

UICI  
Form 10-Q  
May 09, 2005

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

**FORM 10-Q**

**Quarterly Report Pursuant to Section 13 or 15(d) of  
the Securities Exchange Act of 1934**

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2005.

OR

**Transition Report Pursuant to Section 13 or 15(d)  
of the Securities Exchange Act of 1934**

FOR THE TRANSITION PERIOD FROM \_\_\_\_\_ TO \_\_\_\_\_  
COMMISSION FILE NO. 001-14953

**UICI**

(Exact name of registrant as specified in its charter)

Delaware

75-2044750

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification No.)

9151 Grapevine Highway, North Richland Hills, Texas

76180

(Address of principal executive office)

(Zip Code)

Registrant's telephone number, including area code (817) 255-5200

Not Applicable

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

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

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date. Common Stock, \$.01 Par Value, 46,141,576 shares as of May 2, 2005.



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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements

## UICI AND SUBSIDIARIES

CONSOLIDATED CONDENSED BALANCE SHEETS  
(DOLLARS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	<b>March 31 2005 (Unaudited)</b>	<b>December 31, 2004</b>
<b>ASSETS</b>		
Investments		
Securities available for sale		
Fixed maturities, at fair value (cost: 2005 \$1,559,989; 2004 \$1,500,204)	\$ 1,562,170	\$ 1,531,231
Equity securities, at fair value (cost: 2005 \$1,508; 2004 \$1,508)	1,480	1,461
Mortgage loans	3,860	3,884
Policy loans	16,969	17,101
Short-term and other investments	145,352	165,661
<b>Total Investments</b>	<b>1,729,831</b>	<b>1,719,338</b>
Cash and cash equivalents	4,724	
Student loans	107,966	109,288
Restricted cash	40,726	39,455
Investment income due and accrued	23,619	22,706
Due premiums	62,308	86,051
Reinsurance receivables	21,941	24,537
Agents and other receivables	35,611	34,762
Deferred acquisition costs	117,096	110,502
Property and equipment, net	94,219	97,863
Goodwill and other intangible assets	77,760	75,625
Deferred federal income tax assets	26,658	16,569
Other assets	8,924	8,962
	<b>\$ 2,351,383</b>	<b>\$ 2,345,658</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
Policy liabilities		
Future policy and contract benefits	\$ 445,798	\$ 444,228
Claims	612,429	622,587
Unearned premiums	169,399	177,406
Other policy liabilities	13,928	14,450
Accounts payable and accrued expenses	47,147	52,327
Cash overdraft		8,749
Other liabilities	113,750	133,748
Federal income tax payable	30,835	3,355

Debt	15,470	15,470
Student loan credit facility	150,000	150,000
Net liabilities of discontinued operations	8,961	9,193
	1,607,717	1,631,513
Commitments and Contingencies (Note C)		
Stockholders' Equity		
Preferred stock, par value \$0.01 per share	¾	¾
Common stock, par value \$0.01 per share	478	476
Additional paid-in capital	215,383	202,139
Accumulated other comprehensive income	1,400	20,137
Retained earnings	556,946	528,447
Treasury stock, at cost	(30,541)	(37,054)
	743,666	714,145
	\$ 2,351,383	\$ 2,345,658

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NOTE: The balance sheet data as of December 31, 2004 have been derived from the audited financial statements at that date.

See Notes to Consolidated Condensed Financial Statements.

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## UICI AND SUBSIDIARIES

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
REVENUE		
Premiums:		
Health	\$ 475,930	\$ 435,461
Life premiums and other considerations	12,332	8,642
	488,262	444,103
Investment income	22,668	20,697
Other income	25,541	28,335
Gains (losses) on sale of investments	(493)	1,561
	535,978	494,696
BENEFITS AND EXPENSES		
Benefits, claims, and settlement expenses	275,215	282,767
Underwriting, acquisition, and insurance expenses	165,284	146,915
Stock appreciation benefit	(3,219)	(1,003)
Other expenses	16,405	15,237
Interest expense	1,214	767
	454,899	444,683
INCOME FROM CONTINUING OPERATIONS BEFORE INCOME TAXES	81,079	50,013
Federal income taxes	28,421	17,315
INCOME FROM CONTINUING OPERATIONS	52,658	32,698
DISCONTINUED OPERATIONS		
Income (loss) from discontinued operations (net of income tax expense (benefit) of \$1,816 and \$(610) in the three months ended March 31, 2005 and 2004, respectively)	(986)	5,693
NET INCOME	\$ 51,672	\$ 38,391
Earnings (loss) per share:		
Basic earnings		
Income from continuing operations	\$ 1.14	\$ 0.70
Income (loss) from discontinued operations	(0.02)	0.12
Net income	\$ 1.12	\$ 0.82
Diluted earnings		

