UICI
Form 10-K405
March 22, 2002

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

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2001.

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 [NO FEE REQUIRED]

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 001-14953

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

DELAWARE (State or other jurisdiction of Incorporation or organization)	75-2044750 (IRS Employer Identification No.)
4001 MCEWEN DRIVE, SUITE 200 DALLAS, TEXAS (Address of principal executive offices)	75244 (Zip Code)

REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE:
(972) 392-6700

SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, $0.01 par value New York Stock Exchange

SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT: NONE
(TITLE OF CLASS)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K [X]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 18, 2002 was $499.4 million.

The number of shares outstanding of $0.01 par value Common Stock, as of March 18, 2002 was 48,416,769.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the annual proxy statement for the annual meeting of stockholders are incorporated by reference into Part III.

PART I

ITEM 1. BUSINESS

GENERAL

UICI (together with its subsidiaries, "UICI" or the "Company") offers insurance (primarily health and life) and selected financial services to niche consumer and institutional markets. The Company issues health insurance policies, covering individuals and families, to the self-employed, association group and student markets. During 2001, 2000 and 1999, health insurance premiums were approximately $797.4 million, $651.4 million and $649.5 million, respectively, representing 72%, 64% and 68%, respectively, of UICI's total revenues in such periods.

The Company offers a broad range of health insurance products for self-employed individuals and individuals who work for small businesses. The Company's basic hospital-medical and catastrophic hospital expense plans are designed to accommodate individual needs and include both traditional fee-for-service indemnity (choice of doctor) plans and managed care options, such as a preferred provider organization ("PPO") plan as well as other supplemental types of coverage. The Company markets these higher deductible products through "dedicated" agency sales forces comprised of independent contractor agents that primarily sell the Company's products.

For the student market, UICI offers tailored health insurance programs that generally provide single school year coverage to individual students at colleges and universities. The Company also provides an accident policy for students at public and private schools in kindergarten through grade 12. In the student

market, the Company sells its products through in-house account executives that focus on colleges and universities on a national basis. The Company believes that it provides student insurance plans to more universities than any other single insurer.

UICI also issues through its Life Insurance Division life insurance and annuity products to selected niche markets. The life insurance policies and annuity products issued by UICI are marketed through independent agents affiliated with a third party agency. During 2001, 2000 and 1999, total revenues (including premiums and allocated investment income) from the Company's life insurance and annuity business were approximately $94.9 million, $92.4 million and $94.1 million, respectively, representing approximately 9%, 9% and 10%, respectively, of total revenue in each year.

In 2001 the Company began to develop long term care and Medicare supplement insurance products for the senior market and to establish distribution channels for products targeted toward the senior market. For financial reporting purposes the Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of senior market products. Through December 31, 2001, the Company had realized nominal revenues associated with this Division, and the Company has expensed developmental costs as incurred.

The Company conducts the business of the Self-Employed Agency Division, Student Insurance Division, the Senior Market Division and the Life Insurance Division through its wholly owned insurance company subsidiaries, The MEGA Life and Health Insurance Company ("MEGA"), Mid-West National Life Insurance Company of Tennessee ("Mid-West"), and The Chesapeake Life Insurance Company ("Chesapeake"). MEGA is an insurance company domiciled in Oklahoma and is licensed to issue health, life and annuity insurance policies in all states except New York. Mid-West is an insurance company domiciled in Tennessee and is licensed to issue health, life and annuity insurance policies in Puerto Rico and all states except Maine, New Hampshire, New York, and Vermont. Chesapeake is an insurance company domiciled in Oklahoma and is licensed to issue health and life insurance policies in all states except New Jersey, New York and Vermont. MEGA is currently rated "A- (Excellent)", Mid-West is currently rated "A- (Excellent)," and Chesapeake is currently rated "B++ (Very Good)" by A.M. Best. A.M. Best's ratings currently range from "A++ (Superior)" to "F (Liquidation)." A.M. Best's ratings are based upon factors relevant to policyholders, agents, insurance brokers and intermediaries and are not directed to the protection of investors.

At December 31, 2001, Fitch, Inc. had assigned an insurer financial strength rating of "A" (Strong) to each of MEGA and Mid-West. Fitch's ratings provide an overall assessment of an insurance company's financial strength and security, and the ratings are used to support insurance carrier selection and placement decisions. Fitch's ratings range from "AAA" (Exceptionally Strong) to "D" (Distressed).

Through its Third Party Administration ("TPA") Division, UICI also provides underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans. On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA unit.

The Company's wholly-owned subsidiary, Academic Management Services Corp. (formerly Educational Finance Group, Inc.) ("AMS"), markets, originates, funds and services primarily federally guaranteed student loans and is a leading provider of student tuition installment plans. AMS seeks to provide solutions for college and graduate school students, their parents and the educational

institutions they attend. At December 31, 2001, UICI through AMS held approximately $1.2 billion aggregate principal amount of student loans, of which approximately 87% were federally guaranteed.

UICI holds a significant equity interest (approximately 47% of the issued and outstanding shares at February 12, 2002) in Healthaxis, Inc., a publicly traded corporation (Nasdaq: HAXS) 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.

Until February 2000, UICI marketed credit support services to individuals with no, or troubled, credit experience and assisted them in obtaining a nationally recognized credit card. Effective December 31, 1999, the Company's United CreditServ credit card operations were classified as a discontinued operation for financial reporting purposes, and in September 2000 the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivable portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price of approximately $124.0 million. On January 29, 2001, UICI completed the voluntary liquidation of UCNB in accordance with the terms of a voluntary plan of liquidation approved by the United States Office of the Comptroller of the Currency (the "OCC"). See Note B of Notes to Consolidated Financial Statements and Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company through its Special Risk Division has provided various niche health insurance 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 has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. See Note B of Notes to Consolidated Financial Statements and Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

The Company's operating segments include (a) the Insurance segment, which includes the businesses of the Company's Self-Employed Agency Division, the Student Insurance Division, the Life Insurance Division (formerly the Company's OKC Division), the Senior Market Division and the National Motor Club Division (until sold on July 27, 2000); (b) the Financial Services segment, which includes the businesses of Academic Management Services Corp., the business of the Company's Third Party Administrators unit; the Company's investment in Healthaxis, Inc., and (c) Other Key Factors, which include investment income not otherwise allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, variable stock compensation, goodwill amortization and other unallocated items. As discussed above, the businesses of United CreditServ, Inc. and the Company's Special Risk Division have been separately classified as discontinued operations for financial reporting purposes for all years presented.

The Company's principal executive offices are located at 4001 McEwen Drive, Suite 200, Dallas, Texas 75244. The Company's telephone number is (972) 392-6700. The Company maintains a website at www.uici.net.

INSURANCE SEGMENT

SELF-EMPLOYED AGENCY DIVISION

Market. According to the Bureau of Labor Statistics, there were approximately 12 million self-employed individuals in the United States at the end of 2001. The Company has currently in force approximately 250,000 basic health policies issued or coinsured by the Company. UICI believes that there is significant opportunity to increase its penetration in this market.

Products. UICI's basic health insurance plan offerings include the following:

- UICI's Group Basic Hospital-Medical Expense Plan has a $1.0 million lifetime maximum benefit and $500,000 lifetime maximum benefit for each injury or sickness. Covered expenses are subject to a deductible. Covered hospital room and board charges are reimbursed at 100% up to a pre-selected daily maximum. Covered expenses for inpatient hospital miscellaneous charges, same-day surgery facility, surgery, assistant surgeon, anesthesia, second surgical opinion, doctor visits, and ambulance services are reimbursed at 80% to 100% up to a scheduled maximum. This type of health insurance policy is of a "scheduled benefit" nature, and as such, provides benefits equal to the lesser of the actual cost incurred for covered expenses or the maximum benefit stated in the policy. These limitations allow for more certainty in predicting future claims experience and thus future premium increases for this policy are expected to be less than on the catastrophic policy.

- UICI's Group Catastrophic Hospital Expense Plan provides a lifetime maximum benefit for each injury or sickness ranging from $500,000 to $1,000,000. Covered expenses are subject to a deductible and are then reimbursed at a benefit payment rate ranging from 50% to 100% as determined by the policy. After a pre-selected dollar amount of covered expenses has been reached, the remaining expenses are reimbursed at 100% for the remainder of the period of confinement. The benefits for this plan tend to increase as hospital care expenses increase and therefore the premiums for these policies are subject to increase as overall hospital care expenses rise.

- UICI's Group Preferred Provider Plan incorporates managed care features of a PPO, which are designed to control health care costs through negotiating discounts with a PPO network. Benefits are structured to encourage the use of providers with which the Company has negotiated lower fees for the services to be provided. The savings from these negotiated fees reduce the costs to the individual policyholders. The policies that provide for the use of a PPO impose a higher deductible and co-payment if the policyholder uses providers outside of the PPO network.

Each of the Company's basic insurance policies is available with a "menu" of various options (including various deductible levels, coinsurance percentages and limited riders that cover particular events such as outpatient accidents, doctors' visits and prescription drugs), enabling the insurance product to be tailored to meet the individual needs of the policyholder.

During 2001, the Company developed and began to offer new ancillary product lines that provide protection against short-term disability, as well as a combination product that provides benefits for life, disability and critical illness. These products have been designed to further protect against risks to which the Company's core self-employed customer is typically exposed.

The Self-Employed Agency Division generated revenues of $700.4 million, $566.4 million and $566.8 million (63%, 56% and 59% of total revenue) in 2001, 2000 and 1999, respectively.

Marketing and Sales. The Company's marketing strategy in the self-employed market is to remain closely aligned with dedicated agent sales forces. Substantially all of the health insurance products issued by the Company are sold through dedicated independent contractor agents associated with the Company.

The Company's agents are independent contractors, and all compensation that agents receive from the Company is based upon the agents' levels of sales production. UGA -- Association Field Services ("UGA") and Cornerstone Marketing of America ("Cornerstone") (the Company's principal marketing divisions) are each organized into geographical regions, with each geographical region having a regional director, two additional levels of field leaders and writing agents (i.e., the agents that are not involved in management).

UGA and Cornerstone are each responsible for the recruitment and training of their field leaders and writing agents. UGA and Cornerstone generally seek persons with previous sales experience. The process of recruiting agents is extremely competitive. The Company believes that the primary factors in successfully recruiting and retaining effective agents and field leaders are the policies regarding advances on commissions, the quality of the leads provided, the availability and accessibility of equity ownership plans, the quality of the products offered, proper training, and agent incentives and support. Classroom and field training is made available to the agents under the direction of the field leaders.

The health insurance products issued by the Company are primarily issued to members of various independent membership associations that endorse the products and act as the master policyholder for such products. Two principal membership associations in the self-employed market for which the Company underwrites insurance are the National Association for the Self-Employed ("NASE") and the Alliance for Affordable Services ("AAS"). The associations provide their membership with a number of endorsed products, including health insurance underwritten by the Company. Individuals generally may not obtain insurance under the associations' master policies unless they are members of the associations. UGA agents and Cornerstone agents also act as enrollers of new members for the associations. Although the Company has no formal agreements with these associations requiring the associations to continue as the master policyholder and endorse the Company's insurance products to their respective members, the Company believes it is in good standing with these associations.

Leads for the agents of UGA and Cornerstone are generated by UICI Marketing, Inc. (the Company's direct response marketing group), which administers two call centers with a capacity of approximately 250 telephone service representatives. From various sources of data, a pool of approximately 7.0 million names has been developed. Individuals in this pool and other self-employed individuals with an interest in obtaining the benefits of an association membership, including health insurance, may respond to lead generation efforts via direct response channels, including telemarketing, direct mail, radio and TV commercials, e-mail, and Internet websites maintained by the Company. The names of persons expressing an interest are, in turn, provided as leads to the Company's agents, which the Company believes results in a higher "close" rate than would be the case if the agents made unsolicited calls on prospective customers.

Policy Design and Claims Management. The Company's traditional indemnity health insurance products are principally designed to limit coverages to the occurrence of significant events that require hospitalization. This policy design, which includes high deductibles, reduces the number of covered claims

requiring processing, thereby controlling administrative expenses. The Company seeks to price its products in a manner that accurately reflects its underwriting assumptions and targeted margins, and it relies on the marketing capabilities of its dedicated agency sales forces to sell these products at prices consistent with these objectives.

The Company maintains administrative centers with full underwriting, claims management and administrative capabilities. The Company believes that by processing its own claims it can better assure that claims are properly processed and can utilize the claims information to periodically modify the benefits and coverages afforded under its policies.

The Company has also developed an actuarial data warehouse, which is a critical risk management tool that provides the Company's actuaries with rapid access to detailed exposure, claim and premium data. This state-of-the-art analysis tool enhances the actuaries' ability to design, monitor and adequately price all of the Company's insurance products.

Preferred Provider Products. In order to further control health care costs, in 1995 the Company incorporated into certain of its health plans managed care features of a PPO. These health plans incorporate

managed care features of a PPO through negotiated discounts with a PPO network. The health plans that provide the PPO option generally provide a greater level of benefits for services performed within the PPO network in the form of lower deductibles and co-payments compared to out-of-network services. The value of the network discount is reflected in the form of lower rates and discounts on covered charges.

Coinsurance Arrangements. Prior to 1996, a substantial portion of the health insurance policies sold by UGA agents were issued by AEGON USA, Inc. ("AEGON") and coinsured by the Company. Effective April 1, 1996, the Company acquired the underwriting, claims management and administrative capabilities of AEGON related to products coinsured by the Company. Following this transaction, the agents of UGA began to market health insurance products directly for the Company rather than through the coinsurance arrangement. The Company retains 100% of the premiums and pays all of the costs of such new policies. Under the terms of its coinsurance agreement, AEGON has agreed to cede (i.e., transfer), and the Company has agreed to coinsure, 60% of the health insurance sold by UGA agents and issued by AEGON. The Company receives 60% of premiums collected and is liable for 60% of commission expenses, administrative costs, claims payments, premium taxes, legal expenses, extra-contractual charges and other payments. The Company and AEGON agreed to maintain the coinsurance agreement for policies issued by AEGON prior to April 1, 1996 and during the transition period ended in 1997. Commencing in May 2001, and in accordance with Assumption Reinsurance Agreements with AEGON, the Company began to assume all of the remaining policies from AEGON as approvals were received from state regulatory authorities. As of December 31, 2001, approximately 75% of the remaining policies have been assumed by the Company from AEGON, and the Company currently anticipates that the balance of the remaining policies will be assumed during 2002. On the policies that have been assumed, the Company has coinsured 40% of the health insurance business to AEGON. The Company has agreed to acquire on December 31, 2002 the remaining 40% of the coinsured business from AEGON based upon a mutually agreed-upon prescribed price.

Acquisition of Health Blocks. From time to time, the Company has acquired and may continue to acquire blocks of health insurance policies or companies that own such blocks. These opportunities are pursued on a case-by-case basis, and revenues from such blocks have generally not represented a material portion

of Self-Employed Agency Division revenue.

STUDENT INSURANCE DIVISION

Market. The student market consists primarily of students attending colleges and universities in the United States and Puerto Rico and, to a lesser extent, those attending public and private schools in grades kindergarten through grade 12. Generally, the marketing strategy of the Company has been to focus on college students whose circumstances are such that health insurance may not otherwise be available through their parents. In particular, older undergraduates, graduate and international students often have a need to obtain insurance as "first-time buyers." According to industry sources, there are approximately 2,400 four-year universities and colleges in the United States, which have a combined enrollment of approximately 11.0 million students. Typically, a carrier must be approved and endorsed by the educational institution as a preferred vendor of health insurance coverage to the institution's students. The Company believes that it has been authorized to provide student health insurance plans by more universities than any other single insurer.

Products. The insurance programs sold in the student market are designed to meet the requirements of each individual school. The programs generally provide coverage for one school year and the maximum benefits available to any individual student enrolled in the program range from $10,000 to $1,000,000, depending on the coverage level desired by the school.

The Student Insurance Division had revenues of $126.1 million, $111.5 million and $108.0 million in 2001, 2000 and 1999, respectively, representing approximately 11% of total revenues in each such year.

Marketing and Sales. The Company markets to colleges and universities on a national basis through in-house account executives whose compensation is based primarily on commissions. Account executives make presentations to the appropriate school officials and the Company, if selected, is endorsed as the provider of health insurance for students attending that school.

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The kindergarten through grade 12 business is marketed primarily through third party agents and brokers in Washington, Florida, Arizona, Louisiana, Oklahoma, Texas, Colorado, Kansas, Oregon, and California.

LIFE INSURANCE DIVISION

Through the Company's Life Insurance Division (which is based in Oklahoma City, Oklahoma), the Company offers life insurance and annuity products to individuals through its dedicated field force. At December 31, 2001, the Life Insurance Division had over $3.2 billion of life insurance in force and approximately 312,000 individual policyholders. The Life Insurance Division grew historically through acquisitions of closed blocks of life insurance and annuity policies and, more recently, through its efforts to market and sell new life insurance products. In 2001, 2000 and 1999, the Life Division generated revenues of $94.9 million, $92.4 million and $94.1 million, respectively, representing 9%, 9% and 10%, respectively, of total Company revenue in each such year.

The Life Insurance Division has developed life insurance products to be sold using its unique and proprietary needs analysis "Blueprint for Life." The Life Insurance Division hopes to leverage the Company's significant health insurance customer base by positioning itself to offer those customers a universal life, term life and final expense product designed to fit their changing needs.

Through its College Fund Life Insurance Division (based in Norcross, Georgia), the Company's Life Insurance Division offers an interest-sensitive whole life insurance product generally with an annuity rider and a child term rider. The child term rider includes a special provision under which the Company commits to provide private student loans to help fund the named child's higher education if certain restrictions and qualifications are satisfied. Currently, student loans are available in amounts up to $30,000 for students attending undergraduate school and up to $30,000 for students attending graduate school. Loans made under this rider are not funded or supported by the federal government. Qualified loans with a Fair Isaac credit score of 570 and above are guaranteed as to principal and interest by an independent guarantee agency. All other loans made under the rider require additional guarantee fees to be paid by the borrower. As a part of the program, MEGA and Mid-West are qualified lenders under the applicable Department of Education regulations and make available, outside of the Company's insurance subsidiaries' commitment under the rider, student loans under Federal Family Education Loan Programs.

Marketing and Sales. Life insurance products are marketed and sold through the Company's network of dedicated agents.

Acquired Blocks. Historically, the Company's Life Insurance Division grew through opportunistic acquisitions of blocks of life insurance and annuities. In an acquisition of a block of business, the Company assumes policy liabilities and receives assets (net of the purchase price) sufficient, based on actuarial assumptions, to cover such estimated future liabilities. The profitability of a particular block of business depends on the amount of investment income from the assets and the amount of premiums received less the amount of benefits and expenses actually paid. The Company acquired its last block of life insurance and annuities in 1994. Although the Company continues to analyze potential transactions from time to time, the Company believes that the current climate for acquisitions of blocks of life insurance and annuities has become very competitive, making it more difficult to successfully complete acquisitions that meet the Company's acquisition rate of return criteria.

In 1991, the Company entered into an agreement pursuant to which it services a block of policies with life insurance and annuity reserves for an unrelated company. At December 31, 2001, total life insurance and annuity reserves for this block were $70.6 million, which reserves are not reflected on the Company's consolidated balance sheet. The Company receives a fee for servicing the policies and in 1997 also began to participate in 50% of the profits or losses on this business. The Company's consolidated results of operations reflect the servicing fee currently earned and the 50% profit participation.

In August 1994, the Company entered into a similar transaction, pursuant to which the Company acquired a block of life insurance and annuity policies. In conjunction with this acquisition, the Company ceded through a coinsurance agreement 100% of the policy liabilities to an unrelated reinsurer. The acquisition

required no financial investment by the Company. In July 2001, the reinsurer recovered its investment in this block, and the coinsurance agreement was terminated and the company at no cost recaptured all remaining policies.

SENIOR MARKET DIVISION

In 2001 the Company began to develop long term care and Medicare supplement insurance products for the senior market and to establish distribution channels

for products targeted toward the senior market. The Company intends to initially offer products of third party insurers until such time as the Company's long term care and Medicare supplement insurance products are fully approved by applicable regulatory authorities for issuance to the senior market. Upon receipt of requisite regulatory approvals, the Company intends to initially reinsure on a coinsurance basis with other insurance companies 40% of the Company's risk with respect to long term care coverage and 20% of its risk with respect to Medicare supplement coverage.

The Company has entered into an agreement with an unaffiliated third party to serve as administrator for the Company's senior age insurance products, in which capacity the third party will underwrite, bill, provide customer service and administer claims for all long-term care and Medicare supplement insurance products to be sold by the Company's two principal insurance subsidiaries.

Senior market products will be distributed initially through independent agents affiliated with Guaranty Senior Assurance (a newly-formed division of MEGA) and through independent agents affiliated with SeniorsFirst LLC, an agency in which the Company holds a 50% ownership interest.

For financial reporting purposes the Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of senior market products. Through December 31, 2001, the Company has realized nominal revenues associated with this Division, and the Company has expensed developmental costs as incurred.

FINANCIAL SERVICES SEGMENT

ACADEMIC MANAGEMENT SERVICES CORP.

The Company holds a 100% equity interest in Academic Management Services Corp. ("AMS"). AMS (formerly Educational Finance Group, Inc.) markets, originates, funds and services primarily federally guaranteed student loans and is the leading provider of student tuition installment plans. AMS (which is based in Swansea, Massachusetts) seeks to provide financing solutions for college and graduate school students, their parents, and the educational institutions they attend. At December 31, 2001, UICI through AMS held approximately $1.2 billion aggregate principal amount of student loans, of which approximately 87% were federally guaranteed.

AMS primarily makes federally guaranteed loans to students and parents under the Federal Family Education Loan Program (the "FFELP Loan Program"). Four types of loans are currently available under the FFELP Loan Program: (i) loans made to students for which the federal government makes interest payments during periods of school enrollment in order to reduce student interest costs ("Stafford Loans"); (ii) loans made to students for which the federal government does not make such interest payments ("Unsubsidized Stafford Loans"); (iii) supplemental loans made to parents of dependent students ("PLUS Loans"); and (iv) loans to fund consolidation of certain federally-insured obligations of the borrower ("Consolidation Loans"). These loan types vary as to eligibility requirements, interest rates, repayment periods, loan limits and eligibility for interest subsidies.

Stafford Loans are the primary loans extended under the FFELP Loan Program. Students who are not eligible for Stafford Loans based on their economic circumstances may be able to obtain Unsubsidized Stafford Loans. Parents of students are able to obtain PLUS Loans in accordance with their credit standing. Consolidation Loans are available to borrowers holding loans made under the FFELP Loan Program and/or certain other federal programs for the purpose of extending the repayment of such loans -- a primary objective being the reduction of monthly payment size.

In addition to the various federally guaranteed loan programs, AMS offers alternative student loans guaranteed by private insurers (which during 2001 aggregated approximately 11% of AMS' loan originations) and uninsured alternative loans (which during 2001 aggregated approximately 1% of loan originations).

AMS has initially funded its lending business primarily with secured lines of credit and commercial paper facilities extended or administered by various financial institutions. After initial funding, AMS typically refinances groups of loans on a more structured basis by transferring loans to bankruptcy remote, special purpose entities, which in turn issue debt securities secured by the loans. During 1999, AMS established approximately $1.3 billion of such structured funding facilities in three separate transactions, and on January 30, 2002 the Company completed the issuance of $335.0 million principal amount of auction rate notes secured by a pledge of federally- and privately-insured student loans held in the AMS portfolio. For financial reporting and accounting purposes the facilities are classified as financings, with the indebtedness represented by the debt securities recorded as liabilities on the consolidated balance sheet of the Company, and the student loan assets and cash and cash equivalents securing payment of such debt securities recorded as assets on the consolidated balance sheet of the Company. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Liquidity and Capital Resources."

In addition, AMS may from time to time in the ordinary course of business sell loans in its portfolio to various secondary market buyers. Decisions to hold or sell loans at any point in time are based on a variety of strategic and financial factors, one of the most prominent being the cash prices being offered by buyers relative to the net present value of the loans if held in the portfolio for duration. Sales of federally insured education loans have typically produced gains on sale recognized in the periods in which the sales occur. During 2001, AMS originated approximately $717.6 million in new loans and sold $474.0 million principal amount of loans, and during 2000, AMS originated approximately $776.1 million in new loans and sold approximately $765.0 million principal amount of loans.

In July 1999, AMS acquired AMS Investment Group, Inc. (the parent of Academic Management Services, Inc.) ("AMS Inc."), based in Swansea, Massachusetts. At the time of acquisition, AMS Inc. was the largest provider of tuition installment plans in the nation. Marketed on behalf of and with the endorsement of colleges, universities, and private secondary schools, tuition installment plans enable parents to pay tuition and related school costs in interest-free monthly installments.

AMS provides loan servicing and administrative services on behalf of participating colleges and universities for federal Perkins loans and privately insured loans through EFG Technologies, Inc., a wholly owned subsidiary based in Winston-Salem, North Carolina. The Perkins Loan program provides low-interest loans to assist needy students in financing the costs of post-secondary education. EFG Technologies services approximately one million loan accounts for approximately 600 colleges, universities and private lenders. In May 2002, EFG Technologies plans to change its name to AMS Servicing Group.

INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2001, UICI held approximately 47% of the issued and outstanding shares of common stock of Healthaxis, Inc. ("HAI") (Nasdaq: HAXS). See Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations and Note E of Notes to Consolidated Financial Statements.

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.

HAI generated revenues of $43.8 million, $43.7 million and $46.2 million in 2001, 2000 and 1999, respectively, of which 70%, 63% and 58% were derived from services provided to the Company and its insurance company affiliates. See Note E of Notes to Consolidated Financial Statements.

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TPA Division

UICI also historically has provided underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans. The Company has classified the operations of its subsidiaries UICI Administrators, Inc. (a company engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation), Insurdata Marketing Services, LLC (a subsidiary of the Company engaged in the business of marketing third party benefits administration services) and Barron Risk Management, Inc. as its Third Party Administration ("TPA") Division. While revenues for the TPA Division increased to $24.3 million in 2001 from $18.5 million in 2000, the TPA Division incurred an operating loss of $(2.1) million in 2001 compared to an operating loss of $(1.7) million in 2000.

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA Division. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets, of which $700,000 represented a write-down of fixed assets (which was included in depreciation in 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.

DISCONTINUED OPERATIONS

UNITED CREDITSERV, INC.

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

In March 2000, the Board of Directors of UICI determined, after a thorough assessment of the unit's prospects, that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit was reflected as a discontinued operation for financial reporting purposes effective December 31, 1999. On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price of approximately $124.0 million, and 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.

The Company's results from discontinued operations in 2001 and the fourth quarter of 2001 included net income after tax in the amount of $3.7 million, associated with the receipt of a $5.7 million cash payment representing the deferred contingent portion of the purchase price in final settlement of the September 2000 sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit. See Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

SPECIAL RISK DIVISION

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

transplant and international travel accident products), various insurance intermediary services and certain managed care services. For the year ended December 31, 2001, the Special Risk Division reported a net loss of $(9.2) million, compared to a net loss of $(2.9) million for the year ended December 31, 2000, which losses were reflected in results from discontinued operations.

REINSURANCE

The Company's insurance subsidiaries reinsure portions of the coverages provided by their insurance products with other insurance companies on both an excess of loss and coinsurance basis. The maximum retention by the Company on one individual in the case of life insurance is $150,000. The Company uses reinsurance for its health insurance business only for limited purposes. The Company does not reinsure any health insurance issued in the self-employed market.

Reinsurance agreements are intended to limit an insurer's maximum loss. The ceding of reinsurance does not discharge the primary liability of the original insurer to the insured. Although the Company, through coinsurance, assumes risks under policies issued by AEGON, and has occasionally used assumption reinsurance to acquire blocks of insurance from other insurers, it does not regularly assume risks of other insurance companies. See "Business -- Health Insurance-Coinsurance Arrangements."

COMPETITION

INSURANCE

The Company operates in highly competitive markets. The Company's insurance subsidiaries compete with large national insurers, regional insurers and specialty insurers, many of which are larger and have substantially greater financial resources or greater claims paying ability ratings than the Company. In addition to claims paying ability ratings, insurers compete on the basis of price, breadth and flexibility of coverage, ability to attract and retain agents and the quality and level of agent and policyholder services provided. In its other lines of insurance-related business, the Company competes with financial services companies, managed care consultants, and third party administrators, among others. Many of the competitors may have greater financial resources, broader product lines or greater experience in particular lines of business.

STUDENT LOANS

The student loan industry is highly competitive. The Company competes with over 2,000 other lenders. Despite the large number of lenders, the top 100 lenders account for approximately 87% of new loan volume. The Company believes that the volume of new loans originated in 2001 would make it one of the top 10 student loan lenders in 2001. The Company competes by designing and offering an integrated package of government guaranteed and privately guaranteed loan products.

REGULATORY AND LEGISLATIVE MATTERS

HEALTH CARE REFORM; PRIVACY INITIATIVES

The health care industry, as one of the largest industries in the United States, continues to attract much legislative interest and public attention. In recent years, an increasing number of legislative proposals have been introduced or proposed in Congress and in some state legislatures that would effect major changes in the health care system, either nationally or at the state level. Proposals that have been considered include cost controls on hospitals, insurance market reforms to increase the availability of group health insurance to small businesses, patients' bills of rights and requirements that all businesses offer health insurance coverage to their employees. There can be no assurance that future health care legislation or other changes in the administration or interpretation of governmental health care programs will not have a material adverse effect on the business, financial condition or results of operations of the Company.

Recently-adopted legislation and regulations governing the use and security of individuals' nonpublic personal data by financial institutions, including insurance companies, will have a significant impact on the

Company's business and future results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Privacy Initiatives."

INSURANCE REGULATION

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 insurance departments. 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; 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.

Many states have also enacted insurance holding company laws that require registration and periodic reporting by insurance companies controlled by other corporations. Such laws vary from state to state, but typically require periodic disclosure concerning the corporation which controls the controlled insurer and prior notice to, or approval by, the applicable regulator of inter-corporate transfers of assets and other transactions (including payments of dividends in excess of specified amounts by the controlled insurer) within the holding company system. Such laws often also require the prior approval for the acquisition of a significant ownership interest (e.g., 10% or more) in the insurance holding company. The Company's insurance subsidiaries are subject to such laws, and the Company believes that such subsidiaries are in compliance in all material respects with all applicable insurance holding company laws and regulations.

Under the risk-based capital initiatives adopted in 1992 by the National Association of Insurance Commissioners ("NAIC"), insurance companies must calculate and report information under a risk-based capital formula. Risk-based capital formulas are intended to evaluate risks associated with: asset quality; adverse insurance experience; loss from asset and liability mismatching; and general business hazards. This information is intended to permit regulators to identify and require remedial action for inadequately capitalized insurance companies but is not designed to rank adequately capitalized companies. Based on year-end 2001 calculations, the Company's insurance subsidiaries were significantly above required capital levels.

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

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

The states in which the Company is licensed have the authority to change the minimum mandated statutory loss ratios to which the Company is subject, the manner in which these ratios are computed and the

manner in which compliance with these ratios is measured and enforced. Loss ratios are commonly defined as incurred claims divided by earned premiums. Most states in which the Company writes insurance have adopted the loss ratios recommended by the NAIC but frequently the loss ratio regulations do not apply to the types of health insurance issued by the Company. The Company is unable to predict the impact of (i) any changes in the mandatory statutory loss ratios for individual or group policies to which the Company may become subject, or (ii) any change in the manner in which these minimums are computed or enforced in the future. Such changes could result in a narrowing of profit margins and have a material adverse effect upon the Company. The Company has not been informed by any state that it does not meet mandated minimum ratios, and the Company believes that it is in compliance with all such minimum ratios. In the event the Company is not in compliance with minimum statutory loss ratios mandated by regulatory authorities with respect to certain policies, the Company may be required to reduce or refund premiums, which could have a material adverse effect upon the Company.

The NAIC and state insurance departments are continually reexamining existing laws and regulations, including those related to reducing the risk of insolvency and related accreditation standards. To date, the increase in solvency-related oversight has not had a significant impact on the Company's insurance business.

STUDENT LOAN OPERATIONS

A significant portion of the student loans originated by the Company are made under the Federal Family Education Loan Program (the "FFELP Loan Program"), which is subject to periodic legislative reauthorization and interim revision by legislation and regulation. The Higher Education Act, which authorizes most federal aid programs, went through its regular reauthorization process in 1998. The loans made under the FFELP Loan Program include Federal Stafford loans for students and PLUS Loans to parents.

Compliance with legal or regulatory restrictions may limit the ability of the Company's subsidiaries to conduct their operations. A failure to comply may subject the affected subsidiary to a loss or suspension of a right to engage in certain businesses or business practices, criminal or civil fines, an obligation to make restitution or pay refunds or other sanctions, which could adversely affect the manner in which the Company's subsidiaries conduct their business and the Company's results of operations.

State and federal regulation is continually changing and the Company is unable to predict whether or when any such changes will be adopted. It is possible, however, that the adoption of such changes could adversely affect the manner in which the Company's subsidiaries conduct their business and the Company's financial condition or results of operations.

EMPLOYEES

The Company had approximately 2,100 employees at February 19, 2002. The Company considers its employee relations to be good. Agents associated with the Company's UGA, Cornerstone, Guaranty Senior Assurance and SeniorsFirst field forces constitute independent contractors and are not employees of the Company.

ITEM 2. PROPERTIES

The Company owns three office buildings in Tarrant County, Texas, comprising in the aggregate approximately 200,000 square feet of office space. The Company's United CreditServ subsidiary owns one building in Sioux Falls, South Dakota, with approximately 106,000 square feet, which is leased to an unaffiliated third party. AMS owns two office buildings in Swansea,

Massachusetts, comprising approximately 60,000 square feet of office space. In addition, the Company and its subsidiaries lease office space at various locations, including its principal executive office located at 4001 McEwen Drive, Dallas, Texas.

ITEM 3. LEGAL PROCEEDINGS

See Note N of Notes to Consolidated Financial Statements, the terms of which are incorporated by reference herein.

ITEM 4. SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

EXECUTIVE OFFICERS OF THE COMPANY

The Chairman of the Company is elected, and all other executive officers listed below are appointed by the Board of Directors of the Company at its Annual Meeting each year or by the Executive Committee of the Board of Directors to hold office until the next Annual Meeting or until their successors are elected or appointed. None of these officers have family relationships with any other executive officer or director.

NAME OF OFFICER	PRINCIPAL POSITION	AGE	BUSINESS EXPERIENCE DURING PAST FIVE
Ronald L. Jensen.........	Chairman of the Board	71	Mr. Jensen has served as Chairman sin December 1983. In the last five years Jensen also served as President of th Company from October 1997 until Janua 1999.
Gregory T. Mutz..........	President and Chief Executive Officer	56	Mr. Mutz was elected President and Ch Executive Officer in January 1999 and served as Chief Financial Officer fro March 2000 to November 2000. Prior to January 1999, Mr. Mutz served as Chai and Chief Executive Officer of AMLI R Co. (a real estate investment managem firm), which the Company acquired in
Glenn W. Reed............	Executive Vice President and General Counsel	49	Mr. Reed has served in his current position since July 1999. Prior to jo UICI, Mr. Reed was a partner with the Chicago, Illinois law firm of Gardner Carton & Douglas.
Phillip J. Myhra.........	Executive Vice President -- Insurance Group	49	Mr. Myhra has served as an executive officer of the Insurance Group since December 1999 and as Executive Vice President -- Insurance Group of the Company since February 2001. He serve a Director, President and Chief Execu Officer of the Company's insurance subsidiaries. Prior to joining the Company, Mr. Myhra served as Senior V President of Mutual of Omaha.

NAME OF OFFICER	PRINCIPAL POSITION	AGE	BUSINESS EXPERIENCE DURING PAST FIVE
Steven K. Arnold.........	Executive Vice President -- Insurance Group	54	Mr. Arnold joined the Company in Octo 1998 as a consultant. In March 1999, Arnold became Chief Executive Officer the Student Insurance Division and Sp Risk Group of the Company. In August Mr. Arnold was elected a Vice Preside the Company. For the five years prior joining the Company, Mr. Arnold held various positions as a consultant and officer in the health care and system industries.
Matthew R. Cassell.......	Vice President and Chief Financial Officer	38	Mr. Cassell was elected Vice Presiden Chief Financial Officer on November 1 2000. He formerly served as the Compa Vice President -- Strategic Planning commencing in January 2000. Prior to joining UICI, Mr. Cassell served as Director-Finance of Insurdata Incorpo (formerly a wholly owned subsidiary o Company) from 1997 to 1999.
James N. Plato...........	President -- Life Insurance Division	53	Mr. Plato has served as an executive officer and director of the Company's insurance subsidiaries since June 200 During the five years prior to joinin Company, Mr. Plato served as an execu officer and/or director of Ilona Fina Group, 1st Variable Life Insurance Company, Interstate Assurance, Mutual Omaha, and United Presidential Life Insurance Company.

PART II

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

The Company's shares are traded on the New York Stock Exchange ("NYSE") under the symbol "UCI". The table below sets forth on a per share basis, for the period indicated, the high and low closing sales prices of the Common Stock on the NYSE.

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2000		
1st Quarter...	$11.5625	$ 6.625
2nd Quarter...	7.25	3.9375
3rd Quarter...	8.5625	6.25
4th Quarter...	7.5625	5.4375
FISCAL YEAR ENDED DECEMBER 31, 2001		

1st Quarter...	$ 9.65	$5.9375
2nd Quarter...	12.75	8.25
3rd Quarter...	16.26	10.70
4th Quarter...	15.74	11.40

As of March 1, 2002, there were approximately 10,900 holders of record of Common Stock.

The Company has not paid cash dividends on its Common Stock to date. The Company currently intends to retain all future earnings to finance continued expansion and operation of its business and subsidiaries. Any decision as to the payment of dividends to the stockholders of the Company will be made by the Company's Board of Directors and will depend upon the Company's future results of operations, financial condition, capital requirements and such other factors as the Board of Directors considers appropriate.

In addition, dividends paid by the domestic insurance subsidiaries of the Company to the Company out of earned surplus in any year without prior approval of state regulatory authorities are limited by the laws and regulations of the state of domicile. Prior approval by state regulatory authorities is required for the payment of dividends by domestic insurance companies, which exceed the limits set by the laws of the state of domicile. See Note L of the Notes to Consolidated Financial Statements included herein.

During the year ended December 31, 2001, the Company issued 109,250 shares of unregistered common stock pursuant to its 2001 Restricted Stock Plan.

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for each of the five years in the period ended December 31, 2001 have been derived from the audited Consolidated Financial Statements of the Company. The following data should be read in conjunction with the Consolidated Financial Statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein. The following has been restated to reflect the Company's Special Risk Division as a discontinued operation. See Note B of the Notes to the Consolidated Financial Statements.

	YEAR ENDED DECEMBER 31,				
	2001	2000	1999	1998	1997
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND OPERATING RATIOS)				
INCOME STATEMENT DATA:					
Revenues from continuing operations....................	$1,106,583	$1,019,655	$ 954,179	$ 989,932	$ 849,45
Income from continuing operations before income taxes.........................	66,223	67,138	54,797	42,368	104,29
Income from continuing operations....................	48,358	32,018	35,814	28,660	70,88
Income (loss) from discontinued operations....................	(5,466)	(26,285)	(181,696)	30,109	15,61
Net income (loss)..............	42,892	5,733	(145,882)	58,769	86,50
Earnings per share from					

continuing operations:					
Basic earnings per Common share......................	$ 1.04	$ 0.68	$ 0.77	$ 0.62	$ 1.5
Diluted earnings per Common share......................	$ 1.01	$ 0.67	$ 0.75	$ 0.61	$ 1.5
Earnings (loss) per share from discontinued operations:					
Basic earnings (loss) per Common share...............	$ (0.12)	$ (0.56)	$ (3.92)	$ 0.65	$ 0.3
Diluted earnings (loss) per Common share...............	$ (0.11)	$ (0.55)	$ (3.80)	$ 0.65	$ 0.3
Earnings (loss) per share:					
Basic earnings (loss) per Common share...............	$ 0.92	$ 0.12	$ (3.15)	$ 1.27	$ 1.9
Diluted earnings (loss) per Common share...............	$ 0.90	$ 0.12	$ (3.05)	$ 1.26	$ 1.9
OPERATING RATIOS:					
Health Ratios:					
Loss ratio(1).................	62%	63%	68%	75%	63
Expense ratio(2)..............	34%	33%	30%	30%	30
Combined health ratio.........	96%	96%	98%	105%	93
BALANCE SHEET DATA:					
Total investments and cash(3)...	$1,269,640	$1,148,568	$1,111,334	$1,142,694	$1,062,91
Total assets....................	3,285,884	2,989,848	3,504,182	2,227,383	1,453,50
Total policy liabilities........	891,361	824,632	841,398	883,425	843,19
Total debt......................	25,303	89,991	152,220	50,328	50,27
Student loan credit facilities....................	1,506,202	1,334,847	1,698,765	669,026	-
Stockholders' equity............	534,572	447,105	407,434	594,791	536,29
Stockholders' equity per share(4)......................	$ 10.81	$ 9.74	$ 9.44	$ 12.52	$ 11.2

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(1) The health loss ratio represents benefits, claims and settlement expenses related to health insurance policies stated as a percentage of earned health premiums.

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(2) The health expense ratio represents underwriting, acquisition and insurance expenses related to health insurance policies stated as a percentage of earned health premiums. Expenses relating to providing administrative services are not included.

(3) Does not include restricted cash. See Note A of Notes to Consolidated Financial Statements.

(4) Excludes the unrealized gains (losses) on available for sale securities, which are reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity.

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ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of the Company's historical results of operations and of its liquidity and capital resources should be read in conjunction with the Selected Financial Data and the Consolidated Financial Statements of the Company and related notes thereto included herein.

The Company's operating segments include the following: (i) Insurance, which includes the businesses of the Self-Employed Agency Division; the Student Insurance Division; the Life Insurance Division (formerly the Company's OKC Division); the Senior Market Division; and the National Motor Club Division (until sold on July 27, 2000); (ii) Financial Services, which includes the businesses of Academic Management Services Corp., the Company's investment in Healthaxis, Inc., the business of the Company's Third Party Administration ("TPA") unit and (iii) Other Key Factors, which includes investment income not allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, realized gains or losses on sale of investments, the AMLI operations, variable stock compensation and goodwill amortization. Net investment income is allocated to the Insurance segment based on policy liabilities. The interest rate for the allocation is based on a high credit quality investment portfolio with a duration consistent with the duration of the segment's policy liabilities.

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

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

RESULTS OF OPERATIONS -- OVERVIEW

Set forth below is a discussion of certain general matters affecting the Company's historical and future results of operations.

INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2001, UICI held beneficially approximately 47% of the issued and outstanding shares of Healthaxis, Inc. ("HAI") (formerly Provident American Corporation) (Nasdaq: HAXS). See Note E of Notes to Consolidated Financial Statements.

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 has accounted for its investment in HAI utilizing the equity

method and has recognized its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded in connection with the January 7, 2000 merger of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com, the sole operating subsidiary of HAI). The Company's carrying value of its investment in HAI was $8.3 million and $18.4 million at December 31, 2001 and 2000, respectively. See Note E of Notes to Consolidated Financial Statements.

