revenues and income from continuing operations of $267.2 million and $14.3 million ($0.30 per diluted share), respectively, in the third quarter of 2001. For the nine months ended September 30, 2002, the Company generated revenues and income from continuing operations of $1,037.7 million and $34.0 million ($0.70 per diluted share), respectively, compared to revenues and income from continuing operations of $791.8 million and $40.5 million ($0.85 per diluted share), respectively, in the nine months ended September 30, 2001.

Overall, for the three and nine months ended September 30, 2002, the Company reported net income in the amount of $16.2 million ($0.33 per diluted share) and $28.9 million ($0.59 per diluted share), respectively, compared to net income of $11.9 million ($0.25 per diluted share) and $36.6 million ($0.77 per diluted share) in the corresponding 2001 periods. Overall results in the nine months ended September 30, 2002 included a goodwill impairment charge in the amount of $(5.1) million (net of tax) ($(0.11) per diluted share), which has been reflected as a cumulative effect of a change in accounting principle in accordance with recently adopted Financial Accounting Standards Board ("FASB") Statement No. 142, Goodwill and Other Intangible Assets.

In the quarter ended September 30, 2002, the solid performance of the Company's SEA and Group Insurance Divisions and benefit derived from release of a deferred tax asset valuation allowance were offset by continued start-up losses at its Senior Market Division, an operating loss at the Company's Academic Management Services Corp. ("AMS") unit, a moderate decrease in operating income generated by the Company's Life Insurance Division and 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 attributable to the higher share price in the third quarter of 2002 compared to the share price in the comparable quarter in 2001.

In the nine months ended September 30, 2002, the Company reported increases in operating income at its Self Employed Agency, Group Insurance and Life Insurance Divisions and at its AMS unit, in each case compared to results reported in the corresponding 2001 nine-month period. These favorable results were partially offset by start up losses at the Company's Senior Market

Division, $5.1 million in net realized losses in the second quarter of 2002 associated with the Company's investment portfolio (attributable primarily to a write down in the amount of $6.1 million in the carrying value of WorldCom, Inc. fixed income securities held in the portfolios of the Company's insurance company subsidiaries, compared to a realized gain of $5.9 million in the corresponding period in 2001), a $6.5 million write down in the second quarter of 2002 of the Company's carrying value of its investment in Healthaxis, Inc. (which amount corresponds to a capital contribution to Healthaxis, Inc. recorded in the three months ended June 30, 2002 in the amount of $6.5 million in connection with the previously announced early termination of a services agreement), and a decrease in yield on invested assets.

Results in the third quarter and first nine months 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 higher share price in the 2002 periods compared to the share price in the comparable periods in 2001. In the three and nine months ended September 30, 2002, the Company recorded non-cash stock-based compensation expense in the amount of $4.5 million and $15.8 million, respectively, compared to non-cash stock based compensation expense in the amount of $2.6 million and $4.4 million, respectively, in the comparable periods of 2001.

Results in the three and nine months ended September 30, 2002 also reflect the benefit derived from release of a deferred tax asset valuation allowance in the amount of $4.0 million. The valuation allowance had been established with respect to a deferred tax asset associated with the net operating loss carryforward of AMS. The valuation allowance was released following management's determination that AMS will generate sufficient taxable income in the carryforward period to utilize the net operating loss carryforward and realize the related deferred tax asset. See Note G of Notes to Consolidated Condensed Financial Statements. The Company also realized tax benefits from the sale in the third quarter of 2002 of Barron Risk Management Services (which generated a nominal gain for financial reporting purposes but a loss for tax purposes) and a reduction during the first quarter of 2002 of the Company's liability for future taxes made following an assessment of potential tax obligations. These tax benefits in the 2002 periods were partially offset by increases in the non-deductible portion of variable stock compensation and in state income tax expenses.

