UICI
Form 10-K
March 28, 2003

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

FORM 10-K

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

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2002.

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 001-14953

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

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

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

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

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED

Common Stock, $0.01 par value   New York Stock Exchange

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

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

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

Indicate by check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). [X]Yes   No [ ]

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2002 was $651.6 million. The number of shares outstanding of $0.01 par value Common Stock, as of June 30, 2002 was 47,817,305.

The aggregate market value of the voting stock held by non-affiliates of the registrant as of March 11, 2003 was $270.5 million. The number of shares outstanding of $0.01 par value Common Stock, as of March 11, 2003 was 46,970,166.

DOCUMENTS INCORPORATED BY REFERENCE

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

PART I

ITEM 1. BUSINESS

GENERAL

UICI (together with its subsidiaries, "UICI" or the "Company") offers insurance (primarily health and life) and selected financial services to niche consumer and institutional markets. The Company issues primarily health insurance policies, covering individuals and families, to the self-employed, association group, voluntary employer group and student markets. During 2002, 2001, and 2000, health insurance premiums were approximately $1,181.2 million, $776.3 million and $644.6 million, respectively, representing 80%, 71% and 63%, respectively, of UICI's total revenues in such periods.

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

Company's products.

The Company has classified as its Group Insurance Division the operations of its former Student Insurance Division and the operations of the Company's recently acquired Star HRG business unit. For the student market, UICI offers tailored health insurance programs that generally provide single school year coverage to individual students at colleges and universities. The Company also provides an accident policy for students at public and private schools in kindergarten through grade 12. In the student market, the Company sells its products through in-house account executives that focus on colleges and universities on a national basis. The Company believes that it provides student insurance plans to more universities than any other single insurer.

Effective February 28, 2002, the Company acquired the business of Star Human Resources Group, Inc. and Star Administrative Services, Inc. (collectively referred to by the Company as its "Star HRG" unit), a Phoenix, Arizona based business specializing in the marketing and administration of limited benefit plans for entry level, high turnover, hourly employees. Commencing March 1, 2002, a majority of health insurance policies offered under the Star HRG program have been issued by The MEGA Life and Health Insurance Company (a wholly-owned subsidiary of UICI).

UICI also issues through its Life Insurance Division life insurance and annuity products to selected niche markets. The life insurance policies and annuity products issued by UICI are marketed through independent agents affiliated with UGA -- Association Field Services and Cornerstone America (the Company's principal marketing divisions) and a third party agency.

In 2001 the Company began to develop long-term care and Medicare supplement insurance products for the senior market and to establish distribution channels for products targeted toward the senior market. For financial reporting purposes the Company has established a Senior Market Division to segregate the reporting of expenses incurred in connection with the development of senior market products. To date, the Company's Senior Market Division has generated operating losses and nominal revenues.

The Company conducts the business of the Self-Employed Agency Division, Group Insurance Division, the Senior Market Division and the Life Insurance Division through its wholly owned insurance company subsidiaries, The MEGA Life and Health Insurance Company ("MEGA"), Mid-West National Life Insurance Company of Tennessee ("Mid-West") and The Chesapeake Life Insurance Company ("Chesapeake"). MEGA is an insurance company domiciled in Oklahoma and is licensed to issue health, life and annuity insurance policies in all states except New York. Mid-West is an insurance company domiciled in Tennessee and is licensed to issue health, life and annuity insurance policies in Puerto Rico and all states except Maine, New Hampshire, New York, and Vermont. Chesapeake is an insurance company domiciled in Oklahoma and is licensed to issue health and life insurance policies in all states except New Jersey, New York and Vermont.

MEGA, Mid-West and Chesapeake are each currently rated "A- (Excellent)" by A.M. Best. A.M. Best's ratings currently range from "A++ (Superior)" to "F (Liquidation)." A.M. Best's ratings are based upon factors relevant to policyholders, agents, insurance brokers and intermediaries and are not directed to the protection of investors. At December 31, 2002, Fitch, Inc. had assigned an insurer financial strength rating of "A" (Strong) to each of MEGA and Mid-West. Fitch's ratings provide an overall assessment of an insurance company's financial strength and security, and the ratings are used to support insurance carrier selection and placement decisions. Fitch's ratings range from "AAA" (Exceptionally Strong) to "D" (Distressed).

The Company's wholly-owned subsidiary, Academic Management Services Corp.

(formerly Educational Finance Group, Inc.) ("AMS"), markets, originates, funds and services primarily federally guaranteed student loans and is a leading provider of student tuition installment plans. AMS seeks to provide solutions for college and graduate school students, their parents and the educational institutions they attend. At December 31, 2002, UICI through AMS held approximately $1.3 billion aggregate principal amount of student loans, of which approximately 83.5% were federally guaranteed.

UICI holds a significant equity interest (approximately 45% of the issued and outstanding shares at February 28, 2003) in Healthaxis, Inc., a publicly traded corporation (Nasdaq: HAXS) that provides web-based connectivity and applications solutions for health benefit distribution and administration. These solutions, which consist primarily of software products and related services, are designed to assist health insurance payers, third party administrators, intermediaries and employers in providing enhanced services to members, employees and providers.

The Company's operating segments for financial reporting purposes include (a) the Insurance segment, which includes the businesses of the Company's Self-Employed Agency Division, the Group Insurance Division, the Life Insurance Division (formerly the Company's OKC Division) and the Senior Market Division; (b) the Financial Services segment, which includes the businesses of Academic Management Services Corp. and the Company's investment in Healthaxis, Inc.; and (c) Other Key Factors, which includes investment income not otherwise allocated to the other segments, realized gains and losses, interest expense on corporate debt, general expenses relating to corporate operations, variable stock compensation, the results of the Company's former Barron Risk Management Services, Inc. unit until its sale in September 2002, goodwill amortization and other unallocated items. The operations of the Company's former United CreditServ, Inc. subsidiary (through which UICI marketed credit support services to individuals with no, or troubled, credit experience and assisted them in obtaining a nationally recognized credit card), the Company's Special Risk Division (through which the Company provided various niche health insurance related products, including "stop loss," marine crew accident, organ transplant and international travel accident products and various insurance intermediary services and managed care services) and its UICI Administrators, Inc. unit (through which, UICI provided underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans) have been separately classified as discontinued operations for financial reporting purposes for all years presented.

The Company's principal executive offices are located at 4001 McEwen Drive, Suite 200, Dallas, Texas 75244. The Company's telephone number is (972) 392-6700. Effective March 28, 2003, the Company will move its executive offices to 9151 Grapevine Hwy, North Richland Hills, Texas 76180-5605, and the Company's telephone number will be (817) 255-5200.

The Company's periodic SEC filings, including its annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and if applicable, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available through the Company's web site at www.uici.net free of charge as soon as reasonably practicable after such material is electronically filed with, or furnished to, the SEC.

INSURANCE SEGMENT

SELF-EMPLOYED AGENCY DIVISION

Market. According to the Bureau of Labor Statistics, there were approximately 12 million self-employed individuals in the United States at the end of 2001. The Company has currently in force approximately 330,000 basic health policies issued or coinsured by the Company. UICI believes that there is significant opportunity to increase its penetration in this market.

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

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

- UICI's Catastrophic Hospital Expense Plan provides a $2.0 million lifetime maximum for all injuries and sicknesses and a lifetime maximum benefit for each injury or sickness ranging from $500,000 to $1.0 million. Covered expenses are subject to a deductible and are then reimbursed at a benefit payment rate ranging from 50% to 100% as determined by the policy. After a pre-selected dollar amount of covered expenses has been reached, the remaining expenses are reimbursed at 100% for the remainder of the period of confinement per calendar year. The benefits for this plan tend to increase as hospital care expenses increase and therefore the premiums for these policies are subject to increase as overall hospital care expenses rise.

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

Each of the Company's basic insurance policies is available with a "menu" of various options (including various deductible levels, coinsurance percentages and limited riders that cover particular events such as outpatient accidents, and doctors' visits), enabling the insurance product to be tailored to meet the insurance needs and the budgetary constraints of the policyholder. The Company offers as an optional benefit an Accumulated Covered Expense (ACE) rider that provides for catastrophic coverage on the Company's Scheduled/Basic plans for covered expenses under the contract that generally exceed $75,000 or, in certain cases, $100,000. The ACE rider pays benefits at 100% after the stop loss is reached up to the aggregate maximum amount of the contract.

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

The Self-Employed Agency Division generated revenues of $1,035.9 million, $713.3 million and $584.1 million (70%, 65% and 57% of total revenue) in 2002, 2001, and 2000, respectively.

