UICI
Form 10-Q
May 11, 2001

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

FORM 10-Q

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF
THE SECURITIES EXCHANGE ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2001.

OR

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

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

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

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

Not Applicable

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, $.01 Par Value, 47,625,066 shares as of May 5, 2001.

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UICI AND SUBSIDIARIES

PART I. FINANCIAL INFORMATION
Item 1. Financial Statements

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

	MARCH 31,	DECEMBER

	2001 (UNAUDITED)	2000
ASSETS		
Investments		
Securities available for sale --		
Fixed maturities, at fair value (cost: 2001--$839,749; 2000--$827,905)	$ 841,417	$ 814,4
Equity securities, at fair value (cost: 2001--$16,794; 2000--$18,926)	15,159	16,9
Mortgage and collateral loans	5,286	5,3
Policy loans	19,829	20,1
Investment in Healthaxis, Inc	16,363	18,4
Investment in other equity investees	43,053	43,1
Short-term investments	111,632	149,5
Total Investments	1,052,739	1,068,0
Cash	7,295	83,0
Student loans	1,314,113	1,156,0
Restricted cash	191,795	222,6
Reinsurance receivables	121,624	120,7
Due premiums, other receivables and assets	58,300	52,7
Investment income due and accrued	61,164	62,0
Refundable income taxes	--	13,9
Deferred acquisition costs	69,322	68,5
Goodwill	90,948	92,1
Deferred income tax	23,066	32,9
Property and equipment, net	77,513	75,1
	$3,067,879	$3,048,0
LIABILITIES AND STOCKHOLDERS' EQUITY		
Policy liabilities		
Future policy and contract benefits	$ 423,234	$ 429,1
Claims	355,378	358,1
Unearned premiums	102,420	98,4
Other policy liabilities	17,886	17,9
Other liabilities	140,867	156,9
Collections payable	67,200	111,7
Note Payable to related party	--	18,9
Debt	35,237	47,8
Student loan credit facilities	1,453,509	1,358,0
	2,595,731	2,597,2
Commitments and Contingencies		
Stockholders' Equity		
Preferred stock, par value $0.01 per share	--	
Common Stock, par value $0.01 per share	487	4
Additional paid-in capital	193,017	186,8
Accumulated other comprehensive gain (loss)	19	(10,0
Retained earnings	286,380	274,2
Treasury stock, at cost	(7,755)	(7
	472,148	450,7
	$3,067,879	$3,048,0

NOTE: The balance sheet data as of December 31, 2000 have been derived from the audited financial statements at that date.

See notes to consolidated condensed financial statements.

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

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REVENUE	
Premiums:	
Health (includes amounts received from related parties of $1,552 and $602 for the three months ended March 31, 2001 and 2000, respectively,)	$ 179
Life premiums and other considerations	9
	188
Investment income	20
Interest income (includes amounts received from related parties of $10 and $8 for the three months ended March 31, 2001 and 2000, respectively)	27
Other fee income (includes amounts received from related parties of $1,847 and $715 for the three months ended March 31, 2001 and 2000, respectively)	22
Other income	
Gain on sale of HealthAxis.com shares	
Losses on sale of other investments	
	259
BENEFITS AND EXPENSES	
Benefits, claims, and settlement expenses	120
Underwriting, acquisition, and insurance expenses (includes amounts paid to related parties of $8,215 and $8,895 for the three months ended March 31, 2001 and 2000, respectively)	66
Other expenses (includes amounts paid to related parties of $2,321 and $1,034 for the three months ended March 31, 2001 and 2000, respectively)	22
Depreciation	3
Interest expense (includes expenses incurred with related parties of $98 and $290 for the three months ended March 31, 2001 and 2000, respectively)	1
Interest expense--student loan credit facilities	22
Equity in operating loss from Healthaxis, Inc. investment	2
Goodwill amortization	1

	241
INCOME FROM OPERATIONS BEFORE INCOME TAXES	18
Federal income taxes	6
NET INCOME	$ 12
Earnings per share:	
Basic earnings	$
Diluted earnings	$

See notes to consolidated condensed financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
Net income	$ 12,103	$ 19,791
Other comprehensive income, before tax:		
Unrealized gains on securities:		
Unrealized holding gains arising during period	15,388	2,342
Reclassification adjustment for gains included in net income	128	220
Other comprehensive income, before tax	15,516	2,562
Income tax provision related to items of other comprehensive income	(5,429)	(898)
Other comprehensive income, net of tax benefits	10,087	1,664
Comprehensive income	$ 22,190	$ 21,455

See notes to consolidated condensed financial statements.

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
OPERATING ACTIVITIES		
Net income	$ 12,103	$ 19,79
Adjustments to reconcile net income to		
Cash used in operating activities:		
Increase in policy liabilities	2,445	1,64
Increase (decrease) in other liabilities	(13,845)	3,05
Increase in income taxes	18,508	26,98
Increase in deferred acquisition costs	(807)	(23
Decrease (increase) in accrued investment income	850	(15,23
Decrease (increase) in reinsurance and other receivables ...	(2,973)	8,75
Depreciation and amortization	4,402	4,01
Decrease in collections payable	(44,587)	(55,24
Operating loss of Healthaxis, Inc.	2,079	5,92
Loss (gains) on sale of investments	25	(25,33
Amounts contributed to discontinued operations	--	(63,99
Other items, net	279	3,91
Cash Used in Operating Activities	(21,521)	(85,97
INVESTING ACTIVITIES		
Increase in student loans	(158,041)	(166,69
Decrease (increase) in other investments	28,514	(12,40
Proceeds from sale of HealthAxis.com shares	--	30,00
Decrease in restricted cash	30,865	300,73
Increase in agents' receivables	(3,275)	(3,18
Purchase of subsidiary	--	(4,48
Increase in property and equipment	(5,615)	(3,42
Cash Provided by (Used in) Investing Activities	(107,552)	140,54
FINANCING ACTIVITIES		
Deposits from investment products	3,855	4,10
Withdrawals from investment products	(11,075)	(8,05
Proceeds from student loan borrowings	227,657	280,69
Repayment of student loan borrowings	(132,204)	(390,36
Proceeds from note payable to related party	--	70,00
Repayment of debt	(12,591)	(75,01
Repayment of note payable to related party	(18,954)	--
Purchase of treasury shares	(7,961)	--

Issue treasury shares	955	--
Other items, net	3,628	96
Cash Provided by (Used in) Financing Activities	53,310	(117,66
Net Decrease in Cash	(75,763)	(63,08
Net Cash at Beginning of Period	83,058	74,09
Cash at End of Period	$ 7,295	$ 11,00

See notes to consolidated condensed financial statements.

UICI AND SUBSIDIARIES
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2001

NOTE A - BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements for UICI and its subsidiaries (the "Company" or "UICI") have been prepared in accordance with generally accepted accounting principles ("GAAP") for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, such financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments, except as otherwise described herein, consist of normal recurring accruals. Operating results for the three-month period ended March 31, 2001 are not necessarily indicative of the results that may be expected for the year ended December 31, 2001. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2000.