In accordance with Statement No. 142, the Company tested for goodwill impairment as of January 1, 2002. As a result of the transitional impairment testing, completed during the quarter ended June 30, 2002, the Company determined that goodwill recorded in connection with the acquisitions of AMS and Barron was impaired in the aggregate amount of $6.9 million ($5.1 million net of tax). The Company reflected this impairment charge in the quarter ended June 30, 2002 in its financial statements as a cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with Statement No. 142.

Set forth below is a discussion of results by business segment in the three and nine-month periods ended September 30, 2002:

Self-Employed Agency Division

Operating income at UICI's Self Employed Agency ("SEA") Division increased to $25.2 million and $65.4 million in the three and nine months ended September 30, 2002, respectively, from $19.2 million and $55.4 million in the

corresponding periods of 2001. In the 2002 periods, SEA continued to experience significant increases in submitted annualized premium volume ($250.7 million in the third quarter of 2002 compared to $142.7 million in the third quarter of 2001, and $708.8 million in the first nine months of 2002 compared to $395.2 million in the first nine months of 2001). Submitted annualized premium volume 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 $166.9 million in the third quarter of 2001 to $255.2 million in the third quarter of 2002 (a 53% increase) and from $466.9 million in the first nine months of 2001 to $688.6 million in the first nine months of 2002 (a 47% increase).

Operating income as a percentage of earned premium revenue in the three and nine months ended September 30, 2002 was 9.9% and 9.5%, respectively, compared to 11.5% and 11.9% in the corresponding periods of the prior year. The lower operating margins during the 2002 periods were attributable to higher effective commission rates due to the increase in first year premium (which carries a higher commission rate compared to renewal commissions), and lower investment and other income as a percentage of earned premiums. These factors were partially offset by lower administrative expenses as a percentage of earned premium and a slightly lower loss ratio.

During the three and nine-month periods ended September 30, 2002, the average number of agents writing insurance for the SEA Division increased by 54% and 58%, respectively, from the number of writing agents in the corresponding periods of 2001. The number of policies in force at September 30, 2002 was 313,000, compared to 296,000 and 232,000 policies in force at June 30, 2002 and September 30, 2001, respectively. The first year retention percentage (which the Company defines as the current month's experience of policies in their first year) at September 30, 2002 was 58.2%, compared to 57.2% at September 30, 2001. The renewal percentage (which the Company defines as the current month's experience of policies in force more than one year) at September 30, 2002 was 67.8%, compared to 66.9% at September 30, 2001.

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 and nine months ended September 30, 2002, the Group Insurance Division reported operating income of $3.6 million and $9.3 million, respectively, compared to operating income of $1.2 million and $2.5 million in the comparable periods of 2001, which increases were primarily attributable to the incremental operating income associated with the Company's STAR HRG unit. At the Company's Student Insurance Division an increase in earned premium revenue and decrease in administrative expenses as a percentage of earned premium (offset by an increase in the loss ratio from 69.8% to 72.1% in the nine months ended September 30, 2002 and 2001, respectively) also contributed to the increases in operating income at the Group Insurance Division in the 2002 periods.

Life Insurance Division

For the three and nine months ended September 30, 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 $1.4 million and $7.1 million, respectively, compared to operating income of $3.0 million and $6.6 million in the corresponding periods in 2001. The decrease in operating income for the three months ended September 30, 2002 was primarily due to late-reported claims in the closed group accident block of business, an increase in claims reserves on the closed block of workers' compensation business (resulting from the reduction of the estimated amount of reserve credit taken on reinsurance ceded related to an excess-of-loss

reinsurance treaty), and increased administrative expenses associated with the OKC operations. The increase in operating income for the nine months ended September 30, 2002 compared to the corresponding 2001 period reflects the close down in May 2001 of the Company's workers compensation business, in connection with which the Company incurred in the second quarter of 2001 a charge of $8.7 million associated with a strengthening of reserves. The charge in 2001 was partially offset by a $5.2 million benefit resulting from an increase in the carrying value of student loans generated by 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 operations associated with the development and sale of insurance products for the senior market (including long term care and Medicare supplement products). Through September 30, 2002, the Senior Market Division has generated only nominal revenues ($520,000 and $1.6 million in the three and nine months ended September 30, 2002, respectively). In the three and nine months ended September 30, 2002, the Company's Senior

Market Division reported operating losses of $(2.1) million and $(5.3) million, respectively, compared to operating losses of $(537,000) and $(1.3) million in the corresponding periods of the prior year.