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

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

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

The Company provides health insurance products to consumers in the self-employed market in 44 states. A substantial portion of such products is issued to members of various independent membership associations that endorse the products and act as the master policyholder for such products. The two principal membership associations in the self-employed market for which the Company underwrites insurance are the National Association for the Self-Employed ("NASE") and the Alliance for Affordable Services ("AAS"). The associations provide their membership with a number of endorsed benefits and products, including health insurance underwritten by the Company. Subject to applicable state law, individuals generally may not obtain insurance under an association's master policy unless they are also members of the associations. UGA agents and Cornerstone agents also act as enrollers of new members for the associations, for which the agents receive compensation. Specialized Association Services, Inc. (a company controlled by the adult children of Ronald L. Jensen, the Chairman of the Company) provides administrative and benefit procurement services to the associations, and a subsidiary of the Company sells new membership sales leads to the enrollers and video and print services to the associations and to Specialized Association Services, Inc. See Note N of Notes to Consolidated Financial Statements. In addition to health insurance premiums derived from the sale of health insurance, the Company receives fee income from the associations, including fees associated with the enrollment of new members, fees for association membership marketing and administrative services and fees for certain association member benefits. The agreements with these associations requiring the associations to continue as the master policyholder and to endorse the Company's insurance products to their respective members are terminable by the Company and the associations upon not less than one year's advance notice to the other party.

Recent articles in the popular press have been critical of association group coverage. In December 2002, the National Association of Insurance Commissioners (NAIC) convened a special task force to review association group coverage, and the Company is aware that selected states are reviewing the laws and regulations under which association group policies are issued. The Company has also recently been named a party to three lawsuits challenging the nature of the relationship between MEGA and NASE, the membership association that has endorsed MEGA's health insurance products. See Note O of Notes to Consolidated Financial Statements. While the Company believes it is providing association group coverage in full compliance with applicable law, changes in the relationship between the Company and the membership associations and/or changes in the laws and regulations governing so-called "association group" insurance (particularly changes that would subject the issuance of policies to prior premium rate approval and/or require the issuance of policies on a "guaranteed issue" basis) could have a material adverse impact on the financial condition, results of operations and/or business of the Company.

UICI Marketing, Inc. (a wholly-owned subsidiary and the Company's direct marketing group) generates sales prospect leads for both UGA and Cornerstone agents. UICI Marketing administers two call centers staffing approximately 250 tele-service representatives. UICI Marketing has developed a marketing pool of approximately seven million prospects from various data sources. Prospects initially identified by UICI Marketing that are self employed, small business owners or individuals may become a "qualified lead" by

responding through one of UICI Marketing's traditional and internet lead channels and by expressing an interest in learning more about health insurance. UICI believes that the Company's agents, possessing the qualified leads' contact information, are able to achieve a higher "close" rate than is the case with unqualified prospects.

Policy Design and Claims Management. The Company's traditional indemnity health insurance products are principally designed to limit coverages to the occurrence of significant events that require hospitalization. This policy design, which includes high deductibles, reduces the number of covered claims requiring processing, thereby controlling administrative expenses. The Company seeks to price its products in a manner that accurately reflects its underwriting assumptions and targeted margins, and it relies on the marketing capabilities of its dedicated agency sales forces to sell these products at prices consistent with these objectives.

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

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

Preferred Provider Products. In order to further control health care costs, in 1995 the Company incorporated into certain of its health plans managed care features of a PPO. These health plans incorporate managed care features of a PPO through negotiated discounts with a PPO network. The health plans that provide the PPO option generally provide a greater level of benefits for services performed within the PPO network in the form of lower deductibles and

co-payments compared to out-of-network services. The value of the network discount is reflected in the form of lower rates and discounts on covered charges.

Coinsurance Arrangements. Prior to 1996, a substantial portion of the health insurance policies sold by UGA agents were issued by AEGON USA, Inc. ("AEGON") and coinsured by the Company. Effective April 1, 1996, the Company acquired the underwriting, claims management and administrative capabilities of AEGON related to products coinsured by the Company. Following this transaction, the agents of UGA began to market health insurance products directly for the Company rather than through the coinsurance arrangement. The Company retains 100% of the premiums and pays all of the costs of such new policies. Under the terms of its coinsurance agreement, AEGON has agreed to cede (i.e., transfer), and the Company has agreed to coinsure, 60% of the health insurance sold by UGA agents and issued by AEGON. The Company receives 60% of premiums collected and is liable for 60% of commission expenses, administrative costs, claims payments, premium taxes, legal expenses, extra-contractual charges and other payments. The Company and AEGON agreed to maintain the coinsurance agreement for policies issued by AEGON prior to April 1, 1996 and during the transition period ended in 1997. Commencing in May 2001, and in accordance with Assumption Reinsurance Agreements with AEGON, the Company began to assume all of the remaining policies from AEGON as approvals were received from state regulatory authorities. As of December 31, 2002, approximately 78% of the remaining policies have been assumed by the Company from AEGON, and the Company currently anticipates that the balance of the remaining policies will be assumed during 2003. On the policies that have been assumed, the Company has ceded 40% of the health insurance business back to AEGON. The Company has agreed to acquire in 2003 the remaining 40% of the coinsured business from AEGON at a purchase price to be based on the estimated present value of future profits from the business.

Acquisition of Health Blocks. Historically, the Company from time to time acquired and may continue to acquire closed (i.e., no new policies) blocks of health insurance policies or companies that own such blocks. These opportunities were pursued on a case-by-case basis, and revenues from such blocks have generally not represented a material portion of Self-Employed Agency Division revenue.

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GROUP INSURANCE DIVISION

The Company has classified as its Group Insurance Division the operations of its former Student Insurance Division and the Company's recently acquired Star HRG business unit.

STUDENT INSURANCE DIVISION

Market. The student market consists primarily of students attending colleges and universities in the United States and Puerto Rico and, to a lesser extent, those attending public and private schools in grades kindergarten through grade 12. Generally, the Company's marketing efforts have been focused on college students whose circumstances are such that health insurance may not otherwise be available through their parents. In particular, older undergraduates, graduate and international students often have a need to obtain insurance as "first-time buyers." According to industry sources, there are approximately 2,500 four-year universities and colleges in the United States, which have a combined enrollment of approximately 11.5 million students. Typically, a carrier must be approved and endorsed by the educational institution as a preferred vendor of health insurance coverage to the institution's students. The Company believes that it has been authorized to provide student health insurance plans by more universities than any other

single insurer.

Products. The insurance programs sold in the student market are designed to meet the requirements of each individual school. The programs generally provide coverage for one school year and the maximum benefits available to any individual student enrolled in the program range from $10,000 to $1.0 million, depending on the coverage level desired by the school.

The Company's Student Insurance Division underwrites, manages and pays claims and administers policies for substantially all of its school clients. Selected school clients administer and pay claims with respect to student insureds attending their schools.

The Student Insurance Division had revenues of $167.4 million, $126.1 million and $111.5 million in 2002, 2001 and 2000, respectively, representing approximately 11% of total Company revenues in each such year.

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

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

STAR HRG UNIT

Effective February 28, 2002, the Company acquired the business of Star Human Resources Group, Inc. and STAR Administrative Services, Inc. (collectively referred to by the Company as its "Star HRG" unit), a Phoenix, Arizona based business specializing in the development, marketing, and administration of limited benefit plans for entry level, high turnover, hourly employees. Commencing March 1, 2002, the Star HRG unit became an operating division of MEGA, and since March 1, 2002 the majority of the health insurance policies offered under the Star HRG program has been issued by MEGA.

Market. Star HRG focuses its marketing efforts on two distinct markets: employers with 500 or more eligible lives and employers with 10 - 499 eligible lives and businesses utilizing contract workers. Star HRG's Starbridge program, which accounts for approximately 98% of its revenues, constitutes an affordably priced group of limited benefit plans designed to meet the needs of entry level, high turnover, hourly employees at employers with 500 or more eligible lives. The plans are designed to meet the needs of full or part-time employees and are predominantly used for non-benefited classes of employees and newly hired individuals who are not yet eligible for full-time benefits. Target industries include national and regional restaurant chains, retail and convenience stores, service stations, call centers, and various other outlets of the service/hospitality industries.

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Through its Fundamental Care program (which accounts for approximately 2% of Star HRG's revenues), Star HRG offers an affordably priced group of limited benefit plans designed to meet the needs of workers in businesses with 10 - 499 eligible lives and businesses utilizing contract workers. The Fundamental Care plans are designed to meet the needs of full or part-time workers and are predominantly used for non-benefited classes of employees, the trucking industry's owner/operators, and temporary/contract workers.

Products. Product offerings under both the Starbridge and Fundamental Care programs include affordable limited benefit medical, dental, term life, accidental death benefits, and short-term disability, as well as access to discounted prescription, vision, and other health care related services.

The Star HRG unit reported revenues of $84.2 million in the ten months ended December 31, 2002.

Marketing and Sales. Star HRG markets its products in all 50 states. Star HRG markets directly to its employer clients through its dedicated sales force of 17 Star HRG employees. Clients often retain independent insurance brokers to facilitate the sales process.

Star HRG's sales efforts are supplemented by a full-service enrollment center located in Phoenix, Arizona. To increase plan participation, the enrollment center utilizes direct mail pieces, interactive voice response technology and an in-bound/out-bound call center enrollment team.