The Company also constitutes a significant customer of HAI. Pursuant to the terms of an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), HAI provides information systems and software development services (including administration of the Company's computer data center) to the Company and its insurance company affiliates at HAI's cost of such services (including direct costs of HAI personnel dedicated to providing services to the Company plus a portion of HAI's overhead costs) plus a 10% mark-up. Pursuant to the terms of the Services Agreement, UICI paid to HAI $20.4 million, $21.0 million and $23.3 million in 2001, 2000 and 1999, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services, for which UICI paid to HAI $10.1 million, $6.4 million and $3.7 million in 2001, 2000 and 1999, respectively. The aggregate amounts paid by UICI to HAI in 2001, 2000 and 1999, respectively, represented 70%, 63% and 58% of HAI's total revenues of $43.8 million, $43.7 million and $46.2 million in such years, respectively. See Notes E and M of Notes to Consolidated Financial Statements.

ACADEMIC MANAGEMENT SERVICES CORP.

For the year ended December 31, 2001, UICI's Academic Management Services Corp. subsidiary ("AMS") reported operating income of $5.4 million compared to an operating loss of $(24.6) million for the year ended December 31, 2000. During 2001, AMS benefited 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, increased gains on sales of loans and continued efforts to reduce operating expenses.

The amount of student loan spread income that AMS may earn in any period depends in large part upon the level of prevailing market interest rates relative to the prescribed minimum rate that can be earned on AMS' student loan portfolio. During 2001, AMS benefited significantly from a favorable prescribed minimum rate earned on its student loan portfolio. The benchmark for yields on federally guaranteed student loans is reset annually in accordance with Department of Education regulations effective July 1 for the succeeding twelve-month period. While yields on student loans are indexed to the 91-day Treasury bill rate, the benchmark establishes a floor, below which a lender's yield will not fall during the succeeding twelve-month period. On July 1, 2001, the floor rates on FFELP loans for the period July 1, 2001 through June 30, 2002 reset 220 basis points lower than the floor rates for the period July 1, 2000 through June 30, 2001. Nevertheless, due to rapidly declining market interest rates, shortly before September 30, 2001 the rate that AMS earned on its student loan portfolio again fell to the statutorily prescribed minimum rate, and the continued decline in prevailing market interest rates over the three months ended December 31, 2001 had the effect of continuing to reduce AMS' overall borrowing costs. As a result, AMS' spread income in the fourth quarter of 2001 in the amount of $7.5 million exceeded spread income of $3.2 million earned in the third quarter of 2001 and spread income of $696,000 earned in the fourth quarter of 2000. Spread income for the year 2001 was $20.4 million, compared to spread income of $6.7 million for the prior year.

On July 1, 2002, the floor rates on FFELP loans for the period July 1, 2002 through June 30, 2003 will again be reset. Based on current prevailing market interest rates, the Company currently expects a decrease in the prescribed floor rates on its student loan portfolio, and, as a result, AMS believes that spread income in the second half of 2002 will be less than the level of spread income experienced in the second half of 2001 and the level of spread income currently expected in the first six months of 2002.

AMS tuition payment program business has historically generated its highest levels of fee income (and operating profits) in the second and third quarters of the calendar year and an operating loss in the fourth quarter of the calendar year. Due to the inherent uncertainty surrounding spread income and the seasonality of its tuition installment business, in any given financial period AMS may continue to rely on gains from timely sales of student loans to remain profitable for such period. AMS sold $474.0 million and $765.0 million principal amount of student loans during the year ended December 31, 2001 and 2000, respectively, from which AMS generated gains on sales in the amount of $11.3 million and $7.8 million, respectively.

On August 3, 2001, the Company completed the acquisition from AMS' former chief executive officer of the remaining 25% common stock interest in AMS it did not already own for a purchase price of $750,000. For additional consideration, the former chief executive officer and certain former employees of AMS agreed, for a three-year period ending in August 2004, not to engage in any business competitive with AMS' tuition installment or student loan servicing businesses. These former executives and their affiliates further agreed to pay to AMS fees in prescribed amounts in connection with the origination and consolidation of certain student loans over a three-year period ending in August 2004.

CLOSEDOWN OF WORKERS' COMPENSATION BUSINESS

In May 2001, the Company determined to exit its workers compensation business, in connection with which the Company incurred a charge in the three months ended June 30, 2001 of $8.7 million associated with a strengthening of reserves. In the fourth quarter of 2001, the Company also recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator.

ACCOUNTING FOR GOODWILL

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, which 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. 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 will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of approximately $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the

first quarter of 2002. The Company has not yet determined what the effect, if any, of these tests will be on the results of operations and financial position of the Company.

At December 31, 2001, the Company had recorded on its consolidated balance sheet net goodwill in the amount of $86.0 million, substantially all of which was recorded in connection with the acquisition by the Company of AMS and businesses forming a part of AMS.

ACCOUNTING FOR HEALTH POLICY ACQUISITION COSTS

The Company incurs various costs in connection with the origination and initial issuance of its health insurance policies, including underwriting and policy issuance costs, costs associated with lead generation activities and distribution costs (i.e., sales commissions paid to agents). For financial reporting purposes, underwriting and policy issuance costs with respect to health policies issued through the Company's Self Employed Agency and Student Insurance Divisions are expensed as incurred. Costs associated with generating sales leads with respect to the health business issued through the Self Employed Agency Division are capitalized and amortized over a two-year period. The Company defers the portion of commissions paid to agents and premium taxes with respect to the portion of health premium collected but not yet earned, and the Company amortizes the deferred expense over the period as and when the premium is earned. See Note A of Notes to Consolidated Financial Statements.

With respect to health policies sold through the Company's Self Employed Agency Division, commissions paid to agents with respect to first year policies are higher than commissions paid to agents with respect to policies in renewal years. Accordingly, during periods of increasing first year premium revenue (such as

occurred during 2001), the Self Employed Agency Division's overall operating profit margin will be negatively impacted by the higher commission expense associated with first year premium revenue.

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, Guaranty Senior Assurance, SeniorsFirst and CFLD Association Field Services. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," the Company has established a liability for future unvested benefits under the Agent Plans and adjusts the liability based on the market value of the Company's Common Stock. The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. See Note O of Notes to Consolidated Financial Statements.

RECONFIRMATION OF 1998 SHARE REPURCHASE PROGRAM

At its regular meeting held on February 28, 2001, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program, in which it initially authorized the repurchase of up to 4,500,000 shares of its common stock from time to time in open market or private transactions. The Company had

previously purchased through early 1999 198,000 shares of common stock pursuant to the program. Following reconfirmation of the program, through February 18, 2002, the Company had purchased an additional 980,400 shares pursuant to the program (with the most recent purchase made on December 13, 2001) at an aggregate cost of $8.8 million, or $9.03 per weighted average share. 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.

DISCONTINUED OPERATIONS

The Company's reported results in 2001 and 2000 reflected a loss from discontinued operations (consisting of the Company's former sub-prime credit card unit and the Special Risk Division) in the amount of $(5.5) million ($(0.11) per diluted share) and $(26.3) million ($(0.55) per diluted share), respectively.

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

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

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

During the year ended December 31, 2000, the discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal. At December 31, 2000, the remaining assets of the discontinued operations in the amount of $54.3 million (consisting of cash and short-term investments in the amount of $27.8

million and other assets in the amount of $26.5 million) were reclassified to cash and other assets, respectively, on the Company's consolidated balance sheet, and the remaining liabilities of the discontinued operations in the amount of $53.0 million (consisting of notes payable in the amount of $4.3 million and other liabilities in the amount of $48.7 million) were reclassified to notes payable and other liabilities, respectively, on the Company's consolidated balance sheet.

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

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

The 1999 and 2000 operating losses at United CreditServ had a material adverse effect upon the liquidity and cash flows of the Company. Since the Company first announced losses at its United CreditServ unit in December 1999, UICI through United CreditServ contributed to UCNB as capital an aggregate of $176.6 million in cash. UICI at the holding company level funded these cash contributions and other cash needs with the proceeds of sale of investment securities; a borrowing from a third party in the amount of $24.0 million funded in July 2000; approved sales of assets from the holding company to the Company's regulated insurance company subsidiaries completed in June and July 2000 generating cash proceeds in the aggregate amount of approximately $26.2 million; dividends in the amount of $19.0 million paid during the six months ended June 30, 2000 from The Chesapeake Life Insurance Company ("CLICO") (one of its regulated insurance company subsidiaries); the sale to The MEGA Life and Health Insurance Company of CLICO for $19.0 million in July 2000; cash proceeds in the amount of $21.8 million from the disposition of its National Motor Club unit completed in July 2000; and cash on hand.

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

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

transplant and international travel accident products), various insurance

intermediary services and certain managed care services. For the year ended December 31, 2001, the Special Risk Division reported a net loss of $(9.2) million, compared to a net loss of $(2.9) million for the year ended December 31, 2000, which losses were reflected in results from discontinued operations.

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

MODIFICATION OF UICI EXECUTIVE STOCK PURCHASE PROGRAM -- SPECIAL 2000 COMPENSATION EXPENSE

In January 2001, the Board of Directors of the Company adopted certain modifications to the UICI Executive Stock Purchase Program (the "ESPP"), which was initially adopted and implemented in December 1998 to afford directors and key UICI executives the opportunity to purchase UICI common stock. See Note O of Notes to Consolidated Financial Statements. In connection with the January 2001 modifications to the ESPP, for financial reporting purposes UICI recorded in the quarter ended December 31, 2000 compensation expense in the amount of $4.8 million pre-tax, or $4.1 million net of tax.

RESULTS OF OPERATIONS

2001 COMPARED TO 2000

General

UICI reported revenues and income from continuing operations in 2001 of $1.1 billion and $48.4 million ($1.01 per diluted share), respectively, compared to 2000 revenues and income from continuing operations of $1.0 billion and $32.0 million ($0.67 per diluted share), respectively.

The Company reported net income in 2001 in the amount of $42.9 million ($0.90 per diluted share), compared to net income of $5.7 million ($0.12 per diluted share) in 2000, including losses from discontinued operations in 2001 and 2000 in the amount of $(5.5) million ($(0.11) per diluted share) and $(26.3) million ($(0.55) per diluted share), respectively.

Continuing Operations

Revenues. UICI's revenues increased to $1,106.6 million in 2001 from $1,019.7 million in 2000, an increase of $86.9 million, or 9%, primarily as a result of a 22% increase in health premiums, from $651.4 million in 2000 to $797.4 million in 2001. The increase in health premium revenue in 2001 was offset by a 14% decrease in interest and investment income and a 9% decrease in other fee income. Revenues in 2000 also were favorably impacted by a realized gain of $26.3 million from a sale of HealthAxis.com shares completed in the first quarter of 2000.

Health premiums. Health premium revenue increased to $797.4 million in 2001 from $651.4 million in 2000, an increase of $146 million, or 22%. The increase in health premium revenue in 2001 was primarily attributable to a 67%

increase in the Self-Employed Agency Division's submitted annualized premium volume for the year (which the Company defines in any period as the aggregate annualized premium amount associated with health insurance applications submitted by the Company's agents in such period for underwriting by the Company) ($578.5 million in 2001 compared to $346.7 million in 2000) and an increase in policy retention rates.

Life premiums and other considerations. Life premiums and other considerations decreased to $34.7 million in 2001 from $36.8 million in 2000, a decrease of $2.1 million, or 6%. This decrease resulted primarily from reduced premiums and other considerations from closed blocks of life and annuity business. The Company last acquired a closed block of life insurance and annuities in 1994. Although the Company believes that it can continue to exploit acquisition opportunities and continues to analyze potential transactions, the Company believes that the current climate for acquisitions of blocks of life insurance and annuities

has become very competitive, making it more difficult to successfully complete acquisitions that meet the Company's acquisition rate of return criteria.

Investment income. Investment income decreased to $83.8 million in 2001 from $89.8 million in 2000, a decrease of $6.0 million, or 7%. The decrease was due to reduced yield on the Company's investment portfolio and a reduction in average outstanding short-term investments, due primarily to the use of cash to reduce outstanding borrowings during the year.

Other interest income. Other interest income (consisting primarily of interest earned on the Company's student loan portfolio) decreased to $88.4 million in 2001 from $111.4 million in 2000, a decrease of $23.0 million, or 21%. The decrease was due to declining market interest rates, resulting in a reduced yield on funds held in connection with AMS' tuition payment programs and a reduced yield on AMS' student loan portfolio.

Other fee income. Other fee income decreased to $94.0 million in 2001 from $103.7 million in 2000, a decrease of $9.7 million or 9%. Other fee income consists primarily of tuition installment program fees, loan-servicing fees and gains on loan sales at AMS (in the aggregate $38.6 million and $35.6 million in 2001 and 2000, respectively), third party administration fees ($24.3 million and $22.2 million in 2001 and 2000, respectively), and various Self-Employed Division marketing-related fees ($28.0 million and $23.3 million in 2001 and 2000, respectively). The decrease in other fee income is associated with the sale in July 2000 of National Motor Club ("NMC"), which generated $19.4 million in other fee income (primarily membership fees) for the seven-month period ended July 2000. Included in other fee income is the third party administration revenue of UICI Administrators of $20.1 million in 2001 and $18.5 million in 2000. The Company completed the sale of UICI Administrators on January 17, 2002.

Other income. Other income (consisting primarily of commission and fee income from the Company's AMLI Realty Co. subsidiary) increased to $3.1 million in 2001 from $2.2 million in 2000, an increase of $900,000. The increase in other income is due to commissions received by the Company's AMLI Realty Co. subsidiary in connection with property sales.

Gain on sale of HealthAxis.com stock. On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock. In connection with the sale of such shares, the Company recognized a pre-tax gain in the amount of $26.3 million.

Gains (losses) on sale of investments. The Company recognized gains on

sale of investments of $5.2 million in 2001 compared to losses of $(1.9) million in 2000. Included in 2001 gains is a $5.3 million gain related to the Company's investment in AMLI Commercial Properties Trust ("ACPT") and $3.4 million in gains from the Company's investment portfolio, which were offset by an impairment charge for certain investments in the amount of $3.5 million. During 2001, ACPT, an equity method investee, in which the Company held a 20% equity interest, sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized a gain in the amount of $5.3 million.

The amount of realized gains or losses on the sale of investments is affected by changes in interest rates, market trends and the timing of sales. Losses are more likely during periods of increasing long-term interest rates. In addition, due to decreasing long-term interest rates in 2001, the net unrealized investment gain on securities classified as "available for sale", reported in accumulated other comprehensive income as a separate component of stockholders' equity and net of applicable income taxes, increased to $30.3 million at December 31, 2001, from a net unrealized investment loss of $(10.1) million at December 31, 2000. The Company changed its method for accounting for its investment in AMLI Residential effective June 30, 2001, from the equity method to the investment method. The Company holds a 10% interest in AMLI Residential. The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million; the accounting change had no effect on the Company's results of operations for the year ended December 31, 2001. As a result of the accounting change, the Company marks-to-market its investment in AMLI Residential and accordingly, changes in the Company's carrying value of its investment in AMLI Residential are recorded as unrealized gains (or losses) with corresponding changes to the Company's stockholders' equity

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(net of tax). At December 31,2001 and 2000, the Company's carrying value of its investment in AMLI Residential was $64.3 million and $23.1 million, respectively.

Benefits, claims, and settlement expenses. Benefits, claims and settlement expenses increased to $531.0 million in 2001 from $439.7 million in 2000, an increase of $91.3 million, or 21%. The increase in benefits, claims and settlement expenses was primarily due to the increase in premium revenue from the SEA and Student Divisions and the strengthening of reserves associated with the Company's workers compensation business. In May 2001 the Company discontinued its workers compensation business, in connection with which the Company incurred a charge of $8.7 million associated with a strengthening of reserves.

Underwriting, acquisition and insurance expenses. Underwriting, acquisition and insurance expenses increased to $293.8 million in 2001 from $239.4 million in 2000, an increase of $54.4 million, or 23%. The increase was primarily due to increased commission expense attributable to the growth in first year premium revenue in the SEA Division (with respect to which the Company records a higher commission expense than with respect to premium revenue in policy renewal years). In the fourth quarter of 2001, the Company also recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administration.

Other expenses. Other expenses (consisting primarily of AMS operating expenses and other non-insurance related expenses) decreased to $101.1 million in 2001 from $117.1 million in 2000, a decrease of $16.0 million or 14%. The decrease was due to the sale of National Motor Club ("NMC") in July 2000. NMC

incurred $17.2 million in other expenses for the seven month period ended July 2000.

Depreciation. Depreciation expense increased to $15.9 million in 2001 from $14.0 million in 2000, an increase of $1.9 million or 14%. The increase was primarily due to additional depreciation associated with the capitalized costs of technology initiatives and upgrades.

Interest expense. Interest expense on corporate borrowings decreased to $5.0 million in 2001 from $13.6 million in 2000, a decrease of $8.6 million. The decrease was due primarily to the decreased level of borrowings outstanding during 2001 compared to 2000. Interest expense on student loan obligations decreased to $69.4 million in 2001 from $101.6 million in 2000, a decrease of $32.2 million or 32%, primarily resulting from a decline in prevailing market interest rates.

Operating Income. Income from continuing operations before federal income taxes ("operating income") decreased to $66.2 million in 2001 from $67.1 million in 2000. Operating income (loss) for each of the Company's segments and divisions was as follows:

	YEAR ENDED DECEMBER 31,	
	2001	2000
Income (loss) from continuing operations before income taxes:		
Insurance:		
Self Employed Agency	$ 74,849	$ 70,905
Student Insurance	4,022	(1,877)
Life Insurance Division	7,363	13,132
Senior Market	(2,112)	--
National Motor Club	--	2,471
Total Insurance	84,122	84,631
Financial Services:		
Academic Management Services	5,413	(24,640)
UICI Administrators	(2,099)	(1,668)
Gain on sale of HealthAxis.com shares	--	26,300

	YEAR ENDED DECEMBER 31,	
	2001	2000
Equity interest in Healthaxis, Inc. operating loss	(10,597)	(15,623)
Total Financial Services	(7,283)	(15,631)
Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including		

interest on non-student loan indebtedness)	2,940	9,631
Variable stock compensation	(7,293)	(5,300)
Goodwill amortization	(6,263)	(6,193)
Total Other Key Factors	(10,616)	(1,862)
Total income from continuing operations before income taxes	$ 66,223	$ 67,138

Self-Employed Agency Division. Operating income at UICI's Self Employed Agency ("SEA") Division increased by 6% to $74.8 million for the year ended December 31, 2001, from $70.9 million in 2000.

The Company measures the volume of business activity at SEA by means of "submitted annualized premium volume," which in any period is the aggregate annualized premium amount associated with health insurance applications submitted by the Company's agents in such period for underwriting by the Company. SEA in 2001 experienced a 67% increase in submitted annualized premium volume over 2000 levels ($578.5 million in 2001 compared to $346.7 million in 2000). The Company recognizes premium revenue in a period as and when it is earned. Earned premium revenue at SEA increased from $521.1 million in 2000 to $650.0 million in 2001, a 25% increase. Operating income as a percentage of earned premium revenue decreased to 11.5% in 2001 from 13.6% in 2000. This decrease in operating margin was attributable primarily to a significant increase in first year earned premium revenue (with respect to which the Company records a higher commission expense than with respect to earned premium revenue in policy renewal years) and a nominal increase in loss ratio (59.9% for 2001 compared to 59.5% for 2000).

Student Insurance Division. For the year ended December 31, 2001, the Student Insurance Division reported operating income of $4.0 million compared to an operating loss of $(1.9) million in 2000. The increase in operating income for the year ended December 31, 2001 was attributable to a 13% increase in earned premium revenue, continued improvement in loss ratios, and improvement in administrative efficiencies.

Life Insurance Division. For the year ended December 31, 2001, the Company's Life Insurance Division reported operating income of $7.4 million compared to operating income of $13.1 million in 2000. The decrease in operating income for the year ended December 31, 2001 was primarily attributable to the discontinuation in May 2001 of the Company's workers compensation business (in connection with which the Company incurred a charge of $8.7 million in the second quarter associated with a strengthening of reserves) increased administration costs associated with investment in new life products and a charge of $1.3 million in the fourth quarter representing the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator. These charges in 2001 were partially offset by a $5.2 million increase in the second quarter in the carrying value of student loans generated by the Company's College Fund Life Insurance Division, a unit of the Life Insurance Division.

Senior Market Division. The Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of insurance products for the senior market (including long term care and Medicare supplement products), and the development of distribution channels for the products. For the year ended December 31, 2001, the Company realized nominal revenues associated with this Division, and the Company has expensed developmental costs as incurred.

National Motor Club. On July 27, 2000, the Company completed the sale of

its 97% interest in NMC Holdings, Inc. (the parent of National Motor Club of America, Inc.) to an investor group consisting of

members of the family of Ronald L. Jensen (including Mr. Jensen). See Notes C and M of Notes to the Consolidated Financial Statements.

Academic Management Services Corp. For the year ended December 31, 2001, UICI's Academic Management Services Corp. subsidiary ("AMS") reported operating income of $5.4 million compared to an operating loss of $(24.6) million for the comparable period in 2000. Set forth below is a summary comparative statement of operations for AMS for the year ended December 31, 2001 and 2000:

	YEAR ENDED DECEMBER 31,	
	2001	2000
Interest income -- student loans	$ 88,398	$110,651
Gain on sale of student loans	11,300	7,757
Other investment income	6,663	8,039
Fee income -- tuition payment programs	14,085	11,898
Fee income -- loan servicing and other	13,211	15,905
Total revenue	133,657	154,250
Interest expense -- student loans	69,205	104,043
Provision for loan loss	292	1,810
Interest expense -- other indebtedness	2,152	4,365
Depreciation	3,934	4,563
Amortization of goodwill	3,986	3,989
Other operating expenses	53,518	66,423
Less: operating costs deferred	(34)	(2,238)
	133,053	182,955
Income (loss) from operations (including amortization of goodwill and other expenses in Other Key Factors)	604	(28,705)
Amortization of goodwill and other expenses in Other Key Factors	4,809	4,065
Income (loss) from operations	$ 5,413	$(24,640)

The significant improvement in operating results for the year ended December 31, 2001 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, increased gains on sales of loans and continued efforts to reduce operating expenses

Declining market interest rates throughout 2001 resulted in an overall decrease in revenue (due to decreased interest income on AMS' student loan portfolio and decreased investment income from funds on deposit in AMS' tuition installment plan trust account) during 2001 compared to revenue in 2000. However, declining market interest rates throughout 2001 benefited AMS by significantly lowering its costs of borrowing, resulting in improved spreads on

AMS' student loan portfolio. Spread income for the year 2001 was $20.4 million compared to $6.7 million for the prior year.

During 2001, AMS benefited significantly from a favorable prescribed minimum rate earned on its student loan portfolio. The benchmark for yields on federally guaranteed student loans is reset annually in accordance with Department of Education regulations effective July 1 for the succeeding twelve-month period. While yields on student loans are indexed to the 91-day Treasury bill rate, the benchmark establishes a floor, below which a lender's yield will not fall during the succeeding twelve-month period. On July 1, 2001, the floor rates on FFELP loans for the period July 1, 2001 through June 30, 2002 reset 220 basis points lower than the floor rates for the period July 1, 2000 through June 30, 2001. Nevertheless, due to rapidly declining market interest rates, shortly before September 30, 2001 the rate that AMS earned on its student loan portfolio again fell to the statutorily prescribed minimum rate, and the continued decline in prevailing market

interest rates over the three months ended December 31, 2001 had the effect of continuing to reduce AMS' overall borrowing costs. As a result, AMS' spread income in the fourth quarter of 2001 in the amount of $7.5 million exceeded spread income of $3.2 million earned in the third quarter of 2001 and spread income of $696,000 earned in the fourth quarter of 2000.

AMS sold $474.0 million and $765.0 million principal amount of student loans during the year ended December 31, 2001 and 2000, respectively, from which AMS generated gains on net sales in the amount of $11.3 million and $7.8 million, respectively. While AMS sold a lesser principal amount of loans in 2001 than in 2000, the higher net gain in 2001 resulted from lower deferred loan origination costs associated with sold loans in 2001 compared to 2000.

Income from AMS' tuition payment programs in the year ended December 31, 2001 was $14.1 million, compared to income in the year ended December 31, 2000 of $11.9 million. For the year ended December 31, 2001, an increase in fees attributable to additional tuition payment accounts and the imposition of late fees on delinquent accounts were offset by a decline in investment income from tuition payment program funds held in trust, as a result of lower prevailing market interest rates. Investment income on funds held in connection with tuition payment programs declined to $6.6 million in 2001 from $8.0 million in 2000 (despite a 16% increase in the average trust fund balance). AMS tuition payment program business has historically generated its highest levels of fee income (and operating profits) in the second and third quarters of the calendar year and an operating loss in the fourth quarter of the calendar year.

AMS also reduced operating expenses by $15.1 million in the year ended December 31, 2001, over operating expenses in 2000. This reduction in operating expenses was primarily attributable to the closing in September 2000 of AMS' San Diego facility, reduced interest expense associated with non-student loan indebtedness, and reduced administrative expenses. For the year ended December 31, 2001, interest expense on non-student loan indebtedness was $2.2 million, compared to interest expense on non-student loans of $4.4 million in the year ended December 31, 2000. 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.

Due to the inherent uncertainty surrounding spread income and the seasonality of its tuition installment business, in any given financial period AMS may continue to rely on gains from timely sales of student loans to remain profitable for such period.

Third Party Administration Division. The Company has classified the operations of UICI Administrators, Inc., Insurdata Marketing Services, LLC, and Barron Risk Management Services, Inc. as its Third Party Administration ("TPA") Division. For year ended December 31, 2001, the TPA Division incurred an operating loss of $(2.1) million compared to an operating loss of $(1.7) million in the comparable 2000 period. On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of its 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, of which $700,000 represented a write-down of fixed assets (which was included in depreciation in 2001) and $1.6 million represented a write-down of goodwill (which was reflected in goodwill amortization in 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.

Investment in Healthaxis, Inc. (formerly HealthAxis.com, Inc.) At December 31, 2001, the Company held approximately 47% 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 E of Notes to Consolidated Financial Statements.

During the year ended December 31, 2001, the Company's share of HAI's operating losses (computed prior to amortization of merger related goodwill) was $(10.6) million, compared to its share of operating

losses of $(15.6) million in 2000. At December 31, 2001, the Company's carrying value of its investment in HAI was $8.3 million.

Other Key Factors. The Other Key Factors category includes investment income not allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, realized gains or losses on sale of investments, minority interest expense, the AMLI operations, variable stock compensation and amortization of goodwill. Operating losses for the year ended December 31, 2001 attributable to this category were $(10.6) million compared to $(1.9) million for the comparable period in 2000. The increase in operating losses was primarily attributable to a $7.5 million increase in corporate technology expenses, a $2.0 million increase in variable stock compensation, a $3.7 million increase in minority interest expense attributable to AMS' return to profitability in 2001, and a $3.5 million impairment charge from the Company's investment portfolio. These increases were partially offset by $3.4 million in realized gains from the Company's investment portfolio (excluding the impairment charge) and a $5.3 million gain recognized in 2001 on the sale of the Company's interest in AMLI Commercial Properties Trust. The amount of realized gains or losses on the sale of investments is a function of interest rates, market trends and the timing of sales.

During 2001, AMLI Commercial Properties Trust, an equity method investee in which the Company held a 20% equity interest, sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sales, the Company recognized a gain in the amount of $5.3 million.

The Company changed its method for accounting for its investment in AMLI Residential Properties Trust (a publicly-traded (NYSE: AML) real estate investment trust) ("AMLI Residential") from the equity method to the investment method effective June 30, 2001 due to its decreased ownership interest to 10.3%.

The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million. As a result of the accounting change, the Company no longer records its share of AMLI Residential's gains and losses but, rather, marks-to-market its investment in AMLI Residential. Accordingly, increases (or decreases) in the Company's carrying value of its investment in AMLI Residential are now recorded as unrealized gains (or losses) with corresponding increases (or decreases) to the Company's stockholders' equity (net of tax). At December 31, 2001 and 2000, the Company's carrying value of its investment in AMLI Residential was $64.3 million and $23.1 million, respectively. The $23.1 million carrying value of the investment at December 3, 2000 is reflected on the Company's consolidated balance sheet under "Investment in other equity investees."

2000 COMPARED TO 1999

General

UICI reported 2000 revenues and income from continuing operations of $1.020 billion and $32.0 million ($0.67 per share fully diluted), respectively, compared to 1999 revenues and income from continuing operations of $954.2 million and $35.8 million ($0.75 per share fully diluted), respectively. The Company generated total 2000 net income in the amount of $5.7 million ($0.12 per share fully diluted), compared to a net loss of $(145.9) million ($(3.05) per share fully diluted) in 1999, reflecting a loss in 2000 and 1999 from discontinued operations in the amount of $(26.3) million ($(0.55) per share fully diluted) and $(181.7) million ($(3.80) per share fully diluted), respectively.

UICI's 2000 results include a pre-tax operating loss at the Company's Academic Management Services Corp. student loan unit of $(24.6) million, the Company's equity in losses of HealthAxis, Inc. of $(15.6) million, and a $26.3 million pre-tax gain from the sale of investment securities.

The Company's Self -- Employed Agency ("SEA") Division, which provides health insurance to the self-employed market, reported operating income of $70.9 million in 2000, a 41% increase over operating income of $50.4 million in 1999. The significant increase in operating income of the SEA division was primarily attributable to improved loss ratios on the Company's managed care products, continued success in directing a larger portion of new sales to more traditional, higher margin, indemnity products, and increased

productivity of the Company's dedicated agent field force. The Company's Insurance Segment as a whole reported operating income in 2000 of $84.6 million, a 19% increase over operating income of $71.1 million generated in 1999.

As discussed further below, AMS' 2000 operating results reflected, in part, a reduction in operating income as a result of reduced yields on AMS' student loan portfolio, which resulted from the acquisition of higher cost student loans in 1998 and 1999. AMS also incurred significant non-recurring expenses associated with, among other things, the management transition effected in January 2000, the relocation of AMS' headquarters, the write-off of facilities development costs and previously capitalized costs incurred in connection with AMS' Internet strategy, and the previously announced closure of the San Diego loan origination center.

Reflecting the terms of the Company's then-pending sale of its United CreditServ business, during the quarter ended June 30, 2000 the Company recorded an additional pre-tax loss, and correspondingly increased the liability for loss

on the disposal of the discontinued operation, in the amount of $36.0 million ($23.4 million net of tax). Accordingly, for the full year 2000, the Company reported a loss from discontinued operations in the amount of $40.3 million pre-tax ($26.3 million net of tax). During the year ended December 31, 2000, the credit card discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal.

In December 2001, the Company designated its Special Risk Division as a discontinued operation for financial reporting purposes for all years presented.

Continuing Operations

Revenues. UICI's revenues increased to $1,019.7 million in 2000 from $954.2 million in 1999, an increase of $65.5 million, or 7%, primarily as a result of an increase in other interest income and the gain on sale of the HealthAxis.com shares in the amount of $26.3 million, offset by a $9.6 million reduction in other fee income.

Health premiums. Health premiums increased to $651.4 million in 2000 from $649.5 million in 1999, an increase of $1.9 million.

Life premiums and other considerations. Life premiums and other considerations decreased to $36.8 million in 2000 from $40.3 million in 1999, a decrease of $3.5 million, or 9%. This decrease resulted from reduced premiums and other considerations from closed blocks of life and annuity business.

Investment income. Investment income increased to $89.8 million in 2000 from $82.9 million in 1999, an increase of $6.9 million, or 8%. The increase was due to increased earnings from the Company's investment in AMLI Residential Properties Trust, together with an increase in investment income from restricted cash held at AMS for a full year in 2000. AMS Investment Group, Inc. was acquired in July 1999.

Other interest income. Other interest income increased to $111.4 million in 2000 from $65.1 million in 1999, an increase of $46.3 million. The increase was due to the additional interest income earned on student loans at the Company's AMS operations in 2000.

Other fee income. Other fee income decreased to $103.7 million in 2000 from $113.3 million in 1999, a decrease of $9.6 million. The decrease was due to the sale of National Motor Club ("NMC") in July 2000. NMC generated $19.4 million and $24.6 million in other fee income (primarily membership fees) for the seven month period ended July 2000 and for the full year in 1999, respectively.

Other income. Other income decreased to $2.2 million in 2000 from $3.5 million in 1999, a decrease of $1.3 million. The decrease in other income is due to a decrease in fee and commission income from the Company's AMLI Realty Co. subsidiary.

Gain on sale of HealthAxis.com stock. On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock. In connection with the sale of such shares, the Company recognized a pre-tax gain in the amount of $26.3 million.

Loss on sale of investments. The Company recognized losses on sale of investments of $(1.9) million in 2000 compared to $(367,000) in 1999. The amount of realized gains or losses on the sale of investments is a function of interest

rates, market trends and the timing of sales. Losses are more likely during periods of increasing long-term interest rates. In addition, due to decreasing long-term interest rates in 2000, the net unrealized investment loss on securities classified as "available for sale", reported in accumulated other comprehensive income as a separate component of stockholders' equity and net of applicable income taxes, was $10.1 million at December 31, 2000, compared to $30.4 million at December 31, 1999.

Benefits, claims, and settlement expenses. Benefits, claims and settlement expenses decreased to $439.7 million in 2000 from $470.3 million in 1999, a decrease of $30.6 million, or 7%. The decrease was primarily due to the improvement in loss ratios on the Company's managed care products in the SEA Division.

Underwriting, acquisition and insurance expenses. Underwriting, acquisition and insurance expenses increased to $239.4 million in 2000 from $225.1 million in 1999, an increase of $14.3 million or 6%. The increase was primarily due to increased commission expense from directing sale of new business to traditional indemnity products which generally incur higher first year commission rates than managed care products and increased technology costs.

Other expenses. Other expenses increased to $117.1 million in 2000 from $114.3 million in 1999, an increase of $2.8 million. The increase was primarily due to increased administrative expenses incurred at the Company's AMS division due to management transition relocation of AMS' headquarters and the write-off of various development and capitalized costs.

Depreciation. Depreciation expense increased to $14.0 million in 2000 from $13.6 million in 1999, an increase of $400,000.

Interest expense. Interest expense on corporate borrowings increased to $13.6 million in 2000 from $7.4 million in 1999, an increase of $6.2 million. The increase was due primarily to the increased level of borrowings outstanding during 2000. Interest expense on student loan obligations increased to $101.6 million in 2000 from $57.5 million in 1999, an increase of $44.1 million. The increase was due primarily to AMS' increased student loan origination volume.

Operating Income. Income from continuing operations before federal income taxes ("operating income") increased to $67.1 million in 2000 from $54.8 million in 1999. Operating income (loss) for each of the Company's segments and divisions was as follows:

	YEAR ENDED DECEMBER 31,	
	2000	1999
Income (loss) from continuing operations before income taxes:		
Insurance:		
Self Employed Agency	$ 70,905	$ 50,415
Student Insurance	(1,877)	49
Life Insurance Division	13,132	17,405
National Motor Club	2,471	3,200
Total Insurance	84,631	71,069
Financial Services:		
Academic Management Services	(24,640)	(19,938)
UICI Administrators	(1,668)	2,322

Gain on sale of HealthAxis.com shares	26,300	--
HealthAxis.com operating loss	(15,623)	--
Total Financial Services	(15,631)	(17,616)

	YEAR ENDED DECEMBER 31,	
	2000	1999
Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest on non-student loan indebtedness)	9,631	7,623
Variable stock compensation	(5,300)	--
Goodwill amortization	(6,193)	(6,279)
Total Other Key Factors	(1,862)	1,344
Total income from continuing operations before income taxes	$ 67,138	$ 54,797

Self Employed Agency Division ("SEA"). The SEA Division reported operating income of $70.9 million in 2000 compared to $50.4 million in 1999. Revenue for the SEA Division decreased to $566.4 million for the year ended in 2000 from $566.8 million in 1999, a decrease of $400,000. The increase in operating income was primarily attributable to improved loss ratios on the Company's managed care products, continued success in directing a larger portion of new sales to more traditional, higher margin, indemnity products, and increased productivity of the Company's dedicated agent field force. The decrease in revenues was attributable to the decrease in premiums from the coinsurance business, which was offset by the continued success in new business sales from the Company's Cornerstone and UGA dedicated agency field forces.

Student Insurance Division. The Student Insurance Division incurred an operating loss of $(1.9) million in 2000 compared to operating income of $49,000 in 1999. The loss in 2000 reflected increased expenses associated with new system implementations and lower margins resulting from increased loss ratios on policies sold in the 1998-1999 policy year. Revenue for the Student Insurance Division increased to $111.5 million in 2000 from $108.0 million in 1999, an increase of $3.5 million, or 3%.

Life Insurance Division. Operating income for the Life Insurance Division decreased to $13.1 million in 2000 from $17.4 million in 1999, a decrease of 25%. The decrease in operating income was attributable to several factors. The Life Insurance Division's life insurance claim benefits increased over claim benefits in the corresponding period of the prior year. The Company believes that the higher level of claims in the life business was due to normal variations in the business for the closed life blocks. An additional loan reserve was established for the student loans made by the College Fund Life unit on its life insurance product. Credit disability insurance claim reserves were increased based on claims experience, and a reserve for bad debts on premium receivables was established. Operating income for the workers compensation line

of business decreased as a result of lower premium rates, which has been occurring in this product line in Oklahoma for the past two years. Revenue for the Life Insurance Division decreased to $92.4 million in 2000 from $94.1 million in 1999, a decrease of $1.7 million, or 2%.

National Motor Club. On July 27, 2000, the Company completed the sale of its 97% interest in NMC Holdings, Inc. (the parent of National Motor Club of America, Inc.) to an investor group consisting of members of the family of Ronald L. Jensen (including Mr. Jensen). See Note M of Notes to the Consolidated Financial Statements.

Operating income for the National Motor Club decreased to $2.5 million in 2000 compared to $3.2 million in 1999. Revenues for National Motor Club decreased to $21.7 million in 2000 from $27.8 million in 1999. The decrease in operating income and revenues reflects the sale of National Motor Club in July 2000.

Third Party Administration Division. The Company has classified the operations of 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, Inc. as its Third Party Administration ("TPA") business division. The TPA Division incurred an operating loss of $(1.7) million in 2000 compared to operating income of $2.3 million in 1999. Revenues for the TPA Division decreased to $18.5 million in 2000 from $46.2 million in 1999.

The decrease in operating income and revenues at the Company's TPA division was primarily attributable to the timing of the contribution of substantially all of the operations of Insurdata Incorporated (other than the operations of Insurdata Marketing Services, LLC) to HealthAxis.com in connection with the Insurdata-HealthAxis.com merger, which was completed in January 2000. The results of operations of Insurdata Incorporated had previously been included in the results of operations of the TPA division. Excluding the 1999 results of operations of Insurdata Incorporated transferred to HealthAxis.com, for 2000 and 1999, revenues for the UICI Administrators division were $18.5 million and $4.8 million, respectively, and operating income (loss) for the division was $(1.7) million and $414,000, respectively.

Investment in Healthaxis, Inc. The Company accounts for its investment in Healthaxis, Inc. utilizing the equity method and, accordingly, recognizes its ratable share of Healthaxis, Inc. income and loss (computed prior to amortization of goodwill recorded by Healthaxis, Inc. in connection with the Insurdata Merger). See Note E of Notes to Consolidated Financial Statements. The Company's equity in the loss of HealthAxis.com for 2000 was $15.6 million. Healthaxis, Inc. continues to incur operating losses attributable to significant marketing, development and other start-up expenses. HealthAxis.com also incurred losses in 2000 in connection with the sale of its retail web site and related assets. The Company's share of such losses ($(2.5) million) is included in the Company's equity in losses for 2000.

On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock. In connection with the sale of such shares, the Company recognized a pre-tax gain in the amount of $26.3 million.

Other Key Factors. Other key factors include investment income not allocated to the other segments, interest expense from corporate borrowings,

general expenses relating to corporate operations, realized gains or losses on sale of investments, the AMLI operations, variable stock compensation and amortization of goodwill. Other key factors reported an operating loss of $(1.9) million in 2000 compared to operating income of $1.3 million in 1999, a $3.2 million decrease. The decrease is primarily due to decreased fees and commissions at the Company's AMLI subsidiary and an increase in realized losses in 2000.

Goodwill amortization decreased to $6.2 million in 2000 from $6.3 million in 1999, a decrease of $100,000. This decrease in goodwill amortization was attributable to the sale of NMC in July 2000, the assets of which included approximately $36.1 million in goodwill. This decrease was offset by the increase of goodwill amortization from the AMS acquisition in July 1999, resulting in a full year of amortization in 2000, compared to five months of amortization in 1999.

Academic Management Services Corp. ("AMS"). AMS incurred an operating loss of $(24.6) million in 2000, compared to an operating loss of $(19.9) million in 1999 (in each case exclusive of goodwill amortization and other expenses at the parent-company level). Revenue for AMS increased to $154.3 million

in 2000 from $104.6 million in 1999. Set forth below is a summary comparative statement of operations for AMS:

	YEAR ENDED DECEMBER 31,	
	2000	1999
Interest income -- student loans	$110,651	$ 65,001
Gain on sale of student loans	7,757	7,404
Other investment income	8,039	3,986
Fee income -- tuition payment programs	11,898	7,404
Fee income -- loan servicing and other	15,905	15,258
Insurance income	--	5,539
Total revenue	154,250	104,592
Interest expense -- student loans	104,043	63,497
Provision for loan loss	1,810	950
Interest expense -- other indebtedness	4,365	2,398
Depreciation	4,563	3,378
Amortization of goodwill	3,989	2,618
Other operating expenses	66,423	61,284
Less: operating costs deferred	(2,238)	(6,977)
	182,955	127,148
Loss from operations (including amortization of goodwill and other expenses in Other Key Factors)	(28,705)	(22,556)
Amortization of goodwill and other expenses in Other Key Factors	4,065	2,618
Loss from operations	$(24,640)	$(19,938)

The increases in 2000 in interest income and interest expense associated with student loans, as well as the increase in the provision for loan loss, resulted primarily from higher average carrying amount of student loans held during the year compared to 1999. In 2000, AMS originated approximately $776.1 million principal amount of new loans, purchased approximately $2.5 million principal amount of student loans in the secondary market, and sold approximately $779.8 million principal amount of loans. In 1999, AMS originated approximately $671.2 million principal amount of new loans, purchased approximately $401.0 million principal amount of student loans in the secondary market, and sold approximately $391.0 million principal amount of loans. Including principal payments and capitalization and amortization of deferred loan origination costs, student loans decreased approximately $166.0 million in 2000, as compared to an increase of approximately $628.0 million during 1999. During 2000, an increase in prevailing interest rates had a negative effect on the cost of financing AMS' student loan portfolio.

Included in the interest rate spread on student loans are PLUS loans on which the interest rate yield is set annually beginning July 1 by regulation at a fixed rate. At March 31, June 30, September 30 and December 31, 2000, AMS held PLUS loans in the aggregate principal amount of $371.0 million, $270.0 million, $253.0 million and $273.0 million, respectively. The prescribed rate earned on PLUS loans was 7.72% from January 1 to June 30, 2000 and was reset to 8.99% beginning July 1, 2000. If the interest rate yield exceeds the maximum allowable rate chargeable to the borrower, AMS, as the holder of PLUS loans, would be eligible for government subsidized, special allowance payments for the year. The fixed interest rate yield in 2000 was below the maximum rate. For the twelve months beginning July 1, 2000, the fixed rate will be below the maximum rate and AMS will not be entitled to special allowance payments on its PLUS loans. AMS finances the cost of such loans at floating interest rates that are reset monthly and quarterly through its structured finance facilities.