Academic Management Services Corp. ("AMS")

In the nine months ended September 30, 2002, UICI's AMS unit reported operating income of $7.0 million, compared to operating income of $4.7 million in the comparable 2001 period. The significant improvement in operating results for the nine months ended September 30, 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 in the nine months ended September 30, 2002 were partially 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 results in the corresponding 2001 period.

In the three months ended September 30, 2002, UICI's AMS unit reported an operating loss of $(1.6) million, compared to an operating loss of $(852,000) in the year earlier quarter. In the third quarter of 2002, higher realized gains from student loan sales and increased student loan spread income were more than offset by disappointing results at AMS' student tuition installment business (attributable primarily to a significant reduction in interest income earned on installment plan trust balances) and a significant increase in corporate overhead associated with the hiring of additional sales and marketing personnel. Investment income on funds held in connection with tuition payment programs declined to $2.9 million in the nine months ended September 30, 2002 from $5.1 million in the year earlier period (despite a 12% increase in the average trust fund balance).

Student loan spread income in the three and nine months ended September 30, 2002 was $4.8 million and $21.9 million, respectively, compared to student loan spread income of $3.2 million and $12.9 million in the corresponding periods of the prior year. AMS' weighted average student loan assets for the nine-month period ended September 30, 2002 were $1,482.0 million, compared to $1,350.7 million for the corresponding period of the prior year.

During the first six months of 2002, AMS benefited significantly from a favorable prescribed minimum rate earned on its student loan portfolio. 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 reset 193 basis points lower than the floor rates in effect for the period July 1, 2001 through June 30, 2002. Reflecting this downward adjustment on July 1, 2002 to the floor rate on loans made under the federal FFELP student loan program, AMS' student loan spread income declined from $9.0 million in the second quarter of 2002 to $4.8 million in the third quarter of 2002. As a result of this significant decrease in the prescribed floor rates on its student loan portfolio, AMS believes that spread income in the second half of 2002 will be significantly less than the level of spread income experienced in the first half of 2002. Due to the anticipated decrease in spread income, AMS may continue to rely on gains from timely sales of student loans to remain profitable during the three months ending December 31, 2002.

Operating expenses at AMS in the nine months ended September 30, 2002 were $42.2 million, compared to operating expenses of $44.4 million in the corresponding 2001 period. The decrease in operating expenses for the nine months ended September 30, 2002 was primarily attributable to reduced interest expense associated with non-student loan indebtedness and reduced administrative expenses. For the nine months ended September 30, 2002, interest expense on non-student loan indebtedness was $60,000, compared to interest expense on non-student loan indebtedness of $785,000in the nine months ended September 30, 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.

Operating expenses at AMS in the three months ended September 30, 2002 were $15.2 million, compared to operating expenses of $14.8 million in the corresponding 2001 period. This increase in operating expenses was primarily attributable to the hiring of additional sales and marketing personnel.