Income from continuing operations	\$ 1.11	\$ 0.68
Income (loss) from discontinued operations	(0.02)	0.12
Net income	\$ 1.09	\$ 0.80

See Notes to Consolidated Condensed Financial Statements.



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## UICI AND SUBSIDIARIES

CONSOLIDATED CONDENSED STATEMENTS OF COMPREHENSIVE INCOME  
(UNAUDITED) (DOLLARS IN THOUSANDS)

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
Net income	\$ 51,672	\$ 38,391
Other comprehensive income (loss):		
Unrealized gains (losses) on securities:		
Unrealized holding gains (losses) arising during period	(28,827)	20,702
Reclassification adjustment for gains included in net income		2,519
Other comprehensive income (loss) before tax	(28,827)	23,221
Income tax provision (benefit) related to items of other comprehensive income (loss)	(10,090)	8,127
Other comprehensive income (loss) net of tax provision (benefit)	(18,737)	15,094
Comprehensive income	\$ 32,935	\$ 53,485

See Notes to Consolidated Condensed Financial Statements.

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## UICI AND SUBSIDIARIES

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
<b>Operating Activities</b>		
Net income	\$ 51,672	\$ 38,391
(Income) loss from discontinued operations	986	(5,693)
Adjustments to reconcile net income to cash provided by operating activities:		
(Gains) losses on sales of investments	493	(1,561)
Change in accrued investment income	(1,528)	(1,071)
Change in reinsurance receivables and other receivables	4,658	35,972
Change in due premium	23,743	658
Change in federal income tax payable	27,480	5,284
Change in deferred acquisition costs	(6,594)	(1,606)
Depreciation and amortization	7,239	5,112
Change in policy liabilities	(16,910)	36,093
Change in other liabilities and accrued expenses	(4,088)	(1,591)
Stock appreciation benefit	(3,219)	(1,003)
Other items, net	1,002	(470)
Cash Provided by continuing operations	84,934	108,515
Cash Used in discontinued operations	(1,218)	(1,286)
Net cash Provided by operating activities	83,716	107,229
<b>Investing Activities</b>		
Increase in investment assets	(39,811)	(84,980)
Decrease (increase) in student loans	1,234	(760)
Increase in restricted cash	(1,271)	(48)
Additions to property and equipment	(3,208)	(16,028)
Increase in agents' receivables	(2,598)	(3,917)
Cash Used in continuing operations	(45,654)	(105,733)
Cash Provided by discontinued operations		25,308
Net cash Used in investing activities	(45,654)	(80,425)
<b>Financing Activities</b>		
Change in investment products	(207)	(2,035)
Exercising of stock options	2,409	2,821
Purchase of treasury stock	(3,661)	(14,600)
Dividends paid	(23,173)	

Change in cash overdraft	(8,749)	
Other	43	67
Net cash Used in financing activities	(33,338)	(13,747)
Net change in Cash and cash equivalents	4,724	13,057
Cash and cash equivalents at beginning of period		14,014
Cash and cash equivalents at end of period in continuing operations	\$ 4,724	\$ 27,071

See Notes to Consolidated Condensed Financial Statements.

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## UICI AND SUBSIDIARIES

## NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

March 31, 2005

## NOTE A BASIS OF PRESENTATION

The accompanying unaudited consolidated condensed financial statements for UICI and its subsidiaries (the Company or UICI) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) for interim financial information and the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, such financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included. All such adjustments, except as otherwise described herein, consist of normal recurring accruals. Operating results for the three-month period ended March 31, 2005 are not necessarily indicative of the results that may be expected for the full year ending December 31, 2005. For further information, refer to the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004.