LIFE INSURANCE DIVISION

Through the Company's Life Insurance Division (which is based in Oklahoma City, Oklahoma), the Company offers life insurance and annuity products to individuals. At December 31, 2002, the Life Insurance Division had over $3.1 billion of life insurance in force and approximately 284,000 individual policyholders. The Life Insurance Division grew historically through acquisitions of closed blocks of life insurance and annuity policies and, more recently, through its efforts to market and sell new life insurance products. In 2002, 2001 and 2000, the Life Insurance Division generated revenues of $74.4 million, $94.9 million and $92.4 million, respectively, representing 5%, 9% and 9%, respectively, of total Company revenue in each such year. Included in 2002, 2001 and 2000 revenues for the Life Insurance Division were revenues of $6.3 million, $22.9 million and $17.2 million, respectively, generated by the Company's workers' compensation business, which the Company exited in May 2001.

Marketing and Sales. Life insurance products are marketed and sold through the Company's sales force of independent agents. Agents associated with both UGA and Cornerstone are now offering specially designed life insurance products to complement the portfolio of health-related products such agents already sell. The Life Insurance Division has developed life insurance products to be sold using its unique needs analysis computer program, "Blueprint for Life."(TM) The Life Insurance Division hopes to leverage the Company's significant health insurance customer base by positioning itself to offer those customers a universal life, term life and final expense product designed to fit their changing needs.

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

In 1991, the Company entered into an agreement pursuant to which it services a block of policies with life insurance and annuity reserves for an unrelated company. At December 31, 2002, total life insurance and annuity

reserves for this block was $67.3 million, which reserves are not reflected on the Company's consolidated balance sheet. The Company receives a fee for servicing the policies and in 1997 also began to

participate in 50% of the profits or losses on this business. The Company's consolidated results of operations reflect the servicing fee currently earned and the 50% profit participation.

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

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

The Company has determined that, effective May 31, 2003, it will no longer issue new life insurance policies under the College Fund Life Division program and that, effective June 30, 2003, it will cease all operations at the Company's Norcross, Georgia facility. In connection with such closedown, the Company currently estimates that it will incur exit costs (consisting primarily of employee severance, relocation expenses and lease termination and other costs) in the amount of approximately $900,000, which costs will be expensed as incurred over the period ending June 30, 2003 in accordance with Financial Accounting Standards Board ("FASB") Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

The Company through its College Fund Life Division has outstanding commitments to fund student loans for the years 2003 through 2024. See Notes K and O of Notes to Consolidated Financial Statements.

SENIOR MARKET DIVISION

In 2001 the Company began to develop long-term care and Medicare supplement insurance products for the senior market and to establish distribution channels for products targeted toward the senior market. The Company is currently reinsuring 20% of its risk with respect to long-term care coverage on a coinsurance basis with a third party reinsurer.

In 2001 the Company entered into an agreement with an unaffiliated third party to serve as administrator for the Company's senior age insurance products,

in which capacity the third party underwrote, billed, provided customer service and administered claims for all long-term care and Medicare supplement insurance products to be sold by the Company's two principal insurance subsidiaries. This third party arrangement will effectively terminate in the second quarter of 2003. In March 2003, the Company will bring in house all underwriting, billing, customer service and claims administration functions for all new long term care applications submitted. Conversion of in-force long-term care and Medicare supplement business will occur in the second quarter of 2003. Medicare supplement sales were suspended in February 2003 until the conversion of administrative functions to the Company's administration center is complete.

Senior market products are distributed through independent agents affiliated with Guaranty Senior Assurance (a newly-formed division of MEGA) and through independent agents affiliated with SeniorsFirst LLC, an agency

in which the Company holds a 50% ownership interest. The Company acquired its 50% interest in SeniorsFirst LLC on January 17, 2002 for a cash purchase price of $8.0 million.

The Company's Senior Market Division generated revenues of $2.1 million in 2002 and nominal revenues in 2001. The Senior Market Division generated operating losses of $7.5 million and $2.1 million in 2002 and 2001, respectively. The Company currently anticipates that its Senior Market Division will continue to generate operating losses in 2003.

FINANCIAL SERVICES SEGMENT

ACADEMIC MANAGEMENT SERVICES CORP.

The Company's wholly-owned subsidiary Academic Management Services Corp. ("AMS") (formerly Educational Finance Group, Inc.) markets, originates, funds and services primarily federally guaranteed student loans and is the leading provider of student tuition installment plans. AMS (which is based in Swansea, Massachusetts) seeks to provide financing solutions for college and graduate school students, their parents, and the educational institutions they attend. At December 31, 2002, UICI through AMS held approximately $1.3 billion aggregate principal amount of student loans, of which approximately 83.7% were federally guaranteed.

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

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

of monthly payment size.

In addition to the various federally guaranteed loan programs, AMS offers alternative student loans guaranteed by private insurers (which during 2002 aggregated approximately 8.6% of AMS' loan originations) and uninsured alternative loans (which during 2002 aggregated approximately 1.0% of loan originations).

AMS has initially funded its lending business primarily with secured lines of credit and commercial paper facilities extended or administered by various financial institutions. After initial funding, AMS typically refinances groups of loans on a more structured basis by transferring loans to bankruptcy remote, special purpose entities, which in turn issue debt securities secured by the loans. In 1999, the Company created approximately $1.3 billion of such structured funding facilities in three separate transactions. In January 2002, the Company completed the issuance of $335.0 million principal amount of auction rate notes secured by a pledge of federally- and privately-insured student loans held in the AMS portfolio, and in August 2002, AMS completed the issuance of $300.0 million principal amount of student loan asset- backed notes issued by a special purpose entity, consisting of a series of Class A senior notes in the aggregate principal amount of $288.0 million and a series of Class B subordinate notes in the aggregate principal amount of $12.0 million. For financial reporting and accounting purposes the facilities are classified as financings, with the indebtedness represented by the debt securities recorded as liabilities on the consolidated balance sheet of the Company, and the student loan assets and cash and cash equivalents securing payment of such debt securities recorded as assets on the consolidated balance sheet of the Company.

In addition, AMS may from time to time in the ordinary course of business sell loans in its portfolio to various secondary market buyers. Decisions to hold or sell loans at any point in time are based on a variety of strategic and financial factors, one of the most prominent being the cash prices being offered by buyers relative to the net present value of the loans if held in the portfolio for duration. Sales of federally insured education loans have typically produced gains on sale recognized in the periods in which the sales occur. During 2002, AMS originated approximately $715.1 million in new loans and sold $271.2 million principal amount of loans, and during 2001, AMS originated approximately $717.6 million in new loans and sold $447.0 million principal amount of loans.

AMS also designs, and markets monthly tuition installment payment plans for secondary, college and graduate students. Marketed on behalf of and with the endorsement of colleges, universities, and private secondary schools, tuition installment plans enable parents to pay tuition and related school costs in interest-free monthly installments.

Through its AMS Servicing Group unit (formerly EFG Technologies, Inc.) based in Winston-Salem, North Carolina, AMS provides loan servicing and administrative services on behalf of participating colleges and universities for federal Perkins loans and privately insured loans. The Perkins Loan program provides low-interest loans to assist needy students in financing the costs of post-secondary education. AMS Servicing Group services approximately one million loan accounts for approximately 600 colleges, universities and private lenders.

INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2002, UICI held approximately 45% of the issued and outstanding shares of common stock of Healthaxis, Inc. ("HAI") (Nasdaq: HAXS). See Item 7 -- Management's Discussion and Analysis of Financial Condition and

Results of Operations and Note E of Notes to Consolidated Financial Statements.

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

HAI generated gross revenues of $28.1 million, $43.8 million and $43.7 million in 2002, 2001 and 2000, respectively, of which 38%, 70% and 63% were derived from services provided to the Company and its insurance company affiliates. See Note E of Notes to Consolidated Financial Statements.

DISCONTINUED OPERATIONS

The Company has reflected as discontinued operations for financial reporting purposes the results of its former United CreditServ sub-prime credit card business, its Special Risk Division operations and its UICI Administrators, Inc. unit.

UNITED CREDITSERV, INC.

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

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In March 2000, the Board of Directors of UICI determined, after a thorough assessment of the unit's prospects, that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit was reflected as a discontinued operation for financial reporting purposes effective December 31, 1999. On September 29, 2000, the Company completed the sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price of approximately $124.0 million, and on January 29, 2001, the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the Office of the Comptroller of the Currency.

For the year ended December 31, 2002, 2001 and 2000, the Company's United CreditServ reported income (loss) after tax (benefit) of $4.8 million, $3.7 million and $(23.4) million, respectively, which income (loss) has been reflected in results from discontinued operations for all periods presented. United CreditServ's results in 2002 included income (net of tax) in the amount of $4.8 million, associated with a $7.4 million release of reserves in the three

months ended December 31, 2002 resulting from the Company's assessment of certain favorable events related to credit card litigation matters. See Note O of Notes to Consolidated Financial Statements. United CreditServ's results from operations in 2001 included income (net of tax) in the amount of $3.7 million, associated with the receipt of a $5.7 million cash payment representing the deferred contingent portion of the purchase price in final settlement of the September 2000 sale of substantially all of the non-cash assets associated with its United CreditServ credit card unit. See Item 7 -- Management's Discussion and Analysis of Financial Condition and Results of Operations.