Recently Issued Accounting Pronouncements

In June 2000, FAS No. 133, Accounting for Derivative Instruments and Hedging Activities, was issued, and as amended, is required to be adopted in years beginning after June 15, 2000. This Statement requires all derivatives to be recorded on the balance sheet at fair value. Changes in fair values of derivatives not meeting the Statement's hedge criteria are included in income. Because of the Company's minimal use of derivatives, the adoption of the new Statement does not have a significant effect on earnings or the financial position of the Company.

In September 2000, the FASB issued Statement No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities, replacing Statement No. 125. Statement 140 which is effective for transfers occurring after March 31, 2001, changes certain provisions of Statement 125. The Company does not expect these changes to materially impact its earnings or financial position.

NOTE B - DISCONTINUED OPERATION

In March 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 on January 29, 2001, the Company completed the voluntary liquidation of United Credit National Bank ("UCNB"), in accordance with the terms of a plan of voluntary liquidation approved by the Office of Comptroller of Currency ("OCC"). 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 believes that its exit from the credit card business is now substantially complete.

For financial reporting purposes, 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.

NOTE C - LIQUIDITY

UICI is a holding company, the principal assets of which are its investments in its separate operating subsidiaries, including its regulated insurance subsidiaries. The holding company's ability to fund its cash requirements is largely dependent upon its ability to access cash, by means of dividends or other means, from its subsidiaries. The laws governing the Company's insurance subsidiaries restrict dividends paid by the Company's

domestic insurance subsidiaries in any year. Inability to access cash from its subsidiaries could have a material adverse effect upon the Company's liquidity and capital resources.

At March 31, 2001, UICI at the parent company level held cash and cash equivalents in the amount of $20.4 million and had short and long-term indebtedness outstanding in the amount of $6.2 million and $22.9 million, respectively.

The Company currently estimates that, through December 31, 2001, the holding company will have operating cash requirements in the amount of approximately $65.1 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).

NOTE D - INVESTMENT IN HEALTHAXIS, INC. (FORMERLY HEALTHAXIS.COM, INC.)

At December 31, 2000, the Company held approximately 39.2% of the issued and outstanding shares of common stock of HealthAxis.com, Inc. ("HealthAxis.com"), a provider of Internet-enabled, integrated proprietary software applications that address the workflow and processing inefficiencies embedded in the healthcare insurance industry. At December 31, 2000, Healthaxis, Inc. (HAXS: Nasdaq) ("HAI") held approximately 34.7% of the issued and outstanding shares of common stock of HealthAxis.com. In addition, at December 31, 2000, the Company held $1.7 million principal amount of 2% convertible subordinated debentures issued by HAI and a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per HAI share. The HAI 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"). The Company recognized no gain in connection with 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. Following the HAI Merger, the Company beneficially holds 23,944,030 shares of HAI common stock (including the 185,185 shares issuable upon conversion of the HAI convertible subordinated debentures), representing approximately 45.3% of the issued and outstanding shares of HAI. Of such 23,944,030 shares beneficially held by the Company, 8,581,714 shares (representing 16.2% of HAI's total issued and outstanding shares) are subject to the terms of a Voting Trust Agreement, pursuant to which trustees unaffiliated with the Company have the right to vote such shares. Gregory T. Mutz and Patrick J. McLaughlin, President and a director of UICI, respectively, serve on the Board of Directors of HAI.

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

	MARCH 31, 2001 (IN THOUSANDS)
Assets	
Cash and current assets	$ 19,776
Property and equipment	10,785
Other assets	6,178
Total assets	$ 36,739
Liabilities	
Accounts payable and accrued expenses	$ 5,395
Debt	27,259
Other liabilities	3,615
Total liabilities	36,269
Stockholders' equity	470
Total liabilities and equity	$ 36,739

	THREE MONTHS ENDED MARCH 31, 2001 (IN THOUSANDS)
Revenue....................	$ 11,212
Expenses...................	15,800
Net loss..........	$ (4,588)

NOTE E - LONG TERM DEBT

Effective July 27, 2000, the Company and a limited liability company controlled by the Company's Chairman ("Lender LLC") completed a restructuring of the terms of a $70.0 million loan originally to a newly-formed subsidiary of the Company in March 2000 (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 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.

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. In addition, 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 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 the liquidation of UCNB. Lender LLC'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 bears interest at the per annum rate of 11.0%,

matures on August 1, 2001, is secured by a pledge of all of the assets of the offshore companies, and is guaranteed by the Company. The proceeds of the borrowing were advanced to the parent company to fulfill the liquidity needs at the parent company. At March 31, 2001 and December 31, 2000, the outstanding balance on the loan was $6.0 million and $18.0 million, respectively. On May 3, 2001, all outstanding principal and accrued interest on the loan was paid in full.

NOTE F - INCOME TAXES

The Company's effective tax rate on operations for the three-month period ended March 31, 2001 was approximately 34% compared to 48% for the same period in 2000. The reduction is primarily due to the decrease in losses at Academic Management Services Corp. (formerly Educational Finance Group, Inc.) ("AMS"). AMS is 75% owned by the Company and files a separate federal income tax return. Consequently losses at AMS are not eligible for utilization in the Company's consolidated income tax return and therefore no tax benefit was provided on AMS' losses. As of March 31, 2001, AMS incurred losses of $769,000 (including amortization of goodwill and other expenses of $1.0 million), and as of March 31, 2000 AMS incurred losses of $9.5 million (including amortization of goodwill and other expenses of $1.1 million).

NOTE G - EARNINGS PER SHARE

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

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)	
Net income available to Common shareholders..........	$ 12,103	$ 19,791
Weighted average shares outstanding -- basic earnings per share........................	46,997	46,388
Effect of dilutive securities:		
Employee stock options and other shares..............	1,164	807
Weighted average shares outstanding -- dilutive earnings per share......................	48,161	47,195
Basic earnings per share............................	$ 0.26	$ 0.43
Diluted earnings per share..........................	$ 0.25	$ 0.42

NOTE H - LEGAL PROCEEDINGS

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

Securities Class Action Litigation

As previously disclosed, in December 1999 and February 2000, the Company and certain of its executive officers were named as defendants in three securities class action lawsuits alleging, among other things, that the Company's periodic filings with the SEC contained untrue statements of material facts and/or failed to disclose all material facts relating to the condition of the Company's credit card business, in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder. The three cases have been subsequently consolidated as Herbert R. Silver, et al. v. UICI et al, which is pending in U.S. District Court for the Northern District of Texas. Plaintiffs purport to represent a class of persons who purchased UICI common stock from April 16, 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 August 4, 2000, UICI and the individual defendants filed a motion to dismiss the case in its entirety, asserting that plaintiffs failed to properly plead the elements of a Section 10(b) claim. On January 31, 2001, the Court ordered plaintiffs to file a second amended complaint clarifying and curing certain enumerated deficiencies in plaintiffs' pleadings, and plaintiffs subsequently filed a second amended complaint. Defendants' response to plaintiffs' second amended complaint is due on May 25, 2001.