Gain on sale of student loans included gross gains of $22.5 million in 2000 and $16.0 million in 1999. Deferred loan origination costs associated with sold loans were charged to gain on sale in the amount of $14.7 million and $8.6 million in 2000 and 1999, respectively. While more principal amount of loans was sold in 2000 than in 1999, resulting in a higher gross gain, the lower net gain results from higher deferred loan origination costs associated with sold loans in 2000 compared to 1999. In addition, the sale of loans in the second and third quarters of 2000 resulted in lower interest income in the second half of the year, as the sold loans no longer generated interest income. The reduction in interest earned in the second half of 2000 because of loan sales was offset by gains on sale of $3.8 million in the first six months of 2000 and $3.1 million in the second six months.

Other investment income increased to $8.0 million in 2000 from $4.0 million in 1999. Fee income from tuition payment programs increased to $11.9 million in 2000 from $7.4 million in 1999. Increases in both of these categories resulted primarily from the acquisition of the Academic Management Services Inc. tuition payment program business, effective July 27, 1999. Results from this business were included for a full year in 2000, compared to a period of five months in 1999. Income for the tuition payment program business is seasonal. In 2000, income from tuition payment program fees earned plus investment income on tuition payment program trust funds was $3.6 million in the first quarter, $5.5 million in the second quarter, $7.8 million in the third quarter and $3.8 million in the fourth quarter.

Insurance income of $5.5 million in 1999 relates to AMS' student insurance business. In May 1999, the assets and liabilities associated with AMS' student insurance business were transferred to UICI's Student Insurance Division.

Interest expense on other indebtedness increased to $4.4 million in 2000 from $2.4 million in 1999, reflecting primarily additional borrowings in the amount of $30.0 million incurred to acquire Academic Management Services Inc. on July 27, 1999. Interest expense on this acquisition indebtedness was $2.8 million in 2000.

The increases in depreciation expense and amortization of goodwill also resulted primarily from the inclusion of AMS' tuition payment program business and its acquisition cost for a full year in 2000, compared to five months in 1999. Amortization of goodwill associated with the acquisition of this business was $2.4 million in 2000 compared to $1.0 million in 1999.

Other operating expenses increased to $66.4 million in 2000 from $61.3 million in 1999. Included in 2000 operating expenses were approximately $5.7 million associated with the management transition effected in January 2000, the relocation of AMS' headquarters from South Yarmouth, Massachusetts to Swansea, Massachusetts, the write-off of facilities development costs and the write-off of previously capitalized costs incurred in connection with AMS' Internet strategy and other business initiatives undertaken by prior management. AMS also incurred $1.2 million in consulting expenses in connection with analysis of operating strategies. Included in AMS' operating expenses for 2000 is $900,000 in expenses associated with the transfer in the fourth quarter of AMS' non-campus based association marketing business to UICI's Student Insurance Division. In addition, operating costs associated with the tuition payment program business are included for a full year in 2000 compared to five months in 1999.

AMS markets loans to parents of dependent students ("PLUS loans") through direct mail and telemarketing programs directly to prospective student and parent borrowers. Until September 2000, these marketing activities were conducted primarily through the Company's San Diego, California marketing unit. On September 17, 2000, AMS announced that the California facility would be closed and the PLUS loan marketing activities would be consolidated into AMS' Swansea, Massachusetts headquarters. Management believes that these changes will result in a more cost-effective marketing effort. In 2000, AMS recorded a charge to income in the amount of $1.5 million, representing expenses incurred in connection with the exit from its San Diego unit. These costs included termination benefits for substantially all of the unit's 90 employees and the cost of certain contractual obligations of the unit.

Certain costs of originating loans are capitalized in accordance with Statement of Financial Accounting Standards No. 91, Nonrefundable Fees & Costs Associated with Originating or Acquiring Loans and Initial

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Direct Costs of Leases. Capitalized costs for PLUS loans incurred by the San Diego unit were $2.2 million in 2000 as compared to $7.0 million in 1999. The decrease in capitalized costs resulted from a decrease in total expenses incurred ($7.5 million in 2000 compared to $17.0 million in 1999) and a decrease in PLUS loan production ($50.0 million in 2000 compared to $192.0 million in 1999).

QUARTERLY RESULTS

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has specialized in certain niche health-related products

(including "stop loss", marine crew accident, organ transplant and international travel accident products), various insurance intermediary services and certain managed care services. For the year ended December 31, 2001, the Special Risk Division reported a net loss of $(9.2) million, compared to a net loss of $(2.9) million for the year ended December 31, 2000, which losses were reflected in results from discontinued operations.

The following table presents the information for each of the Company's fiscal quarters in 2001 and 2000 as restated to reflect classification of the Special Risk Division as a discontinued operation. This information is unaudited and has been prepared on the same basis as the audited Consolidated Financial Statements of the Company included herein and, in management's opinion, reflects all adjustments necessary for a fair presentation of the information for the periods presented. The operating results for any quarter are not necessarily indicative of results for any future period.

	QUARTER ENDED			
	DECEMBER 31, 2001	SEPTEMBER 30, 2001	JUNE 30, 2001	MARCH 31, 2001
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
Revenues from continuing operations.................	$299,209	$272,217	$278,718	$256,439
Income from continuing operations before federal income taxes...............	10,398	20,023	17,077	18,725
Income (loss) from continuing operations................	9,380	13,713	12,943	12,322
Income (loss) from discontinued operations....	(3,082)	(1,838)	(327)	(219)
Net income (loss)...........	6,298	11,875	12,616	12,103
Basic earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations................	0.20	0.30	0.28	0.26
Income (loss) from discontinued operations....	(0.06)	(0.05)	(0.01)	--
Net income (loss)...........	0.14	0.25	0.27	0.26
Diluted earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations................	0.19	0.29	0.27	0.26
Income (loss) from discontinued operations....	(0.06)	(0.04)	--	(0.01)
Net income (loss)...........	$ 0.13	$ 0.25	$ 0.27	$ 0.25

	QUARTER ENDED			
	DECEMBER 31, 2000	SEPTEMBER 30, 2000	JUNE 30, 2000	MARCH 31, 2000
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)			
Revenues from continuing operations.................	$252,772	$239,936	$253,631	$273,316
Income from continuing				

operations before federal income taxes...............	3,411	15,211	10,418	38,098
Income (loss) from continuing operations.................	(2,074)	8,157	6,277	19,658
Income (loss) from discontinued operations....	(4,020)	859	(23,257)	133
Net income (loss)............	(6,094)	9,016	(16,980)	19,791
Basic earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations.................	(0.05)	0.17	0.14	0.42
Income (loss) from discontinued operations....	(0.09)	0.02	(0.50)	0.01
Net income (loss)............	(0.14)	0.19	(0.36)	0.43
Diluted earnings (loss) for common stockholders per common share:				
Income (loss) from continuing operations.................	(0.05)	0.17	0.13	0.42
Income (loss) from discontinued operations....	(0.08)	0.02	(0.49)	--
Net income (loss)............	$ (0.13)	$ 0.19	$ (0.36)	$ 0.42

Computation of earnings (loss) per share for each quarter is made independently of earnings (loss) per share for the year.

LIQUIDITY AND CAPITAL RESOURCES

GENERAL

The Company's primary sources of cash 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. During 2001, the Company generated net cash from operations on a consolidated basis in the amount of $189.8 million. Net cash used in operations totaled $21.3 million in 2000 and $58.3 million in 1999.

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.

During the year ended December 31, 2000, the losses at United CreditServ had a material adverse effect upon the liquidity and cash flow of the Company. During 2000, UICI contributed to United CreditServ an aggregate of $171.3 million in cash. In addition, on June 28, 2000, the Company funded an $8.0 million principal prepayment owing on its bank credit facility, on June 1, 2000 the Company made a mandatory principal payment on its senior notes outstanding in the amount of $4.0 million, and effective July 27, 2000 the Company prepaid $6.0 million owing to an affiliated lender. See Note M to Notes to Consolidated Financial Statements. UICI at the holding company level funded these cash

contributions and other cash needs with the proceeds of the sale of investment securities, a borrowing from a third party in the amount of $24.0 million funded in July 2000, approved sales of assets from the holding company to the Company's regulated insurance company subsidiaries completed in June and July 2000 generating cash proceeds in the aggregate amount of approximately $26.2 million, dividends in the amount of $19.0 million paid during the six months ended June 30, 2000 from CLICO, the sale to The MEGA Life and Health Insurance Company of CLICO for $19.0 million in July 2000, cash proceeds in the amount of $21.8 million from the disposition of its National Motor Club unit completed in July 2000, and cash on hand.

The Company completed its exit from the credit card business during 2001. 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. See Note B to Notes to Consolidated Financial Statements. UCNB surrendered to the OCC its national bank charter and distributed to a wholly-owned subsidiary of UICI the residual assets of UCNB in the amount of approximately $26.0 million, substantially all of which consisted of cash and cash equivalents. The Company utilized a substantial portion of the proceeds of the liquidation to prepay indebtedness owing to a limited liability company controlled by the Company's Chairman in the amount of $21.1 million and other indebtedness in the amount of $5.0 million.

At December 31, 2001 and 2000, UICI at the holding company level held cash and cash equivalents in the amount of $57.3 million and $16.4 million, respectively. UICI currently estimates that, through December 31, 2002, the holding company will have operating cash requirements in the amount of approximately $78.4 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, dividends from domestic and offshore insurance companies and tax sharing reimbursements from subsidiaries (which will be partially offset by holding company operating expenses). There can be no assurance that the cash requirements at the holding company level will not exceed current estimates, or that the holding company will be able to raise sufficient cash to fund cash requirements on a timely basis.

Prior approval by insurance regulatory authorities is required for the payment of dividends by a domestic insurance company that exceed certain statutory limitations based on surplus and net income.

The Company reduced its consolidated short and long-term indebtedness (exclusive of indebtedness secured by student loans) from $90.0 million (which included $19.0 million of indebtedness owing to a related party) at December 31, 2000 to $25.3 million (of which none was owed to a related party) at December 31,

2001, of which $19.4 million constituted indebtedness of the holding company at December 31, 2001 (including $11.9 million outstanding principal amount of the Company's 8.75% Senior Notes). See Note I of Notes to Consolidated Financial Statements. In addition, during 2001 the Company utilized approximately $8.8 million to repurchase 980,400 shares of its common stock pursuant to its previously announced stock repurchase program, which was reconfirmed by the Board of Directors of the Company at its February 28, 2001 meeting.

In June 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. At December 31, 2000, this senior indebtedness was outstanding in the amount of $21.3 million and was reflected as corporate debt (i.e., non-student loan indebtedness) on the Company's consolidated balance sheet.

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. As of March 8, 2002, the Company had no borrowings outstanding under the facility.

STUDENT LOAN CREDIT FACILITIES AND RESTRICTED CASH

The Company's consolidated balance sheet reflects significant assets (consisting primarily of federally guaranteed and alternative (i.e., non-federally guaranteed) student loans and restricted cash) and liabilities (consisting primarily of indebtedness under secured student loan credit facilities) attributable to the student loan financing and origination activities of the Company's AMS subsidiary and College Fund Life Insurance Division.

At December 31, 2001 and 2000, the Company, through AMS and the College Fund Life Insurance Division, had outstanding an aggregate of $1,506.2 million and $1,334.8 million of indebtedness under secured student loan credit facilities, of which $1,242.8 million and $1,221.5 million were issued by bankruptcy-remote special purpose entities (each, an "SPE" or "Special Purpose Entity") which are included in the Company's Consolidated Financial Statements. At December 31, 2001 and 2000, 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 $1,125.5 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments in the amount of $129.4 million and $86.2 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.

A trust created for the benefit of participants in AMS' tuition installment program held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated market) at December 31, 2001 and 2000, respectively, all of which assets are classified as restricted cash on the Company's consolidated balance sheet. AMS is entitled to the interest earned on the funds held in the trust as well as tuition budgeting program fees deposited into the trust. The funds are invested in U.S. Treasury securities, government agency securities, high-grade commercial paper, and money market funds of insured depository institutions at December 31, 2001.

Set forth below is a summary pro forma December 31, 2001 balance sheet of UICI, excluding certain assets (student loans and restricted cash) and certain liabilities (student loan credit facilities) associated with the Company's AMS and College Life Fund Division ("CFLD") operations:

AT DECEMBER 31, 2001			
		OTHER AMS	AMS TUITION
UICI CONSOLIDATED	AMS AND CFLD	FINANCING	INSTALLMENT

	AS REPORTED	SPE FINANCINGS	FACILITIES(1)	PROGRAM(2)
			(IN THOUSANDS)	
Assets:				
Investments................	$1,218,718	$ --	$ --	$ --
Student loans..............	1,278,427	1,053,788	222,262	--
Cash.......................	50,922	--	36,059	--
Restricted cash............	295,182	127,272	--	141,663
Investment income due and accrued..................	60,879	35,840	11,314	--
Other assets...............	381,756	5,181	116	1,428
Total assets...........	$3,285,884	$1,222,081	$269,751	$143,091
Liabilities:				
Policy liabilities.........	$ 891,361	$ --	$ --	$ --
Other liabilities..........	187,552	3,172	668	--
Collections payable........	140,894	--	--	140,894
Notes payable..............	25,303	--	--	--
Student loan credit facilities...............	1,506,202	1,242,840	263,362	--
Total liabilities........	2,751,312	1,246,012	264,030	140,894
Stockholders' equity (deficit)...........	534,572	(23,931)(4)	5,721	2,197
Total liabilities and stockholders' equity............	$3,285,884	$1,222,081	$269,751	$143,091

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(1) Obligations under AMS' master repurchase agreement and credit facility are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company. See discussion below.

(2) A trust created for the benefit of participants in AMS' tuition installment program held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated market) at December 31, 2001 and 2000, respectively, all of which assets are classified as restricted cash on the Company's consolidated balance sheet. See Note A to Notes to Consolidated Financial Statements.

(3) Represents cash and cash equivalents required to be held by CFLD to support certain loan servicing obligations under CFLD's SPE financing.

(4) Includes negative equity in the AMS SPE financings, which is attributable to permitted financing of student loans through AMS SPE financings in excess of par value.

A more detailed summary of such student loan credit facilities is set forth below:

ACADEMIC MANAGEMENT SERVICES CORP.

In March 1998, AMS entered into a master repurchase agreement and credit facility with a financial institution, the obligations under which are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company.

The proceeds of the facility are used from time to time to initially fund AMS' student loan originations. The repurchase agreement provides for the purchase of student loans by the financial

institution, and the financial institution may put the student loans back to AMS on the last day of each month. AMS, in turn, has the right to require the financial institution to repurchase the student loans on such date, with the interest rate on the credit facility reset on such date. The credit facility provides for up to $150.0 million of financing and may be increased subject to monthly confirmations. The credit facility bears interest at a variable annual rate of LIBOR plus 75 basis points (2.68% at December 31, 2001) and had an outstanding balance of $263.4 million and $113.4 million at December 31, 2001 and 2000, respectively. The credit facility had an initial term of one year, has been extended until March 2002 and is secured by student loans originated under the Federal Family Education Loan Program, which are guaranteed by the federal government or alternative loans guaranteed by private guarantors. The financial institution may value the loans at any time and require AMS to repay any amount by which the market value of the loans is less than the amount required by the credit facility. At February 28, 2002, AMS had borrowings outstanding under the credit facility in the amount of $40.7 million.

After initial funding, AMS typically refinances groups of loans on a more structured basis by transferring loans to Special Purpose Entities, which in turn issue debt securities secured by the student loans. During 1999, AMS established approximately $1.3 billion of such structured funding facilities in three separate transactions:

- On June 11, 1999, AMS sold, in a private placement transaction, $319.5 million principal amount of Auction Rate Student Loan-Backed Notes issued by a Special Purpose Entity at an initial interest rate of 5.038%. The notes were sold in two tranches and mature in November 2022. The notes are insured by MBIA Insurance Corporation ("MBIA") and received a "AAA" credit rating from Standard & Poor's and Fitch IBCA and an "Aaa" rating from Moody's Investor Services. At December 31, 2001, the notes bore interest at rates of 2.42% for Class A-1 and 2.44% for Class A-2, and the outstanding balance of the notes at December 31, 2001 and 2000 was $254.6 million and $290.0 million, respectively.

- Effective August 6, 1999, AMS completed a closing and funding of $515.0 million of its $650.0 million single seller asset-backed commercial paper conduit, pursuant to which commercial paper may be issued by a Special Purpose Entity from time to time with maturities from one to 270 days. Approximately $619.6 million of commercial paper bearing interest rate of 1.90% to 2.45% was issued and outstanding under the facility at December 31, 2001. Liquidity support is provided by a separate banking facility. Under the terms of the program, in the event the support facility is activated, borrowings under the bank facility would be repaid using collections of underlying student loans, would bear interest at LIBOR plus seventy-five (75) basis points and would mature in August 2034. The commercial paper received ratings of A1/P1/F1 from Standard & Poor's, Moody's, and Fitch, respectively, and is insured by MBIA.

- On October 7, 1999, AMS completed a $344.0 million financing of three classes of notes issued by a Special Purpose Entity. The $229.0 million Class A-1 notes were structured as three-month LIBOR floating rate notes and were priced with a spread of 42 basis points with the interest rate to be reset quarterly. The Class A-1 notes with an outstanding balance of $153.7 million at December 31, 2001 have an expected average life of 3.5 years with legal final maturity in April 2009. The $57.5 million Class

A-2 and $57.5 million Class A-3 notes were structured as auction rate notes with an initial interest rate of 6.38%. The interest rate on these notes is reset quarterly. Legal final maturity of the A-2 and A-3 notes is July 2027. At December 31, 2001, the outstanding balance of the notes was $115.0 million, bearing interest rates of 2.55% and 2.42%, respectively. All three classes of notes received AAA/Aaa/AAA ratings from Standard & Poor's, Moody's and Fitch IBCA, respectively, and are insured by MBIA.

In each case the obligations under such structured finance facilities constitute obligations solely of the Special Purpose Entity that issued the obligations and not of the Company, AMS or any other subsidiary of the Company. However, for financial reporting and accounting purposes the AMS structured finance facilities have been classified as financings. Accordingly, in connection with the financings neither the Company nor AMS recorded gain on sale of the student loan assets transferred to the Special Purpose Entity and, on a

consolidated basis, the Company continues to carry on its consolidated balance sheet the student loans ($975.3 million at December 31, 2001) and cash and cash equivalents held by the Special Purpose Entities ($113.4 million at December 31, 2001 classified as restricted cash) and the associated indebtedness ($1,142.8 million in the aggregate at December 31, 2001, which is included on the Company's consolidated balance sheet as student loan credit facilities) arising from the transactions.

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

COLLEGE FUND LIFE INSURANCE DIVISION

On April 27, 2001, the Company completed a $100.0 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 two $50.0 million series of Student Loan Asset Backed Notes issued by a Special Purpose Entity. Interest rates on the notes reset monthly in a Dutch auction process, with the initial rate set at 4.75% for each of the Series A-1 and Series A-2 notes. At December 31, 2001, the interest rates on the Series A-1 and Series A-2 notes were 2.3% and 2.12%, respectively. The notes are secured by a pledge of alternative 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 $70.1 million portfolio of alternative student loans from various affiliates of the Company and established a loan acquisition fund in the amount of $19.1 million (consisting of cash and cash equivalents) to

acquire in the future additional student loans originated by the Company's College Fund Life Insurance Division.

The notes represent obligations solely of the Special Purpose Entity and not of the Company or any other subsidiary of the Company. However, for financial reporting and accounting purposes the CFLD structured finance facility has been classified as a financing. Accordingly, in connection with the financing the Company recorded no gain on sale of the assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company continues to carry on its consolidated balance sheet the alternative student loans ($78.5 million principal amount at December 31, 2001) and cash and cash equivalents held by the Special Purpose Entity ($13.9 million at December 31, 2001 classified as restricted cash) and the associated indebtedness ($100.0 million at December 31, 2001, which is included on the Company's consolidated balance sheet as student loan credit facilities) arising from the transaction.

INVESTMENTS

General. The Company has an Investment Committee that monitors the investment portfolio of the Company and its subsidiaries. The Investment Committee receives investment management services from external professionals.

Investments are selected based upon the parameters established in the Company's investment policies. Emphasis is given to the selection of high quality, liquid securities that provide current investment returns. Maturities or liquidity characteristics of the securities are managed by continually structuring the duration of the investment portfolio to be consistent with the duration of the policy liabilities. Consistent with regulatory

requirements and internal guidelines, the Company invests in a range of assets, but limits its investments in certain classes of assets, and limits its exposure to certain industries and to single issuers.

Set forth below is a summary of the Company's investments by category at December 31, 2001 and 2000:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	CARRYING AMOUNT	% OF TOTAL CARRYING VALUE	CARRYING AMOUNT	% OF TOTAL CARRYING VALUE
	(IN THOUSANDS)			
Securities available for sale --				
Fixed maturities, at fair value (cost: 2001 -- $924,709; 2000 -- $827,905)	$ 929,291	76.3	$ 814,433	76.3
Equity securities, at fair value (cost: 2001 -- $42,419; 2000 -- $18,926)	84,445	6.9	16,916	1.6
Mortgage and collateral loans	5,404	0.4	5,368	0.5
Policy loans	20,127	1.7	20,171	1.9
Investment in Healthaxis, Inc.	8,278	0.7	18,442	1.7
Investment in other equity investees	--		43,196	4.0
Short-term investments	171,173	14.0	149,173	14.0

Total investments............	$1,218,718	100.0	$1,067,699	100.0
	==========	=====	==========	=====

The Company's investment at December 31, 2000 in AMLI Commercial Properties Trust ("ACPT") and AMLI Residential Properties Trust ("AMLI Residential") in the amount of $23.2 million and $20.1 million, respectively, is reflected under the caption "Investment in other equity investees". During 2001, ACPT sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized its proportionate share of the gain in the amount of $5.3 million. See Note D to Notes to Consolidated Financial Statements. Effective June 30, 2001, the Company changed its method of accounting for its investment in AMLI Residential and the investment is now reflected under the caption "Securities available for sale -- equity securities" at December 31, 2001. See Note D of Notes to Consolidated Financial Statements.

Investment accounting policies. The Company has classified its entire fixed maturity portfolio as "available for sale." This classification requires the portfolio to be carried at fair value with the resulting unrealized gains or losses, net of applicable income taxes, reported in accumulated other comprehensive income as a separate component of stockholders' equity. As a result, fluctuations in fair value, which is effected by changes in interest rates, will result in increases or decreases to the Company's stockholders' equity.

During 2001, the Company recorded an impairment charge for certain fixed and equity maturities in the amount of $3.0 million and $541,000, respectively.

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Fixed maturity securities. Fixed maturity securities accounted for 76.1% and 76.3% of the Company's total investments at December 31, 2001 and 2000, respectively. Fixed maturity securities at December 31, 2001 consisted of the following:

	DECEMBER 31, 2001	
	CARRYING VALUE	% OF TOTAL CARRYING VALUE
	(IN THOUSANDS)	
U.S. Treasury and U.S. Government agency obligations........	$ 47,666	5.1%
Corporate bonds..	588,865	63.4
Mortgage-backed securities issued by U.S. Government agencies and authorities................................	137,049	14.7
Other mortgage and asset backed securities.................	155,711	16.8
	$929,291	100.0%
	========	=====

Included in the fixed maturity portfolio is a concentration of mortgage-backed securities such as collateralized mortgage obligations and mortgage-backed pass-throughs. To limit its credit risk, the Company invests in mortgage-backed securities that are rated investment grade by the public rating agencies. The Company's mortgage-backed securities portfolio is a conservatively

structured portfolio that is concentrated in the less volatile tranches, in the form of planned amortization classes, sequential payment and commercial mortgage-backed securities. The Company's objectives are to minimize prepayment risk during periods of declining interest rates and minimize duration extension risk during periods of rising interest rates. The Company has less than 1% of its investment portfolio invested in the more volatile tranches.

As of December 31, 2001 and 2000, $883.3 million (or 95%) and $779.4 million (or 96%), respectively, of the fixed maturity securities portfolio was rated BBB or better (investment grade) and $45.9 million (or 5%) and $35.0 million (or 4%), respectively, of the fixed maturity securities portfolio was invested in below investment grade securities (rated less than BBB). A quality distribution for fixed maturity securities at December 31, 2001 is set forth below:

RATING	DECEMBER 31, 2001 CARRYING VALUE (IN THOUSANDS)	DECEMBER 31, 2001 % OF TOTAL CARRYING VALUE
U.S. Governments and AAA	$298,510	32.1%
AA	87,316	9.4
A	266,719	28.7
BBB	230,800	24.8
Less than BBB	45,946	5.0
	$929,291	100.0%

The Company regularly monitors its investment portfolio to attempt to minimize its concentration of credit risk in any single issuer. As of December 31, 2001, and other than the Company's investment in AMLI Residential Properties Trust (which represented 1.6% of the Company's aggregate investment portfolio), the Company's investment in no single issuer represented more than one percent of the Company's aggregate investment portfolio.

With respect to its short-term investments, the Company invests in an institutional money market fund that invests solely in the highest quality United States dollar denominated money market securities of domestic and foreign issuers. At December 31, 2001 and 2000, the Company had short-term investments in this diversified fund in the amount of approximately $154.6 million and $111.8 million, respectively.

CRITICAL ACCOUNTING PRINCIPLES AND ESTIMATES

The Company's discussion and analysis of its financial condition and results of operations are based upon the Company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the Company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, the Company evaluates its estimates, including those related to health and life

insurance claims and reserves, bad debts, investments, intangible assets, income taxes, financing operations and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. For a more detailed discussion on the application of these and other accounting policies, see Note A of Notes to Consolidated Financial Statements in Item 14 of this Annual Report on Form 10-K, beginning on page F-7.

The Company believes the following critical accounting policies affect its more significant judgments and estimates used in the preparation of its consolidated financial statements.

CLAIMS RESERVES

The Company establishes liabilities for benefit claims that have been reported but not paid and claims that have been incurred but not reported under health and life insurance contracts. These reserves are developed using actuarial principles and assumptions that consider a number of factors, including historical and current claim payment patterns, product variations, the timely implementation of appropriate rate increases and seasonality.

The Company estimates the relevant factors, based primarily on historical and current data, and uses this information to determine the assumptions underlying its reserve calculations. An extensive degree of judgment is used in this estimation process. For health care costs payable, the reserve balances and the related benefit expenses are highly sensitive to changes in the assumptions used in the reserve calculations. With respect to health claims, the factors that have the greatest impact on the Company's financial results are the medical cost trend, which is the rate of increase in health care costs and the unpredictable variability in actual experience. Any adjustments to prior period reserves are included in the benefit expense of the period in which the need for the adjustment becomes known. Due to the considerable variability of health care costs and actual experience, adjustments to health reserves occur each quarter and are sometimes significant.

ACCOUNTING FOR HEALTH POLICY ACQUISITION COSTS

The Company incurs various costs in connection with the origination and initial issuance of its health insurance policies, including underwriting and policy issuance costs, costs associated with lead generation activities and distribution costs (i.e., sales commissions paid to agents). For financial reporting purposes, underwriting and policy issuance costs with respect to health policies issued through the Company's Self Employed Agency and Student Insurance Divisions are expensed as incurred. Costs associated with generating sales leads with respect to the health business issued through the Self Employed Agency Division are capitalized and amortized over a two-year period. The Company defers the portion of commissions paid to agents and premium taxes with respect to the portion of health premium collected but not yet earned, and the Company amortizes the deferred expense over the period as and when the premium is earned. See Note A of Notes to Consolidated Financial Statements.

With respect to health policies sold through the Company's Self Employed Agency Division, commissions paid to agents with respect to first year policies are higher than commissions paid to agents with respect to policies in renewal years. Accordingly, during periods of increasing first year premium revenue (such as occurred during 2001), the Self Employed Agency Division's overall operating profit margin will be negatively impacted by the higher commission expense associated with first year premium revenue.

GOODWILL AND OTHER IDENTIFIABLE INTANGIBLE ASSETS

Historically, the Company generally has amortized the excess of cost over the underlying value of the net assets of companies acquired on a straight-line basis over twenty to twenty-five years. The Company continually reevaluated the propriety of the carrying amount of goodwill, as well as the amortization period to determine whether current events and circumstances warrant adjustments to the carrying value and/or revised estimates of useful life. The Company assessed the recoverability of goodwill based upon several factors, including management's intention with respect to the operations to which the goodwill relates and those operations' projected future income and undiscounted cash flows. An impairment loss would be recorded in the period such determination was made. At December 31, 2001 and 2000, the Company had goodwill in the amount of $104.7 million and $105.9 million, respectively, and accumulated amortization of $18.7 million and $14.4 million at December 31, 2001 and 2000, respectively, resulting in net goodwill of $86.0 million and $91.5 million at December 31, 2001 and 2000, respectively. Amortization expense recorded for continuing operations totaled $6.3 million, $6.2 million, and $6.3 million in 2001, 2000, and 1999, respectively.

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, Guaranty Senior Assurance, SeniorsFirst and CFLD Association Field Services. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," the Company has established a liability for future unvested benefits under the Agent Plans and adjusts the liability based on the market value of the Company's Common Stock. The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. See Note O of Notes to Consolidated Financial Statements.

INVESTMENTS

The Company has classified its investments as available for sale and, accordingly, investments have been recorded at fair value, and unrealized investment gains and losses are reflected in stockholders' equity. Investment income is recorded when earned, and capital gains and losses are recognized when investments are sold. Investments are reviewed periodically to determine if they have suffered an impairment of value that is considered other than temporary. If investments are determined to be impaired, a capital loss is recognized at the date of determination.

Testing for impairment of investments also requires significant management judgment. The identification of potentially impaired investments, the determination of their fair value and the assessment of whether any decline in value is other than temporary are the key judgment elements. The discovery of new information and the passage of time can significantly change these judgments. Revisions of impairment judgments are made when new information becomes known, and any resulting impairment adjustments are made at that time. The current economic environment and recent volatility of securities markets increase the difficulty of determining fair value and assessing investment impairment. The same influences tend to increase the risk of potentially

impaired assets.

The Company seeks to match the maturities of invested assets with the payment of expected liabilities. By doing this, the Company attempts to make cash available as payments become due. If a significant mismatch of the maturities of assets and liabilities were to occur, the impact on the Company's results of operations could be significant.

DEFERRED TAXES

The Company has recorded a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and

ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, in the event that the Company were to determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

LOSS CONTINGENCIES

The Company is subject to proceedings and lawsuits related to insurance claims and other matters. See Note N of Notes to Consolidated Financial Statements. The Company is required to assess the likelihood of any adverse judgments or outcomes to these matters, as well as potential ranges of probable losses. A determination of the amount of reserves required, if any, for these contingencies is made after careful analysis of each individual issue. The required reserves may change in the future due to new developments in each matter or changes in approach, such as a change in settlement strategy in dealing with these matters.

PRIVACY INITIATIVES

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

GRAMM-LEACH-BLILEY ACT AND STATE INSURANCE LAWS AND REGULATIONS

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

GLBA provides that there is no federal preemption of a state's insurance related privacy laws if the state law is more stringent than the privacy rules imposed under GLBA. Accordingly, state insurance regulators or state legislatures will likely adopt rules that will limit the ability of insurance companies, insurance agents and brokers and certain other entities licensed by

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

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

HEALTH INSURANCE PORTABILITY AND ACCOUNTABILITY ACT OF 1996

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

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

but, rather, preempt all contrary state laws unless the state law is more stringent. These rules must be complied with by April 14, 2003.

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

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

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

identifiable health information, will not have a material adverse effect on UICI's business and future results of operations.

INCOME TAXES

The Company's effective tax rate from continuing operations was 27.0% for 2001 compared to 52.3% for 2000 and 34.6% for 1999. The 2001 effective tax rate varied from the federal tax rate of 35%, primarily due to the decrease in the valuation allowance related to the partial utilization by AMS of its operating loss carryover and a release of a reserve for taxes on undistributed earnings from its subsidiaries that were previously less than 80% owned and are now wholly owned. The 2000 effective tax rate varied from the federal tax rate of 35%, primarily due to the significant operating loss at AMS, from which the Company was not able to recognize a tax benefit. AMS entered the Company's consolidated group for tax purposes on August 3, 2001. Prior to that date AMS filed a separate tax return. As of December 31, 2001, the Company has recognized a net deferred tax asset of $14.9 million. Realization of the net deferred tax asset is dependent on generating sufficient taxable income. Although realization is not assured, management believes it is more likely than not that the net deferred tax asset will be realized based on anticipated profits and available tax planning strategies. See Note K of Notes to Consolidated Financial

Statements.

OTHER MATTERS

The state of domicile of each of the Company's domestic insurance subsidiaries imposes minimum risk-based capital requirements that were developed by the NAIC. The formulas for determining the amount of risk-based capital specify various weighting factors that are applied to financial balances and premium levels based on the perceived degree of risk. Regulatory compliance is determined by a ratio of a company's regulatory total adjusted capital, as defined, to its authorized control level risk-based capital, as defined. Companies' specific trigger points or ratios are classified within certain levels, each of which requires specified corrective action. At December 31, 2001, the risk-based capital ratio of each of the Company's domestic insurance subsidiaries significantly exceeded the ratios for which regulatory corrective action would be required.

Dividends paid by domestic insurance companies out of earned surplus in any year are limited by the law of the state of domicile. See Item 5 -- Market for Registrant's Common Stock and Related Stockholder Matters and Note L of Notes to the Consolidated Financial Statements.

INFLATION

Inflation historically has had a significant impact on the health insurance business. In recent years, inflation in the costs of medical care covered by such insurance has exceeded the general rate of inflation. Under basic hospital medical insurance coverage, established ceilings for covered expenses limit the impact of inflation on the amount of claims paid. Under catastrophic hospital expense plans and preferred provider contracts, covered expenses are generally limited only by a maximum lifetime benefit and a maximum lifetime benefit per accident or sickness. Thus, inflation may have a significantly greater impact on the amount of claims paid under catastrophic hospital expense and preferred provider plans as compared to claims under basic hospital medical coverage. As a result, trends in health care costs must be monitored and rates adjusted accordingly. Under the health insurance policies issued in the self-employed market, the primary insurer generally has the right to increase rates upon 30-60 days written notice and subject to regulatory approval in some cases.

The annuity and universal life-type policies issued directly and assumed by the Company are significantly impacted by inflation. Interest rates affect the amount of interest that existing policyholders expect to have credited to their policies. However, the Company believes that the annuity and universal life-type policies are generally competitive with those offered by other insurance companies of similar size, and the investment portfolio is managed to minimize the effects of inflation.

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. Statement 144 is effective for financial statements issued for fiscal years beginning after December 15, 2001. Early application is encouraged. The provisions of the Statement are to be applied prospectively.

In June 2001, the Financial Accounting Standards Board ("FASB") 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. 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 will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of approximately $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect, if any, of these tests will be on the results of operations and financial position of the Company.

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, 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 7A. 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 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 $207.8 million principal amount of PLUS loans outstanding at December 31, 2001. The fixed yield on PLUS loans was 8.99% for the twelve months ended June 30, 2001 and was reset to 6.79% for the twelve months beginning July 1, 2001. These loans are financed with borrowings whose rates are subject to reset, generally monthly. During the twelve months beginning July 1, 2001, 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.

Sensitivity analysis is defined as the measurement of potential loss in future earnings, fair values or cash flows of market sensitive instruments resulting from one or more selected hypothetical changes in interest rates and other market rates or prices over a selected time. In the Company's sensitivity analysis model, a hypothetical change in market rates is selected that is expected to reflect reasonably possible near-term changes in those rates. "Near term" is defined as a period of time going forward up to one year from the date of the consolidated financial statements.

In this sensitivity analysis model, the Company uses fair values to measure its potential loss. The primary market risk to the Company's market sensitive instruments is interest rate risk. The sensitivity analysis model uses a 100 basis point change in interest rates to measure the hypothetical change in fair value of financial instruments included in the model. For invested assets, duration modeling is used to calculate changes in fair values. Duration on invested assets is adjusted to call, put and interest rate reset features.

The sensitivity analysis model produces a loss in fair value of market sensitive instruments of $42.7 million based on a 100 basis point increase in interest rates as of December 31, 2001. This loss value only reflects the impact of an interest rate increase on the fair value of the Company's financial instruments.

The Company has not used derivative financial instruments in managing its market risk.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

The audited consolidated financial statements of the Company and other information required by this Item 8 are included in this Form 10-K beginning on page F-1.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

See the Company's Proxy Statement to be filed in connection with the 2002 Annual Meeting of Shareholders, of which the section entitled "Election of Directors" is incorporated herein by reference.

For information on executive officers of the Company, reference is made to the item entitled "Executive Officers of the Company" in Part I of this report.

ITEM 11. EXECUTIVE COMPENSATION

See the Company's Proxy Statement to be filed in connection with the 2002 Annual Meeting of Stockholders, of which the subsection entitled "Executive Compensation" is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

See the Company's Proxy Statement to be filed in connection with the 2002

Annual Meeting of Stockholders, of which the subsection entitled "Nominees" and the subsection entitled "Beneficial Ownership of Common Stock" are incorporated herein by reference.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

See the Company's Proxy Statement to be filed in connection with the 2002 Annual Meeting of Stockholders, of which the subsection entitled "Certain Relationships and Related Transactions" is incorporated herein by reference. See Note M of Notes to Consolidated Financial Statements.

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES, AND REPORTS ON FORM 8-K

(a) Financial Statements

The following consolidated financial statements of UICI and subsidiaries are included in Item 8:

	PAGE
Independent Auditors' Report on Financial Statements and Financial Statement Schedules	F-2
Consolidated Balance Sheets -- December 31, 2001 and 2000	F-3
Consolidated Statements of Operations -- Years ended December 31, 2001, 2000 and 1999	F-4
Consolidated Statements of Stockholders' Equity -- Years ended December 31, 2001, 2000 and 1999	F-5
Consolidated Statements of Cash Flows -- Years ended December 31, 2001, 2000 and 1999	F-6
Notes to Consolidated Financial Statements	F-8

Financial Statement Schedules

Schedule II	--	Condensed Financial Information of Registrant December 31, 2001, 2000 and 1999: UICI (Parent Company)	F-80
Schedule III	--	Supplementary Insurance Information	F-83
Schedule IV	--	Reinsurance	F-85
Schedule V	--	Valuation and Qualifying Accounts	F-86

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are not applicable and therefore have been omitted.

(a) Exhibits

The response to this portion of Item 14 is submitted as a separate section of this report beginning on page 55.

(b) Reports on Form 8-K

1. A current report on Form 8-K dated December 21, 2001 regarding a settlement of shareholder derivative litigation 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.

2. A current report on Form 8-K dated February 8, 2002 regarding a presentation by the Company's representatives at the Wall Street Analyst Forum's Institutional Investor Conference in New York City.

3. A current report on Form 8-K dated March 4, 2002 regarding the acquisition by the Company of STAR Human Resources Group, Inc. and STAR Administrative Services, Inc.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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

By /s/ GREGORY T. MUTZ*

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

Date: March 21, 2002

Pursuant to the requirements of Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

SIGNATURE	TITLE	DA
/s/ RONALD L. JENSEN* Ronald L. Jensen	Chairman of the Board and Director	March 2
/s/ GREGORY T. MUTZ* Gregory T. Mutz	President, Chief Executive Officer, and Director	March 2
/s/ MATTHEW R. CASSELL Matthew R. Cassell	Vice President and Chief Financial Officer	March 2
/s/ GLENN W. REED	Executive Vice President, General Counsel, and Director	March 2

Glenn W. Reed

Signature	Title	Date
/s/ STUART D. BILTON* Stuart D. Bilton	Director	March 2
/s/ GEORGE H. LANE, III* George H. Lane, III	Director	March 2
/s/ WILLIAM J. GEDWED* William J. Gedwed	Director	March 2
/s/ PATRICK J. MCLAUGHLIN* Patrick J. McLaughlin	Director	March 2
/s/ RICHARD T. MOCKLER* Richard T. Mockler	Director	March 2

SIGNATURE	TITLE	DA
/s/ MARK D. HAUPTMAN Mark D. Hauptman	Vice President and Chief Accounting Officer	March 2
*By: /s/ GLENN W. REED Glenn W. Reed (Attorney-in-fact)	(Attorney-in-fact)	March 2

ANNUAL REPORT ON FORM 10-K
ITEM 8, ITEM 14(A)(1) AND (2), (C), AND (D)
FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA
FINANCIAL STATEMENT SCHEDULES
CERTAIN EXHIBITS

YEAR ENDED DECEMBER 31, 2001

UICI

AND

SUBSIDIARIES
DALLAS, TEXAS

REPORT OF INDEPENDENT AUDITORS

Board of Directors
UICI

We have audited the accompanying consolidated balance sheets of UICI and subsidiaries (the "Company") as of December 31, 2001 and 2000, and the related consolidated statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. Our audits also included the financial statement schedules listed in the Index at Item 14(a). These financial statements and schedules are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of UICI and subsidiaries at December 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2001, in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the related financial statement schedules, when considered in relation to the basic financial statements taken as a whole, present fairly in all material respects the information set forth therein.