AMS sold student loans in the principal amount of $71.7 million and $186.6 million, respectively, during the three and nine months ended September 30, 2002, compared to sales of student loans in the principal amount of $2.4 million and $364.3 million during the corresponding 2001 periods. AMS generated net gains on such student loan sales in the amount of $2.0 million and $3.9 million, respectively, in the three and nine months ended September 30, 2002, compared to net gains of $157,000 and $8.2 million in the corresponding 2001 periods. Due to the inherent uncertainty surrounding spread income, 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 September 30, 2002, the Company held approximately 45% 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 and nine months ended September 30, 2002, the Company's

share of HAI's operating losses (computed prior to amortization of merger related goodwill and excluding gain on extinguishment of debt) was $796,000 and $2.4 million, respectively, compared to its reported share of operating losses of $1.3 million and $9.2 million, respectively, in the three and nine months ended September 30, 2001. For the nine months ended September 30, 2002, the total HAI segment loss in the amount of $8.9 million reflected the Company's share of HAI's operating losses ($2.4 million) plus a $6.5 million impairment charge related to the adjustment to the carrying value of the Company's investment in HAI taken in the second quarter of 2002.

Effective June 15, 2002, UICI and HAI terminated an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), pursuant to which HAI formerly provided information systems and software development services (including administration of the Company's computer data center) to the Company and its insurance company affiliates. See Note B of Notes to Consolidated Condensed Financial Statements. As part of the termination arrangement, UICI made a one-time payment to HAI in the amount of $6.5 million and tendered 500,000 shares of HAI common stock to HAI. Substantially all of HAI's technical personnel formerly supporting UICI under the Services Agreement were hired by UICI on June 17, 2002. Following the transaction, UICI continues to hold approximately 45% of the issued and outstanding shares of HAI. Because UICI constitutes a significant shareholder of HAI, the aggregate amount of consideration paid to HAI by UICI for the early termination of the Services Agreement (approximately $6.5 million) was reflected for financial reporting purposes as a contribution by UICI to the capital of HAI, the effect of which was to increase the Company's carrying value of its investment in HAI. Effective June 30, 2002, UICI determined the carrying value in its investment in HAI was impaired in the amount of $6.5 million and therefore the investment was written down to an estimated realizable value. In determining the estimated realizable value of its investment in HAI at June 30, 2002, the Company gave due consideration, among other things, to HAI's recognition of an extraordinary gain in July 2002 in the amount of $16.4 million associated with the early extinguishment of indebtedness, which extraordinary gain was recorded by HAI in connection with the exchange of $27.5 million aggregate principal amount of HAI's convertible debentures for $4.0 million in cash and shares of a newly authorized series of HAI 2% convertible preferred stock.

Giving effect to the capital contribution in the amount of $6.5 million, subsequent write down in the amount of $6.5 million and equity in losses at HAI in the nine months ended September 30, 2002 in the amount of $8.9 million, respectively, the Company's carrying value of its investment in HAI was $5.7 million at September 30, 2002. The Company's carrying value of its investment in HAI was $8.3 million at December 31, 2001.

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, (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 September 30, 2002, Other Key Factors reported an operating loss of $(6.5) million, compared to an operating loss of $(6,000) in the comparable 2001 period. The increase in operating loss for the 2002 quarter was primarily attributable to a $2.0 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 $396,000 realized loss on sale of investments (compared to a realized gain of $3.2 million in the corresponding period in 2001), and an increase in variable stock-based compensation expense of $1.9 million (see discussion below). These factors contributing to the increase in Other Key Factors operating loss in the three months ended September 30, 2002 were offset by the positive impact of the non-amortization of goodwill as required by FASB Statement 142 for all periods commencing after January 1,

30

2002. In the three months ended September 30, 2001, the Company recorded amortization of goodwill in the amount of $1.1 million.

For the nine months ended September 30, 2002, Other Key Factors reported an operating loss of $(27.8) million, compared to an operating loss of $(648,000) in the comparable 2001 period. The increase in operating loss for the nine months ended September 30, 2002 was attributable to various factors, including a $6.7 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 $6.2 million realized loss on sale of investments resulting primarily from a $6.1 million impairment charge taken in the second quarter of 2002 associated with the Company's WorldCom, Inc. holdings (compared to a realized gain of $5.9 million in the corresponding period in 2001), and an increase in variable stock-based compensation expense of $11.5 million (see discussion below). These factors contributing to the increase in Other Key Factors operating loss in the nine months ended September 30, 2002 were offset by the positive impact of the non-amortization of goodwill as required by FASB Statement 142 for all periods commencing after January 1, 2002. In the nine months ended September 30, 2001, the Company recorded amortization of goodwill in the amount of $3.4 million.