SPECIAL RISK DIVISION

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

For the year ended December 31, 2002, 2001 and 2000, the Special Risk Division reported losses (net of tax) in the amount of $(4.2) million, $(9.2) million and $(2.9) million, which losses have been reflected in results from discontinued operations for all periods presented. The Special Risk Division loss in 2002 reflected a $6.5 million charge in the three months ended December 31, 2002 to reflect a reassessment and strengthening of claims reserves. In 2003 the Company will continue the wind-down of its former Special Risk Division.

UICI ADMINISTRATORS, INC,

Prior to 2002, UICI provided underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans. The Company formerly classified the operations of its subsidiaries UICI Administrators, Inc. (a company engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation), Insurdata Marketing Services, LLC (a subsidiary of the Company engaged in the business of marketing third party benefits administration services) and Barron Risk Management, Inc. (a company engaged in the business of administration of workers' compensation and non-subscriber plans) as its Third Party Administration ("TPA") Division.

On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA Division, and on September 30, 2002, the Company sold to an unaffiliated third party all of the capital stock of Barron Risk Management Services, Inc., the sole remaining component of the Company's former TPA Division. For financial reporting purposes, the results of operations of UICI Administrators, Inc. have been reflected in discontinued operations for all periods presented.

For the year ended December 31, 2002, 2001 and 2000, UICI Administrators, Inc. reported income (losses) (net of tax) in the amount of $67,000, $(3.8) million and $(1.2) million, which income (losses) have been reflected in results from discontinued operations for all periods presented.

REINSURANCE

The Company's insurance subsidiaries reinsure portions of the coverages

provided by their insurance products with other insurance companies on both an excess of loss and coinsurance basis. The maximum retention by the Company on one individual in the case of life insurance is $200,000. The Company uses reinsurance for its health insurance business only for limited purposes. The Company does not reinsure any health insurance issued in the self-employed market.

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

COMPETITION

INSURANCE

The Company operates in highly competitive markets. The Company's insurance subsidiaries compete with large national insurers, regional insurers and specialty insurers, many of which are larger and have substantially greater financial resources or greater claims paying ability ratings than the Company. In addition to claims paying ability ratings, insurers compete on the basis of price, breadth and flexibility of coverage, ability to attract and retain agents and the quality and level of agent and policyholder services provided.

STUDENT LOANS

The student loan industry is highly competitive. The Company competes with over 2,000 other lenders. Despite the large number of lenders, the top 100 lenders account for approximately 87% of new loan volume. The Company's predominant competitor in the student loan industry is Sallie Mae, Inc. The Company believes that the volume of new loans originated in 2002 would make it one of the top 10 student loan lenders in 2002. The Company competes by designing and offering an integrated package of government guaranteed and privately guaranteed loan products.

REGULATORY AND LEGISLATIVE MATTERS

HEALTH CARE REFORM; PRIVACY INITIATIVES

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

Recently adopted legislation and regulations governing the use and security of individuals' nonpublic personal data by financial institutions, including insurance companies, will have a significant impact on the Company's business and future results of operations. See "Management's Discussion and Analysis of Financial Condition and Results of Operations -- Privacy Initiatives."

INSURANCE REGULATION

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

The Company's insurance subsidiaries are required to file detailed annual statements with the state insurance regulatory departments and are subject to periodic financial and market conduct examinations by such departments. The most recently completed financial examination for MEGA in Oklahoma (MEGA's domicile state) was completed as of and for the three-year period ended December 31, 1998. The Oklahoma Department of Insurance is currently conducting a financial examination of MEGA for the three-year period ended December 31, 2001. The most recently completed financial examination for Mid-West in Tennessee (Mid-West's domicile state) was completed as of and for the five-year period ended December 31, 1999. The most recently completed financial examination for Chesapeake in Oklahoma (Chesapeake's domicile state) was completed as of and for the three-year period ended December 31, 2000.

State insurance departments have also periodically conducted and continue to conduct market conduct examinations of UICI's insurance subsidiaries. As of December 31, 2002, either or both of MEGA and Mid-West were subject to ongoing market conduct examinations and/or open inquiries with respect to marketing practices in ten states. State insurance regulatory agencies have authority to levy monetary fines and penalties resulting from findings made during the course of such market conduct examinations. Historically, the Company's insurance subsidiaries have from time to time been subject to such fines and penalties, none of which individually or in the aggregate have had a material adverse effect on the results of operations or financial condition of the Company.

The Company provides health insurance products to consumers in the self-employed market in 44 states. A substantial portion of such products is issued to members of various independent membership associations that endorse the products and act as the master policyholder for such products. The two principal membership associations in the self-employed market for which the Company underwrites insurance are NASE and AAS. The associations provide their membership with a number of endorsed benefits and products, including health insurance underwritten by the Company. Subject to applicable state law, individuals generally may not obtain insurance under an association's master policy unless they are also members of the association. UGA agents and Cornerstone agents also act as enrollers of new members for the associations, for which the agents receive compensation. Specialized Association Services, Inc. (a company controlled by the adult children of Ronald L. Jensen, the Chairman of the Company) provides administrative and benefit procurement services to the associations, and a subsidiary of the Company sells new membership sales leads to the enrollers and video and print services to the

associations and to Specialized Association Services, Inc. See Note N of Notes to Consolidated Financial Statements. In addition to health insurance premiums derived from the sale of health insurance, the Company receives fee income from the associations, including fees associated with the enrollment of new members, fees for association membership marketing and administrative services and fees for certain association member benefits. The agreements with these associations requiring the associations to continue as the master policyholder and to endorse the Company's insurance products to their respective members are terminable by the Company and the associations upon not less than one year's advance notice to the other party.

Recent articles in the popular press have been critical of association group coverage. In December 2002, the NAIC convened a special task force to review association group coverage, and the Company is aware that selected states are reviewing the laws and regulations under which association group policies are issued. The Company has also recently been named a party to three lawsuits challenging the nature of the relationship between MEGA and NASE, the membership association that has endorsed MEGA's health insurance products. See Note O of Notes to Consolidated Financial Statements. While the Company believes it is providing association group coverage in full compliance with applicable law, changes in the relationship between the Company and the membership associations and/or changes in the laws and regulations governing so-called "association group" insurance (particularly changes that would subject the issuance of policies to prior premium rate approval and/or require the issuance of policies on a "guaranteed issue" basis) could have a material adverse impact on the financial condition, results of operations and/or business of the Company.

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

Under the risk-based capital initiatives adopted in 1992 by the NAIC, insurance companies must calculate and report information under a risk-based capital formula. Risk-based capital formulas are intended to evaluate risks associated with: asset quality; adverse insurance experience; loss from asset and liability mismatching; and general business hazards. This information is intended to permit regulators to identify and require remedial action for inadequately capitalized insurance companies but is not designed to rank adequately capitalized companies. At December 31, 2002, the risk-based capital ratio of each of the Company's domestic insurance subsidiaries significantly exceeded the ratio for which regulatory corrective action would be required.

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

statements.

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

The states in which the Company is licensed have the authority to change the minimum mandated statutory loss ratios to which the Company is subject, the manner in which these ratios are computed and the manner in which compliance with these ratios is measured and enforced. Loss ratios are commonly defined as incurred claims divided by earned premiums. Most states in which the Company writes insurance have adopted the loss ratios recommended by the NAIC but frequently the loss ratio regulations do not apply to the types of health insurance issued by the Company. The Company is unable to predict the impact of (i) any

changes in the mandatory statutory loss ratios for individual or group policies to which the Company may become subject, or (ii) any change in the manner in which these minimums are computed or enforced in the future. Such changes could result in a narrowing of profit margins and have a material adverse effect upon the Company. The Company has not been informed by any state that it does not meet mandated minimum ratios, and the Company believes that it is in compliance with all such minimum ratios. In the event the Company is not in compliance with minimum statutory loss ratios mandated by regulatory authorities with respect to certain policies, the Company may be required to reduce or refund premiums, which could have a material adverse effect upon the Company.

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

STUDENT LOAN OPERATIONS

A significant portion of the student loans originated by the Company are made under the Federal Family Education Loan Program ("FFELP Loans"), which is subject to periodic legislative reauthorization and interim revision by legislation and regulation. FFELP Loans include Federal Stafford loans for students and PLUS Loans to parents.

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

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

The Federal Higher Education Act of 1965, which authorizes and governs most federal student aid and student loan programs, is subject to review and reauthorization by the recently convened 108th Congress. Congress last reauthorized the Higher Education Act in 1998. Congress initiated the reauthorization process by holding hearings on reauthorization and higher education finance issues in the Fall of 2002. It is currently anticipated that additional hearings of various House and Senate subcommittees will take place during the balance of 2003, leading to passage of some form of reauthorization bill by the House and Senate and signing by the President in late 2003 - early 2004. While the Company believes that the Higher Education Act of 1965 will in fact be reauthorized, there can be no assurance of the form that reauthorization will take or the changes that the reauthorization bill will bring to the law and regulations governing student finance.