The Company 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 September 10, 1999, the Company filed its initial briefs in support of its appeal of the District Court's decision as to the awarding of attorneys' fees and its finding that UICI violated Texas securities laws and breached a fiduciary duty. The Company did not, however, appeal the District Court's ruling with regard to the interpretation of the March 1997 agreement. On September 10, 1999, Mr. Jensen filed his initial brief in support of his appeal of, among other things, the trial court's December 1998 finding in the Sun Litigation that Mr. Jensen was not entitled to any of the proceeds from the sale of Sun.

On August 1, 2000, the Court of Appeals for the Fifth District of Texas at Dallas rendered its opinion on the appeal, reversing 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. In December 2000, the Appeals Court affirmed its earlier decision and denied the Company's, Mr. Jensen's and Sun's respective motions for rehearing.

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 which 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 would agree 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 has 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

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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 subsequently moved to abate the separate suit.

The Company cannot at this time predict how, when or in what fashion the Sun Litigation will ultimately be resolved. However, for financial reporting purposes, any cash ultimately received by the Company from Mr. Jensen pursuant to the Assurance Agreement may be treated as a capital contribution to the Company, and the gain would be reduced by a corresponding amount. In such case, however, the Company's consolidated stockholders' equity would not be adversely affected. In 1998, the Company's results of operations reflected a pre-tax gain from the STP sale of $9.7 million ($6.7 million after tax, or $0.15 per share).

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 and is pending in the District Court of Dallas County, Texas (the "Shareholder Derivative Litigation"). The plaintiff has asserted on behalf of UICI various derivative claims brought against the individual defendants, alleging, among other things, breach of fiduciary duty, conversion, waste of corporate assets, constructive fraud, negligent misrepresentation, conspiracy and breach of contract. Plaintiff seeks to compel UICI to conduct a complete accounting and audit relating to all related party transactions and to fully and completely restate, report and disclose such transactions. Plaintiff further seeks to recover for UICI's benefit all damages caused by such alleged breach of the officers' and directors' duties to UICI. The plaintiff in the Shareholder Derivative Litigation is also the president of Sun (the plaintiff in the Sun Litigation), and substantially all of the initial claims made in the Shareholder Derivative Litigation arose out of the same transactions that serve as the factual underpinning to the Sun Communications Litigation referred to above.

At the regular quarterly meeting of the Company's Board of Directors held on August 4, 1999, George Lane III and Stuart D. Bilton (non-employee directors of the Company) were appointed, in accordance with Texas and Delaware law, to serve as a special committee (the "Special Litigation Committee") to investigate and assess on behalf of the Company the underlying claims made in the Shareholder Derivative Litigation.

On January 18, 2000, plaintiff filed an amended petition and request for injunctive relief. Plaintiff expanded his complaint to include a request for an injunction against the Company prohibiting, among other things, any existing or future transactions between UICI and any and all entities related to Ronald L. Jensen unless each such transaction is fully and fairly disclosed to UICI shareholders, together with an opinion from an independent public accounting firm opining with particularity as to the fairness of each proposed transaction.

On February 4, 2000, the Court granted the Company's motion for a statutory stay of all further proceedings in the case, in accordance with Texas law (including action on plaintiff's request for injunctive relief), pending completion of the review of the claims currently undertaken by the Special Litigation Committee, and its determination as to what further action, if any, should be taken with respect to those claims. Subsequent to imposition of the statutory stay, plaintiff filed (a) a motion to lift the statutory stay for the limited purpose of hearing a motion for summary judgement to enforce Mr. Jensen's 1996 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, (b) a second amended complaint and (c) a motion to lift the statutory stay for the limited purpose of hearing a motion for summary judgment against certain individual defendants with respect to the breach of fiduciary duty claim in the Sun Litigation. The second amended complaint added reference to the consent order issued by the OCC; attempted to quantify damages alleged to have resulted from numerous related party transactions previously disclosed in the Company's public filings; added an allegation of usurpation of corporate opportunities; and requested injunctive relief that would require the Company to, among other things, freeze, review and where appropriate rescind all related party transactions, and require detailed reporting of related party transactions.

On March 20, 2000, the Special Litigation Committee delivered to the Board of Directors of UICI its findings with respect to the allegations in the original complaint. Based on its review and assessment of the allegations in the original complaint, the Special Litigation Committee recommended that the Company (a) seek dismissal of claims raised in the original complaint in the derivative lawsuit, including dismissal of claims relating to the Jensen 1996 Guaranty (see discussion below); (b) seek the release to UICI of approximately $7.6 million of uncontested proceeds from the STP sale held in the District Court's registry; (c) seek from Mr. Jensen and/or former management certain legal fees incurred by UICI in connection with the Sun Litigation that it believes were incurred without appropriate board approval (which fees were reimbursed by Mr. Jensen on July 5, 2000); (d) seek reimbursement of certain legal fees awarded to Sun if and only if certain ongoing appeals prove unsuccessful; and (e) implement certain heightened related-party transaction controls. The Special Litigation Committee also recommended that UICI ratify the Assurance Agreement, which allows UICI to recover up to $15.1 million from the STP sale and which also requires UICI to look to the proceeds from the STP sale to satisfy the Jensen 1996 Guaranty of the value of UICI's initial investment in a predecessor company to STP. The Company's Board of Directors affirmed the Special Litigation Committee's findings and recommendations and directed management to implement the specific recommendations as promptly as practicable.

On March 22, 2000, the Special Litigation Committee reported to the Court its findings and recommendations with respect to the allegations in the original complaint, and the Court granted plaintiff's motion to lift the statutory stay in the proceedings for the purposes of evaluating the Special Litigation Committee's decision on the Jensen 1996 Guaranty (and the derivative plaintiff's motion for summary judgment on the Jensen 1996 Guaranty) and releasing the $7.6 million of uncontested funds from the sale of STP to the Company. The Company filed a motion with the appeals court in the Sun Litigation seeking a distribution to UICI of $7.6 million of uncontested funds. Following Sun's demand that a portion of the remaining funds held in the court's registry in the Sun Litigation be distributed to Sun, the court of appeals denied all requested relief.

On June 10, 2000, the Court dismissed plaintiff's claims arising from the Jensen 1996 Guaranty. On April 30, 2000, UICI filed a motion to disqualify plaintiff and his counsel, alleging that they were not fair and adequate representatives of UICI. On May 4, 2000, plaintiff filed a Motion to Show Authority, alleging that UICI did not have the authority to file the motion to disqualify. The motion to disqualify and the motion to show authority are still pending before the Court.