At June 30, 2002, UICI's insurance company subsidiaries held an aggregate of $7.525 million principal amount of WorldCom Inc. bonds, of which $4.0 million principal amount matured in 2005 and $3.525 million principal amount matured in 2031. As a result of previously announced accounting irregularities at WorldCom, Inc., in the second quarter of 2002 the Company recorded a $6.1 million impairment charge associated with the Company's WorldCom, Inc. holdings, which charge was partially offset by realized gains associated with other securities in the portfolio. During the three months ended September 30, 2002, the Company's insurance company subsidiaries sold all of their WorldCom Inc. bonds for a nominal loss.

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 three and nine months ended September 30, 2002, the Company recorded non-cash stock-based compensation expense in the aggregate amount of $4.5 million and $15.8 million, respectively, of which $3.1 million and $7.3 million, respectively, was attributable to the ESOP feature of the Company's Employee Stock Ownership and Savings Plan (the "Employee Plan"), $1.3 million and $7.0 million, respectively was attributable to the Company's stock accumulation plans

established for the benefit of its independent agents and $100,000 and $1.5 million, respectively, was attributable to other stock-based plans. In the three and nine months ended September 30, 2001, the Company recorded non-cash stock-based compensation expense in the aggregate amount of $2.6 million and $4.4 million, respectively, of which $1.0 million and $1.9 million, respectively, was attributable to the ESOP feature of the Employee Plan, $1.4 million and $1.5 million, respectively, was attributable to the Company's stock accumulation plans established for the benefit of its independent agents, and $200,000 and $1.0 million, respectively, was attributable to other stock-based plans. The significant increases in non-cash variable stock-based compensation expense in the 2002 periods compared to the 2001 periods was attributable to the higher share price in the 2002 periods compared to the share price in the comparable periods in 2001. See Note L of Notes to Consolidated Condensed Financial Statements.

During the three and nine months ended September 30, 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 three and nine months ended September 30, 2002 of 245,000 and 630,000 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 as of September 30, 2002 substantially all such shares had been allocated to participants' accounts. The Company expects that the remaining unallocated shares will be allocated to participants' accounts during November 2002, after which the Company will recognize no additional variable stock based compensation associated with the ESOP feature of the Employee Plan.

31

The Company also sponsors a series of stock accumulation plans established for the benefit of the independent insurance agents and independent sales representatives associated with its independent agent field forces, including UGA -- Association Field Services, New United Agency, Cornerstone Marketing of America, Guaranty Senior Assurance, SeniorsFirst 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 and nine months ended September 30, 2002, the Company recorded total compensation expense associated with these agent plans in the amount of $3.0 million and $11.9 million, respectively, of which $1.3 million and $7.1 million, respectively, represented the non-cash stock based compensation expense associated with the adjustment to the liability for future unvested benefits. For the three and nine months ended September 30, 2001, the Company recorded total compensation expense associated with these agent plans in the amount of $2.3 million and $4.3 million, respectively, of which $1.4 million and $1.5 million, respectively, 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 and nine months ended September 30, 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 $-0- and $67,000, respectively, compared to a loss from discontinued operations in the three and nine months ended September 30, 2001 in the amount of $2.4 million and $3.9 million, respectively.

In March 2000 the Board of Directors of UICI designated its former United CreditServ sub-prime credit card business as a discontinued operation for financial reporting purposes, and the United CreditServ unit has been so reflected for all periods presented. 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 United Credit National Bank (the Company's credit card issuing bank), in accordance with the terms of a plan of voluntary liquidation approved by the Office of the Comptroller of the Currency.