ERNST & YOUNG LLP

Dallas, Texas
February 6, 2002, except for Note T,
as to which the date is February 28, 2002

UICI AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
	(DOLLARS IN THOUSANDS,	

EXCEPT SHARE AMOUNTS)

ASSETS

	2001	2000
Investments		
Securities available for sale --		
Fixed maturities, at fair value (cost: 2001 -- $924,709; 2000 -- $827,905)	$ 929,291	$ 814,433
Equity securities, at fair value (cost: 2001 -- $42,419; 2000 -- $18,926)	84,445	16,916
Mortgage and collateral loans	5,404	5,368
Policy loans	20,127	20,171
Investment in Healthaxis, Inc.	8,278	18,442
Investment in other equity investees	--	43,196
Short-term investments	171,173	149,173
Total Investments	1,218,718	1,067,699
Cash and cash equivalents	50,922	80,869
Student loans	1,278,427	1,156,072
Restricted cash	295,182	222,660
Reinsurance receivables	63,825	65,056
Due premiums and other receivables	50,793	44,364
Investment income due and accrued	60,879	62,014
Refundable income taxes	5,317	10,320
Deferred acquisition costs	73,928	68,125
Goodwill	86,010	91,523
Deferred income tax	14,856	32,949
Property and equipment, net	72,548	75,020
Other assets	14,479	13,177
	$3,285,884	$2,989,848

LIABILITIES AND STOCKHOLDERS' EQUITY

	2001	2000
Policy liabilities:		
Future policy and contract benefits	$ 423,297	$ 423,046
Claims	354,011	288,532
Unearned premiums	95,399	95,127
Other policy liabilities	18,654	17,927
Accounts payable	52,577	40,804
Other liabilities	99,102	110,511
Collections payable	140,894	111,787
Note payable to related party	--	18,954
Debt	25,303	71,037
Student loan credit facilities	1,506,202	1,334,847
Net liabilities of discontinued operations, including reserve for losses on disposal	35,873	30,171
	2,751,312	2,542,743
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value $0.01 per share -- authorized 10,000,000 shares, no shares issued and outstanding in 2001 and 2000	--	--
Common Stock, par value $0.01 per share -- authorized 100,000,000 shares in 2001 and 2000; 49,404,323 issued and 46,669,237 outstanding in 2001; 48,292,580 issued and 46,950,962 outstanding in 2000	494	483
Additional paid-in capital	201,328	183,162
Accumulated other comprehensive income (loss)	30,294	(10,068)
Retained earnings	317,169	274,277

Treasury stock, at cost (978,006 shares in 2001 and 87,456 shares in 2000)	(14,713)	(749)
	534,572	447,105
	$3,285,884	$2,989,848

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)		
REVENUE			
Premiums:			
Health (includes amounts received from related parties of $6,329, $3,835, and $-0- in 2001, 2000 and 1999, respectively)	$ 797,367	$ 651,411	$ 649,541
Life premiums and other considerations	34,679	36,814	40,291
	832,046	688,225	689,832
Investment income	83,829	89,775	82,869
Other interest income (includes amounts received from related parties of $20, $911 and -0-in 2001, 2000 and 1999, respectively)	88,427	111,415	65,055
Other fee income (includes amounts received from related parties of $7,753, $3,755, and $6,945 in 2001, 2000, and 1999, respectively)	94,022	103,718	113,309
Other income	3,094	2,164	3,481
Gain on sale of HealthAxis.com shares	--	26,300	--
Gains (losses) on sale of investments	5,165	(1,942)	(367
	1,106,583	1,019,655	954,179
BENEFITS AND EXPENSES			
Benefits, claims, and settlement expenses	530,969	439,704	470,273
Underwriting, acquisition, and insurance expenses (includes amounts paid to related parties of $28,760, $31,249, and $15,266 in 2001, 2000, and 1999, respectively)	293,803	239,364	225,062
Stock appreciation expense	7,293	5,300	5,000
Other expenses, (includes amounts paid to related parties of $10,982, $7,967, and $2,002 in 2001, 2000, and 1999, respectively)	101,084	117,061	114,264
Depreciation (includes expense on assets purchased from related parties of $510, $688, and $-0- in 2001, 2000, and 1999, respectively)	15,885	14,037	13,612
Interest expense (includes amounts paid to related parties of $98, $4,559, and $-0- in 2001, 2000, and 1999,			

respectively)	5,018	13,639	7,430
Interest expense -- student loan credit facility	69,448	101,596	57,462
Equity in operating loss from Healthaxis, Inc. investment	10,597	15,623	--
Goodwill amortization	6,263	6,193	6,279
	1,040,360	952,517	899,382
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	66,223	67,138	54,797
Federal income taxes	17,865	35,120	18,983
INCOME FROM CONTINUING OPERATIONS	48,358	32,018	35,814
DISCONTINUED OPERATIONS:			
Loss from operations, (net of income tax benefit $2,937, $1,376, and $52,054 in 2001, 2000, and 1999, respectively)	(5,466)	(2,885)	(97,196
Estimated loss on disposal (net of income tax benefit of $-0-, $12,600, and $45,500 in 2001, 2000, and 1999, respectively)	--	(23,400)	(84,500
	(5,466)	(26,285)	(181,696
NET INCOME (LOSS)	$ 42,892	$ 5,733	$(145,882
Earnings (loss) per share:			
Basic earnings (loss)			
Income from continuing operations	$ 1.04	$ 0.68	$ 0.77
Loss from discontinued operations	(0.12)	(0.56)	(3.92
Net income (loss)	$ 0.92	$ 0.12	$ (3.15
Diluted earnings (loss)			
Income from continuing operations	$ 1.01	$ 0.67	$ 0.75
Loss from discontinued operations	(0.11)	(0.55)	(3.80
Net income (loss)	$ 0.90	$ 0.12	$ (3.05

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	COMMON STOCK	ADDITIONAL PAID-IN CAPITAL	ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	RETAI EARNI
			(DOLLARS IN THOUSAND	
Balance at January 1, 1999	$464	$166,489	$13,412	$414,
Comprehensive income:				
Net loss				(145,
Other comprehensive loss, net of tax:				

Change in unrealized gains (losses) on securities			(67,411)	
Deferred income tax benefit			22,744	
Other			823	
Other comprehensive loss				
Comprehensive loss				
Exercise of stock options and warrants	2	6,568		
Purchase of treasury stock				
Retirement of treasury stock		(6,952)		
Capital contribution		10,129		
Notes receivable from shareholders		(2,649)		
Balance at December 31, 1999	466	173,585	(30,432)	268,
Comprehensive income:				
Net income				5,
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on securities			31,302	
Deferred income tax expense			(10,391)	
Other			(547)	
Other comprehensive income				
Comprehensive income				
Common stock issued	17	9,047		
Common shares unearned		(6,271)		
Retirement of treasury stock				
Sale of treasury stock		(3,125)		
Capital contribution		8,905		
Payments on notes receivable from shareholders		1,021		
Balance at December 31, 2000	483	183,162	(10,068)	274,
Comprehensive income:				
Net income				42,
Other comprehensive income, net of tax:				
Change in unrealized gains (losses) on securities			62,090	
Deferred income tax expense			(21,608)	
Other			(120)	
Other comprehensive income				
Comprehensive income				
Common stock issued	11	15,336		
Exercise stock options		28		
Purchase of treasury stock				
Payments on notes receivable from shareholders		2,802		
Balance at December 31, 2001	$494	$201,328	$30,294	$317,

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
OPERATING ACTIVITIES			
Net income (loss)..	$ 42,892	$ 5,733	$ (145,8
Loss on Disposal of Discontinued Operation.............	--	36,000	130,0
Adjustments to reconcile net income (loss) to cash provided by (used in) operating activities:			
Amounts charged to loss on disposal of discontinued operations..	(7,675)	(131,898)	
Increase in policy liabilities........................	83,364	32,466	10,5
Decrease (increase) in accrued investment income........	1,135	(7,466)	(10,4
Increase (decrease) in other liabilities and accrued expenses..	8,154	(49,546)	26,3
Increase (decrease) in collections payable.............	29,107	(1,270)	
Stock appreciation expense............................	7,351	5,308	
Deferred income tax (benefit) change...................	(3,513)	45,325	(75,2
Decrease in federal income taxes payable...............	--	--	(36,1
Refundable income taxes...............................	5,003	11,095	(21,4
Decrease (increase) in reinsurance receivables and other receivables...	2,675	(5,693)	18,2
Acquisition costs deferred............................	(43,198)	(21,654)	(19,1
Amortization of deferred acquisition costs.............	37,655	23,664	31,9
Depreciation and amortization.........................	25,393	25,671	26,4
Operating loss of Healthaxis, Inc.	10,597	15,623	
(Gains) loss on sale of investments....................	(10,805)	(25,889)	3
Other items, net......................................	1,708	21,260	5,9
Cash Provided by (Used in) Operating Activities.......	189,843	(21,271)	(58,3
INVESTING ACTIVITIES			
Securities available-for-sale			
Purchases...	(397,085)	(123,617)	(207,2
Sales...	219,773	150,078	111,1
Maturities, calls and redemptions......................	81,559	49,917	49,2
Credit card loans			
Fundings..	--	(221,530)	(411,5
Repayments..	--	288,084	357,1
Sales...	--	124,122	
Student loans			
Purchases and originations............................	(757,062)	(783,600)	(1,144,1
Maturities..	187,772	165,894	75,8
Sales...	446,934	787,684	434,1
Other investments			
Purchases...	(2,807)	(2,173)	(4,9
Sales, repayments and maturities.......................	24,169	8,859	3,2
Decrease (increase) in restricted cash.................	(70,426)	267,060	(311,3
Short-term investments -- net...........................	(24,093)	21,709	(26,6
Purchase of subsidiaries and life and health business net of cash acquired of $-0-, $425, and $20, in 2001, 2000, and 1999, respectively................................	--	(4,481)	(52,2
Proceeds from subsidiaries sold, net of cash disposed of			

$1 in 2001; $8,319 in 2000; and $-0- in 1999	140	36,854	
Sale of two million shares of HealthAxis.com	--	30,000	
Additions to property and equipment	(16,536)	(17,138)	(29,4
Decrease (increase) in agents' receivables	(4,121)	(2,870)	9
Cash Provided by (Used in) Investing Activities	(311,783)	774,852	(1,155,8

UICI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS -- (CONTINUED)

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
FINANCING ACTIVITIES			
Net cash provided by (used in) time deposits	--	(290,023)	191,1
Proceeds from notes payable	--	104,000	127,4
Repayment of notes payable	(45,732)	(189,015)	(45,6
Issuance of note receivable to related party	--	(35,000)	
Proceeds from note receivable from related party	--	35,000	
Proceeds from payable to related party	--	76,000	
Repayment of payable to related party	(18,954)	(57,046)	(4
Proceeds from student loan credit facilities	726,245	723,700	2,487,7
Repayment of student loan credit facilities	(554,892)	(1,095,992)	(1,468,3
Deposits from investment products	14,576	15,965	15,9
Withdrawals from investment products	(30,888)	(45,809)	(38,7
Capital Contributions	--	8,905	10,1
Net change in treasury shares	(13,964)	--	
Other	15,602	2,512	(7,7
Cash Provided by (Used in) Financing Activities	91,993	(746,803)	1,271,3
Net Increase (decrease) in Cash	(29,947)	6,778	57,1
Cash and cash equivalents at Beginning of Period	80,869	74,091	16,9
Cash and cash equivalents at End of Period	$ 50,922	$ 80,869	$ 74,0

See notes to consolidated financial statements.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE A -- SIGNIFICANT ACCOUNTING POLICIES

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of UICI and its

subsidiaries (the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation.

NATURE OF OPERATIONS

The Company offers insurance (primarily health and life) and selected financial services to niche consumer and institutional markets. Information on the Company's operations by segment is included in Note Q.

The Company issues health insurance policies, including catastrophic coverages, to niche markets, particularly to the self-employed and student markets. Through its Life Insurance Division, the Company offers life insurance and annuity products to individuals through its dedicated field force. Academic Management Services Corp. ("AMS") provides financial solutions for college students and the educational institutions they attend by offering an integrated package of student loans and student loan servicing. UICI holds a significant equity interest (approximately 47% of the issued and outstanding shares at February 12, 2002) in Healthaxis Inc., a publicly traded corporation (Nasdaq: HAXS) that provides web-based connectivity and applications solutions for health benefit distribution and administration. Other Key Factors includes investment income not allocated to the other segments, corporate interest expenses, general expenses relating to corporate operations, variable stock compensation, amortization of goodwill, realized gains or losses on sale of investments and the AMLI operations.

DISCONTINUED OPERATIONS

On March 17, 2000, the Board of Directors of the Company determined, after a thorough assessment of the unit's prospects, that it would exit from its United CreditServ sub-prime credit card business. Accordingly, the United CreditServ unit has been separately reflected as a discontinued operation for financial reporting purposes for all periods presented. The Company completed the sale of substantially all of United CreditServ's non-cash assets during the year 2000. See Note B.

The Company has also determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes for all periods presented. The Company's Special Risk Division has historically 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 Special Risk Division reported net losses of $(9.2) million, $(2.9) million and $(2.6) million for the years ended December 31, 2001, 2000 and 1999, respectively, which losses were reflected in results from discontinued operations.

USE OF ESTIMATES

The preparation of the consolidated financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

BASIS OF PRESENTATION

The consolidated financial statements have been prepared on the basis of generally accepted accounting principles ("GAAP"). The more significant variances between GAAP and statutory accounting practices prescribed or permitted by regulatory authorities for insurance companies are: fixed maturities are carried at fair value for investments classified as available for sale for GAAP rather than generally at amortized cost; the deferral of new business acquisition costs, rather than expensing them as incurred; the determination of the liability for future policyholder benefits based on realistic assumptions, rather than on statutory rates for mortality and interest; the recording of reinsurance receivables as assets for GAAP rather than as reductions of liabilities; and the exclusion of non-admitted assets for statutory purposes. (See Note L for stockholders' equity and net income from insurance subsidiaries as determined using statutory accounting practices.)

INVESTMENTS

Investments are valued as follows:

Fixed maturities consist of bonds and notes issued by governments, businesses, or other entities, mortgage and asset backed securities and similar securitized loans. All fixed maturity investments are classified as available for sale and carried at fair value.

Equity securities consist of common and non-redeemable preferred stocks and are carried at fair value.

Mortgage and collateral loans are carried at unpaid balances, less allowance for losses.

Policy loans are carried at unpaid balances.

Short-term investments are carried at fair value, which approximates cost.

Investments in other equity investees, including the Company's investment in Healthaxis, Inc., are principally stated at the Company's cost as adjusted for contributions or distributions and the Company's share of the equity investee's income or loss.

Realized gains and losses on sales of investments are recognized in net income on the specific identification basis and include write downs on those investments deemed to have an other than temporary decline in fair values. Unrealized investment gains or losses on securities carried at fair value, net of applicable deferred income tax, are reported in accumulated other comprehensive income (loss) as a separate component of stockholders' equity and accordingly have no effect on net income (loss).

Purchases and sales of short-term financial instruments are part of investing activities and not necessarily a part of the cash management program. Short-term financial instruments are classified as investments in the Consolidated Balance Sheets and are included as investing activities in the Consolidated Statements of Cash Flows.

CASH AND CASH EQUIVALENTS

The Company classifies as cash and cash equivalents unrestricted cash on deposit in banks and invested temporarily in various instruments with maturities of three months or less at the time of purchase.

STUDENT LOANS

Student loans (consisting of student loans originated and student loans

purchased), are carried at their unpaid principal balances plus capitalized loan origination costs and unamortized premiums on loans purchased in the secondary market.

During 2000, capitalized loan origination costs consisted of the incremental direct costs associated with originating student loans, which were principally salaries and related expenses. During 2001, capitalized loan

origination costs consisted of the incremental direct costs associated with originating student loans, which were principally origination fees charged by the U.S. Department of Education. Capitalized loan origination costs and premiums on purchased loans are amortized over the life of the underlying loans or included in the calculation of gain or loss if loans are sold in the secondary market. The Company had deferred loan origination costs in the amount of $12.1 million and $17.2 million at December 31, 2001 and 2000.

DEFERRED ACQUISITION COSTS

The Company incurs various costs in connection with the origination and initial issuance of its health and life insurance policies and annuities, including underwriting and policy issuance costs, costs associated with lead generation activities and distribution costs (i.e., sales commissions paid to agents).

With respect to health policies issued through the Company's Self Employed Agency and Student Insurance Divisions, for financial reporting purposes underwriting and policy issuance costs are expensed as incurred. Costs associated with generating sales leads with respect to the health business issued through the Self Employed Agency Division are capitalized and amortized over a two-year period. The Company defers the portion of commissions paid to agents and premium taxes with respect to the portion of health premium collected but not yet earned, and the Company amortizes the deferred expense over the period as and when the premium is earned.

Policy acquisition costs associated with traditional life business are capitalized and amortized over the estimated premium-paying period of the related policies, in proportion to the ratio of the annual premium revenue to the total premium revenue anticipated. Such anticipated premium revenue, which is modified to reflect actual lapse experience, is estimated using the same assumptions as are used for computing policy benefits. For universal life-type and annuity contracts, capitalized costs are amortized in proportion to the ratio of a contract's annual gross profits to total anticipated gross profits.

The cost of business acquired through acquisition of subsidiaries or blocks of business is determined based upon estimates of the future profits inherent in the business acquired. Such costs are capitalized and amortized over the estimated premium-paying period. Anticipated investment income is considered in determining whether a premium deficiency exists. The amortization period is adjusted when estimates of current or future gross profits to be realized from a group of products are revised.

The following is an analysis of deferred acquisition costs:

DECEMBER 31,

	2001	2000	1999
	(IN THOUSANDS)		
Costs of policies acquired:			
Beginning of year	$ 4,378	$16,786	$21,000
Additions	900	--	213
Amortization(a)	(1,052)	(2,674)	(4,427)
Sale of National Motor Club	--	(9,734)	--
End of year	4,226	4,378	16,786
Deferred costs of policies issued	69,702	63,747	62,753
Total Deferred Acquisition Costs	$73,928	$68,125	$79,539

(a) The discount rate used in the amortization of the costs of policies acquired ranges from 7% to 8%.

The amortization for the next five years and thereafter of capitalized costs of policies acquired at December 31, 2001 is estimated to be as follows:

	(IN THOUSANDS)
2002	$ 965
2003	900
2004	741
2005	530
2006	402
2007 and thereafter	688
	$4,226

RESTRICTED CASH

At December 31, 2001 and 2000, the Company held restricted cash in the amount of $295.2 million and $222.7 million, respectively. Restricted cash consisted primarily of funds held by AMS for the benefit of participants in AMS' tuition budgeting program and funds securing AMS and College Fund Life Insurance Division student loan credit facilities held in bankruptcy-remote, special purpose entities in the amount of $113.4 million and $86.2 million as of December 31, 2001 and 2000, respectively, which cash may be used only for repayment of associated borrowings and/or acquisitions of additional student loans. See Note J.

A subsidiary of AMS has entered into a trust agreement (the "Trust") with a bank for the safekeeping of payments received from participants in AMS' tuition budgeting program. All funds are held in trust for the benefit of the

participants. AMS is entitled to the interest earned on the funds held in the Trust as well as tuition budgeting program fees deposited into the Trust. The Trust held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated market) at December 31, 2001 and 2000, respectively. The funds are invested in U.S. Treasury securities, government agency securities, high-grade commercial paper, and money market funds of insured depository institutions at December 31, 2001 and 2000.

At December 31, 2001 and 2000, the Company's 80%-owned subsidiary, Sun Tech Processing Systems, LLC ("STP"), held funds in the amount of $21.8 million and $20.8 million, respectively, in an account designated by a court registry, all of which funds are reflected as restricted cash at such dates. The interest of the 20% owner of STP in such cash held in the court registry is reflected in other liabilities on the Company's consolidated balance sheet. The respective interests of the Company and the 20% owner of STP in such funds, which represent the proceeds of the 1998 sale of assets and liquidation of STP, are the subject of pending litigation. See Notes M and N.

Set forth below is a summary of restricted cash held by the Company at December 31, 2001 and 2000:

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
UICI:		
STP Court registry	$ 21,835	$ 20,839
Other	--	601
AMS:		
Student loan credit facilities	113,421	86,156
Tuition installment plan trust	141,663	112,638
Other	2,316	2,426
CFLD:		
Student loan credit facilities	13,851	--
Other	2,096	--
Total restricted cash	$295,182	$222,660

ALLOWANCE FOR DOUBTFUL ACCOUNTS

The Company establishes allowance for potential losses that could result from defaults or write-downs on various assets. The reserves are maintained at a level that the Company believes is adequate to absorb estimated losses.

The Company's allowance for losses is as follows:

DECEMBER 31,

	2001	2000
	(IN THOUSANDS)	
Agents' receivables	$1,954	$ 1,383
Mortgage loans	1,201	1,701
Student loans	3,585	7,473
Real estate	1,083	1,083
	$7,823	$11,640

PROPERTY AND EQUIPMENT

Property and equipment includes buildings and leasehold improvements, land, and furniture, software and equipment, all of which are reported at depreciated cost that is computed using straight line and accelerated

methods based upon the estimated useful lives of the assets (generally 3 to 7 years for furniture, software and equipment and 30 to 39 years for buildings.)

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Land and improvements	$ 2,884	$ 2,884
Buildings and leasehold improvements	32,844	32,599
Furniture, software and equipment	93,269	84,465
	128,997	119,948
Less accumulated depreciation	56,449	44,928
Property and equipment (net)	$ 72,548	$ 75,020

GOODWILL

Historically, the Company generally has amortized the excess of cost over the underlying value of the net assets of companies acquired on a straight-line basis over twenty to twenty-five years. The Company continually reevaluated the propriety of the carrying amount of goodwill, as well as the amortization period to determine whether current events and circumstances warrant adjustments to the carrying value and/or revised estimates of useful life. The Company assessed the recoverability of goodwill based upon several factors, including management's intention with respect to the operations to which the goodwill relates and those operations' projected future income and undiscounted cash flows. An impairment loss would be recorded in the period such determination was made. At December 31, 2001 and 2000, the Company had goodwill in the amount of $104.7 million and $105.9 million, respectively, and accumulated amortization of $18.7 million and $14.3 million at December 31, 2001 and 2000, respectively, resulting in net

goodwill of $86.0 million and $91.5 million at December 31, 2001 and 2000, respectively. Amortization expense recorded for continuing operations totaled $6.3 million, $6.2 million, and $6.3 million in 2001, 2000, and 1999, respectively.

In June 2001, the Financial Accounting Standards Board ("FASB") issued Statement No. 142, which 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. 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 will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of approximately $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect, if any, of these tests will be on the results of operations and financial position of the Company.

FUTURE POLICY AND CONTRACT BENEFITS AND CLAIMS

Traditional life insurance future policy benefit liabilities are computed on a net level premium method using assumptions with respect to current investment yield, mortality, withdrawal rates, and other assumptions determined to be appropriate as of the date the business was issued or purchased by the Company. Future contract benefits related to universal life-type and annuity contracts are generally based on policy account values. Claims liabilities represent the estimated liabilities for claims reported plus claims incurred but not yet

reported. The liabilities are subject to the impact of actual payments and future changes in claim factors; as adjustments become necessary they are reflected in current operations.

RECOGNITION OF PREMIUM REVENUES AND COSTS

Premiums on traditional life insurance are recognized as revenue when due. Benefits and expenses are matched with premiums so as to result in recognition of income over the term of the contract. This matching is accomplished by means of the provision for future policyholder benefits and expenses and the deferral and amortization of acquisition costs. Revenues for universal life-type and annuity contracts consist of charges for the cost of insurance, policy administration and surrender charges assessed during the year. Contract benefits that are charged to expense include benefit claims incurred in the period in excess of related contract balances, and interest credited to contract balances.

STUDENT LOAN INCOME

The Company recognizes student loan income as earned, including adjustments

for the amortization of premiums. Marketing fees for student loans that are sold to third parties are earned when received and are included in other fee income.

UNEARNED PREMIUMS

Premiums on health insurance contracts are recognized as earned over the period of coverage on a pro rata basis.

Other fee income

Other fee income consists primarily of AMS tuition installment program fees, third party administration fees and agency fees. These fees are recognized as income as services are provided.

Other income

Other income consists primarily of commission and fee income from AMLI Realty Co. subsidiary. Income is recognized as services are provided.

REINSURANCE

Insurance liabilities are reported before the effects of ceded reinsurance. Reinsurance receivables and prepaid reinsurance premiums are reported as assets. The cost of reinsurance is accounted for over the terms of the underlying reinsured policies using assumptions consistent with those used to account for the policies.

ADVERTISING EXPENSE

The cost of advertising is expensed as incurred. The Company incurred $4.5 million, $2.2 million and $3.9 million in advertising costs in 2001, 2000 and 1999, respectively.

FEDERAL INCOME TAXES

Deferred income taxes are recorded to reflect the tax consequences of differences between the tax bases of assets and liabilities and their financial reporting amounts at each year-end. The Company has recorded a valuation allowance to reduce its deferred tax assets to the amount that it believes is more likely than not to be realized. While the Company has considered future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, in the event the Company were to determine that it would be able to realize its deferred tax assets in the future in excess of its net recorded

amount, an adjustment to the deferred tax asset would increase income in the period such determination was made. Likewise, in the event that the Company were to determine that it would not be able to realize all or part of its net deferred tax asset in the future, an adjustment to the deferred tax asset would be charged to income in the period such determination was made.

COMPREHENSIVE INCOME

Included in comprehensive income is the reclassification adjustments for realized gains (losses) included in net income of $(213,000), $(2.6) million, and $35,000 for the years ended December 31, 2001, 2000, and 1999, respectively.

GUARANTY FUNDS AND SIMILAR ASSESSMENTS

The Company is assessed amounts by state guaranty funds to cover losses of policyholders of insolvent or rehabilitated insurance companies, by state insurance oversight agencies to cover the operating expenses of such agencies and by other similar legislative entities. These mandatory assessments may be partially recovered through a reduction in future premium taxes in certain states. At December 31, 2001 and 2000, the Company had accrued $3.8 million and $1.9 million, respectively, to cover the cost of these assessments. The Company expects to pay these assessments over a period of up to five years, and the Company expects to realize the recorded premium tax offsets and/or policy surcharges over a period of up to 10 years. The Company incurred expenses for guaranty fund assessments in the amount of $2.4 million, $1.3 million, and $587,000 in 2001, 2000, and 1999, respectively. In the fourth quarter of 2001, the Company recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator.

NEW 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 FASB 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. Statement 144 is effective for the Company's fiscal year beginning January 1, 2002.

In June 2001, the 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. Intangible assets with finite lives will continue to be amortized over their estimated useful lives. Additionally, Statement 142 requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company will apply Statement 142 beginning in the first quarter 2002. Application of the nonamortization provisions of Statement 142 is expected to result in an increase in net income of $4.5 million ($0.09 per share) in 2002. The Company will test goodwill for impairment using the two-step process prescribed in Statement 142. The first step is a screen for potential impairment, while the second step measures the amount of the impairment, if any. The Company expects to perform the first of the required

impairment tests of goodwill and indefinite lived intangible assets as of January 1, 2002 in the first quarter of 2002. Any impairment charge resulting

from these transitional impairment tests will be reflected as the cumulative effect of a change in accounting principle in the first quarter of 2002. The Company has not yet determined what the effect of these tests will be on the earnings and financial position of the Company.

Reclassification

Certain amounts in the 2000 and 1999 financial statements have been reclassified to conform to the 2001 financial statement presentation associated with discontinued operation treatment of the Special Risk Division.

NOTE B -- DISCONTINUED OPERATIONS

UNITED CREDITSERV

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

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

Reflecting the terms of the Company's then-pending sale of its United CreditServ business, during the quarter ended June 30, 2000 the Company recorded an additional pre-tax loss, and correspondingly increased the liability for loss on the disposal of the discontinued operation, in the amount of $36.0 million ($23.4 million net of tax). Accordingly, for the full year 2000, the Company reported a pre-tax loss from discontinued operations in the amount of $36.0 million ($23.4 million net of tax). During the year ended December 31, 2000, the discontinued operation incurred a loss from operations in the amount of approximately $131.9 million, which loss was charged to the liability for loss on disposal.

On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price at closing of approximately $124.0 million. The Company retained United CreditServ's Texas collections facility, and UICI continues to hold United CreditServ's building and real

estate in Sioux Falls, South Dakota. The Company has leased the Sioux Falls facilities to the purchaser of the credit card assets pursuant to a long-term lease. UICI also retained the right to collect approximately $250.0 million face amount of previously written off credit card receivables. In

connection with the sale, UICI or certain of its subsidiaries retained substantially all liabilities and contingencies associated with its credit card business, including liability for payment of all certificates of deposit issued by UCNB, loans payable and liabilities associated with pending litigation and other claims.

The 1999 and 2000 operating losses at United CreditServ had a material adverse effect upon the liquidity and cash flows of the Company. Since the Company first announced losses at its United CreditServ unit in December 1999, UICI through United CreditServ contributed to UCNB as capital an aggregate of $176.6 million in cash. UICI at the holding company level funded these cash contributions and other cash needs with the proceeds of sale of investment securities; a borrowing from a third party in the amount of $24.0 million funded in July 2000; approved sales of assets from the holding company to the Company's regulated insurance company subsidiaries completed in June and July 2000 generating cash proceeds in the aggregate amount of approximately $26.2 million; dividends in the amount of $19.0 million paid during the six months ended June 30, 2000 from CLICO (one of its regulated insurance company subsidiaries); the sale to MEGA of CLICO for $19.0 million in July 2000; cash proceeds in the amount of $21.8 million from the disposition of its National Motor Club unit completed in July 2000; and cash on hand.

At December 31, 1999, UCNB had $290.0 million of certificates of deposits outstanding, and UCNB held approximately $110.5 million in cash, cash equivalents and short term U.S. Treasury securities. Following the sale of the Company's United CreditServ unit, UCNB prepaid all of its remaining certificates of deposit then-outstanding in the amount of approximately $79.0 million, and all such deposit liabilities were discharged as of October 23, 2000. Following the prepayment of all deposit liabilities of UCNB, at December 31, 2000 UCNB held cash, cash equivalents and U.S. Treasury securities in the amount of $26.0 million.

On January 29, 2001, UCNB completed its voluntary liquidation in accordance with the terms of a plan of voluntary liquidation approved by the OCC by surrendering to the OCC its national bank charter and distributing to a wholly-owned subsidiary of UICI the residual assets of UCNB, including available cash and cash equivalents in the amount of approximately $26.0 million. As part of the plan of liquidation, and in accordance with the terms of the June 2000 Consent Order issued by the OCC against UICI, UICI expressly assumed all liabilities of UCNB, including contingent liabilities associated with pending and future litigation. In addition, on January 29, 2001, the OCC vacated the Consent Orders issued against UCNB in February 2000 and June 2000 and the June 2000 Consent Order issued against UICI's United CreditServ subsidiary. The OCC substantially modified the June 2000 Consent Order issued with respect to UICI to eliminate all restrictive provisions except a reconfirmation of UICI's obligation to assume all liabilities of UCNB. Finally, the OCC formally acknowledged the termination by UICI of the liquidity and capital assurances agreement, which formerly provided that, upon demand by UCNB, UICI would assure the liquidity and capital adequacy of UCNB. See Note N.

In addition to the cash sales price received at the September 2000 closing

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

Set forth below is a summary of the operating results of the United CreditServ business for each of the years ended December 31, 2001, 2000 and 1999, respectively.

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Revenue:			
Net interest income	$ 27	$ 15,922	$ 20,129
Credit card fees and other income	9,093	109,445	207,246
Total revenues	9,120	125,367	227,375
Expenses:			
Provision for loan losses	--	177,365	211,747
UMMG purchase	--	--	35,944
Operating expenses	7,921	74,619	118,661
Depreciation and amortization	3,173	5,281	6,328
Total expenses	11,094	257,265	372,680
Loss from operations before amounts charged to loss on disposal	(1,974)	(131,898)	(145,305)
Amounts charged to loss on disposal	7,675	131,898	--
Income (loss) from operations	5,701	--	(145,305)
Federal income taxes (benefit)	1,995	--	(50,673)
Income (loss) from operations	3,706	--	(94,632)
Estimated loss on disposal, net of income tax benefit	--	(23,400)	(84,500)
Income (loss) from United CreditServ discontinued operations	$ 3,706	$ (23,400)	$(179,132)

At December 31, 2000, the remaining assets of United CreditServ operations in the amount of $54.3 million (consisting of cash and short-term investments in the amount of $27.8 million and other assets in the amount of $26.5 million) were reclassified to cash and other assets, respectively, on the Company's consolidated balance sheet, and the remaining liabilities of the discontinued operations in the amount of $53.0 million (consisting of notes payable in the amount of $4.3 million and other liabilities in the amount of $48.7 million)

were reclassified to notes payable and other liabilities, respectively, on the Company's consolidated balance sheet.

SPECIAL RISK DIVISION

The Company has determined to exit the businesses of its Special Risk Division by sale, abandonment and/or wind-down and, accordingly, in December 2001 the Company designated and has classified its Special Risk Division as a discontinued operation for financial reporting purposes. The Company's Special Risk Division has historically 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 Special Risk Division reported net losses of $(9.2) million, $(2.9) million and $(2.6) million for the years ended December 31, 2001, 2000 and 1999, respectively, which losses were reflected in results from discontinued operations.

Set forth below is a summary of the operating results of the Special Risk Division for each of the years ended December 31, 2001, 2000 and 1999, respectively:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Revenue:			
Premiums	$ 20,661	$20,726	$46,755
Investment income	1,873	2,676	2,628
Other income	4,036	6,768	9,621
Gain (loss) on sale of investments	(61)	1,531	--
Total revenues	26,509	31,701	59,004
Expenses:			
Benefits, claims and settlement expenses	31,056	24,753	44,301
Underwriting, acquisition and insurance expenses	8,615	10,724	18,294
Other expenses	870	325	82
Depreciation and amortization	72	160	272
Total expenses	40,613	35,962	62,949
Loss from operations	(14,104)	(4,261)	(3,945)
Federal income taxes benefit	(4,932)	(1,376)	(1,381)
Loss from Special Risk discontinued operations	$ (9,172)	$(2,885)	$(2,564)

Set forth below is a summary of the financial condition of the Special Risk Division as of December 31, 2001 and 2000:

	YEAR ENDED DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Assets:		
Cash and short-term investments	$ 977	$ 2,541
Reinsurance, due premiums and other receivables	52,843	50,892
Other Assets	714	1,095
Total assets	54,534	54,528
Liabilities:		
Policy liabilities	79,384	79,062
Other liabilities	11,023	5,638
Total liabilities	90,407	84,700
Net liabilities from Special Risk discontinued operations	$(35,873)	$(30,172)

NOTE C -- ACQUISITIONS AND DISPOSITIONS

On August 3, 2001, the Company completed the acquisition from AMS' former chief executive officer of the remaining 25% common stock interest in AMS it did not already own for a purchase price of $750,000. For additional consideration, the former chief executive officer and certain former employees of AMS agreed, for a three-year period ending in August 2004, not to engage in any business competitive with AMS' tuition

installment or student loan servicing businesses. These former executives and their affiliates further agreed to pay to AMS fees in prescribed amounts in connection with the origination and consolidation of certain student loans over a three-year period ending in August 2004.

Effective May 31, 2001, WinterBrook Holdings, Inc. (a wholly-owned subsidiary of the Company) sold its 44% minority interest in Cassidy Employee Benefit Services, LLC ("Cassidy") to Cassidy for $140,000 in cash. The remaining equity holders of Cassidy constituted members of Cassidy management.

Effective April 1, 2001, Specialized Card Services, Inc. ("SCS"), an indirect wholly-owned subsidiary of the Company, entered into an agreement with an unaffiliated third party to form a new venture to engage in the business of collecting charged off consumer debt. In exchange for 50% of the common stock in the newly formed entity and $3.0 million liquidation value of preferred stock, SCS contributed to the newly formed corporation the business operations of its Harker Heights, Texas collection facility at net book value and certain previously written-off credit card receivables.

On July 27, 2000, the Company sold to an investor group consisting of members of the family of Ronald L. Jensen (the Company's Chairman) (including Mr. Jensen) (the "NMC Buyer") its 97% interest in NMC Holdings, Inc. ("NMC"), the parent company of its National Motor Club of America unit, for a purchase price of $56.8 million, representing 97% of the value of NMC as determined by

independent appraisal. The purchase price was paid at closing in cash in the amount of $21.8 million and by delivery of a promissory note (the "NMC Note") issued by the NMC Buyer in the principal amount of $35.0 million. See Note M. The $12.6 million, net of tax, received in excess of the net book value of NMC was reflected as an increase to additional paid in capital.

Effective July 31, 2000, a wholly-owned subsidiary of the Company sold all of its outstanding shares of UMMG for a purchase price in the amount of $25,000 in cash, with an additional amount of up to $2.0 million payable over the next five years, contingent upon the performance of the business. The purchaser is an entity controlled by the former President of UMMG. UMMG is a Lakewood, Colorado-based provider of marketing, administrative and support services for the Company's credit card programs. In addition, on July 31, 2000, UICI signed a credit agreement with the purchaser, pursuant to which it has agreed to lend to the purchaser up to $1.0 million on a revolving basis. As of December 31 2000, the Company had advanced to the purchaser $1.0 million under the credit agreement.

Effective July 1, 2000, the Company sold the assets of WinterBrook HealthCare Management, LLC (a company engaged in repricing of insurance claims) to an unrelated party for a sales price of $1.9 million. The Company recognized a pre-tax gain of $1.5 million in the quarter ended September 30, 2000 in connection with this sale.

In 1997, pursuant to the terms of a Sale and Administration Agreement, the Company sold certain tangible assets associated with its third party administrator business to Healthcare Management Administrators, Inc. ("HMA") (which is owned by Mr. Jensen) and also agreed to assign associated rights and benefits of licenses of third party administrator business. The purchase price received by the Company was $641,000, which approximated book value of the net assets sold.

In accordance with the terms of a Management and Option Agreement, dated as of April 1, 1999, HMA and Mr. Jensen granted to the Company an option to purchase certain assets, subject to certain corresponding liabilities, associated with the third party administration business of HMA. The option was exercisable on or before January 30, 2000 at an option price equal to the book value of the net tangible assets of HMA to be purchased plus assumption of an obligation to pay WinterBrook VSO, LLC (a company controlled by Mr. Jensen) certain commissions payable over a five year term in an amount not to exceed $4.2 million. The Company delivered notice of exercise of the option on January 25, 2000, and the Company completed the purchase of the assets associated with HMA's third party administration business on February 3, 2000, at a renegotiated purchase price equal to $4.0 million (representing the recorded net book value of the assets

purchased) plus $500,000, representing repayment to Mr. Jensen of cash advances made to HMA subsequent to December 31, 1999. The Company recorded $1.9 million in goodwill in connection with this acquisition and is amortizing the goodwill on a straight line basis over 15 years.

The assets of HMA comprised a part of the assets of UICI Administrators, Inc., which was sold by the Company in January 2002. See Note T.

Effective July 26, 1999, the Company's AMS subsidiary acquired for $58.0 million 100% of the outstanding capital stock of AMS Investment Group, Inc., a

holding company whose principal operations consist of Academic Management Services, Inc. The acquisition was financed with the proceeds of AMS borrowings and the issuance to the Company of preferred stock. The Company recorded $49.8 million of goodwill in connection with this acquisition and is amortizing the goodwill on a straight line basis over twenty years. Total fair value of assets acquired was $255.1 million (including goodwill) and fair value of liabilities assumed was $197.1 million at purchase date.

Effective September 30, 1999, the Company acquired from a partnership (the partners of which consisted primarily of certain of the Company's agents) the remaining 21% interest in National Managers Life Insurance Company, Ltd. ("National Managers") for cash in the amount of $794,000 increasing the Company's ownership in National Managers to 100%. The purchase price was based on a predetermined formula that approximated GAAP book value.

In November 1999, the Company's former National Motor Club subsidiary acquired a 90% interest in Landen Bias Corporation (also known as Coachnet) for cash in the amount of $4.6 million. The fair value of the assets (including goodwill) was $6.4 million and the fair value of the liabilities assumed was $1.8 million at the purchase date. Landen Bias Corporation was sold as part of the NMC sale. See Note M.

For financial reporting purposes, the acquisitions described above were accounted for using the purchase method of accounting, and, as a result, the assets and liabilities acquired were recorded at fair value on the dates acquired. The Consolidated Statement of Operations for the year of the acquisition 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. Accordingly, pro forma financial information has not been presented.

NOTE D -- INVESTMENTS

A summary of net investment income is set forth below:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Fixed maturities	$60,356	$60,385	$60,883
Equity securities	4,676	1,228	1,386
Mortgage and collateral loans	503	627	816
Policy loans	1,336	1,333	1,353
Short-term investments	12,826	16,083	10,395
Investment in equity investees	740	9,158	5,801
Other investments	7,077	4,897	5,931
	87,514	93,711	86,565
Less investment expenses	3,685	3,936	3,696
	$83,829	$89,775	$82,869

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

Realized gains and (losses) and the change in unrealized investment gains and (losses) on fixed maturity and equity security investments are summarized as follows:

	FIXED MATURITIES	EQUITY SECURITIES	OTHER INVESTMENTS	GAINS (LOSSES) ON INVESTMENTS
		(IN THOUSANDS)		
YEAR ENDED DECEMBER 31:				
2001				
Realized	$ (734)	$ (420)	$6,319	$ 5,165
Change in unrealized	18,054	44,036	--	62,090
Combined	$ 17,320	$43,616	$6,319	$ 67,255
2000				
Realized	$ (3,545)	$26,440	$1,463	$ 24,358
Change in unrealized	29,854	863	585	31,302
Combined	$ 26,309	$27,303	$2,048	$ 55,660
1999				
Realized	$ (802)	$ 885	$ (450)	$ (367)
Change in unrealized	(64,142)	(3,116)	(153)	(67,411)
Combined	$(64,944)	$(2,231)	$ (603)	$(67,778)

Gross unrealized investment gains pertaining to equity securities were $42.6 million, $639,000 and $500,000 at December 31, 2001, 2000 and 1999, respectively. Gross unrealized investment losses pertaining to equity securities were $599,000, $2.6 million and $3.4 million at December 31, 2001, 2000 and 1999, respectively.

The increase in gross unrealized investment gains to $42.6 million in 2001 from $639,000 in 2000 is principally due to the Company changing its method for accounting for its investment in AMLI Residential, effective June 30, 2001, from the equity method to the investment method. See further discussion on AMLI Residential later in this footnote under equity securities.

The amortized cost and fair value of investments in fixed maturities are as follows:

	DECEMBER 31, 2001			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
		(IN THOUSANDS)		
U.S. Treasury and U.S. Government agency obligations	$ 46,341	$ 1,423	$ (98)	$ 47,666

Mortgage-backed securities issued by U.S. Government agencies and authorities......	135,706	1,772	(429)	137,049
Other mortgage and asset backed securities..............................	154,362	3,164	(1,815)	155,711
Other corporate bonds.....................	588,300	12,854	(12,289)	588,865
Total fixed maturities...........	$924,709	$19,213	$(14,631)	$929,291

	DECEMBER 31, 2000			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	FAIR VALUE
	(IN THOUSANDS)			
U.S. Treasury and U.S. Government agency obligations..............................	$ 62,620	$ 1,367	$ (215)	$ 63,772
Mortgage-backed securities issued by U.S. Government agencies and authorities......	70,132	1,189	(346)	70,975
Other mortgage and asset backed securities..............................	148,131	2,143	(2,678)	147,596
Other corporate bonds.....................	547,022	4,448	(19,380)	532,090
Total fixed maturities...........	$827,905	$ 9,147	$(22,619)	$814,433

Fair values for fixed maturity securities are based on quoted market prices, where available. For fixed maturity securities not actively traded, fair values are estimated using values obtained from quotation services.

The amortized cost and fair value of fixed maturities at December 31, 2001, by contractual maturity, are shown below. Fixed maturities subject to early or unscheduled prepayments have been included based upon their contractual maturity dates. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	AMORTIZED COST	FAIR VALUE
	(IN THOUSANDS)	
MATURITY		
One year or less..	$ 23,122	$ 23,534
Over 1 year through 5 years................................	241,862	245,757
Over 5 years through 10 years..............................	234,096	232,700
Over 10 years...	135,561	134,540
	634,641	636,531

Mortgage and asset backed securities	290,068	292,760
Total fixed maturities	$924,709	$929,291

Proceeds from the sale and call of investments in fixed maturities were $224.6 million, $148.0 million and $98.9 million for 2001, 2000 and 1999, respectively. Gross gains of $5.0 million, $1.3 million and $2.1 million, and gross losses of $2.8 million, $5.0 million and $2.9 million were realized on the sale and call of fixed maturity investments during 2001, 2000 and 1999, respectively. Proceeds from the sale of equity investments were $15.8 million, $12.6 million and $12.2 million for 2001, 2000 and 1999, respectively. Gross gains of $1.3 million, $1.1 million and $1.8 million and gross losses of $1.2 million, $867,000 and $935,000 were realized on sales of equity investments during 2001, 2000 and 1999, respectively. Included in 2001 realized losses were impairment charges in the amount of $3.0 million and $541,000 for fixed maturity investments and equity investments, respectively.

Following is a summary of the Company's equity securities:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	COST	FAIR VALUE	COST	FAIR VALUE
	(IN THOUSANDS)			
Common Stocks	$25,716	$67,207	$ 351	$ 412
Non-redeemable preferred stocks	16,703	17,238	18,575	16,504
	$42,419	$84,445	$18,926	$16,916

The Company's investment at December 31, 2000 in AMLI Commercial Properties Trust ("ACPT") and AMLI Residential Properties Trust ("AMLI Residential") in the amount of $23.2 million and $20.1 million, respectively, is reflected under the caption "Investment in other equity investees." In 2001, the Company's investment in AMLI Residential in the amount of $62.8 million is included in equity securities.

The Company changed its method for accounting for its investment in AMLI Residential effective June 30, 2001, from the equity method to the investment method due to its decreased ownership interest to 10.3%. The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million; the accounting change had no effect on the Company's results of operations for the year ended December 31, 2001. As a result of the accounting change, the Company marks-to-market its investment in AMLI Residential and accordingly, changes in the Company's carrying value of its investment in AMLI Residential are recorded as unrealized gains (or losses) with corresponding changes to the Company's stockholders' equity (net of tax). At December 31,2001 and 2000, the Company's carrying value of its investment in AMLI Residential was

$64.3 million and $23.1 million, respectively.