On September 11, 2000, the Court lifted the statutory stay in the case at the request of the Special Litigation Committee, in anticipation of the Committee's report with respect to nine specific transactions that were the subject of allegations made in plaintiff's first and second amended complaints. On September 21, 2000, the Special Litigation Committee delivered to the Board of Directors of UICI its findings with respect to these specific allegations. Based on its review and assessment, the Special Litigation Committee recommended that the Company (a) seek dismissal of the claims related to eight of the nine transactions reviewed, (b) make certain supplemental disclosures with respect to certain of the related party transactions that were the subject of the first and second amended complaints, and (c), with respect to one of the nine transactions, seek reimbursement of a portion of compensation paid to an employee of the Company during the period 1995-1996. After plaintiff submitted supplemental information to the Special Litigation Committee, the Special

Litigation Committee withdrew its recommendation that the Company seek reimbursement of a portion of compensation paid to an employee, and conducted further review. The Company's Board of Directors affirmed the Special Litigation Committee's September 21, 2000 findings and recommendations and directed management to implement the specific recommendations as promptly as practicable.

In October 2000, the Company and the Special Litigation Committee filed a motion for final settlement and release of certain derivative claims related to the reimbursement of certain legal fees from Mr. Jensen and for dismissal of all derivative claims asserted by plaintiff relating to the Sun Litigation. The Company also sought the court's approval to allow Mr. Jensen 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") (see discussion above under the caption "Sun Communications Litigation"). On November 22, 2000, the Court granted the motion for settlement and release of the derivative claims related to the reimbursement of certain legal fees from Mr. Jensen, granted the motion to dismiss the derivative claims asserted by the plaintiff relating to the Sun Litigation and related transactions, and

approved the alternative settlements between Mr. Jensen and the Company, subject to any alleged right on the part of Sun Communications, Inc. ("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 subsequently moved to abate the separate suit.

In November 2000, plaintiff filed an application for attorneys' fees and reimbursement of expenses. The Company intends to vigorously oppose such application and to seek an offset of its own attorneys' fees.

On January 25, 2001, the Special Litigation Committee delivered to the Company its final findings, recommendations, and conclusions. The Special Litigation Committee reinstated the prior recommendation that the Company seek a portion of the compensation paid to an employee of the Company during the period 1995-1996, which compensation had previously been recovered by the Company in December 2000. In addition, the Special Litigation Committee found that it "has uncovered absolutely no evidence of any pattern of behavior that would suggest any motive to disadvantage the Company on the part of any of UICI's present or former officers or directors," and concluded that, in its opinion and except with respect to the compensation previously recovered from the employee and the legal fees previously recovered from Mr. Jensen (see discussion above), the "related party transactions that were undertaken accrued to the significant benefit of UICI." Finally, the Special Litigation Committee recommended dismissal of plaintiff's lawsuit in its entirety. At a meeting held on February 28, 2001, the UICI Board of Directors accepted the final recommendations and conclusions of the Special Litigation Committee. In accordance with the final recommendations of the Special Litigation Committee, on April 20, 2001 UICI filed a motion to dismiss the case in its entirety.

ACE and AFCA Litigation

As previously disclosed, the Company and UCNB were initially parties to separate lawsuits filed 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

(American Credit Educators, LLC v. United Credit National Bank and UICI and American Fair Credit Association, Inc. v. United Credit National Bank and UICI, each pending in the United States District Court for the District of Colorado). In the suits, plaintiffs alleged, among other things, that UCNB has breached its agreements with ACE and AFCA and have claimed 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 January 12, 2001, AFCA filed a second amended complaint seeking, among other things, a declaratory judgement and injunctive relief and alleging breach of contract and other causes of action. ACE filed a first amended complaint on November 6, 2000.

On September 28, 2000, ACE and AFCA filed motions for preliminary injunctions to compel UICI to, among other things, deposit a significant portion of the proceeds of the sale of UICI's credit card business in escrow under court supervision. AFCA filed a supplement to its motion on February 2, 2001, alleging the liquidation of UCNB as an additional ground for relief. On October 16, 2000, the Company and UCNB filed motions to dismiss both cases. On January 12, 2001, the court granted UCNB's motion to dismiss UCNB from the case as to claims for monetary relief and denied the remainder of UICI's motion to dismiss.

Following the voluntary liquidation of UCNB completed on January 29, 2001, the legal existence of UCNB terminated 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. Accordingly, on February 5, 2001, UICI moved to substitute UICI for UCNB as a party defendant and to substitute United CreditServ for UCNB for purposes of asserting and prosecuting counterclaims, cross-claims, third party complaints and other offensive pleadings. On March 9, 2001, the court granted UICI's motion to consolidate the ACE and AFCA lawsuits and ordered the plaintiffs to file an amended complaint on or before March 23, 2001. The Court denied ACE's motion for a preliminary injunction without prejudice, and AFCA subsequently withdrew its motion for a preliminary injunction. ACE and AFCA filed a consolidated complaint against the Company and UCNB on April 4, 2001. UICI filed its motion to dismiss plaintiffs' consolidated complaint on April 30, 2001. The court denied ACE's motion for preliminary injunction without prejudice, and AFCA subsequently withdrew its motion for a preliminary injunction.

The Company believes that it has meritorious defenses to the allegations and intends to vigorously contest the cases.

Mitchell 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 only 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.

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.

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

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.

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 that, consequently, all proceedings in the Mitchell case were stayed.

In a status conference on the Mitchell case held on December 21, 2000, the state court considered, among other issues, the extent and scope of the stay of proceedings in the state court resulting from defendants' October 12, 2000 Notice of Appeal. The state court determined that it would presume that the stay of proceedings in the state court resulting from defendants' October 12, 2000 Notice of Appeal extended to the entire Mitchell case and that such stay would continue in effect until further order of the state court upon fully noticed motion by plaintiff Mitchell. As of May 10, 2001, UICI had 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.

Reinsurance Litigation

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),

which is currently pending in the High Court of Justice, Queen's Bench Division, Commercial Court, Royal Courts of Justice, in London, England. Plaintiff has alleged that it is due the sum of (pound)1,592,358.54 (approximately US $2.3 million as of March 31, 2001) for losses incurred in a health insurance program in the United Kingdom in which Cologne Re was a cedant of reinsurance and MEGA was Cologne Re's retrocessionaire.

A defense has been filed by MEGA, and Cologne Re recently submitted a reply pleading, which is presently under review by counsel. English law provides for extensive document discovery, which is being undertaken by both parties.

MEGA believes it has meritorious defenses and counterclaims against Cologne Re, which it served on Cologne Re on February 16, 2001, and intends to vigorously defend the case and prosecute its counterclaims.

Gottstein Litigation

As previously disclosed, UICI, Ronald L. Jensen, and UGA, Inc. are party defendants in a purported class action lawsuit filed in November 1998 (Gottstein, et al. v. The National Association for the Self-Employed, et al., pending in the United States District Court for the District of Kansas). The class representatives have 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. 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 current terms of the settlement will not have a material adverse effect upon 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.