In December 2001 the Company determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, the Company also designated and classified its Special Risk Division as a discontinued operation for financial reporting purposes for all periods presented. The Company's Special Risk Division 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.

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 Services 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 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 Services) was reclassified to the Company's Other Key Factors segment for all periods presented. See Note F of Notes to Consolidated Condensed Financial Statements

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 nine-month period ended September 30, 2002, net cash provided by operations totaled approximately $259.3 million. In the nine-month period ended September 30, 2001, net cash provided by operations totaled approximately $209.5 million.

During the nine months ended September 30, 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 $9.6 million at September 30, 2002.

As previously disclosed, effective September 15, 1999, the Company and OUI entered into a Put/Call Agreement, pursuant to which, for a thirty day period commencing on July 1 of each year, the Company was granted an option to purchase from OUI, and OUI was granted a corresponding right to require the Company to purchase, up to 369,174 shares of Common Stock at a purchase price per share equal to $28.50 in 2000, $30.25 in 2001, $32.25 in 2002, $34.25 in 2003, $36.25 in 2004, $38.25 in 2005 and $40.25 in 2006. Mr. Jensen's five adult children hold in the aggregate 100% of the equity interest in OUI, which is the holder of approximately 6.5% of the Company's outstanding Common Stock. On July 1, 2002, pursuant to the terms of the Put/Call Agreement the Company exercised its option to purchase from OUI 369,174 shares of Common Stock at the then-effective call price of $32.25 per share, or $11.9 million in the aggregate.

Effective June 15, 2002, UICI and HAI terminated a Services Agreement. See Note B of Notes to Consolidated Condensed Financial Statements. As part of the termination arrangement, UICI made a one-time payment to HAI in the amount of $6.5 million and tendered 500,000 shares of HAI common stock to HAI.

Effective April 2, 2002, the Company and Mr. Jensen entered into a transaction designed to effectively transfer the Company's 80% interest in a subsidiary to Mr. Jensen and to terminate the Company's active participation in, and limit the Company's financial exposure associated with, the Sun Litigation. See Note I of Notes to Consolidated Condensed Financial Statements - - Sun Litigation. As part of the transaction, 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. For financial reporting purposes, the Company recorded no gain or loss in connection with this transaction and will continue to include the accounts of STP in its consolidated financial statements until final distribution of cash proceeds from the sale and liquidation of STP or such time as Mr. Jensen shall exercise the option to acquire UICI's 80% membership interest in STP. Because the Company has assigned all of its rights to any cash proceeds from the sale and liquidation of STP, the Company has established and will continue to record a liability equal to the total cash and cash equivalents on deposit in the registry of the Court in the Sun Litigation (which amount was $22.5 million at September 30, 2002 and is reflected as restricted cash on the Company's consolidated balance sheet).

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 September 30, 2002 and December 31, 2001, UICI at the holding company level held cash and cash equivalents in the amount of $31.1 million and $57.3 million, respectively, and had short and long-term indebtedness outstanding in the amount of $7.9 million and $19.4 million, respectively. The Company currently estimates that, through December 31, 2002, the holding company will have operating cash requirements in the amount of approximately $23.9 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).

At August 15, 2002, all remaining options initially granted to agents and employees under the UICI 1998 employee and agent stock option plans vested and became exercisable. During the three and nine months ended September 30, 2002, the Company at the holding company level derived cash proceeds in the amount of $6.4 million and $9.7 million, respectively, from the exercise of 426,000 and 646,000, respectively, of these stock options. At September 30, 2002, a total of 1.4 million options remained exercisable under the 1998 plans, all of which options are exercisable at an option price of $15.00 per UICI share and remain exercisable during the period ending on January 13, 2003.

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 September 30, 2002, the Company had no borrowings outstanding under the facility.