During 2001, ACPT sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized its proportionate share of the gain in the amount of $5.3 million.

The fair value, which represents carrying amounts, of equity securities are based on quoted market prices. For equity securities not actively traded, market values are estimated using values obtained from quotation services.

The carrying amounts of the Company's investments in mortgage, collateral and policy loans approximate fair value which is estimated using a discounted cash flow analysis, at a rate currently being offered for similar loans to borrowers with similar credit ratings.

The carrying values for mortgage and collateral loans are net of allowance of $1.2 million and $1.7 million for 2001 and 2000, respectively.

The Company minimizes its credit risk associated with its fixed maturities portfolio by investing primarily in investment grade securities. Included in fixed maturities is a concentration of mortgage and asset backed securities. At December 31, 2001, the Company had a carrying amount of $292.8 million of mortgage and asset backed securities, of which $137.0 million were government backed, $97.5 million were rated AAA, $25.5 million were rated AA, $23.4 million were rated A, $4.6 million were rated BBB, and $4.8 million were rated below investment grade by external rating agencies. At December 31, 2000, the Company had a carrying amount of $218.6 million of mortgage and asset backed securities, of which $71.0 million were government backed, $75.1 million were rated AAA, $42.0 million were rated AA, $23.4 million were rated A, and $7.1 million were rated BBB by external rating agencies.

The Company regularly monitors its investment portfolio to attempt to minimize its concentration of credit risk in any single issuer. As of December 31, 2001, and other than the Company's investment in AMLI

Residential Properties Trust (which represented 1.6% of the Company's aggregate investment portfolio), the Company's investment in no single issuer represented more than one percent of the Company's aggregate investment portfolio.

With respect to its short-term investments, the Company invests in an institutional money market fund that invests solely in the highest quality United States dollar denominated money market securities of domestic and foreign issuers. At December 31, 2001 and 2000, the Company had short-term investments in this diversified fund in the amount of approximately $154.6 million and $111.8 million, respectively.

Under the terms of various reinsurance agreements (see Note H), the Company is required to maintain assets in escrow with a fair value equal to the statutory reserves assumed under the reinsurance agreements. Under these agreements, the Company had on deposit, securities with a fair value of approximately $84.5 million and $157.7 million as of December 31, 2001 and 2000, respectively. In addition, domestic insurance subsidiaries had securities with a fair value of $17.7 million and $17.4 million on deposit with insurance departments in various states at December 31, 2001 and 2000, respectively.

NOTE E -- INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2001, UICI held beneficially 24,674,838 shares of common stock of Healthaxis, Inc. (HAXS: Nasdaq) ("HAI") (including 354,844 shares acquired on May 23, 2001 from a former employee of HAI for a purchase price of $400,000), representing approximately 47% of the issued and outstanding shares of HAI. Of such 24,674,838 shares held by the Company, 8,581,714 shares (representing 16.2% of HAI's total issued and outstanding shares) were through November 7, 2001 subject to the terms of a Voting Trust Agreement, pursuant to which trustees unaffiliated with the Company have the right to vote such shares. In addition, the Company holds (a) a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per HAI share; (b) a warrant to purchase 200,100 shares of HAI common stock at an exercise price of $4.40 per HAI share; (c) a warrant to purchase 10,005 shares of HAI common stock at an exercise price of $12.00 per share; and (d) $1.7 million aggregate principal amount of HAI 2% convertible debentures, which are convertible into an aggregate of 185,185 shares of HAI common stock.

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

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

The Company's interest in HAI was derived from the January 7, 2000 merger (the "Insurdata Merger") of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com, the

sole operating subsidiary of HAI. HealthAxis.com formerly was a web-based retailer of health insurance products and related consumer services. During 1999 and in advance of the Insurdata Merger, Insurdata transferred to UICI the net assets of Insurdata Administrators (a division of Insurdata engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation) and its member interest in Insurdata Marketing Services, LLC (a subsidiary of Insurdata engaged in the business of marketing third party benefits administration services) for cash in the amount of

$858,000, representing the aggregate book value of the net assets and member interest so transferred. The Company recognized no gain on the non-monetary exchange of stock in the Insurdata Merger due to uncertainty of realization of the gain.

Following the Insurdata Merger, the Company held approximately 43.6%, and HAI held approximately 28.1%, of the issued and outstanding capital stock of HealthAxis.com, the surviving corporation in the Insurdata Merger. On March 14, 2000, the Company sold in a private sale to an institutional purchaser 2,000,000 shares of HealthAxis.com common stock and, giving effect to such sale, the Company held 39.2% of the issued and outstanding shares of common stock of HealthAxis.com.

On September 29, 2000, UICI purchased from a third party $1.7 million principal amount of HAI 2% convertible subordinated debentures and a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per share, for a total purchase price of $1.2 million. The debentures mature in September 2005 and are convertible into 185,185 shares of HAI common stock.

On January 26, 2001, HAI acquired all of the outstanding shares of HealthAxis.com that HAI did not then own in a stock-for-stock merger of HealthAxis.com with a wholly-owned subsidiary of HAI (the "HAI Merger"). In the HAI Merger, HealthAxis.com shareholders (including the Company) received 1.334 shares of HAI common stock for each share of HealthAxis.com common stock outstanding.

The Company has accounted for its investment in HAI utilizing the equity method and has recognized its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded in connection with the Insurdata Merger). The Company's carrying value of its investment in HAI was $8.3 million and $18.4 million at December 31, 2001 and 2000, respectively.

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

Pursuant to the terms of the Services Agreement, UICI paid to HAI $20.4 million, $21.0 million and $23.3 million in 2001, 2000 and 1999, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services, for which UICI paid to HAI $10.1 million, $6.4 million and $3.7 million in 2001, 2000 and 1999, respectively. The aggregate amounts paid by UICI to HAI in 2001, 2000 and 1999, respectively, represented 70%, 63% and 58% of HAI's total revenues of $43.8 million, $43.7 million and $46.2 million in such years, respectively. Of total fees paid by the Company to HAI in 2001 and 2000, approximately $5.4 million (or 18%) and $4.9 million (or 16%), respectively, were attributable to services provided to the Company's UICI Administrators unit, which was sold by the Company in January 2002. With a strategic goal of gaining greater control over its information technology resources and development efforts and managing its own information

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

technology staff, the Company continues to seek to reduce its dependence upon HAI for information systems and software development services under the Services Agreement by hiring more of its technology work force directly and by outsourcing and contracting with technology service and software providers other than HAI. Accordingly, the Company believes that overall expenditures to HAI for services in 2002 will be less than such expenditures in 2001 and will likely decline each year thereafter. The Company does not currently intend to renew the Services Agreement when it expires on January 3, 2005.

Set forth below is summary condensed balance sheet and income statement data for HAI as of and for the year ended December 31, 2001 and 2000. This financial information has been adjusted to exclude the effects of push-down accounting for the Insurdata Merger.

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Assets		
Cash and cash equivalents	$13,149	$16,840
Other current assets	6,950	10,597
Property and equipment	3,451	10,616
Other assets	6,331	9,361
Total assets	$29,881	$47,414
Liabilities		
Accounts payable and accrued expenses	$ 5,182	$ 5,780
Debt	27,147	2,804
Other liabilities	2,869	13
Total liabilities	35,198	8,597
Stockholders' equity (deficit)	(5,317)	38,817
Total liabilities and equity	$29,881	$47,414

	YEAR ENDED DECEMBER 31	
	2001	2000
	(IN THOUSANDS)	
Revenue	$ 43,790	$ 43,671
Operating expenses	66,034	82,272
Net loss	$(22,244)	$(38,601)

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NOTE F -- STUDENT LOANS

Primarily through its AMS subsidiary and its College Fund Life Insurance Division, the Company holds federally guaranteed and alternative (i.e.non-federally guaranteed) student loans extended to students at selected colleges and universities.

Following is a summary of the student loans held by the Company at the dates indicated:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	ESTIMATED FAIR VALUE
	(IN THOUSANDS)			
FFELP loans.........................	$1,028,264	$1,068,166	$1,004,319	$1,044,492
Alternative loans -- guaranteed......	196,185	196,185	109,700	109,700
Alternative loans -- non-guaranteed...........	45,491	45,491	32,345	32,345
Deferred loan origination costs......	12,072	--	17,181	--
Allowance for losses................	(3,585)	--	(7,473)	--
Total student loans.................	$1,278,427	$1,309,842	$1,156,072	$1,186,537

Of the aggregate $1,278.4 million and $1,156.1 million carrying amount of student loans held by the Company at December 31, 2001 and 2000, respectively, $1,276.1 million and $1,125.5 million, respectively, were pledged to secure payment of secured student loan indebtedness. See Note J.

The fair value of student loans is estimated based on values of recent sales of student loans by the Company.

FFELP loans are guaranteed as to 98% of principal and accrued interest by the federal government or other private insurers. Certain alternative loans are guaranteed (in an amount ranging from 95% to 100%) as to principal and accrued interest by private insurers. The Company has established a reserve for potential losses on the portion of principal and accrued interest not guaranteed by the federal government or other private insurers and for potential losses on uninsured student loans. The reserve is maintained at a level that the Company believes is adequate to absorb estimated credit losses.

The Company's provision for losses on student loans is summarized as follows:

DECEMBER 31,

	2001	2000	1999
	(IN THOUSANDS)		
Balance at beginning of year	$ 7,473	$2,252	$ 935
Change in provision for losses	(3,888)	5,221	1,317
Balance at end of year	$ 3,585	$7,473	$2,252

The Company recognized interest income from the student loans of $94.4 million, $115.3 million and $66.4 million in 2001, 2000 and 1999, respectively.

During 2000, the Company acquired loans with principal and accrued interest balances of $2.5 million. The Company purchased the loans at a discount of $75,000 in accordance with the terms of purchase agreements. The discount is being amortized over the life of the loans or included in the calculation of gain or loss if loans are sold in the secondary market.

Included in other fees for the year ended December 31, 2001 and 2000 was approximately $11.3 million and $7.8 million, respectively, in gain from the sale of loans. The sold loans had a carrying value of $474.0 million and $765.0 million principal amount at the respective dates of sale in 2001 and 2000, respectively. While AMS sold a lesser principal amount of loans in 2001 than in 2000, the higher net gain in 2001 resulted from lower deferred loan origination costs associated with sold loans in 2001 compared to 2000.

NOTE G -- POLICY LIABILITIES

Liability for future policy and contract benefits consists of the following:

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Accident & Health	$ 49,302	$ 35,289
Life	224,820	229,467
Annuity	149,175	158,290
	$423,297	$423,046

With respect to traditional life insurance, future policy benefits are computed on a net level premium method using assumptions with respect to current investment yield, mortality and withdrawal rates determined to be appropriate as of the date the business was acquired by the Company. Substantially all reserve interest assumptions range from 7% to 8%. Such liabilities are graded to equal statutory values or cash values prior to maturity.

Interest rates credited to future contract benefits related to universal life-type contracts approximated 5.0%, 5.3% and 5.4% during 2001, 2000 and 1999, respectively. Interest rates credited to the liability for future contract benefits related to annuity contracts generally ranged from 4.0% to 5.5% during 2001, 3.0% to 7.3% during 2000 and 4.5% to 7.2% during 1999.

As described in Note H, the Company has assumed certain life and annuity business from subsidiaries of AEGON USA, INC. ("AEGON"), utilizing the same actuarial assumptions as the ceding company. The liability for future policy benefits related to life business has been calculated using an interest rate of 9% graded to 5% over twenty years for life policies. Mortality and withdrawal rates are based on published industry tables or experience of the ceding company and include margins for adverse deviation. Interest rates credited to the liability for future contract benefits related to these annuity contracts generally ranged from 4.3% to 5.5% during 2001, and 4.8% to 5.5% during 2000 and 1999.

The carrying amounts and fair values of the Company's liabilities for investment-type contracts (included in future policy and contract benefits and other policy liabilities in the consolidated balance sheets) are as follows:

	DECEMBER 31, 2001		DECEMBER 31, 2000	
	CARRYING AMOUNT	FAIR VALUE	CARRYING AMOUNT	FAIR VALUE
	(IN THOUSANDS)			
Direct annuities	$ 84,941	$ 79,165	$ 85,383	$ 79,577
Assumed annuities	64,234	63,977	72,907	72,494
Supplemental contracts without life contingencies	1,593	1,593	1,818	1,818
	$150,768	$144,735	$160,108	$153,889

Fair values under investment-type contracts consisting of direct annuities and supplemental contracts without life contingencies are estimated using the assumption-reinsurance pricing method, based on estimating the amount of profits or losses an assuming company would realize, and then discounting those amounts at a current market interest rate. Fair values for the Company's liabilities under assumed annuity investment-type contracts are estimated using the cash surrender value of the annuity.

Activity in the claims liability is summarized as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999

	(IN THOUSANDS)		
Claims liability at beginning of year, net of related reinsurance recoverables	$278,211	$265,974	$270,396
Add:			
Incurred losses, net of reinsurance, occurring during:			
Current year	551,427	468,278	471,763
Prior years	(20,458)	(28,574)	(1,490)
	530,969	439,704	470,273
Deduct payments for claims, net of reinsurance, Occurring during:			
Current year	287,424	249,575	269,608
Prior years	198,767	177,892	205,087
	486,191	427,467	474,695
Claims liability at end of year, net of related reinsurance recoverables (2001 -- $31,022; 2000 -- $10,321; and 1999 -- $11,577	$322,989	$278,211	$265,974

The above reconciliation shows incurred losses developed in amounts less than originally anticipated due to better than expected experience on the health business in the Self Employed Agency Division in 2001 and 2000. The better than expected experience in 2001 was partially offset by adverse experience on the workers' compensation business. Claims liability reflects no accrual for additional or return of premium.

NOTE H -- REINSURANCE

In 2001, 2000 and 1999, approximately 5%, 11% and 16%, respectively, of the Company's premiums from continuing operations were assumed from AEGON. Prior to 1997, the health business assumed was marketed by UGA Inc. and issued through AEGON's insurance subsidiaries. Under the terms of its coinsurance agreement, AEGON's insurance subsidiaries have agreed to cede and the Company has agreed to assume through coinsurance 60% of the health business previously sold by UGA Inc. agents for business written on AEGON's insurance subsidiaries prior to 1998. In 2001, 2000 and 1999, the Company directly issued the health business written by UGA Inc. agents and retained all of the business. Commencing in May 2001, and in accordance with Assumption Reinsurance Agreements with AEGON, the Company began to assume all of the remaining policies from AEGON as approvals were received from state regulatory authorities. As of December 31, 2001, approximately 75% of the remaining policies have been assumed by the Company from AEGON, and the Company currently anticipates that the balance of the remaining policies will be assumed during 2002. On the policies that have been assumed, the Company has coinsured 40% of the health insurance business back to AEGON. On December 31, 2002, the Company has agreed to acquire the remaining 40% of the coinsured business from AEGON based upon a mutually agreed-upon prescribed price.

The Company's insurance subsidiaries, in the ordinary course of business, reinsure certain risks with other insurance companies. These arrangements provide greater diversification of risk and limit the maximum net loss potential to the Company arising from large risks. To the extent that reinsurance companies are unable to meet their obligations under the reinsurance agreements, the Company remains liable.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The reinsurance receivable included in the consolidated financial statements at December 31, 2001 and 2000 is as follows:

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Paid losses recoverable	$ 3,147	$ 3,870
Unpaid losses recoverable	60,559	57,208
Total reinsurance receivable	$63,706	$61,078

The effect of reinsurance transactions reflected in the consolidated financial statements are as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Premiums:			
Premiums Written:			
Direct	$799,562	$610,316	$584,889
Assumed	79,865	99,014	130,475
Ceded	(47,109)	(22,076)	(33,578)
Net Written	$832,318	$687,254	$681,786
Premiums Earned:			
Direct	$802,274	$610,456	$584,038
Assumed	60,154	96,348	132,358
Ceded	(30,382)	(18,579)	(26,564)
Net Earned	$832,046	$688,225	$689,832
Ceded benefits and settlement expenses	$ 22,856	$ 17,683	$ 19,566

In August 1994, the Company entered into an agreement, pursuant to which the Company acquired a block of life insurance and annuity policies. In conjunction with this acquisition, the Company ceded through a coinsurance agreement 100% of the policy liabilities to an unrelated reinsurer. The acquisition required no financial investment by the Company. In July 2001, the reinsurer recovered its investment in the amount of $22.0 million in this block, and the coinsurance agreement was terminated and the company at no cost recaptured all remaining policies.

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE I -- DEBT

Set forth below is a summary of the Company's short and long term indebtedness outstanding at December 31, 2001 and 2000 (excluding outstanding indebtedness that was incurred to originate and/or is secured by student loans) (see Note J):

	DECEMBER 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Short-term debt:		
Note payable to related party	$ --	$18,954
Other Notes	--	18,000
Current portion of long-term debt	6,498	27,734
Total short-term debt	$ 6,498	$64,688
Long-term debt:		
8.75% Senior Notes	$11,852	$15,803
Other notes	13,451	37,234
	25,303	53,037
Less: current portion of long-term debt	6,498	27,734
Total long-term debt	18,805	25,303
Total short and long term debt	$25,303	$89,991

On June 22, 1994, the Company authorized an issue of its 8.75% Senior Notes due June 2004 in the aggregate amount of $27.7 million. In accordance with the agreement governing the terms of the notes (the "Note Agreement"), commencing on June 1, 1998 and on each June 1 thereafter to and including June 1, 2003, the Company is required to repay approximately $4.0 million aggregate principal together with accrued interest thereon to the date of such repayment. The principal amount of the notes outstanding was $11.9 million and $15.8 million at December 31, 2001 and 2000, respectively. The Company incurred $1.2 million, $1.5 million and $1.9 million of interest expense on the notes in the years ended December 31, 2001, 2000 and 1999, 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.

In May 1999, the Company entered into a $100 million unsecured credit facility (the "Bank Credit Facility") with a group of commercial banks. Amounts outstanding under the Bank Credit Facility initially bore interest at an annual rate of LIBOR plus 75 basis points (0.75%). At December 31, 1999, the Company had fully drawn on the Bank Credit Facility, of which $50.0 million was used to repay $50.0 million of debt outstanding under the Company's prior bank facility and $50.0 million was used to fund the UMMG and Academic Management Services

acquisitions (completed in May 1999 and July 1999, respectively) and current operations. Effective December 31, 1999, the interest rate on amounts outstanding under the Bank Credit Facility was increased to LIBOR plus 100 basis points (1.00%).

On March 14, 2000, a limited liability company controlled by the Company's Chairman ("Lender LLC") loaned $70.0 million to a newly-formed subsidiary of the Company (the "Lender LLC Loan"). The proceeds of the Lender LLC Loan, together with $5.0 million of cash on hand, were used to reduce indebtedness outstanding under the Bank Credit Facility from $100.0 million to $25.0 million. The Lender LLC Loan bore interest at the prevailing prime rate, was guaranteed by UICI, was due and payable in July 2001 and was secured by a pledge of investment securities and shares of the Company's National Motor Club unit.

As part of the March 2000 paydown of indebtedness under the Bank Credit Facility, the Bank Credit Facility was amended to provide, among other things, that the $25.0 million balance outstanding would be due and payable on July 10, 2000, amounts outstanding under the facility would be secured by a pledge of investment securities and shares of Mid-West National Life Insurance Company of Tennessee ("Mid-West"), and the restrictive covenants formerly applicable to UICI and its restricted subsidiaries (primarily the Company's insurance companies) were made applicable solely to Mid-West. Amounts outstanding under the Bank Credit Facility continued to bear interest at LIBOR plus 100 basis points per annum. On April 11, 2000 and June 28, 2000, the Company made principal payments of $11.0 million and $8.0 million, respectively, under the Bank Credit Facility, and on June 30, 2000, Lender LLC, against payment to the banks of $6.0 million, assumed 100% of the banks' remaining $6.0 million position in the Bank Credit Facility.

Effective July 27, 2000, the Company and the Lender LLC completed a further restructuring of the terms of the Lender LLC Loan. As part of the restructuring, the Company paid to Lender LLC principal owing on the Lender LLC Loan in the amount of $6.0 million and amended the terms of the Lender LLC Loan to provide that the aggregate principal amount of $70.0 million then owing by the Company (the "Amended Lender LLC Loan") would consist of a $32.0 million unsecured tranche and a $38.0 million tranche secured by a pledge of 100% of the capital stock of Mid-West. The Amended Lender LLC Loan (a) matured on January 1, 2002, (b) continued to bear interest at the prevailing prime rate from time to time, with interest accruing but not payable until the earlier to occur of full prepayment of the Lender LLC Loan or January 1, 2002, and (c) was mandatorily prepayable monthly to the extent of 1% of the original outstanding principal balance of the Amended Lender LLC Loan. The security interest in all remaining collateral previously pledged to secure payment of the Lender LLC Loan and indebtedness outstanding under the Bank Credit Facility (including all investment securities and shares of the Company's National Motor Club unit) was released in full, and the Bank Credit Facility was terminated.

In addition to scheduled principal payments totaling $3.5 million made during the course of 2000, on October 20, 2000, the Company prepaid the unsecured tranche of the Amended Lender LLC Loan in the amount of $12.5 million, and on November 2, 2000, the Company prepaid an additional $17.4 million of the unsecured tranche and $17.6 million of the secured tranche. Accordingly, at December 31, 2000, the Company had no indebtedness outstanding under the unsecured tranche and $19.0 million outstanding under the secured tranche of the Amended Lender LLC Loan.

On January 30, 2001, the Company prepaid in full all principal in the amount of $19.0 million, plus accrued interest of $2.1 million, on the secured tranche of the Amended Lender LLC Loan, utilizing a portion of the proceeds received in liquidation of UCNB, and the lender's security interest in 100% of the capital stock of Mid-West was released in full.

On July 19, 2000, the Company's offshore-domiciled insurance companies incurred indebtedness with an institutional lender in the amount of $24.0 million. The indebtedness bore interest at the per annum rate of 11.0%, was scheduled to mature on August 1, 2001, was secured by a pledge of all of the assets of the Company's offshore insurance subsidiaries, and was guaranteed by the Company. The proceeds of the borrowing were advanced to the parent company to fulfill liquidity needs at the parent company. At December 31, 2000, the outstanding balance on the loan was $18.0 million. During 2001, all outstanding principal in the amount of $18.0 million and accrued interest was paid in full.

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 bears interest at LIBOR plus 150 basis points (1.5%) (4.09% at December 31, 2001), and is payable as to principal in equal quarterly installments in the amount of $500,000, commencing October 1, 2000, with a final maturity of June 30, 2005. The note was delivered to discharge an account payable by 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 (included in net liabilities of

discontinued operation). At December 31, 2001 and 2000, the outstanding balance on the note was $7.5 million and $9.5 million, respectively.

Effective October 1, 2000, the Company's AMS subsidiary amended the terms of its unsecured term loan facility (under which, at December 31, 2000, $21.3 million of indebtedness was outstanding) to eliminate all financial covenants. In connection with the amendment of the facility, UICI (the parent company) agreed to unconditionally guarantee the payment when due of such indebtedness. In June 2001, AMS paid off the remaining outstanding indebtedness under this facility.

SCS Specialized Card Services, Inc. (a wholly-owned subsidiary of the Company) ("SCS") has various loans with the South Dakota Board of Economic Development bearing interest at a rate of 3.00% per annum. The balance outstanding under these loans was $4.1 million and $4.3 million at December 31, 2001 and 2000, respectively. The loans mature in 2003 and 2004. The proceeds were used to purchase equipment and leasehold improvements.

AMS has a note payable to Fleet National Bank in the outstanding principal amount of $1.8 million and $2.0 million at December 31, 2001 and 2000, respectively, maturing June 30, 2004. The note bears interest at 5.57% at December 31, 2001, requires principal and interest payments quarterly and is secured by a first mortgage on real estate held by AMS.

Principal payments required in each of the next five years and thereafter are as follows:

(IN THOUSANDS)

2002	$ 6,498
2003	6,814
2004	10,491
2005	1,500
2006	--
2007 and thereafter	--
	$25,303

The fair value of the Company's short-term and long-term debt was $26.2 million and $90.8 million at December 31, 2001 and 2000, respectively. The fair value of the Company's long-term debt is estimated using discounted cash flow analysis, based on the Company's current incremental borrowing rates for similar types of borrowing arrangements. The carrying amounts of the Company's short-term debt approximate fair values. Total interest paid was $6.4 million, $8.8 million and $8.1 million in the years ended December 31, 2001, 2000 and 1999, respectively.

The weighted-average interest rate on short-term borrowings outstanding at December 31, 2001 and 2000 was 10.1% and 9.3%, respectively.

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 bank credit facility, the Company may borrow from time to time up to $30.0 million on a revolving, unsecured basis. Loans outstanding under the facility will bear interest at the option of the Company at prime plus 1% or LIBOR plus 1%. The Company intends to utilize the proceeds of the facility for general working capital purposes. As of March 8, 2002 the Company had no borrowings outstanding under the facility.

NOTE J -- STUDENT LOAN CREDIT FACILITIES

At December 31, 2001 and 2000, the Company, through its Academic Management Services Corp ("AMS") subsidiary and the College Fund Life Insurance Division, had outstanding an aggregate of

$1,506.2 million and $1,334.8 million of indebtedness, respectfully, under secured student loan credit facilities, of which $1,242.8 million and $1,221.5 million, respectfully, were issued by bankruptcy-remote special purpose entities (a "Special Purpose Entity") which are included in the Company's Consolidated Financial Statements. At December 31, 2001 and 2000, 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 $1,125.5 million, respectively, and by a pledge of cash, cash equivalents and other qualified investments in the amount of $129.4 million and $86.2 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.

Set forth below is a summary unaudited pro forma December 31, 2001 balance sheet of UICI, adjusted to exclude certain assets (student loans and restricted cash) and certain liabilities (student loan credit facilities) associated with the Company's AMS and College Life Fund Division ("CFLD") operations:

	AT DECEMBER 31, 2001			
	UICI CONSOLIDATED AS REPORTED	AMS AND CFLD SPE FINANCINGS	OTHER AMS FINANCING FACILITIES(1)	AMS TUITION INSTALLMENT PROGRAM(2)
	(IN THOUSANDS) (UNAUDITED)			
Assets:				
Investments	$1,218,718	$ --	$ --	$ --
Student loans	1,278,427	1,053,788	222,262	--
Cash	50,922	--	36,059	--
Restricted cash	295,182	127,272	--	141,663
Investment income due and accrued	60,879	35,840	11,314	--
Other assets	381,756	5,181	116	1,428
Total assets	$3,285,884	$1,222,081	$269,751	$143,091
Liabilities:				
Policy liabilities	$ 891,361	$ --	$ --	$ --
Other liabilities	187,552	3,172	668	--
Collections payable	140,894	--	--	140,894
Notes payable	25,303	--	--	--
Student loan credit facilities	1,506,202	1,242,840	263,362	--
Total liabilities	2,751,312	1,246,012	264,030	140,894
Stockholders' equity (deficit)	534,572	(23,931)(4)	5,721	2,197
Total liabilities and stockholders' equity	$3,285,884	$1,222,081	$269,751	$143,091

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(1) Obligations under AMS' master repurchase agreement and credit facility are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company.

(2) A trust created for the benefit of participants in AMS' tuition installment program held invested assets in the amount of approximately $141.7 million and $112.6 million at amortized cost (which approximated

market) at December 31, 2001 and 2000, respectively, all of which assets are classified as restricted cash on the Company's consolidated balance sheet. See Note A.

(3) Represents cash and cash equivalents required to be held by CFLD to support certain loan servicing obligations under CFLD's SPE financing.

(4) Includes negative equity in the AMS SPE financings, which is attributable to permitted financing of student loans through AMS SPE financings in excess of par value.

A more detailed summary of such student loan credit facilities is set forth below:

ACADEMIC MANAGEMENT SERVICES CORP.

Following is a summary of debt outstanding under student loan credit facilities at AMS:

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Short-term debt:		
Master repurchase agreement and credit facility	$ 263,362	$ 113,389
Current portion of long-term debt	619,564	618,374
Total short-term debt	$ 882,926	$ 731,763
Long-term debt:		
Auction Rate notes	$ 369,550	$ 404,990
Floating Rate notes	153,725	198,094
Commercial Paper	619,565	618,374
	1,142,840	1,221,458
Less: current portion of long-term debt	619,564	618,374
Total long-term debt	523,276	603,084
Total short and long-term debt	$1,406,202	$1,334,847

In March 1998, AMS entered into a master repurchase agreement and credit facility with a financial institution, the obligations under which are partially (approximately $13.0 million at December 31, 2001) guaranteed by the Company. The proceeds of the facility are used from time to time to initially fund AMS' student loan originations. The repurchase agreement provides for the purchase of student loans by the financial institution, and the financial institution may put the student loans back to AMS on the last day of each month. AMS, in turn, has the right to require the financial institution to repurchase the student loans on such date, with the interest rate on the credit facility reset on such date. The credit facility provides for up to $150.0 million of financing and may be increased subject to monthly confirmations. The credit facility had an outstanding balance of $263.4 million and $113.4 million at December 31, 2001 and 2000, respectively, and bears interest at a variable annual rate of LIBOR plus 75 basis points (2.68% at December 31, 2001). The credit facility has a

term of one year and is secured by student loans originated under the Federal Family Education Loan Program, which are guaranteed by the federal government or alternative loans guaranteed by private guarantors. The financial institution may value the loans at any time and require AMS to repay any amount by which the market value of the loans is less than the amount required by the credit facility.

After initial funding, AMS typically refinances groups of loans on a more structured basis by transferring loans to Special Purpose Entities, which in turn issue debt securities secured by the student loans. During

1999, AMS established approximately $1.3 billion of such structured funding facilities in three separate transactions:

- On June 11, 1999, AMS sold, in a private placement transaction, $319.5 million principal amount of Auction Rate Student Loan-Backed Notes issued by a Special Purpose Entity at an initial interest rate of 5.038%. The notes were sold in two tranches and mature in November 2022. The notes are insured by MBIA Insurance Corporation ("MBIA") and received a "AAA" credit rating from Standard & Poor's and Fitch IBCA and an "Aaa" rating from Moody's Investor Services.

- Effective August 6, 1999, AMS completed a closing and funding of $515.0 million of its $650.0 million single seller asset-backed commercial paper conduit, pursuant to which commercial paper may be issued by a Special Purpose Entity from time to time with maturities from one to 270 days. Approximately $619.6 million of commercial paper bearing interest rates of 1.90% to 2.45% was issued and outstanding under the facility at December 31, 2001. Liquidity support is provided by a separate banking facility. Under the terms of the program, in the event the support facility is activated, borrowings under the bank facility would be repaid using collections of underlying student loans, would bear interest at LIBOR plus seventy-five (75) basis points and would mature in August 2034. The commercial paper received ratings of A1/P1/F1 from Standard & Poor's, Moody's, and Fitch, respectively, and is insured by MBIA.

- On October 7, 1999, AMS completed a $344.0 million financing of three classes of notes issued by a Special Purpose Entity. The $229.0 million Class A-1 notes were structured as three-month LIBOR floating rate notes and were priced with a spread of 42 basis points with the interest rate reset quarterly. The Class A-1 notes with an outstanding balance of $153.7 million at December 31, 2001, have an expected average life of 3.5 years with legal final maturity in April 2009. The $57.5 million Class A-2 and $57.5 million Class A-3 notes were structured as auction rate notes with an initial interest rate of 6.38%. The interest rate on these notes is reset quarterly. Legal final maturity of the A-2 and A-3 notes is July 2027. At December 31, 2001, the outstanding balance of the notes was $115.0 million, bearing interest rates of 2.55% and 2.42%, respectively. All three classes of notes received AAA/Aaa/AAA ratings from Standard & Poor's, Moody's and Fitch IBCA, respectively, and are insured by MBIA.

In each case the notes represent obligations solely of the Special Purpose Entity that issued the obligations and not of the Company, AMS or any other subsidiary of the Company. However, for financial reporting and accounting purposes the AMS structured finance facilities have been classified as

financings. Accordingly, in connection with the financings neither the Company nor AMS recorded gain on sale of the student loan assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company continues to carry on its consolidated balance sheet the student loans ($975.3 million principal amount at December 31, 2001) and cash and cash equivalents held by the Special Purpose Entities ($113.4 million at December 31, 2001 classified as restricted cash) and the associated indebtedness ($1,142.8 million in the aggregate at December 31, 2001, which is included on the Company's consolidated balance sheet as student loan credit facilities) arising from the transactions.

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

the Company will continue to carry on its consolidated balance sheet the student loans and cash and cash equivalents held by the Special Purpose Entity and the associated indebtedness arising from the transaction.

Until July 2000, AMS had a line of credit outstanding with a commercial bank, secured by the AMS student loan portfolio. The maximum amount outstanding under this line during 2000 was approximately $97.0 million, with an average monthly balance of approximately $37.5 million.

During the year ended December 31, 2001, 2000 and 1999, AMS paid total interest on borrowings incurred to finance the funding of student loans in the amount of $68.4 million, $98.5 million and $56.8 million, respectively.

COLLEGE FUND LIFE INSURANCE DIVISION

On April 27, 2001, the Company completed a $100.0 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 two $50.0 million series of Student Loan Asset Backed Notes issued by a bankruptcy-remote special purpose entity (a "Special Purpose Entity"). Interest rates on the notes reset monthly in a Dutch auction process, with the initial rate set at 4.75% for each of the Series A-1 and Series A-2 notes. At December 31, 2001, the interest rates on the Series A-1 and Series A-2 notes were 2.30% and 2.12%, respectively. The notes are secured by a pledge of alternative 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 $70.1 million portfolio of alternative student loans from various affiliates of the Company and established a loan acquisition fund in the amount of $19.1 million (consisting of cash and cash equivalents) to acquire in the future additional student loans originated by the Company's College Fund Life Insurance Division.

The notes represent obligations solely of the Special Purpose Entity and not of the Company or any other subsidiary of the Company. For financial reporting and accounting purposes the CFLD structured finance facility has been classified as a financing. Accordingly, in connection with the financing the Company recorded no gain on sale of the assets transferred to the Special Purpose Entity and, on a consolidated basis, the Company continues to carry on its consolidated balance sheet the alternative student loans ($78.5 million at December 31, 2001) and cash and cash equivalents held by the Special Purpose Entity ($13.9 million at December 31, 2001 classified as restricted cash) and the associated indebtedness ($100.0 million at December 31, 2001, which is classified on the Company's consolidated balance sheet as student loan credit facilities) arising from the transaction.

During the year ended December 31, 2001 CFLD paid total interest on borrowings associated with the securitization in the amount of $2.3 million.

The weighted-average interest rate on short-term borrowings outstanding at December 31, 2001 and 2000 was 4.6% and 7.0%, respectively.

Principal payments required by AMS and CFLD with respect to their outstanding student loan indebtedness in each of the next five years and thereafter are as follows:

	AMS	CFLD
	(IN THOUSANDS)	
2002	$ 882,927	$ --
2003	--	--
2004	--	1,350
2005	--	2,850
2006	--	3,000
2007 and thereafter	523,275	92,800
Total	$1,406,202	$100,000

NOTE K -- FEDERAL INCOME TAXES

Deferred income taxes for 2001 and 2000 reflect the impact of temporary differences between the financial statement carrying amounts and tax bases of assets and liabilities. Deferred tax liabilities and assets consist of the following:

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	

Deferred tax liabilities:		
Deferred policy acquisition and loan origination	$20,672	$ 23,192
Unrealized gain on securities	16,357	--
Undistributed earnings of subsidiaries	354	4,536
Other	8,997	8,060
Total gross deferred tax liabilities	46,380	35,788
Deferred tax assets:		
Loss on disposal of discontinued operation	10,502	11,936
Policy liabilities	25,770	27,733
Unrealized loss on securities	--	5,250
Operating loss carryforwards	12,197	22,254
Capital loss carryforwards	--	7
Investment in Healthaxis	9,165	5,468
Accrued expenses	4,772	7,243
Tax credit carryovers	--	2,185
Other	2,806	3,112
Total gross deferred tax assets	65,212	85,188
Less: valuation allowance	(3,976)	(16,451)
Deferred tax assets	61,236	68,737
Net deferred tax asset	$14,856	$ 32,949

The Company establishes a valuation allowance when management believes, based on the weight of the available evidence, that it is more likely than not that some portion of the deferred tax asset will not be

realized. Realization of the net deferred tax asset is dependent on generating sufficient future taxable income. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced. The net change in the total valuation allowance was a decrease of approximately $12.5 million for 2001 and an increase of approximately $9.8 million for 2000. The 2001 and 2000 changes in the valuation allowance arise primarily from AMS. AMS recognized taxable income for 2001 and realized a tax benefit from its operating loss carryforward resulting in a decrease in the valuation allowance. Because AMS was not part of the Company's consolidated group during 2000, the Company increased the valuation allowance during 2000 and did not realize the tax benefit associated with the significant operating losses of AMS for 2000. AMS entered the Company's consolidated group on August 3, 2001 following the Company's acquisition of the minority interest of AMS. The utilization of operating loss carryovers of AMS generated before August 3, 2001 is limited to future taxable income of AMS and is not available to offset the future taxable income of the other members of the Company's consolidated group.

The deferred tax liability related to the undistributed earnings in subsidiaries decreased $4.2 million. The deferred tax liability relates to taxes on undistributed earnings from subsidiaries that were previously less than 80% owned and are now wholly owned subsidiaries.

The provision for income tax expense (benefit) consisted of the following:

	DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
From operations:			
Continuing operations:			
Current tax expense	$24,882	$ 33,140	$ 19,118
Deferred tax expense (benefit)	(7,017)	1,980	(135)
Total from continuing operations	17,865	35,120	18,983
Discontinued operations:			
Current tax expense (benefit)	(6,440)	(56,282)	(22,420)
Deferred tax expense (benefit)	3,503	42,306	(75,134)
Total from discontinued operations	(2,937)	(13,976)	(97,554)
Total	$14,928	$ 21,144	$(78,571)

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

The Company's effective income tax rates applicable to continuing operations varied from the maximum statutory federal income tax rate as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
Statutory federal income tax rate	35.0%	35.0%	35.0%
State income taxes	1.6	--	--
Small life insurance company deduction	(1.0)	(1.3)	0.6
Operating loss	(8.6)	15.8	(2.2)
Release undistributed earnings reserve	(6.3)	--	--
Amortization of goodwill	2.6	0.7	2.7
Nondeductible compensation expenses	2.1	2.2	--
Other items, net	1.6	1.3	(1.5)
Effective income tax rate applicable to continuing operations	27.0%	53.7%	34.6%

Under pre-1984 federal income tax laws, a portion of a life insurance company's "gain from operations" was not subject to current income taxation but was accumulated for tax purposes in a memorandum account designated as "policyholders' surplus account." These amounts are not taxable unless (a) the life insurance company fails to qualify as a life insurance company for federal

income tax purposes for two consecutive years, (b) these amounts are distributed to the Company or (c) these amounts exceed certain statutory limitations. The aggregate accumulation in this account for the Company's life insurance subsidiaries was approximately $3.1 million at December 31, 2001. For the taxable years ended December 31, 2001, 2000 and 1999, The MEGA Life and Health Insurance Company ("MEGA") did not qualify as a life insurance company for federal income tax purposes. Accordingly, MEGA provided for and paid taxes and interest of approximately $3.2 million in 2001 and 2000 on MEGA's policyholders' surplus account of $8.7 million.

At December 31, 2001, MEGA has an aggregate federal tax loss carryforward from certain acquired subsidiaries of $3.6 million for use to offset future taxable income, under certain circumstances, with expiration dates ranging between 2002 and 2007. The maximum amounts of federal tax loss carryforwards available are $657,000 per year from 2002 through 2006, and $338,000 in 2007. At December 31, 2001 AMS has $31.2 million of federal tax loss carryforwards that will begin to expire in 2019.

Total federal income taxes paid in prior years and recovered during 2001 total $18.6 million. Total federal income taxes paid were $26.9 million, $11.8 million and $40.2 million for 2001, 2000 and 1999, respectively.

UICI, MEGA, two other non-life insurance subsidiaries and all of the Company's non-insurance subsidiaries file a consolidated federal income tax return. The Company's life insurance subsidiaries all file separate federal income tax returns.

The Company has interests in several limited liability corporations that file separate tax returns. The Company's consolidated results of operations reflect 100% of the income from these companies.

NOTE L -- STOCKHOLDERS' EQUITY

On August 11, 2000, the Company issued to the UICI Employee Stock Ownership and Savings Plan ("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, which matures July 31, 2003 and is secured by a pledge of the purchased shares. See Note O.

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). 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.

Effective September 15, 1999, the Company entered into an Assumption Agreement with a related party (see Note M), pursuant to which UICI agreed to assume and discharge an unfunded obligation to purchase and transfer to

independent sales agents, representatives and independent organizations, in consideration of a cash payment made by the related party to the Company in the amount of $10.1 million, representing the dollar value of 369,174 shares of UICI Common Stock at $27.4375 per share (the closing price of UICI common stock at September 15, 1999). On October 29, 1999, the Company received the cash payment.

In 1999, the Company entered into a put/call agreement on the Company's common stock with a related party. See Note M.

Pursuant to the Company's Executive Stock Purchase Program, during 1998 and 1999 the Company extended loans to officers, directors and employees in the amount of $3.3 million and $2.9 million, respectively, the proceeds of which were used to purchase Company Common Stock. The six-year term loans bear interest at 5.22%-5.37% per annum, and interest is payable quarterly. Loans are full recourse to borrowers and are payable in full upon the occurrence of certain events. The terms of the loans were significantly modified during the year ended December 31, 2000. See Note O.

Generally, total stockholders' equity of domestic insurance subsidiaries, as determined in accordance with statutory accounting practices, in excess of minimum statutory capital requirements is available for transfer to the parent company subject to the tax effects of distribution from the "policyholders' surplus account" described in Note K on Federal Income Taxes. The minimum statutory capital and surplus requirements of the Company's domestic insurance subsidiaries was $28.2 million at both December 31, 2001 and 2000.

Prior approval by insurance regulatory authorities is required for the payment of dividends by a domestic insurance company that exceed certain limitations based on statutory surplus and net income. During the fourth quarter of 2001, the Company's two principal domestic insurance subsidiaries paid $40.0 million in the aggregate to the holding company. During 2000 and 1999, the domestic insurance companies paid dividends in the amount of $19.0 million and $19.8 million, respectively. During 2002, the Company's domestic insurance companies could pay aggregate dividends to the parent company of approximately $37.0 million without prior approval by statutory authorities.

Combined net income and stockholders' equity for the Company's domestic insurance subsidiaries determined in accordance with statutory accounting practices and adjusted for percentage of ownership and pro rata share of net income are as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Net income	$ 33,581	$ 45,688	$ 50,761
Statutory surplus	$277,348	$286,275	$287,360

The National Association of Insurance Commissioners ("NAIC") revised the Accounting Practices and Procedures Manual ("Manual") in a process referred to as Codification. The revised Manual became effective

January 1, 2001. The domiciled states of the Company's domestic insurance subsidiaries (Oklahoma, Tennessee and Texas) adopted the provisions of the Manual. The Manual changed, to some extent, prescribed statutory accounting practices and resulted in changes to the accounting practices that the Company's domestic insurance subsidiaries use to prepare its statutory-basis financial statements.

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

NOTE M -- RELATED PARTY TRANSACTIONS

INTRODUCTION

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 ("Jensen Affiliates").