United Credit National Bank

As previously disclosed, on February 25, 2000, the Board of Directors of United Credit National Bank ("UCNB") consented to the issuance by the OCC of a Consent Order (the "February Consent Order"). 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. Among other things, the February Consent Order required UCNB, until further notice from the OCC, to cease all activities with ACE and AFCA (UCNB's only marketing organizations) and prohibited UCNB from introducing new products or services, without accompanying policies and procedures reviewed and approved by the OCC providing for, among other things, appropriate risk management, internal control, management information and data processing systems.

On June 29, 2000, the Company, UCS and UCNB agreed to the issuance by the OCC of separate Consent Orders (the "June Consent Orders") memorializing the terms of a definitive Capital Plan previously submitted by the Company and UCNB and approved by the OCC as required by the February Consent Order (the "UCNB Capital Plan"). The June Consent Orders required, among other things, (a) the Company through UCS to contribute additional capital to UCNB in the amount of

$50.0 million in prescribed increments over a thirty-day period ended July 29, 2000 (which $50.0 million was contributed as required); (b) UCNB to maintain prescribed capital ratios throughout the plan period; (c) UCNB to adopt and implement certain credit card administrative policies and procedures; and (d) the Company, on or before December 31, 2000, to assume all of UCNB's remaining contingent liabilities.

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. UCNB surrendered to the OCC its national bank charter and distributed 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, on January 29, 2001, the OCC terminated the February and June Consent Orders issued against UCNB and the June 2000 Consent Order issued against UICI's United CreditServ subsidiary. The OCC substantially modified the June 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.

In the event that UICI fails to comply with the terms of the June 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

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.

The Company believes that it has meritorious defenses to the allegations and intends to vigorously contest the case.

Other Matters

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

NOTE I - SEGMENT INFORMATION

The Company's operating segments included in operations are: (i) Insurance, which includes the businesses of the Self Employed Agency Division, the Student Insurance Division, the OKC Division, the Special Risk Division and the National Motor Club Division (which the Company sold on July 27, 2000); (ii) Financial Services, which includes the businesses of Academic Management Services Corp. ("AMS"), the Company's investment in Healthaxis, Inc. (formerly HealthAxis.com, Inc.) and Third Party Administration (formerly UICI Administrators), and (iii) Other Key Factors.

Other Key Factors include investment income not allocated to the other segments, interest and general expenses relating to corporate operations, realized gains or losses on sale of investments and the operations of the Company's AMLI subsidiary. Allocations of investment income and certain general expenses are based on a number of assumptions and estimates, and the business segments reported operating results would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income. 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, which provide for transactions generally at cost.

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	(IN THOUSANDS)	
Revenues		
Insurance:		
Self Employed Agency	$ 156,521	$ 137,691
Student Insurance	27,993	27,274
OKC Division	23,365	23,696
Special Risk	3,224	10,668
National Motor Club	--	9,237
	211,103	208,566
Financial Services:		
Academic Management Services	37,397	36,234
Third Party Administration	6,204	3,722
Gain on sale of HealthAxis.com shares	--	26,300
	43,601	66,256
Other Key Factors	5,989	9,297
Intersegment Eliminations	(1,030)	(135)
Total revenues	$ 259,663	$ 283,984

	THREE MONTHS ENDED MARCH 31, 2001	THREE MONTHS ENDED MARCH 31, 2000
	(IN THOUSANDS)	
Income from operations before federal income taxes:		
Insurance:		
Self Employed Agency	$ 17,572	$ 18,134
Student Insurance	459	84
OKC Division	3,796	4,133
Special Risk	(148)	246
National Motor Club	--	1,089
	21,679	23,686
Financial Services:		
Academic Management Services	269	(8,461)
Third Party Administration	(843)	(266)
Gain on sale of HealthAxis.com shares	--	26,300
Healthaxis, Inc. operating loss	(2,079)	(5,920)
	(2,653)	11,653
Other Key Factors	535	4,653
Goodwill amortization	(1,172)	(1,689)
Total income from operations before federal income taxes	$ 18,389	$ 38,303

	MARCH 31, 2001	DECEMBER 31, 2000
	(IN THOUSANDS)	
Assets		
Insurance:		
Self Employed Agency	$ 475,753	$ 446,106
Student Insurance	84,506	78,197
OKC Division	664,974	666,552
Special Risk	91,741	97,647
	1,316,974	1,288,502
Financial Services:		
Academic Management Services	1,532,655	1,479,217
Third Party Administration	6,464	6,392
Investment in Healthaxis, Inc.	16,363	18,442
	1,555,482	1,504,051
Other Key Factors	195,423	255,481
Total assets	$3,067,879	$3,048,034

NOTE J - RELATED PARTY TRANSACTIONS

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

Payment of Amended Lender LLC Loan

On January 30, 2001, the Company prepaid in full all principal and accrued interest owing 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 the lender's security interest in 100% of the capital stock of Mid-West National Life of Tennessee was released in full. The Lender LLC is a limited liability company controlled by Mr. Jensen. See Note E of Notes to Consolidated Condensed Financial Statements.

Onward and Upward Put

In 1986 and 1996, respectively, Special Investment Risks, Ltd. ("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 UICI 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 the Company 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). 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 (commencing in 2000 through 2006), 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 an initial purchase price in 2000 of $28.50 per share. The call/put price escalates over time in annual dollar increments 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 exercise its initial put right under the Put/Call Agreement.

In May 2001, the Company extended until June 30, 2001 the period during which OUI may exercise its initial put right under the Put/Call Agreement.

NOTE K - EMPLOYEE AND AGENT STOCK ACCUMULATION PLANS

UICI Employee Stock Ownership and Savings Plan

The Company maintains for the benefit of its and its subsidiaries' employees the UICI Employee Stock Ownership and Savings Plan (the "Employee Plan"). The Employee Plan through its 401(k) feature enables eligible employees to make pre-tax contributions to the Employee Plan in an amount not in excess of 15% of compensation

(subject to overall limitations) and to direct the investment of such contributions among several investment options, including UICI common stock. A second feature of the Employee Plan constitutes an employee stock ownership plan (the "ESOP"), contributions to which are invested primarily in shares of UICI common stock. The ESOP feature allows participants to receive from UICI and its subsidiaries discretionary matching contributions and to share in certain supplemental contributions made by UICI and its subsidiaries. Contributions by UICI and its subsidiaries to the Employee Plan under the ESOP feature currently vest in prescribed increments over a seven-year period.

On August 11, 2000, the Company issued to the Employee Plan 1,610,000 shares of UICI common stock at a purchase price of $5.25 per share or $8.5 million in the aggregate. The purchase price for the shares was paid by delivery to UICI of the Employee Plan's $8.5 million promissory note (the "Plan Note"), which matures in three years and is secured by a pledge of the purchased shares. The shares of UICI common stock purchased with the Plan Note (the "$5.25 ESOP Shares") are held in a suspense account for allocation among participants as and when the Company's matching and supplemental contributions to the ESOP are made. It is expected that the Plan Note will be extinguished over a period of approximately two years by crediting the Company's matching and supplemental contribution obligations under the ESOP feature of the Employee Plan against principal and interest due on the Plan Note.