EMPLOYEES

The Company had approximately 2,700 employees at February 14, 2003. The Company considers its employee relations to be good. Agents associated with the Company's UGA, Cornerstone, Guaranty Senior Assurance, CFLD Association Field Services and SeniorsFirst field forces constitute independent contractors and are not employees of the Company.

ITEM 2. PROPERTIES

The Company currently occupies three office buildings in Tarrant County, Texas, comprising in the aggregate approximately 200,000 square feet of office space. The Company's United CreditServ subsidiary owns two buildings in Sioux Falls, South Dakota, comprising approximately 158,000 square feet, both of which are leased to an unaffiliated third party. AMS owns two office buildings in Swansea, Massachusetts, comprising approximately 60,000 square feet of office space. In addition, the Company and its subsidiaries

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lease office space at various locations, including its principal executive office located at 4001 McEwen Drive, Dallas, Texas 75244.

Effective March 28, 2003, the Company will move its executive offices to a new facility comprising approximately 123,000 square feet at 9151 Grapevine Hwy, North Richland Hills, Texas 76180-5605.

ITEM 3. LEGAL PROCEEDINGS

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

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

None.

EXECUTIVE OFFICERS OF THE COMPANY

The Chairman of the Company is elected, and all other executive officers listed below are appointed by the Board of Directors of the Company at its

Annual Meeting each year or by the Executive Committee of the Board of Directors to hold office until the next Annual Meeting or until their successors are elected or appointed. None of these officers have family relationships with any other executive officer or director.

NAME OF OFFICER	PRINCIPAL POSITION	AGE	BUSINESS EXPERIENCE DURING PAST FIVE
Ronald L. Jensen.........	Chairman of the Board	72	Mr. Jensen has served as Chairman sin December 1983. In the last five years Jensen also served as President of th Company from October 1997 until Janua 1999.
Gregory T. Mutz..........	President and Chief Executive Officer	57	Mr. Mutz was elected President and Ch Executive Officer in January 1999. Pr to January 1999, Mr. Mutz served as Chairman and Chief Executive Officer AMLI Residential Properties Trust, a publicly traded real estate investmen trust.
Glenn W. Reed...........	Executive Vice President and General Counsel	50	Mr. Reed has served in his current position since July 1999. Prior to jo UICI, Mr. Reed was a partner with the Chicago, Illinois law firm of Gardner Carton & Douglas.
Phillip J. Myhra.........	Executive Vice President -- Insurance Group	50	Mr. Myhra has served as an executive officer of the Insurance Group since December 1999 and as Executive Vice President -- Insurance Group of the Company since February 2001. He serve a Director, President and Chief Execu Officer of the Company's insurance subsidiaries. Prior to joining the Company, Mr. Myhra served as Senior V President of Mutual of Omaha.

NAME OF OFFICER	PRINCIPAL POSITION	AGE	BUSINESS EXPERIENCE DURING PAST FIVE
Steven K. Arnold.........	Executive Vice President -- Insurance Group	55	Mr. Arnold joined the Company in Octo 1998 as a consultant. In March 1999, Arnold became Chief Executive Officer the Student Insurance Division and Sp Risk Group of the Company. In August and March 2002 Mr. Arnold was elected Vice President and Executive Vice President, respectively, of the Compa For the five years prior to joining t Company, Mr. Arnold held various posi as a consultant and officer in the he care and systems industries.
Mark D. Hauptman.........	Vice President and Chief Financial Officer and Chief Accounting Officer	45	Mr. Hauptman joined the Company in 19 Controller of the Company's former OK Division. He has served as the Compan

			Chief Accounting Officer since June 2 and has served as Chief Financial Off since May 2002. He also serves as Dir and Vice President of the Company's insurance subsidiaries.
James N. Plato...........	President -- Life Insurance Division	54	Mr. Plato has served as an executive officer and director of the Company's insurance subsidiaries since June 200 During the five years prior to joinin Company, Mr. Plato served as an execu officer and/or director of Ilona Fina Group, 1st Variable Life Insurance Company, Interstate Assurance, Mutual Omaha, and United Presidential Life Insurance Company.

PART II

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

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

	HIGH	LOW
FISCAL YEAR ENDED DECEMBER 31, 2001		
1st Quarter..	$ 9.65	$5.938
2nd Quarter..	12.75	8.25
3rd Quarter..	16.26	10.70
4th Quarter..	15.74	11.40
FISCAL YEAR ENDED DECEMBER 31, 2002		
1st Quarter..	$18.95	$12.90
2nd Quarter..	21.22	16.65
3rd Quarter..	20.25	16.00
4th Quarter..	17.18	12.79

As of February 28, 2003, there were approximately 13,700 holders of record of Common Stock.

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

In addition, dividends paid by the Company's domestic insurance subsidiaries to the Company out of earned surplus in any year that are in excess of limits set by the laws of the state of domicile require prior approval of state regulatory authorities in that state. See Note M of the Notes to Consolidated Financial Statements included herein.

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

ITEM 6. SELECTED FINANCIAL DATA

The following selected consolidated financial data as of and for each of the five years in the period ended December 31, 2002 have been derived from the audited Consolidated Financial Statements of the Company. The following data should be read in conjunction with the Consolidated Financial Statements and the notes thereto and Management's Discussion and Analysis of Financial Condition and Results of Operations included herein.

	YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	19
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND OPERATING RAT				
INCOME STATEMENT DATA:					
Revenues from continuing operations	$1,478,981	$1,099,434	$1,018,798	$ 963,031	$ 99
Income from continuing operations before income taxes	74,434	70,897	69,354	54,384	4
Income from continuing operations	51,354	52,173	33,264	36,155	2
Income (loss) from discontinued operations	653	(9,281)	(27,531)	(182,037)	3

	YEAR ENDED DECEMBER 31,				
	2002	2001	2000	1999	19
	(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS AND OPERATING RAT				
Income (loss) before cumulative effect of accounting change:	52,007	42,892	5,733	(145,882)	5
Cumulative effect of accounting change	(5,144)	--	--	--	
Net income (loss)	$ 46,863	$ 42,892	$ 5,733	$ (145,882)	$ 5
Earnings per share from continuing operations:					
Basic earnings per common share	$ 1.08	$ 1.12	$ 0.71	$ 0.78	$
Diluted earnings per common share	$ 1.05	$ 1.09	$ 0.70	$ 0.76	$
Earnings (loss) per share from discontinued operations(1):					
Basic earnings (loss) per common share	$ 0.02	$ (0.20)	$ (0.59)	$ (3.93)	$
Diluted earnings (loss) per common share	$ 0.02	$ (0.19)	$ (0.58)	$ (3.81)	$
Loss per share from cumulative effect of accounting change:					
Basic loss per common share	$ (0.11)	$ --	$ --	$ --	$
Diluted loss per common					

share........................	$ (0.11)	$ --	$ --	$ --	$
Earnings (loss) per share:					
Basic earnings (loss) per common share........................	$ 0.99	$ 0.92	$ 0.12	$ (3.15)	$
Diluted earnings (loss) per common share........................	$ 0.96	$ 0.90	$ 0.12	$ (3.05)	$
OPERATING RATIOS:					
Health Ratios:					
Loss ratio(2)....................	63%	64%	64%	69%	
Expense ratio(2).................	34%	33%	31%	29%	
Combined health ratio............	97%	97%	95%	98%	
BALANCE SHEET DATA:					
Total investments and cash(3).......	$1,394,578	$1,269,495	$1,148,568	$1,111,334	$1,14
Total assets.......................	3,730,304	3,281,232	2,981,709	3,502,030	2,22
Total policy liabilities...........	1,029,103	891,361	824,632	841,398	88
Total debt.........................	9,547	25,303	89,991	152,220	5
Student loan credit facilities......	1,752,602	1,506,202	1,334,847	1,698,765	66
Stockholders' equity...............	585,050	534,572	447,105	407,434	59
Stockholders' equity per share(4)...	$ 11.76	$ 10.81	$ 9.74	$ 9.44	$

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(1) For all periods presented, the results of the Company's former sub-prime credit card business, its Special Risk Division and its UICI Administrators, Inc. unit have been classified as discontinued operations for financial reporting purposes.

(2) The health loss ratio represents benefits, claims and settlement expenses related to health insurance policies stated as a percentage of earned health premiums. The health expense ratio represents underwriting, policy acquisition costs and insurance expenses related to health insurance policies stated as a percentage of earned health premiums. The health loss ratio and the health expense ratio have been calculated to give effect to changes in the manner in which the Company has classified certain fee income

derived from membership marketing services provided to the membership associations that endorse the Company's health insurance products and changes in the manner in which the Company has classified direct expenses incurred by the Company in connection with generating other fee income at the Self Employed Agency Division. See Note A of Notes to Consolidated Financial Statements.