Certain amounts in the 2004 financial statements have been reclassified to conform to the 2005 financial statement presentation.

**Recently Issued Accounting Pronouncements**

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement 123R (revised 2004), *Share-Based Payment*, which requires all share-based payments to employees, including grants of employee stock options, to be recognized in the financial statements based on their fair values. The pro forma disclosures previously permitted under Statement 123 no longer will be an alternative to financial statement recognition. Under Statement 123R, the Company must determine the appropriate fair value model to be used for valuing share-based payments, the amortization method for compensation cost and the transition method to be used at date of adoption. The transition methods include prospective and retroactive adoption options. The prospective method requires that compensation expense be recorded for all unvested stock options and restricted stock at the beginning of the first quarter of adoption of Statement 123R. The retroactive methods would record compensation expense for all unvested stock options and restricted stock beginning with the first period restated. Prior periods may be restated either as of the beginning of the year of adoption or for all periods presented.

On April 14, 2005, the U.S. Securities and Exchange Commission announced that the effective date of Statement of 123R will be suspended until January 1, 2006, for companies whose fiscal year is the calendar year. The Company anticipates adopting the prospective method of Statement 123R in 2006 and believes the adoption of this pronouncement will not have a material effect upon the financial condition or results of operations.

The following table illustrates the effect on net income as if the fair-value-based method had been applied to all outstanding and unvested option awards in each period.

<b>Three Months Ended</b>	
<b>March 31,</b>	
<b>2005</b>	<b>2004</b>

	<b>(In thousands, except per share amounts)</b>	
Net income as reported	\$ 51,672	\$ 38,391
Add stock-based employee compensation expense included in reported net income, net of tax	50	41
Add (deduct) total stock-based employee compensation (expense) income determined under fair-value-based method for all rewards, net of tax	(55)	277
Pro forma net income	\$ 51,667	\$ 38,709
Earnings per share Basic:		
Basic-as reported	\$ 1.12	\$ 0.82
Basic-pro forma	\$ 1.12	\$ 0.83
Earnings per share Diluted:		
Diluted-as reported	\$ 1.09	\$ 0.80
Diluted-pro forma	\$ 1.09	\$ 0.80

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands, except per share amounts)</b>	
Income (loss) available to common shareholders:		
Income from continuing operations	\$ 52,658	\$ 32,698
Income (loss) from discontinued operations	(986)	5,693
Net income for basic earnings per share	51,672	38,391
Effect of dilutive securities:		
6% Convertible Note interest <sup>(1)</sup>		176
Net income for diluted earnings per share	\$ 51,672	\$ 38,567
Weighted average shares outstanding $\frac{3}{4}$ basic earnings (loss) per share	46,136	46,659
Effect of dilutive securities:		
Employee stock options and other shares	1,071	1,710
Weighted average shares outstanding $\frac{3}{4}$ dilutive earnings (loss) per share	47,207	48,369
Basic earnings (loss) per share		
From continuing operations	\$ 1.14	\$ 0.70
From discontinued operations	(0.02)	0.12
Net income	\$ 1.12	\$ 0.82
Diluted earnings (loss) per share		
From continuing operations	\$ 1.11	\$ 0.68
From discontinued operations	(0.02)	0.12
Net income	\$ 1.09	\$ 0.80

(1) Applied to continuing operations.

**NOTE C COMMITMENTS AND CONTINGENCIES**

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

*Delaware Books and Records Litigation*

As previously disclosed, UICI has been named a defendant in an action filed on November 23, 2004 (*Amalgamated Bank, as Trustee, v. UICI*, pending in the Court of Chancery of the State of Delaware, New Castle County, C.A. No. 884-N), in which plaintiff seeks to enforce its right to inspect certain corporate books and records of UICI pursuant to Section 220 of the Delaware General Corporation Act. UICI has produced certain initial documents pursuant to a confidentiality agreement and answered the complaint. A hearing on the matter was held on February 22, 2005, and the Company awaits disposition of the matter by the Court. With respect to documents not already provided by the Company to the plaintiff, UICI believes this demand is without merit.