During the three months ended March 31, 2001, the Company recorded compensation expense associated with contributions to the Employee Plan in the amount of $1.6 million. Included in the $1.6 million expense is $485,000 of stock appreciation, which is reflected in other expenses 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 three months ended March 31, 2001 of 193,000 $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 approximately 600,000 $5.25 ESOP Shares will be allocated to participants' ESOP accounts during 2001. The fair value of the 1,062,000 unallocated $5.25 ESOP Shares totaled $9.3 million at March 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, CLD Agency and CFLD Association Field Services agency field forces.

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 on January 1 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 vest during this period under the Company-match feature of the Agent Plans. Under the arrangement effective July 1, 2000, the Company's subsidiaries will transfer to the Company $5.25 per share for any newly issued shares utilized to fund vested matching credits under the Plans.

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

For the three months ended March, 2001 and 2000, the Company recorded commission expense associated with the Agent Plans in the amount of $162,000 and $624,000, respectively.

At March 31, 2000, the Company had recorded approximately 1.1 million unvested matching credits associated with the Agent Plans, of which the Company estimates 326,000 will vest at January 1, 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.

NOTE L - SUBSEQUENT EVENTS

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 April 27, 2001, the Company completed a $100 million securitization of alternative (i.e., non-federally guaranteed) student loans originated by the Company's College Fund Life Division. The securitization consisted of two $50.0 million series of Student Loan Asset Backed Notes offered and sold by a special purpose corporation (the "SPC") solely to qualified institutional buyers in compliance with Rule 144A of the Securities Act of 1933. Interest rates on the notes reset monthly in a Dutch auction process, with the initial rate set at

4.75%. 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 SPC acquired a $70.1 million portfolio of alternative student loans from various affiliates of the Company, including $11.0 million of loans previously held by UICI Funding Corp. 2, $29.0 million of loans held by AMS, $24.0 million of loans held by MEGA and $6.0 million of loans held by Mid-West. As part of the securitization, a loan acquisition fund was established to acquire in the future up to an additional $19.1 million of student loans originated by the Company's College Fund Life Division. On a consolidated basis, the Company does not expect to record any gain on sale as a result of the financing, and will continue to carry on its balance sheet the alternative student loans and the associated debt arising from the transaction.

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

RESULTS OF OPERATIONS

The Company's business segments included in operations are: (i) Insurance, which includes the businesses of the Self Employed Agency Division, the Student Insurance Division, the OKC Division, the Special Risk Division and the National Motor Club Division (which the Company sold July 27, 2000); (ii) Financial Services, which includes the businesses of Academic Management Services Corp., the Company's investment in Healthaxis, Inc., (formerly Insurdata Incorporated), and Third Party Administration (formerly UICI Administrators) and (iii) Other Key Factors, which includes investment income not allocated to the other segments, interest and general expenses relating to corporate operations, realized gains or losses on sale of investments and the operations of the Company's AMLI subsidiary. Allocation of investment income is based on a number of assumptions and estimates and the business segments reported operating results would change if different methods were applied. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income.

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

	THREE MONTHS ENDED MARCH 31,	
	2001	2000
	(IN THOUSANDS)	
Revenues		
Insurance:		
Self Employed Agency	$ 156,521	$ 137,691
Student Insurance	27,993	27,274
OKC Division	23,365	23,696
Special Risk	3,224	10,668
National Motor Club	--	9,237
	211,103	208,566
Financial Services:		
Academic Management Services	37,397	36,234
Third Party Administration	6,204	3,722
Gain on sale of HealthAxis.com shares	--	26,300

	43,601	66,256
Other Key Factors	5,989	9,297
Intersegment Eliminations	(1,030)	(135)
Total Revenues	$ 259,663	$ 283,984

	THREE MONTHS ENDED MARCH 31, 2001	2000
	(IN THOUSANDS)	
Income from operations before federal income taxes:		
Insurance:		
Self Employed Agency	$ 17,572	$ 18,134
Student Insurance	459	84
OKC Division	3,796	4,133
Special Risk	(148)	246
National Motor Club	--	1,089
	21,679	23,686
Financial Services:		
Academic Management Services	269	(8,461)
Third Party Administration	(843)	(266)
Gain on sale of HealthAxis.com shares	--	26,300
HealthAxis, Inc. operating loss	(2,078)	(5,920)
	(2,653)	11,653
Other Key Factors	534	4,653
Goodwill amortization	(1,172)	(1,689)
Total income from operations before federal income taxes ...	$ 18,389	$ 38,303

Three Month Period ended March 31, 2001 compared to Three Month Period ended March 31, 2000

For the three months ended March 31, 2001, the Company generated revenues and net income of $259.7 million and $12.1 million ($0.25 per diluted share), respectively, compared to pro forma revenues and net income of $248.4 million and $2.2 million ($0.05 per diluted share), respectively, for the three months ended March 31, 2000.

Pro forma revenues and net income in 2000 exclude the effects of a one-time gain from the sale of investment securities in the amount of $26.3 million

($17.1 million net of tax, or $0.36 per diluted share) and revenues and operating income from the Company's National Motor Club unit (which was sold on July 27, 2000) in the amount of $9.2 million and $1.1 million ($543,000 net of tax, or $0.01 per diluted share), respectively. Including those items, the Company reported revenues and net income of $284.0 million and $19.8 million ($0.42 per diluted share), respectively, for the three months ended March 31, 2000.

Self-Employed Agency ("SEA") Division

Operating income for the SEA Division decreased to $17.6 million for the three months ended March 31, 2001 from $18.1 million for the comparable 2000 period. Revenues for the SEA Division increased to $156.5 million for the three months ended March 31, 2001 from $137.7 million for the same period in 2000. During the 2001 quarter, SEA experienced substantial growth in submitted annualized premium volume ($123.6 million for the first three months of 2001 compared to $79.0 million for the first three months of 2000), continued to successfully direct newer sales to the more traditional, higher margin, indemnity products (sales of indemnity products represented 81% of new production in the first three months of 2001 compared to 44% in the first three months of 2000), and maintained loss ratios consistent with its favorable experience during 2000 (61% for the first three months of 2001 compared to 60% for the first three months of 2000).

Student Insurance Division

The Company's Student Insurance Division reported operating income of $459,000 for the three months ended March 31, 2001, compared to $84,000 for the comparable period in the prior year. The increase in operating income was attributed primarily to improved administrative efficiencies. Revenue increased to $28.0 million for the three months ended March 31, 2001 from $27.3 million in the corresponding 2000 period.

OKC Division

Operating income for the OKC Division decreased to $3.8 million for the three months ended March 31, 2001 from $4.1 million for the same period in 2000. Revenues for the three months ended March 31, 2001 for the OKC Division decreased to $23.3 million from $23.7 million in the comparable 2000 period. The decrease in operating income is attributable to declining profits from the OKC Division's closed blocks of life insurance business.