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

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

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

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

The Company's operating segments for financial reporting purposes include (a) the Insurance segment, which includes the businesses of the Company's Self-Employed Agency Division, the Group Insurance Division, the Life Insurance Division (formerly the Company's OKC Division) and the Senior Market Division; (b) the Financial Services segment, which includes the businesses of Academic Management Services Corp. and the Company's investment in Healthaxis, Inc., and (c) Other Key Factors, which includes investment income not allocated to the other business segments, realized gains or losses on sale of investments, the operations of the Company's AMLI Realty Co. subsidiary, minority interest, interest expense on corporate debt, general expenses relating to corporate operations, variable stock-based compensation, the results of the Company's former Barron Risk Management Services, Inc. unit until its sale in September 2002, goodwill amortization and other unallocated items.

The operations of the Company's former United CreditServ, Inc. subsidiary (through which UICI marketed credit support services to individuals with no, or troubled, credit experience and assisted them in obtaining a nationally recognized credit card), the Company's Special Risk Division (through which the Company provided various niche health insurance related products, including "stop loss," marine crew accident, organ transplant and international travel accident products and various insurance intermediary services and managed care services) and its UICI Administrators, Inc. unit (through which, UICI provided underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans) have been separately classified as discontinued operations for financial reporting purposes for all years presented.

SARBANES-OXLEY ACT OF 2002

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

In accordance with Section 302(a) of the Act, the Securities and Exchange Commission adopted rules effective August 29, 2002 requiring an issuer's principal executive officer and financial officer to certify the financial and other information contained in an issuer's quarterly and annual reports. The newly-adopted rules also require these officers to certify that they are responsible for establishing, maintaining and regularly evaluating the effectiveness of the issuer's internal controls, that they have made certain disclosures to the issuer's auditors and the audit committee of the board of directors about the issuer's internal controls, and that they have included information in the issuer's quarterly and annual reports about their evaluation and whether

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there have been significant changes in the issuer's internal controls or in other factors that could significantly affect internal controls subsequent to the evaluation. The certifications required by Section 302(a) of the Act and

newly-adopted Rule 13a-14 under the Securities Exchange Act of 1934 of each of Gregory T. Mutz (President and Chief Executive Officer of UICI) and Mark D. Hauptman (Vice President and Chief Financial Officer of UICI) are included as part of this Annual Report on Form 10-K.

In accordance with Section 906 of the Act, and in connection with the filing of the Company's Annual Report on Form 10-K for the year ended December 31, 2002 (the "Report"), each of Gregory T. Mutz (President and Chief Executive Officer of UICI) and Mark D. Hauptman (Vice President and Chief Financial Officer of UICI) has also submitted to the SEC a statement certifying, to his knowledge, that the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

RESULTS OF OPERATIONS -- OVERVIEW

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

ACADEMIC MANAGEMENT SERVICES CORP.

For the year ended December 31, 2002, UICI's Academic Management Services Corp. subsidiary ("AMS") reported operating income of $7.4 million compared to operating income of $5.4 million for the year ended December 31, 2001. During 2002, AMS benefited from a decrease in operating expenses (resulting primarily from a reduction in interest expense on corporate borrowings) and increased student loan spread income (i.e., the difference between interest earned on outstanding student loans and interest expense associated with indebtedness incurred to fund such loans). These increases in 2002 were partially offset by lower realized gains on sale of loans and reduced fee revenue and yields on the trust balances associated with AMS' tuition installment plan business, in each case as compared to results in 2001.

The amount of student loan spread income that AMS may earn in any period depends in large part upon the level of prevailing market interest rates relative to the prescribed minimum rate that can be earned on AMS' student loan portfolio. The benchmark for yields on federally guaranteed student loans is reset annually in accordance with Department of Education regulations effective July 1 for the succeeding twelve-month period. While yields on student loans are indexed to the 91-day Treasury bill rate, the benchmark establishes a floor, below which a lender's yield will not fall during the succeeding twelve-month period. During the first six months of 2002, AMS benefited significantly from a favorable prescribed minimum rate earned on its student loan portfolio. On July 1, 2002, the floor rates on loans made under the Federal Family Education Loan Program (the "FFELP Loans") for the period July 1, 2002 through June 30, 2003 reset 193 basis points lower than the floor rates in effect for the period July 1, 2001 through June 30, 2002. Reflecting this downward adjustment on July 1, 2002 to the floor rate on FFELP Loans, AMS' student loan spread income declined significantly from $17.1 million in the first half of 2002 to $9.8 million in the second half of the year.

On July 1, 2003, the floor rates on FFELP Loans for the period July 1, 2003 through June 30, 2004 will again be reset. Based on current prevailing market interest rates, the Company currently expects that spread income in 2003 will be less than the level of spread income experienced in 2002. Due to the inherent uncertainty surrounding spread income and the seasonality of its tuition installment business, in any given financial period AMS may continue to rely on gains from timely sales of student loans to remain profitable for such period. AMS sold $271.2 million and $447.0 million principal amount of student loans during the year ended December 31, 2002 and 2001, respectively, from which AMS generated gains on sales in the amount of $5.9 million and $11.3 million,

respectively.

INVESTMENT IN HEALTHAXIS, INC.

At December 31, 2002, UICI held beneficially approximately 45% of the issued and outstanding shares of Healthaxis, Inc. ("HAI") (formerly Provident American Corporation) (Nasdaq: HAXS). See Note E of

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

The Company has accounted for its investment in HAI utilizing the equity method and has recognized its ratable share of HAI income and loss (computed prior to amortization of goodwill recorded in connection with the January 7, 2000 merger of Insurdata Incorporated (formerly a wholly-owned subsidiary of UICI) with and into HealthAxis.com, the sole operating subsidiary of HAI). The Company's carrying value of its investment in HAI was $4.9 million and $8.3 million at December 31, 2002 and 2001, respectively. See Note E of Notes to Consolidated Financial Statements.

Until termination of a Services Agreement with HAI on June 15, 2002, the Company constituted a significant customer of HAI. Under the Services Agreement, HAI formerly provided information systems and software development services (including administration of the Company's computer data center) to the Company and its insurance company affiliates at HAI's cost of such services (including direct costs of HAI personnel dedicated to providing services to the Company plus a portion of HAI's overhead costs) plus a 10% mark-up. Pursuant to the terms of the Services Agreement, UICI paid to HAI $8.1 million, $20.4 million and $21.0 million in 2002, 2001 and 2000, respectively. In addition, HAI has provided to the Company and its affiliates certain other information technology services, including claims imaging and software-related services, for which UICI paid to HAI $2.7 million, $10.1 million and $6.4 million in 2002, 2001 and 2000, respectively. The aggregate amounts paid by UICI to HAI in 2002, 2001 and 2000, respectively, represented 38%, 70% and 63% of HAI's total gross revenues of $28.1 million, $43.8 million and $43.7 million in such years, respectively. See Notes E and N of Notes to Consolidated Financial Statements.

CLOSEDOWN OF COLLEGE FUND LIFE DIVISION

Through its College First Alternative Loan Program, the Company's College Fund Life Division (based in Norcross, Georgia) has historically offered an interest-sensitive whole life insurance product that has generally been issued with an annuity rider and a child term rider. The child term rider includes a special provision under which the Company commits to provide private student loans to help fund the named child's higher education if certain restrictions and qualifications are satisfied.

The Company has determined that, effective May 31, 2003, it will no longer issue new life insurance policies under the College Fund Life Division program and that, effective June 30, 2003, it will cease all operations at the Company's Norcross, Georgia facility. In connection with such closedown, the Company currently estimates that it will incur exit costs (consisting primarily of employee severance and relocation expenses and lease termination costs) in the

amount of approximately $900,000, which costs will be expensed as incurred over the period ending June 30, 2003 in accordance with Financial Accounting Standards Board "FASB" Statement No. 146, Accounting for Costs Associated with Exit or Disposal Activities.

The Company through its College Fund Life Division has outstanding commitments to fund student loans for the years 2003 through 2024. See Notes K and O of Notes to Consolidated Financial Statements.

ACCOUNTING FOR GOODWILL AND OTHER INTANGIBLES

In June 2001, FASB issued Statements No. 141, Business Combinations, and No. 142, Goodwill and Other Intangible Assets. Statement 141 requires that the purchase method of accounting be used for all business combinations initiated after June 30, 2001. Statement 141 also includes guidance on the initial recognition and measurement of goodwill and other intangible assets arising from business combinations completed after June 30, 2001. Statement 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. Statement 142 requires that these assets be reviewed for impairment at least annually, or more frequently if certain indicators arise. The Company has determined that it will review goodwill and intangible assets for impairment as of November 1 of each year. Intangible assets with finite lives will continue

to be amortized over their estimated useful lives. Statement 142 also requires that goodwill included in the carrying value of equity method investments no longer be amortized.