*Academic Management Services Corp. Related Litigation*

As previously disclosed, UICI and certain of its current and former directors and officers have been named as defendants in multiple lawsuits arising out of UICI's announcement in July 2003 of a shortfall in the type and amount of collateral supporting securitized student loan financing facilities of Academic Management Services Corp. (AMS), formerly a wholly owned subsidiary of UICI until its disposition in November 2003.

In May and June 2004, UICI and certain officers and current and former directors of UICI were named as defendants in four separate class action suits filed in federal court in Texas, and on October 18, 2004, the four separate cases were consolidated as a single action (*In re UICI Securities Litigation*, Case No. 3-04-CV-1149-P, pending in the United States District Court for the Northern District of Texas, Dallas Division). On January 18, 2005, plaintiffs, on behalf of themselves and a purported class of similarly situated individuals who purchased UICI common stock during the period February 7, 2002 and July 21, 2003, filed a Consolidated Amended Complaint, alleging, among other things, that UICI, AMS, the Company's former chief executive officer, and AMS' former president failed to disclose all material facts relating to the condition of AMS, in violation of Section 10(b) of the Securities Exchange Act of 1934 and Rule 10b-5 thereunder.

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UICI has also been named as a nominal defendant in two shareholder derivative suits arising out of the July 2003 AMS announcement (*Bodenhorn v. Gregory T. Mutz, Ronald L. Jensen et al.*, filed June 15, 2004 in the District Court of Tarrant County, Texas, Case No. 048-206108-04, and *Suprina v. Gregory T. Mutz, Ronald L. Jensen et al.*, filed June 15, 2004 in the District Court of Tarrant County, Texas, Case No. 352-206106-04). In both derivative cases, the plaintiffs seek a recovery on behalf of UICI and have alleged that the individual defendants violated Texas state law by concealing the true condition of AMS before the July 2003 announcement. UICI filed answers to these pleadings and attacked the deficiency of the pleadings through special exceptions due to plaintiffs' failure to make a demand. UICI has also filed objections to certain discovery requests in the *Suprina* matter on the basis that, among other things, discovery is not proper in light of the federal securities actions.

Based upon the Company's initial reading of the complaints, the Company believes that the allegations are without merit, and the Company intends to conduct a vigorous defense in the matters. UICI has agreed to advance the expenses of the individual defendants incurred in connection with the defense of the cases, subject to the defendants' undertaking to repay such advances unless it is ultimately determined that they are or would have been entitled to indemnification by UICI under the terms of the Company's bylaws.

### *Association Group Litigation*

#### *Introduction*

The health insurance products issued by the Company's insurance subsidiaries in the self-employed market are primarily issued to members of various membership associations that make available to their members the health insurance and other insurance products issued by the Company's insurance subsidiaries. The associations provide their membership with a number of benefits and products, including the opportunity to apply for health insurance underwritten by the Company's health insurance subsidiaries. The Company and/or its insurance company subsidiaries have been a party to several lawsuits that, among other things, challenge the nature of the relationship between the Company's insurance companies and the associations that have made available to their members the insurance companies' health insurance products.

### *Nationwide Class Action Litigation*

As previously disclosed, on May 14, 2004, the Company, The MEGA Life and Health Insurance Company (MEGA), Mid-West National Life Insurance Company of Tennessee (Mid-West), and UICI Marketing, Inc. settled a nationwide class action lawsuit and a representative lawsuit purportedly brought on behalf of the California general public, both of which suits involved allegations of improper relations and/or a failure to disclose certain relationships between UICI, MEGA, and Mid-West and the certain membership associations that make MEGA and Mid-West insurance products available to their members. Upon motion of the Company to the Federal Judicial Panel on Multi-District Litigation (MDL), these lawsuits, *Eugene A. Golebiowski, individually and on behalf of others similarly situated, v. MEGA, UICI, National Association for the Self-Employed et al.*, Case No. 3:04-cv-00831-G and *Lacy v. The MEGA Life and Health Insurance Company et al.*, Case No. 3:04-cv-00470-G, were consolidated in the United States District Court for the Northern District of Texas, Dallas Division, as part of the *In re UICI Association-Group Insurance Litigation*, MDL Docket No. 1578.