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 December 31, 2001, the Company had purchased an additional 980,400 shares pursuant to the program (with the last purchase made on December 13, 2001). At its regular meeting held July 31, 2002, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program. Following reconfirmation of the program, through November 1, 2002, the Company had purchased an additional 57,500 shares pursuant to the program (with the last purchase made on August 9, 2002). 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 compensation charges, dependent upon 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. 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, deferred acquisition costs, bad debts, impairment of 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 its 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 $196.7 million principal amount of PLUS loans outstanding at September 30, 2002. The fixed yield on PLUS loans was 8.99% and 6.79% for the twelve months ended June 30, 2001 and 2002, respectively, and was reset to 4.86% for the twelve months beginning July 1, 2002. 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.

Item 4 -- Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

Within the 90 day period prior to the filing date of this Quarterly Report on Form 10-Q, the Company, under the supervision and with the participation of its management, including its principal executive officer and principal financial officer, performed an evaluation of the Company's disclosure controls and procedures, as contemplated by Securities Exchange Act Rule 13a-15. Based on that evaluation, the Company's principal executive officer and principal financial officer concluded that such disclosure controls and procedures are effective to ensure that material information relating to the Company, including its consolidated subsidiaries, is made known to them, particularly during the period for which the periodic reports are being prepared.

CHANGES IN INTERNAL CONTROLS

No significant changes were made in the Company's internal controls or in other factors that could significantly affect these controls subsequent to the date of the evaluation performed pursuant to Securities Exchange Act Rule 13a-15 referred to above.

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 nine months ended September 30, 2002, the Company issued 3,500 shares of unregistered common stock pursuant to its 2001 Restricted Stock Plan.

ITEM 6 -- EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits.

10.71 Indenture Agreement dated August 21, 2002 among AMS-2 2002, LP, as Issuer, and BankOne, National Association, as Indenture Trustee and Eligible Lenders Trustee

(b) Reports on Form 8-K.

1. Current Report on Form 8-K dated July 22, 2002
2. Current Report on Form 8-K dated July 31, 2002 filed August 1, 2002
3. Current Report on Form 8-K dated August 14, 2002
4. Current Report on Form 8-K dated August 26, 2002 filed September 4, 2002
5. Current Report on Form 8-K dated September 23, 2002
6. Current Report on Form 8-K/A dated August 26, 2002 filed September 27, 2002
7. Current Report on Form 8-K dated October 30, 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: November 13, 2002

/s/ Gregory T. Mutz
Gregory T. Mutz, President, Chief Executive Officer and Director

Date: November 13, 2002

/s/ Mark D. Hauptman

Mark D. Hauptman, Vice President
and Chief Financial Officer

CERTIFICATION OF GREGORY T. MUTZ, CHIEF EXECUTIVE OFFICER OF UICI, PURSUANT TO RULE 13A-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Gregory T. Mutz, certify that:

1. I have reviewed this quarterly report on Form 10-Q of UICI;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

   (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

   (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

   (c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have

identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ GREGORY T. MUTZ

Gregory T. Mutz
President and Chief Executive Officer
UICI

40

CERTIFICATION OF MARK D. HAUPTMAN, CHIEF FINANCIAL OFFICER OF UICI, PURSUANT TO RULE 13A-14 UNDER THE SECURITIES EXCHANGE ACT OF 1934

I, Mark D. Hauptman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of UICI;

2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;

3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and we have:

(a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

(b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and

(c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

(a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and

(b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and

6. The registrant's other certifying officer and I have indicated in this quarterly report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: November 13, 2002

/s/ MARK D. HAUPTMAN

Mark D. Hauptman
Vice President and Chief Financial Officer
UICI

EXHIBIT INDEX

EXHIBIT NUMBER	DESCRIPTION

-------	-----------
10.71	Indenture Agreement dated August 21, 2002 among AMS-2 2002, LP, as Issuer, and BankOne, National Association, as Indenture Trustee and Eligible Lenders Trustee