Under the Company's by-laws, any contract or other transaction between the Company and any director (or company in which a director is interested) is valid for all purposes if the interest of such director is disclosed or known and such transaction is authorized by a majority of directors not interested in the transaction. The Board of Directors has adopted a policy requiring the prospective review and approval by a majority of the "Disinterested Outside Directors" of any contract or transaction with a related party involving payments of $250,000 or more in any twelve-month period or $1.0 million over the life of the contract. For purposes of the policy, a "related-party" is a person or entity that is an "affiliate" of the Company or any entity in which any officer or director of the Company has a 5% or greater equity interest, and a "Disinterested Outside Director" is any director of UICI who is an employee of neither the Company nor any affiliate of the Company and otherwise holds no interest in any person or entity with which the Company proposes to enter into a transaction in question.

The Company believes that the terms of all such transactions with all related parties, including all Jensen Affiliates, are and have been on terms no less favorable to the Company than could have been obtained in arms' length transactions with unrelated third parties. Mr. Jensen has never voted with respect to any matter in which he or his children have or have had an interest.

TRANSACTIONS WITH MR. JENSEN AND JENSEN AFFILIATES

Special Investment Risks, Ltd.

From the Company's inception through 1996, Special Investment Risks, Ltd. ("SIR") (formerly United Group Association, Inc. ("UGA")) sold health insurance policies that were issued by AEGON USA and coinsured by the Company or policies issued directly by the Company. SIR is owned by Mr. Jensen. Effective January 1,

1997, the Company acquired the agency force of SIR and certain tangible assets of SIR for a price equal to the net book value of the tangible assets acquired and assumed certain agent commitments of $3.9 million. The tangible assets acquired consisted primarily of agent debit balances, a building, and related furniture and fixtures having a net book value of $13.1 million.

In accordance with the terms of the asset sale to the Company, SIR retained the right to receive all renewal commissions on policies written prior to January 1, 1997, including the policies previously issued by AEGON and coinsured by the Company and the policies previously issued directly by the Company. The renewal commissions paid to SIR on the coinsured policies issued by AEGON are based on commission rates negotiated and agreed to by AEGON and SIR at the time the policies were issued prior to 1997, and the commission rates paid on policies issued directly by the Company are commensurate with the AEGON renewal commission rates. The Company expenses its proportionate share of renewal commissions payable to SIR on co-insured policies issued by AEGON. During 2001, 2000 and 1999, SIR received insurance renewal commissions of $3.8 million, $7.7 million and $10.1 million, respectively, on the policies previously issued by AEGON prior to January 1, 1997 and coinsured by the Company. During 2001, 2000 and 1999, SIR received renewal commissions of $3.1 million, $1.8 million and $2.6 million, respectively, on policies issued prior to January 1, 1997 and issued directly by the Company.

In accordance with the terms of an amendment, dated July 22, 1998, to the terms of the sale of the UGA assets to the Company, SIR was granted the right to retain 10% of net renewal commissions on any new business written by the UGA agency force after January 1, 1997. During the years ended December 31, 2001, 2000 and 1999, the Company paid to SIR the amount of $1.2 million, $1.1 million and $677,000, respectively, pursuant to this arrangement.

In 1986 and 1996, respectively, SIR established, for the benefit of its independent insurance agents, independent sales representatives and independent organizations associated with SIR, the Agency Matching Total Ownership Plan I and the Agency Matching Total Ownership Plan II (collectively, the "Plans"), entitling participants to purchase and receive Company Common Stock. In connection with SIR's transfer to the Company of SIR's agency operations effective January 1, 1997, SIR agreed to retain the liability to fund the Plans to the extent of 922,587 shares of UICI Common Stock, representing the corresponding number of unvested AMTOP Credits (as defined in the Plans) at January 1, 1997. As of August 30, 1999, the liability of SIR to fund the Plans remained undischarged to the extent of 369,174 shares of UICI Common Stock (the "Unfunded Obligation").

Effective September 15, 1999, SIR and the Company entered into an Assumption Agreement, pursuant to which UICI agreed to assume and discharge the Unfunded Obligation, in consideration of a cash payment made by SIR to the Company in the amount of $10.1 million representing the dollar value of 369,174 shares of UICI Common Stock at $27.4375 per share (the closing price of UICI common stock at September 15, 1999). On October 29, 1999, SIR funded the cash payment.

Mr. Jensen's five adult children hold in the aggregate 100% of the equity interest in Onward & Upward, Inc. ("OUI"), which is the holder of approximately 6.5% of the Company's outstanding Common Stock. To ensure that the dollar value of the Unfunded Obligation will not exceed the dollar proceeds received from SIR plus a reasonable allowance for the cost of funds, effective September 15, 1999,

the Company and OUI entered into a Put/Call Agreement. Pursuant to the Put/Call Agreement, for a thirty day period commencing on July 1 of each year, the Company has an option to purchase from OUI, and OUI has 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. The call/put price escalates over time in annual dollar increments designed to recognize an increase in value of the underlying UICI stock based upon historical past performance (an approximate 6.0% annual rate of appreciation). In July 2000, the Company extended until October 31, 2000 the period during which OUI may exercise its initial put right under the Put/Call Agreement. In November 2000, the Company extended until March 31, 2001 the period during which OUI may have exercised its initial put right under the Put/Call Agreement, and in May 2001, the Company extended until June 30, 2001 the period during which OUI may have exercised its initial put right under the Put/Call Agreement. OUI may next exercise its put

right, and the Company may next exercise its corresponding call right, during the period commencing July 1, 2002 and ending on July 31, 2002 for a purchase price per share of $32.25.

During 2001, 2000 and 1999, the Company received $-0-, $2,000 and $163,000, respectively, from SIR as reimbursement of office supply and occupancy expenses.

Richland State Bank

Richland State Bank ("RSB") is a state-chartered bank in which Mr. Jensen holds a 100% equity interest. Prior to the chartering of United Credit National Bank in February 1997, the Company's United CreditServ subsidiary (formerly the Company's Credit Services division) utilized RSB to issue credit cards bearing the name of RSB for the Company's ACE and AFCA credit card programs. The agreement governing the terms of the issuance of such credit cards provided that UICI paid to RSB a fee in the amount of $0.50 per card issued for each month a credit card bearing the RSB name remained outstanding. In 2000 and 1999, the Company paid fees in the amount of $33,000 and $108,000, respectively, pursuant to this agreement. The agreement terminated on June 30, 2000.

Until September 30, 2000, the Company's United CreditServ unit processed and serviced credit cards issued by RSB, at a monthly rate of $5.25 per account. The Company received $856,000 and $1.5 million from RSB for services performed in connection with processing and marketing of credit cards in 2000 and 1999, respectively.

RSB has also originated student loans for AMS and resold originated loans to AMS at par less an origination fee of 31 basis points (0.31%). During 1999, RSB originated $59.8 million aggregate principal amount of student loans for AMS, for which it received $176,000 in origination fees. During 2000, RSB originated $80.9 million aggregate principal amount of student loans for AMS, for which it received $245,000 in origination fees. During 2001, RSB originated $88.2 million aggregate principal amount of student loans for AMS, for which it received $275,000 in origination fees. The agreement governing the terms of RSB's origination services for AMS expires on January 20, 2002.

Pursuant to the terms of an underwriting and processing agreement between RSB and Specialized Card Services, Inc. (an indirect wholly owned subsidiary of the Company) ("SCS"), SCS formerly provided to RSB certain underwriting and loan

processing services utilizing 17 SCS employees resident in Sioux Falls, South Dakota, which enabled RSB to perform its obligations under the AMS origination agreement. The fees and expenses paid to SCS by RSB pursuant to the processing agreement were passed through to AMS in accordance with the terms of the origination agreement. The student loan underwriting and loan processing services constituted the sole remaining operation of SCS in Sioux Falls following the sale of UICI's credit card portfolio in September 2000 and final liquidation of United Credit National bank in January 2001.

The Company entered into an agreement, dated as of June 4, 2001, with AMS, SCS and RSB, pursuant to which, among other things, SCS and the Company agreed to permit RSB to make offers of employment to, and to hire, 17 SCS employees. In connection with such offers, RSB agreed to assume all liabilities (including accrued vacation and benefits) accruing on and after June 30, 2001 associated with the employees actually hired by RSB. The Company agreed to retain all liability for severance and/or termination costs associated with employees who elected not to accept RSB's offer of employment. On June 30, 2001, SCS confirmed that all employees had either elected to accept offers of employment from RSB or had been terminated by SCS, and SCS closed its remaining operations in Sioux Falls.

At December 31, 1998, the Company had loans outstanding owing to RSB in the aggregate principal amount of $497,000, which bore interest at annual rates ranging from 9% to 9.25%. The loans were paid in full in August 1999.

RSB also provides student loan origination services for the Company's College Fund Life Insurance Division. Pursuant to a Loan Origination and Purchase Agreement, dated June 12, 1999, RSB originated student loans and resold such loans to UICI Funding Corp. 2 ("Funding") (a wholly owned subsidiary of UICI) at par (plus accrued interest) less an origination fee of 31 basis points (0.31%). Effective June 12, 2000, RSB and Funding amended the agreement to provide that student loans originated by RSB would be resold to Funding at par (plus accrued interest). During 2001, 2000 and 1999, RSB originated $20.7 million, $19.5 million and $15.3 million aggregate principal amount plus accrued interest, respectively, of student loans for MEGA and Mid-West, for which it received origination fees in the amounts of $-0-, $12,000 and $47,000, respectively.

During 2001, 2000 and 1999, RSB collected on behalf of, and paid to, Funding $1.9 million, $1.7 million and $1.3 million, respectively, in guarantee fees paid by student borrowers in connection with the origination of student loans.

In June 1999, RSB entered into a service agreement with the College Fund Life Insurance Division of MEGA and Mid-West pursuant to which MEGA and Mid-West provide underwriting services to permit RSB to approve prospective student loans. During 2001, RSB collected on behalf of, and paid to MEGA and Mid-West fees of $275,000 and $237,000, respectively, in origination fees paid by student borrowers in connection with the origination of student loans. During 2000, RSB collected on behalf of, and paid to MEGA and Mid-West fees of $149,000 and $328,000, respectively. During 1999, RSB collected on behalf of, and paid to MEGA and Mid-West fees of $165,000 and $300,000, respectively.

During 2001, 2000 and 1999, Funding received from RSB interest income in the amount of $20,000, $37,000 and $5,000, respectively, on money market reserve accounts maintained at RSB by the Company.

Specialized Association Services, Inc.

Pursuant to an agreement entered into in July 1998, Specialized Association Services, Inc. ("SAS") (which is owned by Mr. Jensen's adult children) regularly pays UICI Marketing for certain benefits provided to association members. UICI Marketing, in turn, purchases such benefits from third parties (including NMC, which was sold July 27, 2000 to an investor group consisting of Jensen family members). The Company believes that the fees earned by UICI Marketing as a percentage of UICI Marketing's cost of benefits during 2001, 2000 and 1999 were approximately 30%, 29% and 23%, respectively, which is prior to any allocation of overhead. During 2001, 2000 and 1999, SAS paid to UICI Marketing $15.0 million, $9.7 million and $6.0 million, respectively, pursuant to this arrangement. During 2001 and 2000, UICI Marketing paid NMC $1.4 million and $528,000, respectively, pursuant to this arrangement.

During 2001, 2000 and 1999, the Company paid to SAS $-0-, $-0-, and $151,000, respectively, for telemarketing services. During 2001, 2000 and 1999, the Company paid to SAS $347,000, $176,000 and $166,000, respectively, for various services and reimbursement of expenses. The Company received from SAS $178,000, $7,000 and $32,000 during 2001, 2000 and 1999, respectively, for reimbursement of expenses. During 2001, 2000 and 1999, SAS paid to MEGA $342,000, $325,000 and $325,000, respectively, for leased office facilities.

Healthcare Management Administrators, Inc.

During 1999 and a portion of 2000, the Company provided to Healthcare Management Administrators, Inc. ("HMA") (which was owned by Mr. Jensen until February 3, 2000) certain leased facilities and data processing, accounting, management and administrative services. For such services, the Company received fees of $34,000 and $3.5 million in 2000 and 1999, respectively, and the Company paid HMA $-0- and $273,000 in 2000 and 1999, respectively, for certain claims processing services performed by HMA.

During 2000 and 1999, Insurdata Marketing Services received commissions from HMA in the amount of $38,000 and $630,000, respectively.

In accordance with the terms of a Management and Option Agreement, dated as of April 1, 1999, HMA and Mr. Jensen granted to the Company an option to purchase certain assets, subject to certain corresponding liabilities, associated with the third party administration business of HMA. The option was exercisable on or before January 30, 2000 at an option price equal to the book value of the net tangible assets of HMA to be purchased plus assumption of an obligation to pay WinterBrook VSO, LLC (a company controlled by Mr. Jensen) certain commissions payable over a five year term in an amount not to exceed $4.2 million. The Company delivered notice of exercise of the option on January 25, 2000, and the Company completed the purchase of the assets associated with HMA's third party administration business on February 3, 2000, at a renegotiated purchase price equal to approximately $4.0 million (representing the recorded net book value of the assets purchased) plus $500,000, representing repayment to Mr. Jensen of cash advances made to HMA subsequent to December 31, 1999. The assets of HMA comprised a part of the assets of UICI Administrators, Inc., which was sold by the Company in January 2002. See Note T.

NetLojix Communications, Inc. (formerly AvTel Communications, Inc.)

NetLojix Communications, Inc. ("NetLojix") provides long distance voice telecommunications services to the Company and its subsidiaries, pursuant to a series of agreements originally executed in 1998 and most recently renegotiated and extended for a two-year period in November 2000. Mr. Jensen and his adult children own beneficially in the aggregate approximately 59% of the issued capital stock of NetLojix.

The Company's current agreement with NetLojix expires on October 31, 2002 and requires UICI to purchase a minimum of $86,000 in service per month at a rate of $0.0299 per minute for interstate calls and $0.070 per minute, or $0.075 per minute, depending on the state, for intrastate calls. The Company's prior agreement (which was effective August 1, 1999 and terminated on October 31, 2000) required UICI to purchase a minimum of $200,000 in service per month at a rate of $0.035 per minute for interstate calls and $0.075 per minute for intrastate calls. Effective August 1, 1998, UICI and NetLojix entered into a one year long distance service agreement (the "1998 NetLojix Agreement"), which required UICI to purchase a minimum of $120,000 in service per month at a rate of $0.052 per minute for interstate calls and $0.088 per minute for intrastate calls. Pursuant to the terms of a separate agreement, dated March 1, 1999, NetLojix also provided UICI Marketing (a division of UICI) with long distance service for a period of five months ended July 31, 1999, which agreement required UICI Marketing to purchase a minimum of $4,209 in service per month at rate of $0.048 per minute for interstate calls and either $0.081 per minute or $0.084 per minute, depending on the state, for intrastate calls.

The Company (including UICI Marketing) paid NetLojix in the aggregate $2.3 million, $4.0 million and $4.4 million (including $254,936 paid pursuant to the separate agreement with UICI Marketing) in 2001, 2000 and 1999, respectively, for long distance telecommunications services.

Pursuant to the terms of an agreement, dated August 1, 1998, between the Company and Special Investment Risks, Ltd. ("SIR") (which is wholly owned by Mr. Jensen), SIR agreed to reimburse the Company to the extent that the rates charged by NetLojix pursuant to the 1998 NetLojix Agreement exceeded the quoted rates of a non-affiliated provider. In accordance with the terms of that agreement, during the year ended December 31, 1999, the Company received from SIR reimbursement payments of $192,000. The agreement expired in 1999.

At December 31, 2001, 2000 and 1999, the Company had accounts payable owing to NetLojix under the services agreement in the amount of approximately $37,000, $270,000 and $404,000, respectively.

Excell Global Services, Inc.

Excell Global Services, Inc. ("Excell Global") (in which Mr. Jensen, Mr. Mutz, President and Chief Executive Officer of the Company, and an officer of United CreditServ serve as directors and in which Mr. Jensen and Mr. Mutz are beneficial holders of 57.4% and 14.5% as of December 31, 2001, respectively, of the outstanding equity) is a holding company, the principal subsidiary of which is Excell Agent Services, LLC ("Excell"). Excell Global and members of management of Excell Global hold, in the aggregate, 99% of the equity interest in Excell, and Mr. Jensen holds the remaining 1% equity interest. Excell provides telephone directory assistance services. During 1999, Excell and MEGA entered into a consulting arrangement which terminated in 1999, pursuant to which Excell was engaged on a project basis to provide advisory and consulting services to MEGA with regard to call center matters. During 1999, MEGA paid to

Excell the amount of $48,000 for such services.

In January 1999, the Company sold to Excell a stop loss policy issued by MEGA. During 2001, 2000 and 1999, Excell paid to the Company total premiums on such policy in the amount of $-0-, $-0- and $153,000, respectively. Excell paid to the Company $53,000 in 2000 and $2,000 in 2001 for medical administration fees under an arrangement entered into 2000.

Onward and Upward, Inc. and Other Entities Owned by the Jensen Adult Children

Mr. Jensen's five adult children hold in the aggregate 100% of the equity interest in Onward & Upward, Inc. ("OUI"), the holder of approximately 6.5% of the Company's outstanding Common Stock.

OUI holds a 21% equity interest in U.S. Managers Life Insurance Company, Ltd., a subsidiary of the Company. The Company has a right-of-first-offer to purchase from OUI, and OUI has a corresponding put right to sell to the Company, OUI's 21% equity interest in U.S. Managers Life Insurance Company, Ltd. at a price equal to 21% of the book value of U.S. Managers Life Insurance Company, Ltd. (determined in accordance with generally accepted accounting principles) at the date of purchase.

In 2001, 2000 and 1999, the Company paid $174,000, $144,000 and $147,000, respectively, to Small Business Ink (a division of Specialized Association Services, in which the adult children of Mr. Jensen own 99%) for printing services.

Tesia Corporation (formerly Paperless Adjudication Ltd.)

During 1993, Mr. Jensen and the Company agreed to jointly invest in Tesia Corporation ("Tesia"), which seeks to develop a paperless system for insurance claims administration and adjudication. Mr. Jensen holds a 34.6% and Mr. Jensen's five adult children hold in the aggregate a 7.9% equity interest in Tesia. At December 31, 1999, the Company had written off its aggregate investment in Tesia of $6.2 million. During 2000 and 2001, the Company made no additional investment in Tesia.

At December 31, 2001, 2000 and 1999, the Company held a 16.1%, 16.1% and 23.0% equity interest, respectively, in Tesia. After recognizing its share (16.1%, 16.1% and 23.0% in 2001, 2000 and 1999, respectively) of Tesia's operating losses, at each of December 31, 2001, 2000 and 1999, the Company's carrying value of its investment in Tesia was $-0-.

In August 2001, Tesia filed for bankruptcy protection under Chapter 11 of the United States Bankruptcy Code. Tesia has subsequently filed a petition to convert the bankruptcy case to a liquidation case under Chapter 7 of the Bankruptcy Code.

In the year ended December 31, 2001, 2000 and 1999, the Company received $-0-, $-0- and $8,400, respectively, from Tesia for commissions and reimbursement of expenses.

Impact Productions, Inc.

In 1998, the Company acquired a 90% interest in Impact Productions, Inc. ("Impact") from one of Mr. Jensen's adult children for a total price of

$236,000, which approximated the net book value of the assets as of the purchase date. In May 2001, the Company acquired the remaining 10% interest from Mr. Jensen's adult child for a total price of $26,275. During 2001, 2000 and 1999, the Company paid to Impact $256,000, $-0- and, $111,000, respectively, for promotional services.

During 2001, 2000 and 1999, Impact paid the Company $74,000, $79,000 and $13,000, respectively, for reimbursement of expenses.

Interactive Media Works, Inc.

During 1999, United Membership Marketing Group, LLC (then an indirect wholly-owned subsidiary of the Company) paid Interactive Media Works, LLC (in which Mr. Jensen held a 72.5% equity interest) the amount of $1,435,000 for voice activation services related to the Company's credit card operation.

Small Business Showcase, Inc. ("SBS")

Cornerstone Marketing of America (a division of Mid-West) paid to Small Business Showcase, Inc. ("SBS") (which was owned by one of Mr. Jensen's adult children until March 2000) $333 and $11,000 in 2000 and 1999, respectively, for lead generation services.

In 2000 and 1999, SBS paid to subsidiaries of the Company $13,000 and $659,000, respectively, for generating Internet leads.

WinterBrook VSO, LLC

During 1999, Insurdata Imaging Services, LLC (an indirect wholly-owned subsidiary of the Company) paid WinterBrook VSO, LLC (in which Mr. Jensen holds a controlling interest) $258,000 representing run-off commissions relating to the marketing and sale of satellite imaging systems.

Purchase of Series B Certificates

On December 31, 1999, the Company sold to Mr. Jensen for an aggregate of $10.0 million in cash (representing 100% of the principal amount thereof) (a) a Class B 8.25% Asset Backed Certificate, Series 1998-1, in the outstanding principal amount of $4.1 million; (b) a Class B 10.00% Asset Backed Certificate, Series 1997-1, in the outstanding principal amount of $3.0 million; and (c) a Class B 10.00% Asset Backed Certificate, Series 1996-1, in the outstanding principal amount of $2.9 million (collectively the "Series B Certificates"). The Series B Certificates were created as part of the Company's securitizations of credit card receivables issued in 1996, 1997 and 1998 generated by the Company's credit card operations. The Class B Certificates were liquidated and paid off at par from a portion of the proceeds of the September 2000 sale of the non-cash assets associated with the Company's credit card unit.

Sale of SunTech Processing Systems, LLC

In 1996, the Company invested $4.0 million in exchange for a 100% Class A and a 40% Class B membership interest in Cash Delivery Systems, LLC ("CDS"), formerly known as Sun Network Technologies. The remaining 60% Class B membership interest was held by Sun Communications, Inc. ("Sun"). At the time of the Company's investment, CDS was engaged in the business of owning and placing automated

teller machines ("ATMs") and processing ATM transactions. In connection with the Company's investment in CDS, Mr. Jensen executed an agreement pursuant to which Mr. Jensen agreed to indemnify the Company for any loss or reduction in value of the Company's Class A membership contribution and granted an option to the Company to put the Class A membership interest to Mr. Jensen for $4.0 million. CDS and Mr. Jensen then invested $80,000 and $20,000 in Sun Tech Processing Systems, LLC ("STP") in exchange for an 80% and 20% membership interest, respectively. In addition, Mr. Jensen agreed to loan up to $6.0 million to STP, secured by all property acquired with the funds advanced. No funds were drawn down on this commitment.

In accordance with an Agreement dated March 1997 and effective December 31, 1996 (the "March 1997 Agreement"), the Company, Mr. Jensen, Sun, CDS, and STP restructured these investments as follows:

- CDS and Mr. Jensen withdrew their membership contributions from STP and the agreement to advance up to $6.0 million to CDS was canceled.

- STP issued to the Company and Sun a new 80% and 20% Class B membership interest for $800 and $200, respectively.

- The Company invested an additional $2.0 million in STP in exchange for a 100% Class A membership interest.

- The Company sold its entire Class A and Class B membership interests in CDS to Mr. Jensen for $854,000, which represented the net book value of the Company's interest in CDS before the transfer of the ATM transaction processing business to STP. In addition, Sun transferred a 40% interest in CDS to Mr. Jensen. Giving effect to these transactions, Mr. Jensen and Sun owned 80% and 20% of the Class B membership interests of CDS, respectively, and Mr. Jensen owned 100% of the Class A membership interests of CDS.

- Mr. Jensen agreed to provide financing to CDS in the total amount of approximately $12.0 million to pay off outstanding CDS indebtedness, approximately $2.0 million of which was to be unsecured. As of March 1997, Mr. Jensen had paid on behalf of CDS approximately $10.3 million.

In connection with the sale of UICI's interests in CDS to Mr. Jensen, CDS distributed processing assets with approximately $1.3 million in book value to Mr. Jensen and Sun, which at the time owned 80% and 20% of the Class B membership interests in CDS, respectively. Sun contributed its share of those processing assets to STP, and Mr. Jensen contributed his $1.1 million share of the book value of those processing assets to STP on behalf of UICI.

The March 1997 Agreement also provided, in part, that (i) there will be no distributions to Class B members of STP or CDS until all Class A preferred interests in both STP and CDS have been paid or redeemed in full and (ii) if funds are available to any parties from either STP or CDS, such funds will be loaned to the other company until the preferred interests are retired. The agreements governing the organization and governance of STP and CDS both require, upon liquidation, the payment of the respective outstanding debt of each company before the equity holders of that company receive a distribution. After the sale of CDS' ATMs and use of the proceeds to repay these loans in part, approximately $6.2 million of Mr. Jensen's loans to CDS remained outstanding as of December 31, 1999. These loans bear interest at an annual rate of 2.5% plus the prime rate, payable monthly, and have a maturity date of July 1, 2001.

In February 1998, the assets of STP were sold to an unrelated party for $17.5 million, and in 1998 the Company recognized a gain in the total amount of

$9.7 million on the sale. Consistent with its understanding of the March 1997 Agreement, in the first quarter of 1998 the Company recorded a gain of $2.3 million (representing the distribution due to its Class A and Class B interests in STP, assuming funds were advanced to CDS to retire Mr. Jensen's debt and redeem his Class A interest in CDS). In April 1998, Sun filed certain claims in District Court in Dallas County, Texas concerning the distribution of the proceeds from the sale of the STP assets. The core issue of the suit (the "Sun Litigation") was whether the provisions of the March

1997 Agreement would require that STP make a loan or advance to CDS out of the proceeds of the STP sale so that CDS could repay the loans made by Mr. Jensen to CDS and redeem Mr. Jensen's Class A preferred membership interest in CDS. The liquidator appointed to rule on the proper distribution ruled that the proceeds should be distributed in a manner different than had previously been applied by the Company in the first quarter of 1998.

While the net effect of any loan or advance to CDS would be to reduce the funds available for STP to distribute to the Company and Sun, Mr. Jensen agreed, pursuant to an agreement reached with the Company in June 1998 (the "Assurance Agreement"), that, if UICI receives less than $15.1 million in the pending Sun Litigation, then Mr. Jensen would advance funds to UICI sufficient to increase UICI's recovery to $15.1 million. The Assurance Agreement also restricted the manner in which UICI can seek funds in satisfaction of Mr. Jensen's previously unconditional agreement (the "Jensen 1996 Guaranty") to indemnify the Company for any loss or reduction in value of the Company's Class A investment in CDS.

The Dallas County, Texas District Court ruled in December 1998 in the Sun Litigation that, as a matter of law, the March 1997 agreement governing the distribution of the cash proceeds of the STP sale should be read in the manner urged by Sun and consistent with the court-appointed liquidator's previous ruling. The District Court entered a judgment directing distribution of the sales proceeds in the manner urged by Sun. The District Court also entered a finding that UICI violated Texas securities disclosure laws and breached a fiduciary duty owed to Sun, and the District Court awarded the plaintiff $1.7 million in attorneys' fees, which amount could be increased to $2.1 million under certain circumstances.

On August 1, 2000, the Court of Appeals for the Fifth District of Texas at Dallas reversed the trial court's judgment as to UICI's liability for attorneys' fees and its finding that UICI violated Texas securities laws and breached a fiduciary duty. The Appeals Court also reversed the trial court's judgment that directed distribution of the STP sales proceeds in the manner urged by Sun. On December 8, 2000, the Appeals Court affirmed its earlier decision and denied the Company's, Mr. Jensen's and Sun's respective motions for rehearing.

By letter dated July 7, 2000, Mr. Jensen submitted a formal proposal to purchase the Company's 80% interest in STP for $15.6 million ("Proposal A") or, alternatively, to purchase for $15.1 million the Company's rights and claim of rights to receive funds held in the registry of the Court in the Sun Litigation ("Proposal B"). As part of either proposal, the Company proposed to terminate and release Mr. Jensen from any and all obligations arising under the Jensen 1996 Guaranty and the Assurance Agreement. As part of Mr. Jensen's proposals, Mr. Jensen offered to indemnify and hold the Company harmless from and against, among other things, (a) the breach of fiduciary duty claim asserted by Sun against the Company and Sun's related claim for attorneys' fees, (b) Sun's claim for attorneys' fees arising out of the distribution issue in the Sun Litigation,

and (c) any and 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.

Mr. Jensen's proposal to purchase UICI's 80% interest in STP contemplated by Proposal A may be subject to the consent of Sun. The Company solicited the consent of Sun to the transfer so that it might accept Proposal A, but Sun was unwilling to grant such consent and objected to Proposal B, claiming that Sun's consent is required to consummate either Proposal. Following approval of the disinterested outside directors of UICI in accordance with the related party transactions policies and procedures adopted by the UICI Board, on July 21, 2000, the Company formally accepted Proposal A and, in the alternative, Proposal B. On November 22, 2000, the Court in the Company's pending Shareholder Derivative Litigation (see Note N of Notes to Consolidated Financial Statements) approved the alternative settlements between Mr. Jensen and the Company, subject to any alleged right on the part of Sun to consent to Proposal A and/or Proposal B. The Company subsequently sued Sun separately (UICI v. Sun Communications, Inc., pending in 134th Judicial District Court of Dallas County, Texas, Cause No. 009353), seeking to resolve the consent issue. On

October 16, 2001, the Court granted UICI's motion for partial summary judgment and ordered, among other things, that (a) Sun's consent to Proposal B is not required, (b) no injunction or order previously issued by the Court precludes or otherwise limits UICI from completing Proposal A and (c) Sun waived and is estopped to assert any right to prevent UICI's assignment of its interest in STP as contemplated by Proposal A.

March 2000 Loan

On March 14, 2000, a limited liability company controlled by Mr. Jensen ("Lender LLC") loaned $70.0 million (the "Lender LLC Loan") to a newly formed subsidiary of the Company. The proceeds of the Lender LLC Loan, together with $5.0 million of cash on hand, were used to reduce indebtedness outstanding under the Company's Bank Credit Facility from $100.0 million to $25.0 million. The Lender LLC Loan bore interest at the prevailing prime rate, was guaranteed by UICI, was due and payable in July 2001 and was secured by a pledge of investment securities and shares of the Company's National Motor Club unit.

In connection with the March 2000 paydown of indebtedness outstanding under the Bank Credit Facility, the Bank Credit Facility was amended to provide, among other things, that the $25.0 million balance outstanding would be due and payable on July 10, 2000, amounts outstanding under the facility would be secured by a pledge of investment securities and shares of Mid-West National Life Insurance Company of Tennessee ("Mid-West"), and the restrictive covenants formerly applicable to UICI and its restricted subsidiaries (primarily the Company's insurance companies) were made applicable solely to Mid-West. Amounts outstanding under the Bank Credit Facility continued to bear interest at LIBOR plus 100 basis points per annum. On April 11, 2000 and June 28, 2000, the Company made principal payments of $11.0 million and $8.0 million, respectively, under the Bank Credit Facility, and on June 30, 2000, Lender LLC, against payment to the banks of $6.0 million, assumed 100% of the banks' remaining $6.0 million position in the Bank Credit Facility.

June-July 2000 Transactions

In June and July 2000, the Company entered into a series of transactions (the "July 2000 Transactions") with Mr. Jensen and affiliates of Mr. Jensen, the proceeds of which were utilized, in part, to fund the Company's cash and other obligations under the Consent Order, dated June 29, 2000, issued by the OCC to memorialize the terms of the UCNB Capital Plan approved by the OCC. See Note B.

In accordance with the policies and procedures of the Board of Directors, each of the July 2000 Transactions was approved by the disinterested outside directors of the Company at a meeting of the Board of Directors held on July 21, 2000, as being fair to UICI and its shareholders. The Board's determination was made, in part, in reliance upon the opinion of an independent financial advisor that the July 2000 Transactions, in their totality, were fair to the public shareholders of UICI (consisting of non-Jensen affiliated shareholders) from a financial point of view.

Restructuring of Lender LLC Loan. Effective July 27, 2000, the Company and the Lender LLC completed a restructuring of the terms of the Lender LLC Loan. As part of the restructuring, the Company paid to Lender LLC principal owing on the Lender LLC Loan in the amount of $6.0 million and amended the terms of the Lender LLC Loan to provide that the aggregate principal amount of $70.0 million then owing by the Company would consist of a $32.0 million unsecured tranche and a $38.0 million tranche secured by a pledge of 100% of the capital stock of Mid-West (the "Amended Lender LLC Loan"). The Amended Lender LLC Loan (a) matured on January 1, 2002, (b) continued to bear interest at the prevailing prime rate from time to time, with interest accruing but not payable until the earlier to occur of full prepayment of the Lender LLC Loan or January 1, 2002, and (c) was mandatorily prepayable monthly to the extent of 1% of the outstanding principal balance of the Amended Lender LLC Loan. The security interest in all remaining collateral previously pledged to secure payment of the Lender LLC Loan and indebtedness outstanding under

the bank credit facility (including all investment securities and shares of the Company's National Motor Club unit) was released in full.

In addition to scheduled payments of principal made during the course of 2000, on October 20, 2000, the Company prepaid the unsecured tranche of the Amended Lender LLC Loan in the amount of $12.5 million, and on November 2, 2000, the Company prepaid an additional $17.4 million of the unsecured tranche and $17.6 million of the secured tranche. Accordingly, at December 31, 2000, the Company had no indebtedness outstanding under the unsecured tranche and $19.0 million outstanding under the secured tranche of the Amended Lender LLC Loan.

On January 30, 2001, the Company prepaid in full principal and accrued interest on the secured tranche of the Amended Lender LLC Loan in the amount of $21.1 million, utilizing a portion of the proceeds received in liquidation of UCNB, and Lender LLC's security interest in 100% of the capital stock of Mid-West was released in full.

Sale of NMC Holdings, Inc. On July 27, 2000, the Company sold to an investor group consisting of Jensen family members (including Mr. Jensen) (the "NMC Buyer") its 97% interest in NMC Holdings, Inc. ("NMC"), the parent company of its National Motor Club of America unit, for a purchase price of $56.8 million, representing 97% of the value of NMC as determined by independent appraisal. The purchase price was paid at closing in cash in the amount of $21.8 million and by delivery of a promissory note (the "NMC Note") issued by the NMC Buyer in the principal amount of $35.0 million. For financial reporting

purposes, the $12.6 million, net of tax, received by the Company in excess of the net book value of NMC was reflected in additional paid in capital.

The NMC Note was an unsecured, full recourse obligation of the NMC Buyer and was unconditionally guaranteed by Mr. Jensen. The NMC Note bore interest at the per annum rate of prime fluctuating from time to time, and was initially payable in three equal installments of principal in the amount of $11.7 million due on each of October 1, November 1 and December 1, 2000, respectively. Effective October 1, 2000, the NMC Note was amended to provide for three equal installments of principal in the amount of $11.7 million due on each of November 1 and December 1, 2000 and January 1, 2001, respectively. In accordance with the terms of the June Consent Orders, the Company pledged the NMC Note to UCNB to secure, in part, the Company's obligations under the Capital Plan. On October 31, 2000, the OCC consented to the release by UCNB of its security interest in the NMC Note. On November 2, 2000, the NMC Buyer prepaid the NMC Note in its entirety. Under the terms of the NMC Note, the Company received $875,000 in interest in 2000.

On July 27, 2000, UICI, NMC Buyer and NMC entered into a Management Agreement, the terms of which governed the provision by UICI to NMC of management and administrative services, information technology services, telephone services and other services formerly provided to NMC by UICI. The Management Agreement was terminable (a) by UICI at any time upon not less than 60 days' notice to NMC and the NMC Buyer, and (b) by NMC at any time following the payment in full of the NMC Note upon not less than 30 days' notice to UICI. Pursuant to the Management Agreement, UICI agreed to allow William Gedwed (formerly an Executive Vice President of the Company and currently a Director of the Company and the holder of approximately 3% of the equity interest in NMC) to serve as a consultant to NMC for the term of the Management Agreement. As of December 31, 2000, the Company was owed by NMC $50,000 pursuant to the terms of the Management Agreement, which was paid in full in the first quarter of 2001.

Mr. Gedwed resigned as an executive officer of UICI effective December 31, 2000, and NMC terminated the Management Agreement effective January 31, 2001.

Jensen Indemnity Agreement. To secure in part the Company's obligations under the Capital Plan, effective June 29, 2000 Mr. Jensen pledged to UCNB $7.1 million face amount of Series B Certificates created as part of the Company's securitizations of credit card receivables issued in 1997 and 1998 generated by UICI's credit card operations. As a condition to Mr. Jensen's pledge of the Series B Certificates, on

June 29, 2000 the Company executed and delivered an Indemnity Agreement, pursuant to which the Company agreed, among other things, to indemnify and hold Mr. Jensen harmless from and against (A) loss, cost, expense, or liability incurred by Mr. Jensen arising from, in respect of or in connection with, a default by the Company of its obligations under the June Consent Orders, the UCNB Capital Plan or the Liquidity and Capital Assurances Agreement, and (B) any and all losses, costs and expenses (including reasonable attorneys' fees and expenses) incurred by Mr. Jensen in enforcing any rights under the Indemnity Agreement.

Sale of UICI Shares to NMC. Pursuant to the terms of an agreement, dated July 13, 2000, between the Company and NMC, on July 24, 2000, the Company issued to NMC 175,000 treasury shares of common stock at a purchase price of $5.25 per share. It is anticipated that the 175,000 shares will be used to fund incentive

stock programs for the benefit of NMC employees.

National Motor Club

As discussed above, on July 27, 2000, the Company sold its 97% interest in NMC Holdings, Inc., the parent company of its National Motor Club of America ("NMC") unit, to an investor group consisting of Jensen family members (including Mr. Jensen) for a purchase price of $56.8 million, representing 97% of the value of NMC as determined by independent appraisal. William J. Gedwed (a director of the Company) holds 3% of the issued and outstanding common stock of NMC Holdings, Inc. The Chesapeake Life Insurance Company ("CLICO") (formerly a direct wholly owned subsidiary of the Company) and National Motor Club of America ("NMCA") were previously parties to an administrative service agreement, pursuant to which CLICO agreed to issue life, accident and health insurance polices to NMCA for the benefit of NMCA members in selected states. NMCA, in turn, agreed to provide to CLICO certain administrative and recordkeeping services in connection with the NMCA members for whose benefit the policies have been issued. Following the acquisition of CLICO by The MEGA Life and Health Insurance Company ("MEGA") (a wholly-owned insurance subsidiary of the Company) in July 2000, MEGA and NMCA entered into a similar administrative service agreement for a two-year term ending in December 31, 2002. During the year ended December 31, 2001, 2000 and 1999, NMCA paid to MEGA and CLICO insurance premiums in the amount of $2.4 million, $2.6 million and $2.7 million, respectively, pursuant to such arrangements.

In connection with the sale of NMC in July 2000, NMC entered into a sublease agreement with MEGA, pursuant to which NMC subleased from MEGA approximately 17,000 square feet of office space. During 2001 and 2000, NMC paid to MEGA $287,000 and $144,000 pursuant to the sublease. NMC terminated the sublease arrangement effective November 2001.

In 2001, NMC paid the Company $334,000 for various printing services.

Other Jensen Transactions

In 2001, 2000 and 1999, the Company paid $-0-, $-0- and $28,000, respectively, to United Group Service Center, Inc. (in which Mr. Jensen holds a 100% equity interest) for reimbursement of expenses. In 2001, 2000 and 1999, the Company received $335, $9,000 and $43,000, respectively, from United Group Service Center, Inc., which amounts represent premiums on a stop loss policy issued by MEGA and reimbursement of office expenses.

ACADEMIC MANAGEMENT SERVICES CORP.

A former president of Academic Management Services Corp. and the former holder of 25% of the equity interest in AMS is a partner in a partnership from which the Company's AMS subsidiary formerly leased office space. During 2000 and 1999, AMS paid $15,000 and $149,000, respectively, under the terms of the lease. AMS terminated the lease on January 13, 2000. AMS also paid $3,000 in 1999, respectively, for facilities services to a property management company, the sole shareholders of which included members of the family of the former AMS officer.

AMS also utilized the services of a travel agency owned by the former AMS officer and members of his family. During 1999, AMS incurred for the benefit of the travel agency the cost of space and salary and benefits for one agency employee in the amount of $28,000.

In his capacity as an employee of AMS, the former AMS officer received compensation from AMS in the amount of $239,000 in 1999.

On August 3, 2001, the Company completed the acquisition from the former AMS officer of the remaining 25% common stock interest in AMS it did not already own for a purchase price of $750,000. For additional consideration, the former AMS officer and certain former employees of AMS agreed, for a three-year period ending in August 2004, not to engage in any business competitive with AMS' tuition installment or student loan servicing businesses. These former executives and their affiliates further agreed to pay to AMS fees in prescribed amounts in connection with the origination and consolidation of certain student loans over a three-year period ending in August 2004.

TRANSACTIONS WITH PHILLIP A. GRAY

Prior to April 23, 1999, Phillip A. Gray served as head of the Company's Credit Services division and held a minority interest in United Membership Marketing Group, Ltd. (a former majority owned subsidiary of the Company) ("UMMG"). During 1999 and a portion of 2000, the Company engaged in several transactions with Mr. Gray and business entities controlled by Mr. Gray.

American Credit Educators, LLC

Mr. Gray is the controlling member of American Credit Educators, LLC ("ACE"), an independent membership association that provides credit education programs and other benefits and through which United CreditServ has historically marketed its credit support services and "ACE" credit cards. During 1999, UCNB made payments to ACE totaling $79.6 million, pursuant to the terms of a Credit Card Merchant Agreement. These payments were for educational materials that were sold by ACE and charged to credit cards issued by UCNB. In addition, during 1999, UCNB paid to ACE cash in the amount of $6.0 million, in satisfaction of certain merchant holdback liabilities, and in 1999 ACE purchased from UCNB certain credit card receivables in the amount of $13.8 million, representing the unpaid balance of the accounts purchased.

In 1999, ACE paid to UMMG the amount of $16.3 million for fulfillment services and marketing materials.

American Fair Credit Association, LLC

Mr. Gray is the controlling member of American Fair Credit Association, LLC ("AFCA"), an independent membership association that provides credit education programs and other benefits and through which United CreditServ has historically marketed its credit support services and "AFCA" credit cards.

In 2000 and 1999, AFCA paid to UMMG cash in the amount of approximately $4.7 million and $15.3 million, respectively, for fulfillment services and marketing materials. In 1999, AFCA paid to United CreditServ $300,000 for processing fees.

United Membership Marketing Group, LLC

UMMG was initially organized by the Company in 1993 to serve as the marketing and fulfillment organization for the Company's Credit Services division. At inception, the Company and Mr. Gray held an 80% and 20% equity interest, respectively, in UMMG. In 1994, the Company increased its equity interest in UMMG to 85%. During 1998 and 1999, the Company entered into two transactions, pursuant to which the Company purchased from Mr. Gray and the other minority owners additional equity interests in UMMG. On

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

January 1, 1998, the Company purchased from Mr. Gray a 3% equity interest in UMMG (thereby increasing the Company's equity interest in UMMG from 85% to 88%), for which Mr. Gray received $6.0 million. In April 1999, the Company purchased from Mr. Gray an 8.25% interest in UMMG for $22.7 million, and the Company purchased the remaining 3.75% equity interest in UMMG from another officer of UMMG and the remaining minority owners for $7.5 million and $2.1 million, respectively (the "April 1999 Buyout").

In connection with the Company's initial acquisition in 1992 of an 80% interest in the predecessor of the Credit Services division, Mr. Jensen loaned an aggregate of $2.0 million to the prior owners (the "Gray Group"), including $1.6 million to Mr. Gray and $160,000 to another officer of UMMG. The loans from Mr. Jensen were paid in full on April 23, 1999.