Pursuant to the terms of the settlement, MEGA and Mid-West agreed to include enhanced disclosures in their marketing and sales materials with respect to the contractual relationships between UICI and the insurance companies, on the one hand, and the associations, on the other hand, and MEGA and Mid-West agreed to enter into an injunction with respect to certain business practices. In addition, members of a nationwide class consisting of current and former MEGA and Mid-West insureds are entitled to relief in the form of free insurance coverage for a period of months under a personal accident policy to be issued by a UICI subsidiary, and members of a nationwide class consisting of



current and former members of the associations will be eligible to receive discounts on association membership fees. The settlement also provided for the payment of attorneys' fees to counsel for the settlement class. The settlement does not provide for a release of specific claims by individuals for insurance coverage benefits or of any claims of any member who opted out of the settlement class.

Following a final approval hearing held on October 15, 2004, the United States District Court for the Northern District of Texas issued a final order and judgment certifying a nationwide settlement class of current and former MEGA and Mid-West insureds and current and former members of the associations. The Court also approved the terms of the previously announced settlement as fair, reasonable and adequate and in the best interest of the settlement class, dismissed the cases with prejudice, and entered an injunction with respect to certain business practices. Certain class members subsequently filed an appeal to the final order and judgment with the United States Court of Appeals for the Fifth Circuit. On December 17, 2004, the parties to the settlement reached an agreement

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with the objecting class members, pursuant to which MEGA and Mid-West agreed to (i) extend the deadline for class members to apply for the free accident coverage, (ii) maintain the settlement website until October 15, 2005, and (iii) send a notice, within six months of December 10, 2004, to all insured class members that the Settlement has been enhanced and directing them to the settlement website for additional information. On January 3, 2005, the United States Court of Appeals for the Fifth Circuit issued an order dismissing the appeal, and on January 18, 2005, the United States District Court for the Northern District of Texas issued a final order withdrawing with prejudice all objections to the class settlement. On January 21, 2005, the District Court issued an order approving the payment of attorneys' fees to counsel for the settlement class and to counsel for the objectors, and on February 10, 2005, the Company funded the attorneys' fees portion of the settlement as directed by the Court.

The terms of the settlement as finally approved by the Court did not have a material adverse effect upon the financial condition or results of operations of the Company.

*Other Association Group Litigation*

As previously disclosed, UICI and MEGA were named as defendants in a purported class action suit filed on May 6, 2004 (*Diaz v. The MEGA Life and Health Insurance Company, UICI et al.*) in the Superior Court for the State of California, County of San Bernardino, Rancho, Case No. RCV - 080379. Plaintiffs alleged, on behalf of themselves and as representatives of all other policyholders of MEGA in California, that the defendants are engaged in an illegal and fraudulent marketing scheme in violation of California common law and the California Business and Professions Code § 17200. Plaintiffs also have alleged that defendants (i) maintain NASE to illegally avoid premium rate regulation, (ii) fail to issue insurance coverage to members of the NASE on a guaranteed issue basis in violation of California law, (iii) and rescind certificates in violation of California law. Plaintiffs seek injunctive relief and monetary damages in an unspecified amount. On December 10, 2004, the Judicial Panel on Multidistrict Litigation issued an order transferring the *Diaz* matter to the United States District Court for the Northern District of Texas for coordinated pretrial proceedings (*In re UICI Association Group Insurance Litigation*, MDL Docket No. 1578). On December 10, 2004, MEGA filed a counterclaim for rescission of the named plaintiffs' insurance certificate.