The Company adopted Statements 141 and 142 on January 1, 2002. In accordance with Statement 142, the Company tested for goodwill impairment effective January 1, 2002. As a result of the transitional impairment testing, completed during the quarter ended June 30, 2002, the Company determined that goodwill recorded in connection with the acquisition of Academic Management Services Corp. ("AMS") and Barron Risk Management Services ("Barron") was impaired in the aggregate amount of $6.9 million ($5.1 million net of tax). The Company has reflected this impairment charge in its financial statements as a cumulative effect of a change in accounting principle as of January 1, 2002 in accordance with Statement No. 142. On September 30, 2002, the Company sold to an unaffiliated third party all of the capital stock of Barron, in connection with which for financial reporting purposes the Company recognized a nominal gain.

At December 31, 2002 and 2001, the Company had recorded goodwill in the amount of $118.9 million and $104.7 million, respectively, and accumulated amortization of $16.7 million and $18.7 million at December 31, 2002 and 2001, respectively, resulting in net goodwill of $102.2 million and $86.0 million at December 31, 2002 and 2001, respectively. The Company recorded goodwill amortization expense in continuing operations in the amount of $4.5 million and $6.1 million in 2001 and 2000, respectively, prior to effectiveness of Statement 142.

At December 31, 2002 and 2001, the Company had other intangibles in the amount of $10.5 million and $-0-, respectively, and accumulated amortization of $1.8 million and $-0- at December 31, 2002 and 2001, respectively, resulting in net other intangibles of $8.7 million and $-0- at December 31, 2002 and 2001, respectively. The Company recorded other intangibles amortization expense in continuing operations in the amount of $1.8 million, $-0- and $-0- in 2002, 2001 and 2000, respectively.

ACCOUNTING FOR HEALTH POLICY ACQUISITION COSTS

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

With respect to health policies sold through the Company's Self Employed Agency Division, commissions paid to agents with respect to first year policies are higher than commissions paid to agents with respect to policies in renewal years. Accordingly, during periods of increasing first year premium revenue (such as occurred during 2002 and 2001), the Self Employed Agency Division's overall operating profit margin will be negatively impacted by the higher commission expense associated with first year premium revenue.

ACCOUNTING FOR AGENT STOCK ACCUMULATION PLANS

The Company sponsors a series of stock accumulation plans (the "Agent Plans") established for the benefit of the independent insurance agents and independent sales representatives associated with UGA -- Association Field Services, New United Agency, Cornerstone America, Guaranty Senior Assurance, SeniorsFirst and CFLD Association Field Services. Under EITF 96-18 "Accounting for Equity Instruments that are issued to Other Than Employees for Acquiring or in Connection with Selling Goods and Services," the Company has established a liability for future unvested benefits under the Agent Plans and adjusts the liability based on the market value of the Company's Common Stock. The accounting treatment of the Company's Agent Plans will result in unpredictable stock-based compensation charges, dependent upon fluctuations in the quoted price of UICI common stock. These unpredictable fluctuations in stock based compensation charges

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may result in material non-cash fluctuations in the Company's results of operations. See Note P of Notes to Consolidated Financial Statements.

SHARE REPURCHASE PROGRAM

At its regular meeting held on February 28, 2001, the Board of Directors of the Company reconfirmed the Company's 1998 share repurchase program, in which it initially authorized the repurchase of up to 4,500,000 shares of UICI common stock from time to time in open market or private transactions. Through early 1999, the Company had previously purchased 198,000 shares of common stock pursuant to the program. Following reconfirmation of the program, through December 31, 2002, the Company had purchased an additional 2,000,000 shares pursuant to the program (with the most recent purchase made on December 31, 2002) at an aggregate cost of $29.3 million, or $14.64 per share. Through March 11, 2003, the Company had purchased an additional 324,200 shares at an aggregate cost of $4.9 million, or $15.02 per share. The timing and extent of additional repurchases, if any, will depend on market conditions and the Company's evaluation of its financial resources at the time of purchase.

CLOSEDOWN OF WORKERS' COMPENSATION BUSINESS

In May 2001, the Company determined to exit its workers compensation business, in connection with which the Company incurred a charge in the three months ended June 30, 2001 of $8.7 million associated with a strengthening of reserves. In the fourth quarter of 2001, the Company also recorded a charge of $1.3 million, which represented the Company's share of an assessment to all workers' compensation insurance carriers by the Oklahoma Workers' Compensation Court Administrator. Reflecting a subsequent repeal of the assessment, in the first quarter of 2002 the Company reversed the $1.3 million charge and strengthened claims reserves in an equivalent amount.

DISCONTINUED OPERATIONS

The Company's reported results in 2002, 2001 and 2000 reflected income (loss) (net of tax) from discontinued operations (consisting of the Company's former sub-prime credit card unit, the Special Risk Division and UICI Administrators, Inc.) in the amount of $653,000 ($0.02 per diluted share), $(9.3) million ($(0.19) per diluted share) and $(27.5) million ($(0.58) per diluted share), respectively. Results from discontinued operations in 2002 included income (net of tax) at United CreditServ in the amount of $4.8 million, associated with a $7.4 million release of reserves in the three months ended December 31, 2002 resulting from the Company's assessment of certain favorable events related to credit card litigation matters. See Note B of Notes to Consolidated Financial Statements. The favorable 2002 results at United CreditServ were offset in large part by a $(4.2) million loss (net of tax benefit) at the Special Risk Division, which loss resulted from a $6.5 million charge in the three months ended December 31, 2002 to reflect a reassessment and strengthening of claims reserves.

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

In March 2000, the Board of Directors of UICI determined, after a thorough assessment of the unit's prospects, that UICI would exit from its United CreditServ sub-prime credit card business and, as a result, the United CreditServ unit was reflected as a discontinued operation for financial reporting purposes effective December 31, 1999. On September 29, 2000, the Company completed the sale of substantially all of the non-

cash assets associated with its United CreditServ credit card unit, including its credit card receivables portfolios and its Sioux Falls, South Dakota servicing operations, for a cash sales price of approximately $124.0 million, and on January 29, 2001, the Company completed the voluntary liquidation of UCNB, in accordance with the terms of a plan of voluntary liquidation approved by the Office of the Comptroller of the Currency.

For the year ended December 31, 2002, 2001 and 2000, United CreditServ

reported income (loss) after tax of $4.8 million, $3.7 million and $(23.4) million, respectively, which income (loss) has been reflected in results from discontinued operations for all periods presented. United CreditServ's results in 2002 reflected a $4.8 million (net of tax) release of reserves in the three months ended December 31, 2002 as a result of the Company's assessment of certain favorable events related to credit card litigation matters. See Note O of Notes to Consolidated Financial Statements.

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

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

For the year ended December 31, 2002, 2001 and 2000, the Special Risk Division reported losses (net of tax) in the amount of $(4.2) million, $(9.2) million and $(2.9) million. The Special Risk Division loss in 2002 reflected a $6.5 million charge in the three months ended December 31, 2002 to reflect a reassessment and strengthening of claims reserves. In 2003 the Company will continue the wind-down of its former Special Risk Division.

UICI Administrators, Inc. Prior to 2002, UICI provided underwriting, claims management and claims administrative services to third party insurance carriers, third party administrators, Blue Cross/Blue Shield organizations and self-administered employer health care plans. The Company formerly classified the operations of its subsidiaries UICI Administrators, Inc. (a company engaged in the business of providing third party benefits administration, including eligibility and billing reconciliation), Insurdata Marketing Services, LLC (a subsidiary of the Company engaged in the business of marketing third party benefits administration services) and Barron Risk Management, Inc. (a company engaged in the business of administration of workers' compensation and non-subscriber plans) as its TPA Division. On January 17, 2002, the Company completed the sale of UICI Administrators, Inc., the major component of the TPA Division. For financial reporting purposes, the results of operations of UICI Administrators, Inc. have been reflected in discontinued operations for all periods presented.

SPECIAL 2000 COMPENSATION EXPENSE -- 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. See Note P of Notes to Consolidated Financial Statements. In connection with the January 2001 modifications to the ESPP, for financial reporting purposes UICI recorded in the quarter ended December 31, 2000 compensation expense in the amount of $4.8 million pre-tax, or $4.1 million net of tax.

RESULTS OF OPERATIONS

2002 COMPARED TO 2001

General

UICI reported revenues and income from continuing operations in 2002 of $1.5 billion and $51.4 million ($1.05 per diluted share), respectively, compared to 2001 revenues and income from continuing operations of $1.1 billion and $52.2 million ($1.09 per diluted share), respectively.

The Company reported net income in 2002 in the amount of $46.9 million ($0.96 per diluted share), compared to net income of $42.9 million ($0.90 per diluted share) in 2001. Reported net income included income (losses) from discontinued operations in 2002 and 2001 in the amount of $653,000 ($0.02 per diluted share) and $(9.3) million ($(0.19) per diluted share), respectively. Overall results in the full year ended December 31, 2002 also included a goodwill impairment charge in the amount of $(5.1) million (net of tax) ($(0.11) per diluted share), which has been reflected as a cumulative effect of a change in accounting principle in accordance with recently adopted Financial Accounting Standards Board ("FASB") Statement No. 142, Goodwill and Other Intangible Assets.