As the holders of equity interests in UMMG, in 1999 Mr. Gray received cash dividend distributions in the amount of $6.5 million, another officer of UMMG received $646,000 and the remaining minority holders of equity interests received $537,000, respectively.

Mr. Gray received additional compensation from UMMG in the amount of $291,000 in 1999.

In 1997, UMMG advanced to Mr. Gray a loan in the amount of $2.0 million, of which $1.8 million was outstanding at December 31, 1998. The loan bore interest at the annual rate of 7.97%. The loan was repaid in 1999.

Financial Services Reinsurance, Ltd.

The Company, Mr. Gray, another officer of UMMG and other individuals (collectively Mr. Gray, the other officer and the other individuals constitute the "Gray Group") hold a 79%, 16.8%, 1.68% and 2.52% equity interest, respectively, in Financial Services Reinsurance Ltd., an offshore re-insurer ("FSR"). In 1992, the Gray Group acquired its collective 21% interest in FSR from OUI for a purchase price of $21,000. As part of the initial acquisition of the Gray Group's 21% interest in FSR, all shareholders of FSR, including the Company and Mr. Gray, contributed additional capital to FSR in an aggregate amount of $900,000, of which Mr. Gray contributed $151,200, the other officer contributed $15,120 and the remaining individuals contributed $22,680. Mr. Gray's and the other officer's capital contributions to FSR were funded by non-recourse loans from the Company to Mr. Gray and the other officer in the amount of $151,200 and $15,120, respectively (the "FSR Capital Loans"), which bore interest at the rate of 6% per annum. Since 1992 and through December 31, 1999, FSR has paid an aggregate of $1.3 million in dividends to the members of the Gray Group, including $1.1 million to Mr. Gray and $106,000 to the other officer. During 1999, FSR distributed cash dividends to Mr. Gray in the amount of $286,000. During 1999, FSR distributed cash dividends to the other officer in the amount of $29,000, respectively. During 1999, FSR distributed cash dividends to the remaining members of the Gray Group in the amount of $14,000 and $25,000. FSR paid no cash dividends to any shareholder (including UICI) in 2000 or 2001.

At the closing of the April 1999 Buyout, the Company loaned Mr. Gray and the other officer the additional amounts of $859,000 and $251,000, respectively, which loans were added to indebtedness owing to the Company under the FSR Capital Loans. Accordingly, at each of December 31, 2001, 2000 and 1999, Mr. Gray had total indebtedness owing to the Company in the amount of $1.0 million, and the other officer had total indebtedness outstanding owing to the Company in the amount of $267,000, which indebtedness in each case bears interest at 5%-6% per annum, with principal and all accrued interest due and payable on January 1,

2002.

The Company has the right, which became exercisable on January 1, 2002, to purchase from Mr. Gray and the other officer their respective interests in FSR for a purchase price equal to the outstanding balance plus accrued interest on the Gray Note and the Other Officer Note, respectively.

ACE/AFCA/Gray Litigation

The Company is a party to a lawsuit (American Credit Educators, LLC and American Fair Credit Association, Inc. v. UICI and United Credit National Bank, pending in the United States District Court for the District of Colorado), which was initially filed as separate lawsuits in February 2000 by ACE and AFCA, organizations through which United CreditServ formerly marketed its credit card programs. In the suit, plaintiffs initially alleged, among other things, that UCNB breached its agreements with ACE and AFCA, sought injunctive relief and a declaratory judgment and claimed money damages in an indeterminate amount. In a separate suit filed on March 26, 2001 (UICI, United Marketing Membership Group, Inc., and UMMG-Colorado, LLC f/k/a United Membership Marketing Group Ltd. Liability Co. v. Philip A. Gray and PAG Family Partners, LLC, pending in the District Court of Dallas County, Texas), the Company sued Philip A. Gray individually and related entities. Company's claims include, among other things, fraud, negligent misrepresentation, and breach of fiduciary duty in connection with the Company's sub prime credit card business. (See Note N).

TRANSACTIONS WITH HEALTHAXIS, INC.

At December 31, 2001, UICI held beneficially 24,674,838 shares of common stock of Healthaxis, Inc. ("HAI") (Nasdaq: HAXS) (including 354,844 shares acquired on May 23, 2001 from a former employee of HAI for a purchase price of $400,000), representing approximately 47% of the issued and outstanding shares of HAI. Of such 24,674,838 shares held by the Company, 8,581,714 shares (representing 16.2% 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 had the right to vote such shares. Pursuant to the terms of a Proxy Agreement effective November 7, 2001, the Company has granted to the directors of HAI the right to vote thirty-three and one-third percent (33 1/3%) shares of HAI held by the Company (representing approximately 16.2% of HAI's total issued and outstanding shares) in all matters coming before the Board of Directors for a vote. In addition, the Company holds (a) a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per HAI share; (b) a warrant to purchase 200,100 shares of HAI common stock at an exercise price of $4.40 per HAI share; (c) a warrant to purchase 10,005 shares of HAI common stock at an exercise price of $12.00 per share; and (d) $1.7 million aggregate principal amount of HAI 2% convertible debentures, which are convertible into an aggregate of 185,185 shares of HAI common stock. HAI is a provider of Internet-enabled, integrated proprietary software applications that address the workflow and processing inefficiencies embedded in the healthcare insurance industry. Until their resignations effective November 7, 2001, Gregory T. Mutz (the President and a director of the Company) and Patrick J. McLaughlin (a director of the Company) served as directors of HAI.

Pursuant to the terms of an information technology services agreement, amended and restated as of January 3, 2000 (the "Services Agreement"), HAI provides information systems and software development services (including administration of the Company's computer data center) to the Company and its

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

Pursuant to the terms of the Services Agreement, UICI paid to HAI $20.4 million, $21.0 million and $23.3 million in 2001, 2000 and 1999, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services,

for which UICI paid to HAI $10.1 million, $6.4 million and $3.7 million in 2001, 2000 and 1999, respectively. The aggregate amounts paid by UICI to HAI in 2001, 2000 and 1999, respectively, represented 70%, 63% and 58% of HAI's total revenues of $43.8 million, $43.7 million and $46.2 million in such years. Of total fees paid by the Company to HAI in 2001 and 2000, approximately $5.4 million (or 18%) and $4.9 million (or 16%), respectively, were attributable to services provided to the Company's UICI Administrators unit, which was sold by the Company in January 2002. With a strategic goal of gaining greater control over its information technology resources and development efforts and managing its own information technology staff, the Company continues to seek to reduce its dependence upon HAI for information systems and software development services under the Services Agreement by hiring more of its technology work force directly and by outsourcing and contracting with technology service and software providers other than HAI. Accordingly, the Company believes that overall expenditures to HAI for services in 2002 will be less than such expenditures in 2001 and will likely decline each year thereafter. The Company does not currently intend to renew the Services Agreement when it expires on January 3, 2005.

At December 31, 2001, 2000 and 1999, UICI had accounts payable to HAI relating to services provided under the Services Agreement in the amount of $3.0 million, $3.0 million and $2.7 million, respectively.

HAI leases certain facilities from the Company, for which it paid $287,000 in 2000. In 2001, rents of approximately $437,000 were offset against HAI invoices for services HAI provided to the Company. In addition, in 2001 and 2000 HAI paid $-0- and $12,000, respectively, to the Company for medical administration fees and $24,000 and $19,000, respectively, for other shared expenses.

During the quarter ended December 31, 2000, the Company transferred to HAI certain claims administration software and related proprietary rights for a sale price of $1.6 million, which was the Company's book value of such software as of the date of sale. Effective January 25, 2001, the Company also entered into a license agreement with HAI, pursuant to which it has licensed from HAI the right to use HAI's proprietary Insur-Web(TM) and Insur Enroll(TM) software for a perpetual term for a one-time license fee of $1.8 million plus an annual maintenance fee in the amount of $276,000, payable commencing on the date of the first successful implementation of the system at UICI. UICI has the right for

two years to cease the use of the software and put the software back to HAI for a refund of a prorated portion of the license fee.

OTHER TRANSACTIONS WITH CERTAIN MEMBERS OF MANAGEMENT

Transactions with Mr. Mutz

In January 1999, Gregory T. Mutz was elected President and Chief Executive Officer of the Company. During 1999 Mr. Mutz continued to serve as Chairman of the Board and Co-Chief Executive Officer of AMLI Residential Properties Trust, a publicly-traded real estate investment trust ("AMLI"). At December 31, 2001, 2000 and 1999, the Company held a 10.2%, 10.4% and 14% fully diluted interest, respectively, in AMLI. As Chairman of the Board of AMLI, Mr. Mutz received certain compensation and participated in various option and deferred compensation programs, all of which are described in the AMLI proxy statement. In addition, as of December 31, 2001, 2000 and 1999, AMLI had outstanding secured and unsecured loans owing from Mr. Mutz in the aggregate amount of $1.0 million, $2.1 million and $2.1 million, respectively, the proceeds of which had been used to purchase 108,891 shares of AMLI beneficial interest.

Mr. Mutz also served as chairman of the board of AMLI Commercial Properties Trust ("ACPT"), a private real estate investment trust in which the Company had held a 20% equity interest. Mr. Mutz was the beneficial holder of less than one percent of the issued and outstanding shares of beneficial interest of ACPT. At December 31, 2000 and 1999, ACPT had an outstanding loan owing from Mr. Mutz (or companies affiliated with Mr. Mutz) in the amount of $508,000 and $600,000, respectively, the proceeds of which were used to purchase stock in ACPT. During the year ended December 31, 2001, ACPT sold substantially all of its

assets for an aggregate sale price of approximately $226.3 million, distributed the proceeds and was liquidated in October 2001. In connection with such sale, the Company recognized a gain in the amount of $5.3 million.

On August 4, 1999, the Company entered into an indemnification agreement with Mr. Mutz, pursuant to which the Company agreed to indemnify Mr. Mutz to the fullest extent permitted by Delaware law from certain liabilities and expenses incurred in his capacity as an officer of the Company and/or as an officer and/or director of the Company's subsidiaries.

UICI Executive Stock Purchase Program. In accordance with the Company's Executive Stock Purchase Program (the "ESPP") (see Note O), in December 1998 the Company extended a loan to Mr. Mutz in the amount of $3.3 million, the proceeds of which were used to purchase 200,000 shares of Common Stock of the Company at a purchase price of $19.50 per share. The loan bears interest at the rate of 5% per annum, payable quarterly, had a six-year term, and is full recourse to Mr. Mutz. In June 1999, the Company extended an additional loan to Mr. Mutz pursuant to the ESPP in the amount of $429,000, the proceeds of which were used to purchase 20,000 shares of Company Common Stock at a purchase price of $24.45 per share. The loan bears interest at 5.37%, payable quarterly, had a six-year term, and was full recourse to Mr. Mutz.

As part of modifications to the ESPP adopted by the Company's Board of Directors on January 2, 2001, the Company granted to Mr. Mutz 107,104 shares of UICI common stock, discharged $1.5 million principal amount of the ESPP loan, and paid to Mr. Mutz a one-time cash bonus in the amount of $1.1 million (which was calculated to reimburse Mr. Mutz for income and other taxes payable upon

receipt of the UICI stock and discharge of the portion of the ESPP loan). The terms of the ESPP loans were modified to extend the maturity date to January 1, 2007. See Note O.

The amount outstanding under Mr. Mutz ESPP loans at December 31, 2001, 2000 and 1999, was $1.3 million, $2.8 million and $3.3 million, respectively.

Other Loans to Management

In accordance with the Company's Executive Stock Purchase Program (the "ESPP") (see Note O), during 1999 the Company extended loans to Glenn W. Reed (the Company's Executive Vice President and General Counsel), William J. Gedwed (a Director of the Company) and three other former executive officers of the Company in the amounts of $417,000, $203,000 and $592,000, respectively, the proceeds of which were used to purchase Company Common Stock. The loans to Messrs. Reed and Gedwed bear interest at 5.37% per annum and the loans to the former executive officers bear interest at rates ranging from 5.22% to 5.37%. The six-year term loans require quarterly interest payments, had a six-year term, are full recourse to the borrower and are payable in full upon the occurrence of certain events, including the termination of employment. In connection with a separation and consulting arrangement entered into between the Company and one of the former executives in November 1999, the Company released the former executive from liability under his note and the note balance was written off.

At December 31, 2000, Messrs. Reed, Gedwed, and the former executive officers had outstanding loans payable to the Company under the ESPP in the amounts of $417,000, $203,000, and $362,000, respectively.

As part of modifications to the ESPP adopted by the Company's Board of Directors on January 2, 2001, the Company discharged $297,000 and $113,000 principal amount of indebtedness under the ESPP owing by Mr. Reed and one of the former executive officers, respectively, and paid to Mr. Reed and the former executive officer a one-time cash bonus in the amount of $160,000 and $61,000, respectively (which was calculated to reimburse Mr. Reed and the former executive officer for income and other taxes payable upon discharge of the portion of their ESPP loan). The terms of Mr. Reed's and the former executive officer's ESPP loans were modified to extend the maturity date to January 1, 2007. On March 14, 2001, the Company subsequently entered into an agreement with the former executive officer, pursuant to which the former officer resigned as an executive officer of the Company and as an officer of various UICI affiliates effective

February 1, 2001. In accordance with the agreement, the Company agreed to forgive the indebtedness owing by the former officer under the ESPP in the amount of $45,000.

At December 31, 2001, the amount outstanding under Mr. Reed's ESPP loan was $120,000, the amount outstanding under Mr. Gedwed's ESPP loan was $139,000, and the amount outstanding under the former officer's ESPP loan was $204,000.

Other Transactions

On September 1, 1999, the Company entered into separate indemnification agreements with each of Messrs. Reed, Gedwed and a former executive officer pursuant to which the Company agreed to indemnify such officers to the fullest

extent permitted by Delaware law from certain liabilities and expenses incurred in their respective capacities as officers of the Company and/or officers and directors of the Company's subsidiaries.

The Company receives investment management services from investment advisory firms affiliated with two of its directors. During 2001, 2000 and 1999, the Company paid advisory fees in the amount of $307,000, $231,000 and $366,000, respectively, to Emerald Capital Group, Ltd., for which Patrick J. McLaughlin (a director of the Company) serves as a managing director and owner. During 2001, 2000 and 1999, the Company paid investment advisory fees in the amount of $206,000, $145,000 and $140,000, respectively, to The Chicago Trust Company, for which Stuart Bilton (a director of the Company) serves as President and Chief Executive Officer.

From time to time the Company has also retained Emerald Capital Group, Ltd. to perform investment banking and insurance advisory services. In accordance with the terms of a Consulting Agreement dated September 14, 1999, as amended, the Company formally retained the services of Emerald Capital Group, Ltd. for an annual fee of $400,000, payable in monthly installments. During 2001, 2000 and 1999, the Company paid an aggregate of $436,000, $237,000 and $188,000, respectively, in fees and expenses to Emerald Capital Group, Ltd. for investment banking and insurance advisory services. Effective March 10, 2000, Mr. McLaughlin elected to forego $100,000 of cash payments otherwise due and owing under the Consulting Agreement in exchange for options to purchase 50,000 shares of Company Common Stock at $6.625 per share.

The Company and a former officer and director of the Company entered into an agreement, dated as of November 2, 1999, pursuant to which the former officer agreed (a) to resign as a director and as Executive Vice President of the Company, effective November 2, 1999, and (b) to serve as a consultant to the Company for the period ending May 2, 2002, for which the former officer is entitled to a monthly consulting fee in the amount of $12,000 for the term of the agreement. In accordance with the agreement, the former officer received a one-time severance payment in the amount of $120,000 and the Company released the former officer from liability under a promissory note in the principal amount of $230,000, the proceeds of which were used to purchase shares of Common Stock. The Company terminated the consulting arrangement with the former officer effective March 1, 2001, at which time the Company made to the former officer a one-time payment in the amount of $180,000 in accordance with the terms of the agreement.

In accordance with the Company's Executive Stock Purchase Program (the "ESPP") (see Note O), during 1999 the Company extended a loan to Mr. McLaughlin in the amount of $44,000, the proceeds of which were used to purchase 2,094 shares of Company Common Stock. The loan bears interest at 5.22% per annum. The loan has a six-year term, requires quarterly interest payments, is full recourse to the borrower, and is payable in full upon the occurrence of certain events. The outstanding balance under the loan, including accrued interest, at December 31, 2000 was $44,000. The loan was paid in full on December 28, 2001.

Effective December 31, 2000, the Company entered into an agreement with William J. Gedwed (a director of the Company), pursuant to which Mr. Gedwed resigned as an executive officer of the Company

effective December 31, 2000 and as an officer of various UICI affiliates effective February 1, 2001. In accordance with the agreement, Mr. Gedwed has

also agreed to provide consulting services to MEGA for a two-year term ending December 31, 2002 for an annual fee of $120,000.

In October 2000, the Company entered into an agreement with a former executive officer, pursuant to which the former officer resigned as an executive officer of the Company and various UICI affiliates effective October 27, 2000. In accordance with the agreement, the former officer received a one-time severance payment of $50,000, and the former officer agreed to provide consulting services to UICI for a term ending January 15, 2003 for an aggregate fee of $120,000.

On March 14, 2001, the Company entered into an agreement with a former executive officer, pursuant to which the former officer resigned as an executive officer of the Company and as an officer of various UICI affiliates effective February 1, 2001. In accordance with the agreement, the Company agreed to forgive indebtedness owing by the former officer in the amount of $45,000, and the former officer agreed to provide consulting services to MEGA for a one-year term ending March 31, 2002 for an annual fee of $135,000.

In accordance with the terms of the Company's ESPP, in May 1999 Messrs. Bilton and Lane (directors of the Company) purchased 2,408 shares and 2,408 shares, respectively, of the Company's Common Stock, at a purchase price equal to 85% of the then market value of such shares. In accordance with the terms of the Company's ESPP, in June 2000 Mr. Mockler (a director of the Company), purchased 2,408 shares of UICI common stock in exchange for cash in the amount of $6,000 and a promissory note in the amount of $8,000. At each of December 31, 2001 and 2000, the amount outstanding on Mr. Mockler's note was $8,000.

In May 2000, Resolution Reinsurance Intermediaries, LLC ("Resolution Re"), a 50%-owned subsidiary of the Company, loaned to the other 50% shareholder of Resolution Re (who is also an employee of the Company) the amount of $69,300. The loan bore interest at 8.5% and was repaid in full in October 2000. Commencing in April 2000, Resolution Re leased space in a building owned by the shareholder/employee at a rental rate of $4,000 per month. During 2000, Resolution Re paid to the shareholder/employee the aggregate amount of $36,000 pursuant to this arrangement. The lease was terminated in February 2001.

Effective May 31, 2001, WinterBrook Holdings, Inc. (a wholly-owned subsidiary of the Company) sold its 44% minority interest in Cassidy Employee Benefit Services, LLC ("Cassidy") to Cassidy for $140,000 in cash. The remaining equity holders of Cassidy constituted members of Cassidy management.

NOTE N -- COMMITMENTS AND CONTINGENCIES

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. On June 12, 2000, plaintiffs filed a consolidated amended class action complaint, amending, consolidating and supplementing the allegations made in the original cases.

On October 10, 2001, the Court denied defendants' motion to dismiss the case, and on December 7, 2001 UICI filed its answer to the second amended consolidated class action complaint. At a required scheduling

meeting held in November 2001, the parties agreed to voluntarily submit the dispute to early mediation, and the parties have designated a mediator and scheduled the mediation for April 2002. Discovery and other pretrial motions have been suspended pending the outcome of the mediation.

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

SUN COMMUNICATIONS LITIGATION

As previously disclosed, UICI and Ronald L. Jensen (the Company's Chairman) are involved in 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. The Dallas County, Texas District Court ruled in December 1998 that, as a matter of law, a March 1997 agreement governing the distribution of such cash proceeds should be read in the manner urged by Sun Communications, Inc. ("Sun") and consistent with a court-appointed liquidator's previous ruling. The District Court entered a judgment directing distribution of the sales proceeds in the manner urged by Sun. The District Court also entered a finding that UICI had violated Texas securities disclosure laws and breached a fiduciary duty owed to Sun, and the District Court awarded the plaintiff $1.7 million in attorneys' fees, which amount could be increased to $2.1 million under certain circumstances.

On August 1, 2000, the Court of Appeals for the Fifth District of Texas at Dallas reversed the trial court's judgment as to UICI's liability for attorneys' fees and its finding that UICI breached a fiduciary duty. The Appeals Court also reversed the trial court's judgment that directed distribution of the STP sales proceeds in the manner urged by Sun. On December 8, 2000, the Appeals Court affirmed its earlier decision, further reversed the trial court's finding that the Company had violated the Texas Securities Act and denied the Company's, Mr. Jensen's and Sun's respective motions for rehearing. On May 10, 2001, the Texas Supreme Court denied Sun's petition to review of the Court of Appeals opinion, and the case has now been remanded to the District Court for trial on the issues concerning the interpretation of the March 1997 agreement and the alleged breach of fiduciary duty claim. No trial date has been set.

In the brief filed in his appeal of the District Court's December 1998 finding, Mr. Jensen reasserted that the March 1997 agreement requires that, before STP can make a distribution to UICI and Sun, it must advance approximately $10.0 million to Mr. Jensen in satisfaction of certain creditor and preferred equity claims. If and to the extent that Mr. Jensen's interpretation of the March 1997 agreement is ultimately adopted in the Sun Litigation after all rights to appeal have been exhausted, the amount of such proceeds that UICI may ultimately receive directly from STP may be reduced. However, in such event and in accordance with an agreement reached with the Company in June 1998 (the "Assurance Agreement"), Mr. Jensen has agreed that, if UICI receives less than $15.1 million in the lawsuit, then Mr. Jensen will advance funds to UICI sufficient to increase UICI's recovery to $15.1 million.

The Assurance Agreement also restricts the manner in which UICI can seek funds in satisfaction of Mr. Jensen's previously unconditional agreement (the "Jensen 1996 Guaranty") to indemnify the Company for any loss or reduction in value of the Company's Class A investment in Cash Delivery Systems, LLC.

By letter dated July 7, 2000, Mr. Jensen submitted a formal proposal to purchase the Company's 80% interest in STP for $15.6 million ("Proposal A") or, alternatively, to purchase for $15.1 million the Company's rights and claim of rights to receive funds held in the registry of the Court in the Sun Litigation ("Proposal B"). As part of either proposal, the Company proposed to terminate and release Mr. Jensen from any and all obligations arising under the Jensen 1996 Guaranty and the Assurance Agreement. As part of Mr. Jensen's proposals, Mr. Jensen offered to indemnify and hold the Company harmless from and against, among other things, (a) the breach of fiduciary duty claim asserted by Sun against the Company and Sun's related claim for attorneys' fees, (b) Sun's claim for attorneys' fees arising out of the distribution issue in the

Sun Litigation, and (c) any and 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.

The Company solicited the consent of Sun to the transfer so that it might accept Proposal A, but Sun was unwilling to grant such consent and also objected to Proposal B, claiming that Sun's consent is required to consummate either Proposal. Following approval of the disinterested outside directors of UICI in accordance with the related party transactions policies and procedures adopted by the UICI Board, on July 21, 2000, the Company formally accepted Proposal A and, in the alternative, Proposal B. On November 22, 2000, the Court in the Company's pending Shareholder Derivative Litigation (see discussion below) approved the alternative settlements between Mr. Jensen and the Company, subject to any alleged right on the part of Sun to consent to Proposal A and/or Proposal B.

The Company subsequently sued Sun separately (UICI v. Sun Communications, Inc., pending in 134th Judicial District Court of Dallas County, Texas, Cause No. 009353), seeking to resolve the consent issue. Sun's motion to abate the separate suit pending disposition of the Sun case was denied by the Court at a hearing held on August 2, 2001. On October 16, 2001, the Court granted UICI's motion for partial summary judgment and ordered, among other things, that (a) Sun's consent to Proposal B is not required, (b) no injunction or order previously issued by the Court precludes or otherwise limits UICI from completing Proposal A and (c) Sun waived and is estopped to assert any right to prevent UICI's assignment of its interest in STP as contemplated by Proposal A.

SHAREHOLDER DERIVATIVE LITIGATION

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

On December 21, 2001, the District Court of Dallas County, Texas, approved the terms of a Settlement Agreement and Mutual Release between UICI and each of

Richard J. Estell, Vernon Woelke, J. Michael Jaynes, Gary L. Friedman, John E. Allen, Charles T. Prater, Richard T. Mockler, and Robert B. Vlach (collectively, the "Individual Defendants"), on the one hand, and Richard Schappel and Mr. Schappel's counsel, on the other hand. Pursuant to the Settlement Agreement, the parties reached agreement with respect to the payment of attorneys' fees and expenses on termination of the Shareholder Derivative Action, and the Court also entered a Modified Final Judgment in the case, vacating certain findings of fact that formed a part of an earlier ruling by the Court rendered on October 14, 2001.

The Settlement Agreement and the Modified Final Judgment have 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.

Ronald L. Jensen (the Chairman of the Company and a defendant in the Shareholder Derivative Litigation) is not a party to the Settlement Agreement. In its earlier judgment rendered on October 14, 2001, the Court found that certain statements made by plaintiff in the pleadings in the case were "groundless, false and brought for the purpose of harassment and with the intent to cause harm to or injure" Mr. Jensen and UICI, for which the plaintiff was ordered to pay to Mr. Jensen $5,000 as a judicial sanction in accordance with Texas law. The plaintiff retains the right to appeal, and Mr. Jensen retains the right to defend, that ruling in the Shareholder Derivative Litigation.

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UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

ACE AND AFCA LITIGATION

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

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

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

In its answer filed on August 15, 2001, the Company asserted numerous defenses to the plaintiffs' remaining claims. UICI and United CreditServ also asserted numerous counterclaims against ACE and AFCA, including, among other

things, breach of contract, breach of fiduciary duty, fraud and civil conspiracy, and UICI and UCS have claimed damages in an indeterminate amount. ACE and AFCA have filed a partial motion to dismiss the counterclaims, and the Court has not yet responded to that motion. On January 15, 2002, while the motion to dismiss the counterclaims was pending, UICI and UCS move the Court to amend their counterclaims, and that motion is also pending before the Court.

In a separate suit filed on March 26, 2001 (UICI, United Marketing Membership Group, Inc., and UMMG-Colorado, LLC f/k/a United Membership Marketing Group Ltd. Liability Co. v. Philip A. Gray and PAG Family Partners, LLC., pending in the District Court of Dallas County, Texas), the Company sued Philip A. Gray individually ("Gray") and related entities. Company's claims include, among other things, fraud, negligent misrepresentation, and breach of fiduciary duty in connection with the Company's sub prime credit card business.

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

The parties have agreed to submit the matters of which the Colorado and Texas litigation are the subject to a mediation scheduled for April 15 and 16, 2002. If that mediation proves unsuccessful, the Company intends to vigorously defend and pursue its counterclaims in the Colorado litigation and its claims in the Texas litigation.

AMERICAN FAIR CREDIT ASSOCIATION LITIGATION

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

captioned Dadra Mitchell v. BankFirst, N.A., 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 the federal case (the "BankFirst case") is BankFirst, N.A., a bank that issued a VISA credit card made available through the AFCA program.

The Mitchell Case

On April 12, 1999, the California state court in the Mitchell case certified a class of all California residents who entered into a membership contract with AFCA through April 12, 1999.

In October 2000, the state court in the Mitchell case granted, in part, and denied, in part the joint motions of UICI, AFCA and 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. The court also narrowed the scope of the class by applying the applicable statutes of limitation.

On October 12, 2000, UICI, jointly with defendants AFCA and UMMG, filed a Notice of Appeal from the state court's October 2000 orders and from its original class certification order dated April 12, 1999. By letter dated October 12, 2000, defendants notified plaintiffs of the filing of their Notice of Appeal and, consequently, all trial court proceedings in the Mitchell case were stayed. UICI has not received notice from plaintiff Mitchell of a motion for any relief from the stay, and there have been no further proceedings in the state trial court. Accordingly, at this time, it is unclear whether or not plaintiff will move for relief from the stay of proceedings, and, if so, what relief from the stay, if any, will be granted to plaintiff pending the outcome of UICI's appeal.

On February 22, 2002, the California Court of Appeals heard oral argument on the appeal.

UICI has not received notice from plaintiff Mitchell of a motion for any relief from the stay, and there have been no further proceedings in the state court. Accordingly, at this time, it is unclear whether or not plaintiffs will move for relief from the stay of proceedings, and, if so, what relief from the stay, if any, will be granted to plaintiffs pending the outcome of UICI's appeal.

The BankFirst Case

On May 4, 2000, the district 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.

REINSURANCE LITIGATION

As previously disclosed, on November 3, 2000, The MEGA Life and Health Insurance Company (a wholly-owned subsidiary of the Company) ("MEGA") was named as a party defendant in a suit filed by General & Cologne Life Re of America ("Cologne Re") (General & Cologne Life Re of America vs. The MEGA Life and Health Insurance Company), in the High Court of Justice, Queen's Bench Division,

Commercial Court, Royal Courts of Justice, in London, England. Plaintiff alleged that it was due the sum of L1,592,358.54 (approximately US $2.3 million as of December 31, 2001) for losses incurred in a health insurance program in the United Kingdom in which Cologne Re was a cedent of reinsurance and MEGA was Cologne Re's retrocessionaire.

On January 29, 2002, following mediation in London, MEGA and Cologne agreed to a full settlement of the dispute, the terms of which will not have a material adverse effect on the results of operations or financial condition of the Company.

GOTTSTEIN LITIGATION

As previously disclosed, UICI, Ronald L. Jensen, and UGA, Inc. were named as defendants in a purported class action lawsuit filed in November 1998 (Gottstein, et al. v. The National Association for the Self-Employed, et al., in the United States District Court for the District of Kansas). The class representatives alleged fraud, conspiracy to commit fraud, breach of fiduciary duty, violation of the Kansas Consumer Protection Act, conspiracy to commit RICO violations, and violation of RICO, all arising out of the concurrent sales of individual health insurance policies underwritten and marketed by PFL Life Insurance Company ("PFL") and memberships in The National Association for the Self-Employed. On February 1, 2001, the court approved a settlement including all potential class members in all states, including Kansas, and the court dismissed the case without prejudice pending execution of the settlement. Final settlement checks were distributed to the class plaintiffs on January 24, 2002. Under the terms of a cost sharing agreement with a unit of AEGON USA, UICI and/or MEGA will be obligated to reimburse the AEGON USA unit for 50% of the cash cost of the settlement. Disposition of the case under the terms of the settlement did not have a material adverse effect upon the results of operations or financial condition of the Company.

STATE OF CONNECTICUT INVESTIGATION

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

COMPTROLLER OF THE CURRENCY CONSENT ORDER

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

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

ROE LITIGATION

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

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

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

NEW MEXICO CLASS ACTION LITIGATION

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

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

UNITED CREDIT NATIONAL BANK SHAREHOLDER DERIVATIVE LITIGATION

As previously disclosed, various former directors and officers of United Credit National Bank have been named as defendants in a shareholder derivative action (William K. Lester, on behalf of United Credit National Bank, v. Ronald L. Jensen, Gregory T. Mutz, et al), which was filed on June 29, 2001 and is pending in the District Court of Harris County, Texas. The plaintiff has asserted on behalf of UCNB various derivative claims brought against the individual defendants, alleging, among other things, negligence in connection

with the operations of UCNB. In December 2000, plaintiff made a demand on the Board of Directors of United Credit National Bank to investigate and assess certain alleged derivative claims. The Board of Directors constituted a special committee to investigate and assess the asserted derivative claims, and the special committee determined that the claims were wholly without merit.

A substantial number of defendants have been voluntarily dismissed from the case, and several individual defendants have not yet been personally served in the case. In January 2002, the derivative plaintiff agreed to consent to defendants' motion to transfer the case to Texas state court in Dallas. The Court has set a June 17, 2002 trial date.

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

ACADEMIC MANAGEMENT SERVICES CORP. CLASS ACTION LITIGATION

As previously disclosed, Academic Management Services Corp. (formerly known as Educational Finance Group, Inc.) ("AMS") has been named as a party-defendant in a purported class action lawsuit (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, plaintiffs have alleged, among other things, that, in connection with the marketing, solicitation and origination of federally-guaranteed Parent Plus student loans, AMS and other defendants purportedly violated the federal Higher Education Act ("HEA"), federal RICO by allegedly committing wire and mail fraud, and Florida tort law by allegedly committing negligence, making negligent misrepresentations, and breaching its fiduciary duty.

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

The Company believes that plaintiffs' claims are wholly without merit, and AMS intends to vigorously contest plaintiffs' federal appeal and state class action complaint.

OTHER LITIGATION 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.

OTHER COMMITMENTS AND CONTINGENCIES

The Company and its subsidiaries lease office space and data processing equipment under various lease agreements with initial lease periods of three to ten and one-half years. Minimum lease commitments, at December 31, 2001 were $7.7 million in 2002, $6.6 million in 2003, $4.1 million in 2004, $2.1 million in 2005, $609,000 in 2006 and none thereafter. Rent expense was $6.3 million, $7.5 million and $9.6 million for the years ended December 31, 2001, 2000 and 1999, respectively.

In conjunction with its College Fund Life Insurance Division life insurance operations, the Company commits to assist in funding the higher education of its insureds with student loans. As of December 31, 2001, the Company through its College Fund Life Insurance Division had outstanding commitments to fund student loans for the years 2002 through 2023. The interest rates on these commitments vary as described below. Loans are limited to the cost of school or prescribed maximums. These loans are generally guaranteed as to principal and interest by an appropriate guarantee agency and are also collateralized by either the related insurance policy or the co-signature of a parent or guardian. The total commitment for the next five school years and thereafter as well as the amount the Company expects to fund considering utilization rates and lapses are as follows:

	TOTAL COMMITMENT	EXPECTED FUNDING
	(IN THOUSANDS)	
2002	$ 194,983	$19,364
2003	219,424	17,662
2004	230,972	13,786
2005	224,203	9,896
2006	219,513	6,197
2007 and thereafter	556,640	8,201
Total	$1,645,735	$75,106

Interest rates on the above commitments are principally variable (national prime plus 2%).

At each of December 31, 2001 and 2000, the Company had $6.0 million of letters of credit relating to its insurance operations.

NOTE O -- EMPLOYEE AND AGENT STOCK PLANS

UICI EMPLOYEE STOCK OWNERSHIP AND SAVINGS PLAN

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

On August 11, 2000, the Company issued to the Employee Plan 1,610,000 shares of UICI common stock at a purchase price of $5.25 per share or $8.5 million in the aggregate. The purchase price for the shares was paid by delivery to UICI of the Employee Plan's $8.5 million promissory note (the "Plan Note"), which matures in three years and is secured by a pledge of the purchased shares. The shares of UICI common stock purchased with the Plan Note (the "$5.25 ESOP Shares") are held in a suspense account for allocation among participants as and when the Company's matching and supplemental contributions to the ESOP are made. It is expected that the Plan Note will be extinguished over a period of approximately two and one-half years ending December 31, 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.

The Company recorded compensation expense associated with contributions to the Employee Plan in the amount of $7.0 million, $5.0 million and $5.0 million for the years ended December 31, 2001, 2000 and 1999, respectively. Included in the compensation expense is stock appreciation of $3.3 million, $387,000 and $0 for the years ended December 31, 2001, 2000 and 1999, respectively, which is reflected in stock appreciation expense on the Company's consolidated statement of income. The amount classified as stock appreciation expense represents the incremental compensation expense associated with the allocation during the year of $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 the $5.25 ESOP Shares held in the suspense account, the Company will record additional compensation expense equal to the excess, if any, between the fair value of the shares allocated and $5.25 per share. The allocated $5.25 ESOP Shares are considered outstanding for purposes of the computation of earnings per share.

The Company currently estimates that the remaining 630,000 $5.25 ESOP Shares will be allocated to participants' ESOP accounts during 2002. The fair value of the 630,000 unallocated $5.25 ESOP Shares totaled $8.5 million at December 31, 2001.

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, Guaranty Senior

Assurance, SeniorsFirst, CFLD Association Field Services and CFL Agency.

The Agent Plans generally combine an agent-contribution feature and a Company-match feature. 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, and the Agent Plans are not subject to the vesting, funding, nondiscrimination and other requirements imposed on such plans by the Internal Revenue Code and ERISA.

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

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

For financial reporting purposes, the Company accounts for the Company-match feature of its Agent Plans under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," by recognizing commission expense over the vesting period in an amount equal to the fair market value of vested shares at the date of their vesting and distribution to the participants. The

Company estimates its current liability for unvested matching credits by reference to the number of unvested credits, the current market price of the Company's common stock, and the Company's estimate of the percentage of the vesting period that has elapsed up to the current quarter end. Changes in the liability from one quarter to the next are accounted for as an increase in, or decrease to, commission expense, as the case may be. Upon vesting, the Company reduces 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.

The Company recorded commission expense associated with the Agent Plans in the amount of $6.6 million, $3.0 million and $3.7 million for years ended December 31, 2001, 2000 and 1999, respectively.

At December 31, 2001, the Company had recorded approximately 1.6 million unvested matching credits associated with the Agent Plans, of which the Company estimates 470,000 will vest in January 2002.

The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based commission charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based commission charges may result in material non-cash fluctuations in the Company's results of operations. In periods of general decline in the quoted price of UICI common stock, if any, the Company will recognize less stock based commission expense than in periods of general appreciation in the quoted price of UICI common stock. In addition, in circumstances where increases in the quoted price of UICI common stock are followed by declines in the quoted price of UICI common stock, negative commission expense may result as the Company adjusts the cumulative liability for unvested stock-based commission expense. Stock-based commission expense is non-cash and will accordingly have no impact on the Company's cash flows or liquidity.

STOCK OPTION PLANS

In accordance with the terms of the Company's 1998 Employee Stock Option Plan and the Company's 1998 Agent Stock Option Plan, each effective August 15, 1998, the Company granted agents and employees of the Company options to purchase an aggregate of 8.1 million shares of Company common stock at an exercise price of $15 per share. The options vest in 20% increments in each year, commencing on August 15, 1999 and ending August 15, 2001, and the remaining 40% vest on August 15, 2002. At December 31, 2001 and 2000, options to purchase 2,156,766 shares and 2,429,875 shares, respectively, were outstanding under the 1998 Plans. For years ended December 31, 2001 and 2000, the Company recognized no compensation expense in connection with the 1998 Plans.

In accordance with the terms of the Company's 1987 Stock Option Plan, as amended (the "1987 Plan"), 4,000,000 shares of common stock of the Company have been reserved for issuance upon exercise of options that may be granted to officers, key employees, and certain eligible non-employees at an exercise price equal to the fair market value at the date of grant. The options generally vest in 20% annual increments every twelve

months, subject to continuing employment, provided that an option will vest 100% upon death, permanent disability, or change of control of the Company. All options under the 1987 Plan are exercisable over a five-year period. During the

year ended December 31, 2001 and 2000, the Company granted to officers, directors and employees under the 1987 Plan options to purchase an aggregate of 340,609 shares and 713,408 shares, respectively, at an average exercise price of $10.54 and $6.63 per share, respectively, which was equal to the market price at the date of grant.

In connection with the Company's acquisition of AMLI Realty Co. ("ARC") in 1996, options previously outstanding under the ARC employee stock option plan were converted into the right to receive shares of the Company's common stock. At each of December 31, 2001 and 2000, 60,591 options (at a weighted exercise price per share of $12.72) and 60,591 options (at a weighted exercise price per share of $12.72), respectively, were outstanding under the ARC plan. Options issued under the ARC plan are fully vested.

Set forth below is a summary of stock option transactions:

	NUMBER OF SHARES	AVERAGE OPTION PRICE PER SHARE($)
Outstanding options at January 1, 1999	6,187,550	15.12
Granted	147,682	24.94
Canceled	(1,644,316)	15.00
Exercised	(438,009)	15.00
Outstanding options at December 31, 1999	4,252,907	15.52
Granted	713,408	6.63
Canceled	(1,451,719)	15.03
Outstanding options at December 31, 2000	3,514,596	13.92
Granted	340,609	10.54
Canceled	(579,763)	18.25
Exercised	(500)	6.63
Outstanding options at December 31, 2001	3,274,942	12.81
Options exercisable at December 31,		
1999	615,034	15.07
2000	969,166	15.51
2001	1,497,233	13.96

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB 25") and related Interpretations in accounting for its employee stock options because, as discussed below, the alternative fair value accounting provided for under FASB Statement No. 123, "Accounting for Stock-Based Compensation," requires use of option valuation models that were not developed for use in valuing employee stock options. Under APB 25, because the exercise price of the Company's employee stock options equals the market price of underlying stock on the date of grant, no compensation expense is recognized.

Pro forma information regarding net income and earnings per share is required by Statement No. 123, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2001, 2000 and 1999: risk-free interest rate of 4.43%, 6.58% and 5.68%, respectively; dividend yield of -0-% for each of the three years, volatility factor of the expected market price of the Company's common stock of

0.56, 0.49 and 0.42, respectively; and a weighted-average expected life of the option of 5 years for each of the three years. The

weighted average grant date fair value per share of stock options issued in 2001, 2000 and 1999 was $5.70, $3.45 and $11.07, respectively.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options that have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the Company's employee stock options have characteristics significantly different from those of traded options, and because changes in the subjective input assumptions can materially affect the fair value estimate, in management's opinion the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options.

For purposes of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting period. The effect on net income (loss) of the stock compensation amortization for the years presented above is not likely to be representative of the effects on reported net income for future years. The Company's pro forma information follows (in thousands except for earnings per share information):

	2001	2000	1999
	(DOLLARS IN THOUSANDS EXCEPT PER SHARE AMOUNTS)		
Pro forma income (loss):			
Income from continuing operations	$44,433	$ 30,312	$ 35,666
Loss from discontinued operations	(5,466)	(26,285)	(181,696)
Net income (loss)	$38,967	$ 4,027	$(146,030)
Pro forma earnings (loss) per common share:			
Basic earnings (loss):			
From continuing operations	$ 0.96	$ 0.65	$ 0.76
Loss from discontinued operations	(0.12)	(0.56)	(3.92)
Net income (loss)	$ 0.84	$ 0.09	$ (3.16)
Diluted earnings (loss):			
From continuing operations	$ 0.92	$ 0.63	$ 0.74
Loss from discontinued operations	(0.11)	(0.55)	(3.80)
Net income (loss)	$ 0.81	$ 0.08	$ (3.06)

RESTRICTED STOCK GRANTS

In 2001 and 2000, the Company issued an aggregate of 109,250 and 56,459 shares of restricted stock, respectively, to selected officers and key employees with a weighted average price per share on the date of issuance of $6.63 and

$7.58, respectively. Until the lapse of certain restrictions generally extending over a two year period, all of such shares are subject to forfeiture if a grantee ceases to provide material services to the Company as an employee for any reason other than death. Upon death or a Change in Control (as defined) of the Company, the shares of restricted stock are no longer subject to forfeiture.

UICI EXECUTIVE STOCK PURCHASE PROGRAM

To encourage the ownership of UICI Common Stock among directors and key executives, in December 1998 the Company adopted the UICI Executive Stock Purchase Program (the "ESPP"). Pursuant to the ESPP, the directors and selected executives of UICI were offered the opportunity, in the alternative, to either purchase shares of UICI common stock at a purchase price equal to 85% of the then-prevailing market price

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UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

per share (the "Discount Option"), or purchase shares of common stock at 100% of the then fair market value, such purchase to be financed by the executive to the extent of $3.00 per share and by UICI to the extent of the balance (the "Loan Option").