Special Risk Division

Operating losses for the Special Risk Division (consisting of certain niche health-related products, including "stop loss", marine crew accident, organ transplant and international travel accident products) were $148,000 for the three months ended March 31, 2001 compared to income of $246,000 in the comparable 2000 period. Revenue for the three months ended March 31, 2001 decreased to $3.2 million from $10.7 million in the corresponding 2000 period. The decrease in revenue is a result of the implementation of reinsurance and specific retrocession agreements that effectively permitted the Company to transfer insurance revenue and the associated risk to a new insurance carrier. This transfer was effective January 1, 2000, and will occur monthly as the business renews over the life of the policies.

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). As a result of the sale, no revenues or income generated by National Motor Club are reflected on the Company's results of operations for the three months ended March 31, 2001. During the three months ended March 31, 2000, National Motor Club generated revenues and operating income of $9.2 million and $1.1 million, respectively.

Academic Management Services Corp. ("AMS")

For the three months ended March 31, 2001, AMS reported operating income of $269,000 compared to an operating loss of $8.5 million in the three months ended March 31, 2000. AMS' revenues for the three months ended March 31, 2001 were $37.4 million compared to revenues of $36.2 million for the comparable period in the prior year.

The significant improvement in operations resulted primarily from reductions in operating expenses and a favorable interest rate environment during the three months ended March 31, 2001.

Total operating expenses of $11.6 million for the first quarter of 2001 were approximately $4.9 million less than operating expenses in the comparable quarter of the prior year. As previously announced, in the first quarter of 2000 AMS incurred charges of approximately $3.5 million in connection with a management change effected in January 2000 and related changes in business infrastructure and strategy. In addition, AMS realized expense reductions in the first quarter of 2001 resulting from the closure of its San Diego facility, which was completed in the fourth quarter of 2000.

Declining market interest rates in the first quarter of 2001 resulted in improved spreads on AMS' student loan portfolio. Spread income was $3.4 million for the three months ended March 31, 2001, compared to $1.9 million for the comparable period of the prior year, despite a reduction in portfolio size of approximately $180.0 million. While declining market interest rates resulted in reduced yields on student loans, the positive effect of rate reductions on AMS' underlying financing more than offset the reduced yields on the student loan portfolio. AMS also realized gains on the sale of student loans of $1.8 million in the first quarter of 2001, compared to gains of $800,000 for the comparable quarter of the prior year.

Fee income from tuition payment programs increased to $2.7 million for the three months ended March 31, 2001, from $1.9 million for the comparable period of the prior year, due primarily to an increase in tuition installment plan accounts and the imposition of late fees on delinquent accounts. Loan servicing fee income was down slightly to $3.4 million from $3.7 million in the first quarter of the prior year.

The Company has previously disclosed that AMS had engaged Lehman Brothers Inc. and Bank of America Securities Inc. to assist AMS in evaluating various strategic alternatives, including a possible sale of AMS. While the Company and AMS continue to evaluate and assess AMS' strategic alternatives, consideration of a possible sale of AMS in its entirety has been suspended at this time.

Third Party Administration Division (formerly UICI Administrators)

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), Healthcare Management Administrators, Inc. (which the Company acquired on February 3, 2000) and Barrons (previously included in the OKC Division) as its Third Party Administration Division ("TPA") division. In the three months ended March 31, 2001, the TPA Division incurred an operating loss of $843,000 compared to an operating loss of $266,000 in the comparable 2000 period. Revenues for the three months ended March 31, 2001 increased to $6.2 million from $3.7 million in the corresponding 2000 period.

Investment in Healthaxis, Inc. (formerly HealthAxis.com, Inc.)

At December 31, 2000, the Company held approximately 39.2% of the issued and outstanding shares of common stock of HealthAxis.com, Inc. ("HealthAxis.com"), a provider of Internet-enabled, integrated proprietary software applications that address the workflow and processing inefficiencies embedded in the healthcare insurance industry. At December 31, 2000, Healthaxis, Inc. (HAXS: Nasdaq) ("HAI") held approximately 34.7% of the issued and outstanding shares of common stock of HealthAxis.com. In addition, at December 31, 2000, the Company held $1.7 million principal amount of 2% convertible subordinated debentures issued by HAI and a warrant to purchase 12,291 shares of HAI common stock at an exercise price of $3.01 per HAI share. The HAI 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 recognized no gain in connection with the HAI Merger. Following the HAI Merger, the Company beneficially holds 23,944,030 shares of HAI common stock (including the 185,185 shares issuable upon conversion of the HAI convertible subordinated debentures), representing approximately 45.3% of the issued and outstanding shares of HAI. Of such 23,944,030 shares beneficially held by the Company, 8,581,714 shares (representing 16.2% of HAI's total issued and outstanding shares) are subject to the terms of a Voting Trust Agreement, pursuant to which trustees unaffiliated with the Company have the right to vote such shares. Gregory T. Mutz and Patrick J. McLaughlin, President and a director of UICI, respectively, serve on the Board of Directors of HAI.

The Company has accounted for its investment in HealthAxis.com and will continue to account 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). At March 31, 2001, the Company's carrying value of its investment in HAI was $16.4 million. The Company's equity in the loss of HAI in the three months ended March 31, 2001 was $2.1 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 and the operations of the Company's AMLI subsidiary. Operating income for the three months ended March 31, 2001 associated with this category decreased from $4.7 million for the three months ended March 31, 2000 to $534,000, a decrease of $4.2 million. The decrease resulted primarily from a decrease in income from the Company's AMLI subsidiary (to $702,000 for the three months ended March 31, 2001 from $3.9 million for the three months ended March 31, 2000); an increase in minority interest expense of $2.7 million for the three months

ended March 31, 2001 compared to the comparable 2000 period as a result of the turnaround in earnings for the AMS division; and a $1.9 million decrease in interest expense, which was primarily attributable to the reduction of outstanding corporate indebtedness from $115.6 million at March 31, 2000 to $35.2 million at March 31, 2001.

LIQUIDITY AND CAPITAL RESOURCES

Historically, 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. In the three-month periods ended March 31, 2001 and 2000, net cash used in operations totaled approximately $21.5 million and $86.0 million, respectively.

At March 31, 2001, UICI at the parent company level held cash and cash equivalents in the amount of $20.4 million and had short and long-term indebtedness outstanding in the amount of $6.2 million and $22.9 million, respectively.

The Company currently estimates that, through December 31, 2001, the holding company will have operating cash requirements in the amount of approximately $65.1 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).

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.

STATUTORY ACCOUNTING

The Company's insurance subsidiaries statutory-basis financial statements are prepared in accordance with accounting practices prescribed or permitted by the Oklahoma, Tennessee, or Texas Insurance Departments. Currently, "prescribed" statutory accounting practices are interspersed throughout state insurance laws and regulations, the NAIC's Accounting Practices and Procedures Manual and a variety of other NAIC publications. "Permitted" statutory accounting practices encompass all accounting practices that are not prescribed; such practices may differ from state to state, may differ from company to company within a state, and may change in the future.