Continuing Operations

Revenues. UICI's revenues increased to $1,479.0 million in 2002 from $1,099.4 million in 2001, an increase of $379.6 million, or 35%, primarily as a result of a significant increase in health premium revenue from $776.3 million in 2001 to $1,181.2 million in 2002. The increase in health premium revenue in 2002 was offset by a 13% decrease in interest and investment income.

Health premiums. Health premium revenue increased to $1,181.2 million in 2002 from $776.3 million in 2001, an increase of $404.9 million, or 52%. The increase in health premium revenue in 2002 was primarily attributable to an increase (from $578.5 million in 2001 to $929.3 million in 2002) in submitted annualized premium volume at the Self-Employed Agency ("SEA") Division), which increase was due primarily to a 50% increase in the average number of writing agents in 2002 compared to 2001 and a 6% increase in annualized premium volume submitted per writing agent in 2002 compared to 2001. The Company defines "submitted annualized premium volume" in any period as the aggregate annualized premium amount associated with health insurance applications submitted by the Company's agents in such period for underwriting by the Company.

Life premiums and other considerations. Life premiums and other considerations decreased by 9% to $31.5 million in 2002 from $34.7 million in 2001. This decrease resulted primarily from reduced premiums and other considerations from closed blocks of life and annuity business. The Company last acquired a closed block of life insurance and annuities in 1994. Although the Company believes that it can continue to explore acquisition opportunities and continues to analyze potential transactions, the Company believes that the current climate for acquisitions of blocks of life insurance and annuities has become very competitive, making it more difficult to successfully complete acquisitions that meet the Company's acquisition rate of return criteria.

Investment income. Despite a 10% increase in invested assets over the year ended December 31, 2002, investment income remained relatively constant ($84.4 million in 2002 compared to $83.8 million in 2001) due to a decrease in yield on invested assets resulting from lower prevailing market interest rates.

Other interest income. Other interest income (consisting primarily of interest earned on the Company's AMS student loan portfolio) decreased by 25% to $66.3 million in 2002 from $88.4 million in 2001. The decrease in other interest income was due to declining market interest rates, resulting in a reduced yield on funds held in connection with AMS' tuition payment programs and a reduced yield on AMS' student loan portfolio.

Other income. Other income increased by 9% to $121.1 million in 2002 from $111.0 million in 2001. Other income consists primarily of income derived by the SEA Division from ancillary services and

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membership marketing and administrative services provided to the membership associations that endorse the Company's health insurance products, income derived by AMS from tuition installment program fees, loan-servicing fees and gains on loan sales, and fee income derived by the Company from its AMLI Realty Co. subsidiary. In 2002, a 25% increase in other income at the SEA Division (from $62.1 million in 2001 to $77.9 million in 2002) was offset by a 19% decrease in other income at AMS (from $38.6 million in 2001 to $31.4 million in 2002).

Gains (losses) on sale of investments. The Company recognized losses on sale of investments of $(5.6) million in 2002 compared to gains of $5.2 million in 2001. During 2002 and 2001, the Company recorded impairment charges for certain fixed income and equity securities in the amount of $14.7 million and $3.5 million, respectively. The Company's 2002 impairment charge included a $6.1 million impairment charge associated with the Company's WorldCom, Inc. bond holdings, which was recorded in the second quarter of 2002 as a result of previously announced accounting irregularities at WorldCom, Inc., which charge was partially offset by realized gains associated with other securities in the portfolio. Included in 2001 gains is a $5.3 million gain related to the Company's investment in AMLI Commercial Properties Trust ("ACPT") and $3.4 million in other gains from the Company's investment portfolio, which gains were offset by impairment charges for certain investments in the amount of $3.5 million. During 2001, ACPT, an equity method investee in which the Company held a 20% equity interest, sold substantially all of its assets for an aggregate sale price of approximately $226.3 million. In connection with such sale, the Company recognized a gain in the amount of $5.3 million.

The amount of realized gains or losses on the sale of investments is affected by changes in interest rates, market trends and the timing of sales. Losses are more likely during periods of increasing long-term interest rates. In addition, due to decreasing long-term interest rates in 2002, the net unrealized investment gain on securities classified as "available for sale", reported in accumulated other comprehensive income as a separate component of stockholders' equity and net of applicable income taxes, increased to $42.3 million at December 31, 2002, from a net unrealized investment gain of $30.3 million at December 31, 2001. The Company changed its method for accounting for its investment in AMLI Residential effective June 30, 2001, from the equity method to the investment method. The Company holds a 10% interest in AMLI Residential. The effect of the accounting change was to increase the carrying value of AMLI Residential on the consolidated balance sheet of the Company at June 30, 2001 from $22.6 million to $62.8 million; the accounting change had no effect on the Company's results of operations for the year ended December 31, 2001. As a result of the accounting change, the Company marks-to-market its investment in AMLI Residential and accordingly, changes in the Company's carrying value of its investment in AMLI Residential are recorded as unrealized gains (or losses) with corresponding changes to the Company's stockholders' equity (net of tax). At December 31, 2002 and 2001, the Company's carrying value of its investment in

AMLI Residential was $54.3 million and $64.3 million, respectively.

Benefits, claims, and settlement expenses. Benefits, claims and settlement expenses increased to $774.6 million in 2002 from $531.0 million in 2001. The 46% increase in benefits, claims and settlement expenses was primarily due to the significant increase in premium revenue at the SEA and Group Divisions (including the incremental benefits, claims and settlement expenses associated with the Company's Star HRG unit, which was acquired in February 2002).

Underwriting, policy acquisition costs and insurance expenses. Underwriting, policy acquisition costs and insurance expenses increased by 56% to $416.5 million in 2002 from $267.8 million in 2001. The increase in such expenses was primarily due to the increase in first year premium revenue from the SEA Division (with respect to which the Company records a higher commission expense than with respect to premium revenue in policy renewal years) and premium growth at the Group Division (including the incremental underwriting, acquisition and insurance expenses associated with the Company's Star HRG unit, which was acquired in February 2002).

Other expenses. Other expenses consist primarily of operating expenses at AMS and direct expenses incurred by the Company in connection with generating other income at the SEA Division. See Note A of

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Notes to Consolidated Financial Statements. Other expenses increased to $126.7 million in 2002 from $119.1 million in 2001, primarily due to the increase in SEA Division expenses.

Depreciation. Depreciation expense increased to $15.9 million in 2002 from $14.1 million in 2001. The 13% increase in depreciation expense was primarily due to additional depreciation associated with the capitalized costs of technology initiatives and upgrades.

Interest expense. Interest expense on corporate borrowings decreased to $1.5 million in 2002 from $5.0 million in 2001. The decrease was due primarily to the decreased level of borrowings outstanding during 2002 compared to 2001. Interest expense on student loan obligations decreased to $41.5 million in 2002 from $69.4 million in 2001, a decrease of $27.9 million or 40%, primarily resulting from a decline in prevailing market interest rates.

Operating Income. Income from continuing operations before federal income taxes ("operating income") increased to $74.4 million in 2002 from $70.9 million in 2001. Operating income (loss) for each of the Company's segments and divisions was as follows:

	YEAR ENDED DECEMBER 31,	
	2002	2001
Income (loss) from continuing operations before income taxes:		
Insurance:		
Self Employed Agency Division.........................	$ 93,689	$ 74,849
Group Insurance Division..............................	14,985	4,022
Life Insurance Division...............................	8,633	7,363
Senior Market Division................................	(7,536)	(2,112)

Total Insurance	109,771	84,122
Financial Services:		
Academic Management Services Corp.	7,431	5,413
Losses in Healthaxis, Inc. investment	(9,639)	(10,597)
Total Financial Services	(2,208)	(5,184)
Other Key Factors:		
Investment income on equity, realized gains and losses, general corporate expenses and other (including interest on non-student loan indebtedness)	(15,072)	3,408
Variable stock-based compensation	(18,057)	(6,933)
Goodwill amortization	--	(4,516)
Total Other Key Factors	(33,129)	(8,041)
Total income from continuing operations before income taxes	$ 74,434	$ 70,897

Self-Employed Agency Division. Operating income at UICI's SEA Division increased by 25% to $93.7 million in 2002 from $74.8 million in 2001.

In the 2002 period, the SEA Division continued to experience significant increases in submitted annualized premium volume ($929.3 million in 2002 compared to $578.5 million in 2001), which increase was due primarily to a 50% increase in the average number of writing agents in 2002 compared to 2001 and a 6% increase in annualized premium volume submitted per writing agent in 2002 compared to 2001. Total revenue at the SEA Division increased from $713.3 million in 2001 to $1,035.9 million in 2002 (a 45% increase). Operating income as a percentage of SEA Division revenue in the year ended December 31, 2002 was 9.0% compared to 10.5% in the prior year. The lower operating margin during the 2002 period was attributable to higher effective commission rates due to the increase in first year premium (which carries a higher commission rate compared to renewal commissions), and lower investment and other income as a percentage of total revenue. These factors were partially offset by lower administrative expenses as a percentage of total revenue in