In the case of the Loan Option, UICI agreed to finance the balance of the purchase price by accepting delivery of a full recourse, five-year promissory note bearing interest at the rate of the greater of the then-prevailing Fed funds rate or 5% per annum to be paid quarterly in arrears. In addition to the foregoing, with respect to each of Discount Option and the Loan Option, UICI offered to issue to the executives on a one-for-one basis stock options to purchase UICI common stock exercisable at the then-prevailing market price per share. Options so issued were to be governed by the terms of UICI's Amended and Restated 1987 Stock Option Plan.

A total of 24 current executives and outside directors elected pursuant to the ESPP to purchase an aggregate of 308,422 shares of UICI common stock, of which an aggregate of 9,878 shares were purchased pursuant to the Discount Option at a weighted average purchase price of $22.67 per share and 298,544 shares were purchased pursuant to the Loan Option at a weighted average purchase price of $21.26 per share. As part of the ESPP, the Company issued an aggregate of 308,422 options to purchase UICI common stock at a weighted average exercise price of $21.40 per share. Current executives and directors had indebtedness outstanding owing to the Company under the Loan Option at December 31, 2000 in the aggregate amount of $4.4 million (including $2.8 million payable by Gregory T. Mutz, the Company's President and Chief Executive Officer).

Following the significant decline in the price of UICI common stock following UICI's announcement of losses at its United CreditServ credit card unit in December 1999, the Board of Directors sought means to revise the ESPP in a manner that would better serve its intended objectives. The Board became increasingly concerned that the ESPP had in fact contributed to negative morale among a group of key UICI executives, none of whom had direct involvement with the difficulties at United CreditServ.

Following a recommendation of the Board's Compensation Committee, the Board of Directors of the Company (including all of the outside disinterested members of the Board), at a meeting held on January 2, 2001, approved modifications to the ESPP that were generally designed to restore executives economically to where they would have been if the ESPP were implemented in January 2001 according to its original design and the stock price in January 2001 had been

$9.00 per share. The modifications were designed to assure that the ESPP serves as reasonable incentive on a going-forward basis to those executives who continue to serve the Company and who will, as a result, be relied upon to assure the Company's future success. As originally applied to the Company's outside directors and to executives no longer with the Company, the terms of the ESPP remain unmodified.

In particular, in January 2001 UICI issued an aggregate of 11,054 shares of UICI common stock to the five executives who purchased shares pursuant to the Discount Option. Giving effect to such issuance, the executives have an average cost in shares purchased pursuant to the Discount Option of $9.00 per share. In addition, UICI discharged an aggregate of $997,000 of indebtedness owed by 13 current executives (other than Mr. Mutz) who elected to purchase shares pursuant to the Loan Option, representing 73% of the indebtedness previously owing by such persons. Giving effect to this debt discharge, these individuals will have acquired pursuant to the ESPP an aggregate of 62,934 shares at a cost of $566,000 ($378,000 of indebtedness plus $188,000 of cash invested), or $9.00 per share.

Mr. Mutz initially purchased pursuant to the ESPP a total of 220,000 shares of UICI stock at an aggregate purchase price of $4.4 million, or $19.95 per share, which purchase was initially financed with $660,000 ($3.00 per share) in cash and by indebtedness owing to UICI in the amount of $3.7 million. Mr. Mutz subsequently paid down principal on his loan in the amount of $960,000. Accordingly, through

December 31, 2000, Mr. Mutz had paid a total of $1.6 million in cash and had outstanding against his 220,000 shares a total of $2.8 million in indebtedness.

In January 2001 UICI discharged indebtedness owing by Mr. Mutz in the amount of $1.5 million. Giving effect to such forgiveness, Mr. Mutz currently owes UICI $1.3 million, or $6.00 per share initially purchased. In addition, UICI issued to Mr. Mutz 107,104 shares of UICI common stock. Giving effect to the debt forgiveness and the issuance of the shares, Mr. Mutz pursuant to the ESPP holds an aggregate of 327,104 shares of UICI common stock at a cost to Mr. Mutz of $2.9 million ($1.3 million of indebtedness plus $1.6 million of cash invested), or $9.00 per share.

UICI cancelled the 290,404 options that were issued to executives pursuant to the ESPP at a weighted average option price of $21.17 per share. In addition, the maturity of the promissory notes delivered in connection with the Loan Option was extended to January 1, 2007. All other terms and conditions of the original notes remain in effect.

Upon the issuance of the UICI shares and the discharge of indebtedness in January 2001, executives/directors recognized immediate income for federal tax purposes and UICI became entitled to an immediate deduction and tax benefit in a corresponding amount. In order to afford participants a means to pay their tax, UICI transferred to participants the benefit of UICI's tax savings by paying a cash tax "gross-up" payment to affected participants in the aggregate amount of $1.7 million.

Reflecting the modifications to the ESPP made in January 2001, current executives and directors had indebtedness outstanding owing to the Company at December 31, 2001 in the aggregate amount of $1.9 million (including $1.3 million payable by Gregory T. Mutz, the Company's President and Chief Executive

Officer).

In connection with the January 2001 modifications to the ESPP, for financial reporting purposes UICI recorded in the quarter ended December 31, 2000 compensation expense in the amount of $4.8 million pre-tax, or $4.1 million net of tax. The 118,158 shares of UICI common stock issued to participants were issued from treasury shares.

OTHER COMPENSATION PLANS

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

In January 2000, the Company established a plan, pursuant to which 25% of the cash equivalent value of 100,000 shares of UICI common stock will be distributed to eligible employees in each of January 2001, 2002, 2003 and 2004. At December 31, 2001, the Company's liability for this compensation was $731,000.

NOTE P -- INVESTMENT ANNUITY SEGREGATED ACCOUNTS

The Company had deferred investment annuity policies which have segregated account assets and liabilities amounting to $234.5 million and $244.0 million at December 31, 2001 and 2000, respectively, which are funded by specific assets held in segregated custodian accounts for the purposes of providing policy benefits and paying applicable premiums, taxes and other charges as due. Because investment decisions with respect to these segregated accounts are made by the policyholders, these assets and liabilities are not presented in these financial statements. The assets are held in individual custodian accounts, from which the Company has received hold harmless agreements and indemnification.

NOTE Q -- SEGMENT INFORMATION

The Company's operating segments include the following: (i) Insurance Segment, which includes the businesses of the Self Employed Agency Division, the Student Insurance Division, the Life Insurance Division (formerly the Company's OKC Division), the Senior Market Division and the National Motor Club Division (until sold on July 27, 2000); (ii) Financial Services Segment, which includes the businesses of Academic Management Services Corp., the Company's investment in Healthaxis, Inc., the business of the Company's Third Party Administration ("TPA") unit, and (iii) Other Key Factors.

Other Key Factors include investment income not allocated to the other segments, interest expense on corporate debt, general expenses relating to corporate operations, the AMLI operations, variable stock compensation, goodwill amortization, and realized gains or losses on sale of investments. 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, and fees and other income. Operations that do not constitute reportable operating segments have been combined with Other Key Factors. 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 that are generally at cost. Financial information by operating segment for revenues, income from continuing operations before federal income taxes and assets is summarized as follows:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Revenues			
Insurance:			
Self Employed Agency	$ 700,407	$ 566,385	$566,847
Student Insurance	126,139	111,476	107,975
Life Insurance Division	94,898	92,425	94,135
Senior Market	5	--	--
National Motor Club	--	21,697	27,806
	921,449	791,983	796,763
Financial Services:			
Academic Management Services	133,657	154,250	104,592
Third Party Administration	24,250	18,548	46,184
Gain on HealthAxis.com shares	--	26,300	--
	157,907	199,098	150,776
Other Key Factors	29,895	33,035	37,914
Intersegment Eliminations	(2,668)	(4,461)	(31,274)
Total revenues	$1,106,583	$1,019,655	$954,179

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Income (loss) from continuing operations before federal income taxes			
Insurance:			
Self Employed Agency	$ 74,849	$ 70,905	$ 50,415
Student Insurance	4,022	(1,877)	49
Life Insurance Division	7,363	13,132	17,405

Senior Market	(2,112)	--	--
National Motor Club	--	2,471	3,200
	84,122	84,631	71,069
Financial Services:			
Academic Management Services	5,413	(24,640)	(19,938)
Third Party Administration	(2,099)	(1,668)	2,322
Gain on sale of HealthAxis.com shares	--	26,300	--
Equity in Healthaxis, Inc. operating loss	(10,597)	(15,623)	--
	(7,283)	(15,631)	(17,616)
Other Key Factors			
Investment income on equity, realized gains and losses, general corporate expenses and other including interest on non-student loan indebtedness)	2,940	9,631	7,623
Variable stock compensation	(7,293)	(5,300)	--
Goodwill amortization	(6,263)	(6,193)	(6,279)
	(10,616)	(1,862)	1,344
Total income from continuing operations before federal income taxes	$ 66,223	$ 67,138	$ 54,797

	DECEMBER 31,	
	2001	2000
	(IN THOUSANDS)	
Assets		
Insurance:		
Self Employed Agency	$ 613,884	$ 465,112
Student Insurance	100,978	81,663
Life Insurance Division	771,143	690,424
Senior Market	--	--
	1,486,005	1,237,199

DECEMBER 31,	
2001	2000
(IN THOUSANDS)	

Financial Services:		
Academic Management Services	1,557,434	1,479,217
Third Party Administration	4,652	6,392
Investment in Healthaxis, Inc.	8,278	18,442
	1,570,364	1,504,051
Other Key Factors:		
General corporate and other	143,505	87,865
Goodwill	86,010	160,733
	229,515	248,598
Total assets from continuing operations	$3,285,884	$2,989,848

NOTE R -- EARNINGS PER SHARE

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

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS EXCEPT PER SHARE AMOUNTS)		
Income (loss) available to common shareholders:			
Income from continuing operations available to common shareholders	$48,358	$ 32,018	$ 35,814
Loss from discontinued operations	(5,466)	(26,285)	(181,696)
Net income (loss)	$42,892	$ 5,733	$(145,882)
Weighted average shares outstanding (thousands) -- basic earnings (loss) per share	46,628	46,573	46,326
Effect of dilutive securities:			
Employee stock options and other shares (see Note N)	1,289	1,193	1,504
Weighted average shares outstanding -- dilutive earnings (loss) per share	47,917	47,766	47,830
Basic earnings (loss) per share			
Income from continuing operations	$ 1.04	$ 0.68	$ 0.77
Loss from discontinued operations	(0.12)	(0.56)	(3.92)
Net income (loss)	$ 0.92	$ 0.12	$ (3.15)
Diluted earnings (loss) per share Income from continuing operations	$ 1.01	$ 0.67	$ 0.75
Loss from discontinued operations	(0.11)	(0.55)	(3.80)
Net income (loss)	$ 0.90	$ 0.12	$ (3.05)

UICI AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS -- (CONTINUED)

NOTE S -- SUPPLEMENTAL FINANCIAL STATEMENT DATA

Set forth below is certain supplemental information concerning underwriting, policy acquisition costs and insurance expenses for the years ended December 31, 2001, 2000 and 1999:

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(IN THOUSANDS)		
Amortization of deferred policy acquisition costs	$ 37,395	$ 22,325	$ 31,706
Commissions	74,844	64,284	58,199
Administrative expenses	159,413	135,768	119,363
Premium taxes	22,151	16,987	15,794
	$293,803	$239,364	$225,062

NOTE T -- SUBSEQUENT EVENTS

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA unit. In the three months ended December 31, 2001, the Company recognized an impairment charge of $2.3 million to its long-lived assets, 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). The Company recognized no gain or loss on the sale of UICI Administrators, Inc. in 2002.

On January 17, 2002 the Company completed the purchase of a 50% interest in SeniorsFirst, a Dallas-based career agency specializing in the sale of long term care and Medicare supplement insurance products. The Company acquired SeniorsFirst for a cash purchase price of $8.1 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. (the "STAR Companies"), 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 program will be issued by The MEGA Life and Health Insurance Company, a wholly-owned subsidiary of UICI. UICI acquired the STAR Companies for an initial cash purchase price of $25.0 million, plus additional contingent consideration based on the future performance of the STAR Companies over the period ending May 31, 2003. The contingent consideration will be in an amount not to exceed $15.0 million and will be payable by delivery of UICI's 6.0% convertible subordinated notes due March 1, 2012.

SCHEDULE II

CONDENSED FINANCIAL INFORMATION OF REGISTRANT
UICI (PARENT COMPANY)

BALANCE SHEETS

	DECEMBER 31,	
	2001	2000
	(DOLLARS IN THOUSANDS)	
ASSETS		
Investments:		
Investments in and advances to subsidiaries*	$524,065	$474,368
Investment in Healthaxis, Inc.	--	10,112
Total Investments	524,065	484,480
Cash and cash equivalents	57,277	17,009
Refundable income taxes	6,663	17,704
Deferred income tax	2,705	20,333
Other	4,970	3,126
	$595,680	$542,652
LIABILITIES		
Accrued expenses and other liabilities	$ 5,883	$ 21,119
Short-term debt	5,951	5,951
Long-term debt	13,401	19,352
Payable to Related Party-short term	--	18,954
Net liabilities of discontinued operations	35,873	30,171
	61,108	95,547
STOCKHOLDERS' EQUITY		
Common stock	494	483
Additional paid-in capital	201,328	183,162
Accumulated other comprehensive income (loss)	30,294	(10,068)
Retained earnings	317,169	274,277
Treasury stock	(14,713)	(749)
	534,572	447,105
	$595,680	$542,652

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* Eliminated in consolidation.

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of UICI and Subsidiaries.

CONDENSED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
Income:			
Dividends from subsidiaries*	$ 56,858	$ 37,982	$ 49,066
Interest income (includes amounts received from related parties of $-0-, $875 and $-0-, in 2001, 2000 and 1999, respectively)	1,001	3,893	3,174
Interest and other income from subsidiaries*	1,156	1,499	6,515
Gain (loss) on sale of investments	57	779	(403)
Gain on sale of HealthAxis.com shares	--	26,300	--
Fees and other income (includes amounts received from related parties of $-0-, $-0- and $33, in 2001, 2000 and 1999, respectively)	77	354	1,423
	59,149	70,807	59,775
Expenses:			
General and administrative expenses (includes amounts paid to related parties of $1,694, $348 and $317, in 2001, 2000 and 1999, respectively)	13,803	15,430	21,658
Loss on unconsolidated subsidiary	10,597	15,624	--
Interest expense (includes amounts paid to related parties of $98, $4,559 and $-0-, in 2001, 2000 and 1999, respectively)	2,474	5,902	7,067
	26,874	36,956	28,725
Income before equity in undistributed earnings of subsidiaries and federal income taxes (benefit)	32,275	33,851	31,050
Equity in undistributed earnings of continuing operations	3,820	(2,579)	(1,609)
Income before federal income taxes (benefit)	36,095	31,272	29,441
Federal income tax benefit	(12,263)	(746)	(6,373)
Income from continuing operations	48,358	32,018	35,814
Loss from discontinued operations	(5,466)	(26,285)	(181,696)
Net income (loss)	$ 42,892	$ 5,733	$(145,882)

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* Eliminated in consolidation.

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of UICI and Subsidiaries.

CONDENSED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
OPERATING ACTIVITIES			
Net Income (loss)	$ 42,892	$ 5,733	$(145,882)
Adjustments to reconcile net income to cash (used in) provided by operating activities:			
Equity in undistributed loss of subsidiaries of discontinued operations	5,466	26,285	181,696
Equity in undistributed earnings of continuing operations	389	8,445	5,523
(Gains) losses on sale of investments	(57)	(27,079)	403
Decrease (increase) in other receivables	2,257	635	(2,649)
Increase (decrease) in accrued expenses and other liabilities	(15,356)	5,956	16,625
Deferred income taxes (benefit)	(3,979)	33,728	(3,901)
Increase in federal income taxes payable	11,041	18,205	139
Operating loss of Healthaxis, Inc.	10,597	15,623	--
Other items, net	(1,242)	3,759	8,847
Cash provided by continuing operations	52,008	91,290	60,801
Amounts (contributed to) received from discontinued operations	12,965	(176,393)	(8,115)
Net cash Provided by (Used in) Operating Activities	64,973	(85,103)	52,686
INVESTING ACTIVITIES			
Purchase of subsidiaries	--	(4,481)	--
Sale of subsidiaries and assets	--	45,939	--
Purchase of minority interest	(8)	--	(878)
(Increase) decrease of investments in and advances to subsidiaries	(771)	39,973	(91,037)
Sale of two million shares of HealthAxis.com		30,000	--
Net decrease (increase) in other investments	(433)	3,001	9,217
Decrease (increase) in agents' receivables	--	11,145	(676)
Net cash Provided by (Used in) Investing Activities	(1,212)	125,577	(83,374)
FINANCING ACTIVITIES			
Proceeds of notes payable	--	10,000	115,000
Repayment of notes payable	(5,951)	(104,451)	(43,950)
Proceeds of payable to related party	--	146,000	--
Repayment of payable to related party	(18,954)	(127,046)	--
Proceeds from capital contribution	--	8,556	10,129
Sale (purchase) of treasury stock	(13,963)	3,979	(4,729)
Other changes in equity	15,375	17	(7,760)
Net cash Provided by (Used in) Financing Activities	(23,493)	(62,945)	68,690
Increase (decrease) in Cash	40,268	(22,471)	38,002
Cash and cash equivalents at Beginning of Period	17,009	39,480	1,478

Cash and cash equivalents at End of Period........	$ 57,277	$ 17,009	$ 39,480
	========	=========	=========

The condensed financial statements should be read in conjunction with the consolidated financial statements and notes thereto of UICI and Subsidiaries.

SCHEDULE III

UICI
AND SUBSIDIARIES

SUPPLEMENTARY INSURANCE INFORMATION

COL. A	COL. B	COL. C	COL. D	CO
	DEFERRED POLICY ACQUISITION COSTS	FUTURE POLICY BENEFITS LOSSES, CLAIMS, AND LOSS EXPENSES	UNEARNED PREMIUMS	POLIC FU
		(IN THOUSANDS)		
December 31, 2001:				
Self Employed Agency.......................	$30,358	$391,453	$48,330	$10
Student Insurance..........................	3,880	34,623	32,883	
Life Insurance Division....................	39,690	351,232	14,186	8
Senior Market..............................	--	--	--	
Total..............................	$73,928	$777,308	$95,399	$18
December 31, 2000:				
Self Employed Agency.......................	$20,628	$271,439	$35,538	$ 7
Student Insurance..........................	2,924	25,206	31,779	
Life Insurance Division....................	44,573	413,346	27,204	9
National Motor Club........................	--	1,587	606	
Total..............................	$68,125	$711,578	$95,127	$17
December 31, 1999:				
Self Employed Agency.......................	$17,313	$256,434	$33,762	$ 8
Student Insurance..........................	2,862	24,543	27,954	
Life Insurance Division....................	48,550	443,575	30,278	11
National Motor Club........................	--	1,658	4,104	
Total..............................	$68,725	$726,210	$96,098	$19

SCHEDULE III

UICI
AND SUBSIDIARIES

SUPPLEMENTARY INSURANCE INFORMATION

	COL. F	COL. G	COL. H	COL. I	COL. J	C
	PREMIUM REVENUE	INVESTMENT INCOME*	BENEFITS, CLAIMS LOSSES, AND SETTLEMENT EXPENSES	AMORTIZATION OF DEFERRED POLICY ACQUISITION COSTS	OTHER OPERATING EXPENSES**	PR WR
			(IN THOUSANDS)			
2001:						
Self Employed Agency.....	$649,996	$22,359	$387,801	$21,850	$187,855	
Student Insurance........	121,513	3,315	91,292	3,824	25,690	
Life Insurance Division..............	60,537	32,176	51,876	11,721	21,753	
Senior Market............	--	--	--	--	2,112	
	$832,046	$57,850	$530,969	$37,395	$237,410	$8
2000:						
Self Employed Agency.....	$521,077	$20,899	$314,963	$ 8,573	$147,535	
Student Insurance........	107,367	2,870	83,272	25	28,817	
Life Insurance Division..............	57,731	27,889	39,576	13,727	19,185	
National Motor Club......	2,050	115	1,893	--	47	
	$688,225	$51,773	$439,704	$22,325	$195,584	$6
1999:						
Self Employed Agency.....	$526,225	$19,251	$349,472	$14,327	$131,262	
Student Insurance........	103,633	2,768	78,807	349	27,196	
Life Insurance Division..............	57,283	29,579	39,623	13,496	16,338	
National Motor Club......	2,691	153	2,371	3,534	71	
	$689,832	$51,751	$470,273	$31,706	$174,867	$6

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* Allocations of Net Investment Income and Other Operating Expenses are based on a number of assumptions and estimates, and the results would change if different methods were applied.

** Other operating expenses includes other income for the respective segment.

SCHEDULE IV

UICI
AND SUBSIDIARIES

REINSURANCE

	GROSS AMOUNT	CEDED	ASSUMED	NET AMOUNT	PERCENTAG OF AMOUNT ASSUMED TO NET
	(DOLLARS IN THOUSANDS)				
Year Ended December 31, 2001					
Life insurance in force...........	$4,093,064	$ 634,591	$486,978	$3,945,451	12.3%
Premiums:					
Life insurance....................	$ 33,887	$ 4,132	$ 4,924	$ 34,679	14.2%
Health insurance..................	768,387	26,250	55,230	797,367	6.9%
	$ 802,274	$ 30,382	$ 60,154	$ 832,046	
Year Ended December 31, 2000					
Life insurance in force...........	$4,435,571	$ 863,540	$474,935	$4,046,966	11.7%
Premiums:					
Life insurance....................	$ 38,476	$ 6,286	$ 4,624	$ 36,814	12.6%
Health insurance..................	571,980	12,293	91,724	651,411	14.1%
	$ 610,456	$ 18,579	$ 96,348	$ 688,225	
Year Ended December 31, 1999					
Life insurance in force...........	$5,297,143	$1,077,048	$501,703	$4,721,798	10.6%
Premiums:					
Life insurance....................	$ 44,053	$ 9,278	$ 5,516	$ 40,291	13.7%
Health insurance..................	539,985	17,286	126,842	649,541	19.5%
	$ 584,038	$ 26,564	$132,358	$ 689,832	

SCHEDULE V

UICI
AND SUBSIDIARIES

VALUATION AND QUALIFYING ACCOUNTS

	BALANCE AT BEGINNING OF PERIOD	ADDITIONS COST AND EXPENSES	INCREASE IN CARRYING VALUE	RECOVERIES/ AMOUNTS CHARGED OFF	DEDU BA AT PE
	(DOLLARS IN THOUSANDS)				
Allowance for losses:					
Year ended December 31, 2001:					
Agents' receivables....................	$1,383	$1,555	$ --	$ (984)	$1
Mortgage and collateral loans..........	1,701	--	(500)	--	1
Student loans..........................	7,473	2,263	(5,235)	(916)	3

Real estate...........................	1,083	--	--	--	1
Year ended December 31, 2000:					
Agents' receivables...................	$1,982	$1,264	$ --	$(1,863)	$1
Mortgage and collateral loans..........	1,701	--	--	--	1
Student loans..........................	2,252	5,388	--	(167)	7
Real estate...........................	1,083	--	--	--	1
Year Ended December 31, 1999:					
Agents' receivables...................	$ 483	$1,851	$ --	$ (352)	$1
Mortgage and collateral loans..........	1,701	--	--	--	1
Student loans..........................	935	1,317	--	--	2
Real estate...........................	1,083	--	--	--	1

EXHIBIT INDEX

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
2	--	Plan of Reorganization of United Group Insurance Company, as subsidiary of United Group Companies, Inc. and Plan and Agreement of Merger of United Group Companies, Inc. into United Insurance Companies, Inc., filed as Exhibit 2-1 to the Registration Statement on Form S-1, File No. 33-2998, filed with the Securities and Exchange Commission on January 30, 1986 and incorporated by reference herein.
3.1(A)	--	Certificate of Incorporation of UICI, as amended, filed as Exhibit 4.1 (a) to Registration Statement on Form S-8, File No. 333-85113, filed with the Securities and Exchange Commission on August 13, 1999 and incorporated by reference herein.
3.2(A)	--	Restated By-Laws, as amended, of the Company, filed as Exhibit 4.1(b) to Registration Statement on Form S-8 File No. 333-85113, filed with the Securities and Exchange Commission on August 13, 1999 and incorporated by reference herein.
10.1(B)	--	Reinsurance Agreement between AEGON USA Companies and UICI Companies Effective January 1, 1995, as amended through November 21, 1995 and incorporated by reference herein.
10.1(C)	--	Amendment No. 3 to Reinsurance Agreement between AEGON USA Companies and UICI Companies effective April 1, 1996, and filed as Exhibit 10.1 to the Company's Current Report on Form 8-K dated April 1, 1996 (File No. 0-14320), and incorporated by reference herein. The Amendment No. 3 amends the Reinsurance Agreement between AEGON USA Companies and UICI Companies effective January 1, 1995, as amended through November 21, 1995, filed as Exhibit 10.1(B) on Annual Report on Form 10-K for year ended December 31, 1995, (File No. 0-14320), filed on March 29, 1996, and incorporated by reference herein.
10.2	--	Agreements Relating to United Group Association Inc., filed as Exhibit 10-2 to the Registration Statement on Form S-18, File No. 2-99229, filed with the Securities and Exchange Commission on July 26, 1985 and incorporated by reference herein.
10.3	--	Agreement for acquisition of capital stock of Mark Twain Life Insurance Corporation by Mr. Ronald L. Jensen, filed as

		Exhibit 10-4 to the Registration Statement on Form S-1, File No. 33-2998, filed with the Securities and Exchange Commission on January 30, 1986 and incorporated by reference herein.
10.3(A)	--	Assignment Agreement among Mr. Ronald L. Jensen, the Company and Onward and Upward, Inc. dated February 12, 1986 filed as Exhibit 10-4(A) to Amendment No. 1 to Registration Statement on Form S-1, File No. 33-2998, filed with the Securities and Exchange Commission on February 13, 1986 and incorporated by reference herein.
10.4	--	Agreement for acquisition of capital stock of Mid-West National Life Insurance Company of Tennessee by the Company filed as Exhibit 2 to the Report on Form 8-K of the Company, File No. 0-14320, dated August 15, 1986 and incorporated by reference herein.
10.5(A)	--	Stock Purchase Agreement, dated July 1, 1986, among the Company, Charles E. Stuart and Stuart Holding Company, as amended July 7, 1986, filed as Exhibit 11(c)(1) to Statement on Schedule 14D-1 and Amendment No. 1 to Schedule 13D, filed with the Securities and Exchange Commission on July 14, 1986 and incorporated by reference herein.
10.5(B)	--	Acquisition Agreement, dated July 7, 1986 between Associated Companies, Inc. and the Company, together with exhibits thereto, filed as Exhibit (c)(2) to Statement on Schedule 14D-1 and Amendment No. 1 to Schedule 13D, filed with the Securities and Exchange Commission on July 14, 1986 and incorporated by reference herein.
10.5(C)	--	Offer to Purchase, filed as Exhibit (a)(1) to Statement on Schedule 14D-1 and Amendment No. 1 to Schedule 13D, filed with the Securities and Exchange Commission on July 14, 1986 and incorporated by reference herein.

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
10.6	--	Agreement for acquisition of capital stock of Life Insurance Company of Kansas, filed as Exhibit 10.6 to the 1986 Annual Report on Form 10-K, File No. 0-14320, filed with the Securities and Exchange Commission on March 27, 1987 and incorporated by reference herein.
10.7	--	Agreement Among Certain Stockholders of the Company, filed as Exhibit 10-6 to the Registration Statement on Form S-18, File No. 2-99229, filed with the Securities and Exchange Commission on July 26, 1985 and incorporated by reference herein.
10.8	--	Form of Subscription Agreement for 1985 Offering, filed as Exhibit 10-7 to the Registration Statement on Form S-1, File No. 33-2998, filed with the Securities and Exchange Commission on January 30, 1986 and incorporated by reference herein.
10.9	--	Repurchase Agreement between Life Investors Inc., UGIC, Ronald Jensen and Keith Wood dated January 6, 1984, filed as Exhibit 10-8 to Registration Statement on Form S-1, File No. 33-2998, filed with the Securities and Exchange Commission on January 30, 1986 and incorporated by reference herein.

10.10	--	Treaty of Assumption and Bulk Reinsurance Agreement for acquisition of certain assets and liabilities of Keystone Life Insurance Company, filed as Exhibit 10.10 to the 1987 Annual Report on Form 10-K, File No. 0-14320, filed with the Securities and Exchange Commission on March 28, 1988 and incorporated by reference herein.
10.11	--	Acquisition and Sale-Purchase Agreements for the acquisition of Orange State Life and Health Insurance Company and certain other assets, filed as Exhibit 10.11 to the 1987 Annual Report on Form 10-K, File No. 0-14320, filed with the Securities and Exchange Commission on March 28, 1988 and incorporated by reference herein.
10.12	--	United Insurance Companies, Inc. 1987 Stock Option Plan, included with the 1988 Proxy Statement filed with the Securities and Exchange Commission on April 25, 1988 and incorporated by reference herein, filed as Exhibit 10.12 to the 1988 Annual Report on Form 10-K, File No. 0-14320, filed with the Securities and Exchange Commission on March 30, 1989 and incorporated by reference herein.
10.13	--	Amendment to the United Insurance Companies, Inc. 1987 Stock Option Plan, filed as Exhibit 10.13 to the 1988 Annual Report on Form 10-K, File No. 0-14320, filed with the Securities and Exchange Commission on March 30, 1989 and incorporated by reference herein.
10.14	--	UICI Restated and Amended 1987 Stock Option Plan as amended and restated March 16, 1999 filed as exhibit 10.1 to Form 10-Q dated March 31, 1999, (File No. 0-14320), and incorporated by reference herein.
10.15	--	Amendment to Stock Purchase Agreement between American Capital Insurance Company and United Insurance Companies, Inc., filed as Exhibit 10.15 to the 1988 Annual Report on Form 10-K, File No. 0-14320, filed with the Securities and Exchange Commission on March 30, 1989 and incorporated by reference herein.
10.16	--	Agreement of Substitution and Assumption Reinsurance dated as of January 1, 1991 by and among Farm and Home Life Insurance Company, the Arizona Life and Disability Insurance Guaranty Fund and United Group Insurance Company, as modified by a Modification Agreement dated August 26, 1991, together with schedules and exhibits thereto, filed as Exhibit 2 to Schedule 13D, filed with the Securities and Exchange Commission on September 3, 1991 and incorporated by reference herein.
10.17	--	Stock Purchase Agreement dated as of August 26, 1991 by and among Farm and Home Life Insurance Company, First United, Inc. and The MEGA Life and Health Insurance Company, filed as Exhibit 3 to Schedule 13D, filed with the Securities and Exchange Commission on September 3, 1991 and incorporated by reference herein.

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
10.18	--	Stock Purchase Agreement dated as of August 26, 1991 by and among Farm and Home Life Insurance Company, The Chesapeake

Life Insurance Company and Mid-West National Life Insurance Company of Tennessee, filed as Exhibit 4 to Schedule 13D, File No. 0-14320 filed with the Securities and Exchange Commission on September 3, 1991 and incorporated by reference herein.

10.19 -- Second Agreement of Modification to Agreement of Substitution and Assumption Reinsurance dated as of November 15, 1991 among Farm and Home Life Insurance Company, United Group Insurance Company, and the Arizona Life and Disability Insurance Guaranty Fund, filed as Exhibit 1 to Amendment No. 1 to Schedule 13D, File No. 0-14320 filed with the Securities and Exchange Commission on February 5, 1992 and incorporated by reference herein. This agreement refers to a Modification Agreement dated September 12, 1991. The preliminary agreement included in the initial statement was originally dated August 26, 1991.

10.20 -- Addendum to Agreement of Substitution and Assumption Reinsurance dated as of November 22, 1991 among United Group Insurance Company, Farm and Home Life Insurance Company, and the Arizona Life and Disability Insurance Guaranty Fund, filed as Exhibit 2 to Amendment No. 1 to Schedule 13D, File No. 0-14320 filed with the Securities and Exchange Commission on February 5, 1992 and incorporated by reference herein.

10.21 -- Modification Agreement dated November 15, 1991 between First United, Inc., Underwriters National Assurance Company, and Farm and Home Life Insurance Company, The MEGA Life and Health Insurance Company, and the Insurance Commissioner of the State of Indiana, and filed as Exhibit 3 to Amendment No. 1 to Schedule 13D, File No. 0-14320 filed with the Securities and Exchange Commission on February 5, 1992 and incorporated by reference herein.

10.22 -- Agreement of Reinsurance and Assumption dated December 14, 1992 by and among Mutual Security Life Insurance Company, in Liquidation, National Organization of Life and Health Insurance Guaranty Associations, and The MEGA Life and Health Insurance Company, and filed as Exhibit 2 to the Company's Report on Form 8-K dated March 29, 1993, (File No. 0-14320), and incorporated by reference herein.

10.23 -- Acquisition Agreement dated January 15, 1993 by and between United Insurance Companies, Inc. and Southern Educators Life Insurance Company, and filed as Exhibit 2 to the Company's Report on Form 8-K dated March 29, 1993, (File No. 0-14320), and incorporated by reference herein.

10.24 -- Stock Exchange Agreement effective January 1, 1993 by and between Onward and Upward, Inc. and United Insurance Companies, Inc. and filed as Exhibit 2 to the Company's Report on Form 8-K dated March 29, 1993, (File No. 0-14320), and incorporated by reference herein.

10.25 -- Stock Purchase Agreement by and among United Insurance Companies, Inc. and United Group Insurance Company and Landmark Land Company of Oklahoma, Inc. dated January 6, 1994, and filed as Exhibit 10.27 to Form 10-Q dated March 31, 1994, (File No. 0-14320), and incorporated by reference herein.

10.26 -- Private Placement Agreement dated June 1, 1994 of 8.75% Senior Notes Payable due June 2004 in the aggregate amount of $27,655,000, and filed as Exhibit 28.1 to the Company's Report on Form 8-K dated June 22, 1994, (File No. 0-14320), and incorporated by reference herein.

10.27 -- Asset Purchase Agreement between UICI Companies and PFL Life Insurance Company, Bankers United Life Assurance Company,

Life Investors Insurance Company of America and Monumental Life Insurance Company and Money Services, Inc. effective April 1, 1996, as filed as Exhibit 10.2 to the Company's Report on Form 8-K dated April 1, 1996 (File No. 0-14320) and incorporated by reference herein.

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
10.28	--	General Agent's Agreement between Mid-West National Life Insurance Company of Tennessee and United Group Association, Inc. effective April 1, 1996, and filed as Exhibit 10.3 to the Company's Report on Form 8-K dated April 1, 1996 (File No. 0-14320), and incorporated by reference herein.
10.29	--	General Agent's Agreement between The MEGA Life and Health Insurance Company and United Group Association, Inc. Effective April 1, 1996, and filed as Exhibit 10.4 to the Company's Report on Form 8-K dated April 1, 1996 (File No. 0-14320) and incorporated by reference herein.
10.30	--	Agreement between United Group Association, Inc. and Cornerstone Marketing of America effective April 1, 1996, and filed as Exhibit 10.5 to the Company's Current Report on Form 8-K dated April 1, 1996 (File No. 0-14320) and incorporated by reference herein.
10.31	--	Stock exchange agreement dated October 1996 by and between Amli Realty Co. and UICI, as amended by that first amendment stock exchange agreement dated November 4, 1996 filed as Exhibit 10.31 to the Registration Statement on Form S-3 File No. 333-23899 filed with the Securities and Exchange Commission on April 25, 1997 and incorporated by reference herein.
10.32	--	Agreement dated December 6, 1997 by and between UICI, UICI Acquisition Corp., ELA Corp., and Marcus A. Katz, Cary S. Katz, Ryan D. Katz and RK Trust #2 filed as Exhibit 10.32 to the Registration Statement on Form S-3 File No. 333-42937 filed with the Securities and Exchange Commission on December 22, 1997 and incorporated by reference herein.
10.33	--	Repurchase Agreement dated as of March 27, 1998 as amended between Lehman Commercial Paper, Inc. and Educational Finance Group, Inc. filed as exhibit 10.1 to Form 10-Q dated September 30, 1999, (File No. 0-14320), and incorporated by reference herein.
10.34	--	Loan Agreement among UICI, Bank of America, as administrative agent, The First National Bank of Chicago as documentation agent, and Fleet National Bank as co-agent dated May 17, 1999 filed as exhibit 10.2 to Form 10-Q dated September 30, 1999, (File No. 0-14320), and incorporated by reference herein.
10.35	--	Indenture Agreement dated as of August 5, 1999 between EFG-III, LP, as Issuer and The First National Bank of Chicago, as Indenture Trustee and Eligible Lender Trustee filed as exhibit 10.3 to Form 10-Q dated September 30, 1999, (File No. 0-14320), and incorporated by reference herein.
10.36	--	Indenture Agreement dated as of June 14, 1999 between EFG-II, LP, as Issuer and The First National Bank of

		Chicago, as Indenture Trustee and Eligible Lender Trustee filed as exhibit 10.4 to Form 10-Q dated September 30, 1999, (File No. 0-14320), and incorporated by reference herein.
10.37	--	Agreement and Plan of Merger by and among UICI, UICI Acquisition Co., and HealthPlan Services Corporation dated as of October 5, 1999 filed as exhibit 2 to Form 8K dated October 5, 1999 and incorporated by reference herein.
10.38	--	Voting Agreements dated October 5, 1999 between UICI and Automatic Data Processing, Inc., James K. Murray, Jr., Shinnston Enterprises, Ltd., Elm Grove Associates, William Bennett, and Robert Parker filed as exhibits 99.1, 99.2, 99.3, 99.4, 99.5, 99.6 and 99.7, respectively to Form 8K dated October 5, 1999 and incorporated herein
10.39	--	Amended and Restated Agreement and Plan of Merger, dated as of February 18, 2000, by and among UICI, UICI Acquisition Co., UICI Capital Trust I and HealthPlan Services Corporation filed as exhibit 99.2 to Form 8K dated February 18, 2000 and incorporated by reference herein.
10.40	--	Amended and Restated Loan Agreement, dated as of March 10, 2000, between UICI, the Banks named therein and Bank of America, NA, for itself and as agent, filed as exhibit 99.2 to Form 8K dated March 22, 2000 and incorporated by reference herein.

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
10.41	--	Promissory Note, dated March 14, 2000, payable by UICI SUB I, Inc. to LM Finance, LLC, filed as exhibit 99.3 to Form 8K dated March 22, 2000 and incorporated by reference herein.
10.42	--	Guaranty, dated March 14, 2000, from UICI to LM Finance, LLC, filed as exhibit 99.4 to Form 8K dated March 22, 2000 and incorporated by reference herein.
10.43	--	Second Amendment and Restated Loan Agreement, dated as of July 27, 2000, between UICI and LM Finance LLC, filed as exhibit 10.43 to Form 10-Q dated June 30, 2000, (File No. 0-14320), and incorporated by reference herein.
10.44	--	Stock Purchase Agreement dated, July 27,2000, between UICI and C&J Investments, LLC filed as exhibit 10.44 to Form 10-Q dated June 30, 2000, (File No. 0-14320), and incorporated by reference herein.
10.45	--	Management Agreement, dated December 31, 2000 between UICI, The Mega Life and Health Insurance Company and William J. Gedwed, filed as Exhibit 10.45 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.46	--	UICI 2000 Restricted Stock Plan effective January 1, 2000, filed as Exhibit 10.46 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.47	--	UICI 2001 Restricted Stock Plan effective January 1, 2001, filed as Exhibit 10.47 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities

		and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.48	--	Termination Agreement, dated April 13, 2000 between UICI, UICI Acquisition Co., UICI Capital Trust I, and HealthPlan Services Corporation, filed as Exhibit 10.48 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.49	--	Management Agreement dated October 13, 2000 between UICI and William P. Benac, filed as Exhibit 10.49 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.50	--	Information Technology Services Agreement by and between UICI and Insurdata Incorporated (now HealthAxis.Inc.), dated January 3, 2000, filed as Exhibit 10.50 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.51	--	Management Agreement between NMC Holdings, Inc. and UICI dated July 27, 2000, filed as Exhibit 10.51 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.52	--	Administrative Service Agreement dated July 27,2000 between The MEGA Life and Health Insurance Company and National Motor Club of America, Inc, filed as Exhibit 10.52 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.53	--	Stock Purchase Agreement dated May 12, 2000 between UICI and The Mega Life and Health Insurance Company with respect to all of the outstanding capital stock of The Chesapeake Life Insurance Company, filed as Exhibit 10.53 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.

EXHIBIT NUMBER		DESCRIPTION OF EXHIBIT
10.54	--	Promissory Note dated June 29, 2000 between UICI and Columbus Bank and Trust maturing June 30, 2005, filed as Exhibit 10.54 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.55	--	Stock Purchase Agreement dated June 20, 2000 between UICI and The MEGA Life and Health Insurance Company with respect to all of the Outstanding capital stock of Amli Realty Co., filed as Exhibit 10.55 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.56	--	Agreement dated September 15, 1999 between UICI and Onward

		and Upward, Inc. ("Put/Call Agreement) with respect to the TOP Plan Funding Obligation, together with extension agreements dated August 15, 2000, October 16, 2000, and February 7, 2001, filed as Exhibit 10.56 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.57	--	Promissory Note and Loan Agreement dated July 19, 2000 between United Group Reinsurance, Inc. and Money Services, Inc., maturing August 1, 2001, filed as Exhibit 10.57 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.58	--	Promissory Note and Loan Agreement dated July 19, 2000 between Financial Services Reinsurance Ltd. and Money Services, Inc., maturing August 1, 2001, filed as Exhibit 10.58 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.59	--	Promissory Note and Loan Agreement dated July 19, 2000 between U.S. Managers Life Insurance Company Ltd. and Money Services, Inc., maturing August 1, 2001, filed as Exhibit 10.59 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.60	--	Asset Purchase and Transfer Agreement dated August 4, 2000 between Specialized Card Services, Inc., United Credit National Bank, UICI Receivables Funding Corporation, and UICI and Household Bank (SB), N.A. and Household Credit Services, Inc., together with Amendment No. 1, filed as Exhibit 10.60 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.61	--	Lease Agreement dated September 30, 2000 between Household Credit Services, Inc. (tenant) and Specialized Card Services, Inc. (Landlord), filed as Exhibit 10.61 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.62	--	Sublease Agreement dated July 27, 2000 between The Mega Life and Health Insurance and National Motor Club of America, Inc., filed as Exhibit 10.62 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.63	--	Software License Agreement dated January 30, 2001 between UICI and HealthAxis.com, filed as Exhibit 10.63 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.

EXHIBIT NUMBER	DESCRIPTION OF EXHIBIT

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10.64	--	Agreement, dated March 14, 2001, between UICI, MEGA and Charles Prater, filed as Exhibit 10.64 to the Company's 2000 Annual Report on Form 10-K, File No. 001-14953, filed with the Securities and Exchange Commission on March 16, 2001 and incorporated by reference herein.
10.65	--	Loan agreement dated January 25, 2002 between UICI and Bank of America, N. A. and La Salle Bank National Association
10.66	--	General and First Supplemental Indenture between CLFD-I, Inc. and Zions First National Bank, as Trustee relating to the Student Loan Asset Backed Notes dated as of April 1, 2001.
10.67	--	Indenture agreement dated January 30, 2002 between AMS-1 2002, LP as Issuer and Bank One, National Association, as Indenture Trustee and Eligible Lender Trustee.
21	--	Subsidiaries of UICI
23	--	Consent of Independent Auditors
24	--	Power of Attorney

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* Indicates a management contract and/or benefit plan as required by Item 14(a)(3) of Form 10-K.