The NAIC revised the Accounting Practices and Procedures Manual in a process referred to as Codification. The revised manual became effective January 1, 2001. The domiciled states of the Company's insurance subsidiaries (Oklahoma, Tennessee and Texas) have adopted the provisions of the revised manual. The revised manual has changed, to some extent, prescribed statutory accounting practices and will result in changes to the accounting practices that the Company's insurance subsidiaries use to prepare its statutory-basis financial statements. The cumulative effect of changes in accounting practices adopted to conform to the revised Accounting Practices and Procedures Manual was reported as an adjustment to surplus as of January 1, 2001 in the Company's statutory statements. The impact of these changes did not result in a reduction in the Company's statutory-basis capital and surplus as of adoption.

UNITED CREDITSERV - DISCONTINUED OPERATIONS

In March 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. Accordingly, the United CreditServ unit was reflected as a discontinued operation for financial reporting purposes as of, and for the years ended, December 31, 2000, 1999 and 1998.

The Company believes that its exit from the credit card business is now substantially complete. On January 29, 2001, the Company completed the voluntary liquidation of United Credit National Bank ("UCNB") (the Company's credit card issuing bank), in accordance with the terms of a plan of voluntary liquidation approved by the United States Office of the Comptroller of the Currency (the "OCC"). 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 in full principal and accrued interest owing to Lender LLC (see Note E of Notes to Consolidated Condensed Financial Statements) in the amount of $21.1 million and other indebtedness in the amount of $5.0 million.

For financial reporting purposes, 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.

STOCK REPURCHASE PLAN

In November 1998, the Company's board of directors authorized the repurchase of up to 4,500,000 shares of the Company's Common Stock. The shares were authorized to be purchased from time to time on the open market or in private transactions. As of December 31, 2000, the Company had repurchased 198,000 shares pursuant to such authorization, all of which were purchased in 1999. At its regular meeting held on February 28, 2001, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program. Following reconfirmation of the program, through May 5, 2001, the Company had purchased additional 964,800 shares pursuant to the program. 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.

MODIFICATION OF UICI EXECUTIVE STOCK PURCHASE PROGRAM

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. In connection with the January 2001 modifications to the ESPP, for financial reporting purposes the Company 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.

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, CLD Agency and CFLD Association Field Services agency field forces. 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 is required on a quarterly basis to adjust 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 K of Notes to Consolidated Condensed Financial Statements.

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. The privacy rules under GLBA became effective in November 2000, but compliance with the rules has been deferred and is optional until July 1, 2001. By July 1, 2001 the Company is required to provide written notice of its privacy practices to all of the Company's customers/insureds, the Company must give customers/insureds an opportunity to state their preferences regarding the Company's use of their non-public personal information, and the Company must honor those preferences.

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 are expected to issue 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 the Company's Internet-based activities would be hindered. It is not possible at this time to assess the impact of the privacy provisions on the Company'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.

The Company 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 the Company's 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 the Company's business and future results of operations.

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

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

The Company's future results will depend in large part on accurately predicting health care costs incurred on existing business and upon the

Company's ability to control future health care costs through product and benefit design, underwriting criteria, utilization management and negotiation of favorable provider contracts. Changes in mandated benefits, utilization rates, demographic characteristics, health care practices, provider consolidation, inflation, new pharmaceuticals/technologies, clusters of high-cost cases, the regulatory environment and numerous other factors are beyond the control of any health plan provider and may adversely affect the Company's ability to predict and control health care costs and claims, as well as the Company's financial condition, results of operations or cash flows. Periodic renegotiations of hospital and other provider contracts coupled with continued consolidation of physician, hospital and other provider groups may result in increased health care costs and limit the Company's ability to negotiate favorable rates. Recently, large physician practice management companies have experienced

extreme financial difficulties, including bankruptcy, which may subject the Company to increased credit risk related to provider groups and cause the Company to incur duplicative claims expense. In addition, the Company faces competitive pressure to contain premium prices. Fiscal concerns regarding the continued viability of government-sponsored programs such as Medicare and Medicaid may cause decreasing reimbursement rates for these programs. Any limitation on the Company's ability to increase or maintain its premium levels, design products, implement underwriting criteria or negotiate competitive provider contracts may adversely affect the Company's financial condition or results of operations.

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

ITEM 3 -- QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

The primary market risk to the Company's investment portfolio is interest rate risk associated with investments and the amount of interest that policyholders expect to have credited to their policies. The interest rate risk taken in the investment portfolio is managed relative to the duration of the policy liabilities. The Company's investment portfolio consists mainly of high quality, liquid securities that provide current investment returns. The Company believes that the annuity and universal life-type policies are generally competitive with those offered by other insurance companies of similar size. The Company does not anticipate significant changes in the primary market risk exposures or in how those exposures are managed in the future reporting periods based upon what is known or expected to be in effect in future reporting periods.

Profitability of the student loans is affected by the spreads between the interest yield on the student loans and the cost of the funds borrowed under the various credit facilities. Although the interest rates on the student loans and the interest rate on the credit facilities are variable, the gross interest earned by lenders on Stafford student loans uses the results of 91-day T-bill auctions as the base rate, while the base rate on the credit facilities is LIBOR. The effect of rising interest rates on earnings on Stafford loans is generally small, as both revenues and costs adjust to new market levels. In addition to Stafford loans, the Company holds PLUS loans on which the interest rate yield is set annually beginning July 1 through June 30 by regulation at a fixed rate. The Company had approximately $312.0 million principal amount of PLUS loans outstanding at March 31, 2001. The fixed yield on PLUS loans was 7.72% for the twelve months ended June 30, 2000 and has been reset to 8.99% for the twelve months beginning July 1, 2000. These loans are financed with borrowings whose rates are subject to reset, generally monthly. During the twelve months beginning July 1, 2000, the cost of borrowings to finance this portion of the student loan portfolio could rise or fall while the rate earned on the student loans will remain fixed.

PART II. OTHER INFORMATION

ITEM 1 -- LEGAL PROCEEDINGS

The Company is a party to various material legal proceedings, all of which are described in Note H of Notes to the Consolidated Condensed Financial Statements included herein and in the Company's Annual Report on Form 10-K filed for the year ended December 31, 2000 under the caption "Item 3 - Legal Proceedings." The Company and its subsidiaries are parties to various other pending legal proceedings arising in the ordinary course of business, including some asserting significant damages arising from claims under insurance policies, disputes with agents and other matters. Based in part upon the opinion of counsel as to the ultimate disposition of such lawsuits and claims, management believes that the liability, if any, resulting from the disposition of such proceedings will not be material to the Company's financial condition or results of operations.

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

During the three months ended March 31, 2001, the Company issued 96,250 shares of unregistered common stock pursuant to its 2001 Restricted Stock Plan.

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

(a) Exhibits.

None.

(b) Reports on Form 8-K.

None.

SIGNATURES

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

UICI

(Registrant)

Date: May 11, 2001

/s/ Gregory T. Mutz

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

Date: May 11, 2001

/s/ Matthew R. Cassell

Matthew R. Cassell, Vice President and
Chief Financial Officer