As previously disclosed, UICI and MEGA were named as defendants in a purported class action filed on May 14, 2004 (*Joyce et al. v. UICI, MEGA, National Association for the Self-Employed et al.*) in the Superior Court for the State of California, County of Los Angeles, Case No. BC315580. Plaintiffs have alleged that defendants breached the implied covenant of good faith and fair dealing and committed fraud, professional negligence, and negligent misrepresentation. In addition, plaintiffs have alleged, on behalf of themselves and persons similarly situated in the state of California, that defendants violated the unfair competition restrictions of California Business and Professions Code § 17200. Plaintiffs seek injunctive relief and monetary damages in an unspecified amount. On June 21, 2004, defendants removed the *Joyce* case to the United States District Court for the Central District of California. On December 10, 2004, the Judicial Panel on Multidistrict Litigation issued a transfer order transferring the *Joyce* matter to the United States District Court for the Northern District of Texas for coordinated pretrial proceedings (*In re UICI Association-Group Insurance Litigation*, MDL Docket No. 1578).

As previously disclosed, UICI, MEGA and/or Mid-West have been named as defendants in numerous cases in California and in other jurisdictions challenging, among other things, the manner in which the defendants market health insurance products. Plaintiffs in such cases generally seek injunctive relief and monetary damages in an unspecified amount. Reference is made to the discussion of these cases contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 under the caption "Item 3 Legal Proceedings" and in Note L of Notes to the Company's Consolidated Financial Statements included in such report.

The Company currently believes that resolution of these proceedings will not have a material adverse effect on the Company's financial condition or results of operations.

*Other Litigation Matters*

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

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*Regulatory Matters*

On March 22, 2005, UICI received notification that the Market Analysis Working Group of the National Association of Insurance Commissioners has chosen the states of Washington and Alaska to lead a multi-state market conduct examination of UICI's principal insurance subsidiaries, The MEGA Life and Health Insurance Company, Mid-West National Life Insurance Company of Tennessee and The Chesapeake Life Insurance Company. UICI expects the examination to commence in May 2005. State insurance regulatory agencies have authority to levy monetary fines and penalties resulting from findings made during the course of such multi-state market conduct examinations. UICI does not currently believe that the multi-state market conduct examination will have a material adverse effect upon its consolidated financial position or results of operations.

On March 8, 2005, the Office of the Insurance Commissioner of the State of Washington issued a cease and desist order that prohibits MEGA from selling a previously approved health insurance product to consumers in the State of Washington. Since October 2004, representatives of MEGA have been engaged in discussions with the Washington Department of Insurance in an effort to resolve issues with respect to use of a policy form that was initially approved by the Washington Department of Insurance in 1997. UICI voluntarily terminated sales of a similar product issued by Mid-West, pending resolution of the open issues with the State of Washington Department of Insurance. MEGA and Mid-West have issued certificates covering approximately 60,000 insureds in the State of Washington. On April 27, 2005, the Washington Department of Insurance granted MEGA's and Mid-West's request for approval of a policy form and rates associated with a new health insurance product to be offered to consumers in the State of Washington. The Company expects to commence offering the new product in the second quarter of 2005. UICI currently does not believe that the issuance of the cease and desist order by the Washington Insurance Commissioner will have a material adverse effect upon its consolidated results of operations or financial condition.

**NOTE D SEGMENT INFORMATION**

The Company's business segments for financial reporting purposes include: (i) the Insurance segment, which includes the businesses of the Company's Self-Employed Agency Division, the Student Insurance Division, the Star HRG Division, the Life Insurance Division and Other Insurance; and (ii) Other Key Factors. The Other Key Factors segment includes investment income not allocated to the Insurance segment, realized gains or losses on sale of investments, interest expense on corporate debt, general expenses relating to corporate operations, minority, variable non-cash stock-based compensation and operations that do not constitute reportable operating segments.

Allocations of investment income and certain general expenses are based on a number of assumptions and estimates, and the business segments reported operating results would change if different methods were applied. Certain assets are not individually identifiable by segment and, accordingly, have been allocated by formulas. Segment revenues include premiums and other policy charges and considerations, net investment income, fees and other income. Management does not allocate income taxes to segments. Transactions between reportable operating segments are accounted for under respective agreements, which provide for such transactions generally at cost.

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

	<b>Three Months Ended March 31,</b>	
	<b>2005</b>	<b>2004</b>
	<b>(In thousands)</b>	
<i>Revenues from continuing operations:</i>		
Insurance:		
Self-Employed Agency Division	\$ 389,919	\$ 361,068
Student Insurance Division		